Intensification Levy Referral Report

Date	November 17, 2021
To	Executive Committee
From	City Planning & Community Development
Service Area	Office of Executive Director (City Planning & Community Development)
Item No.	EX21-79

RECOMMENDATION

The Executive Committee recommends that City Council:

1. Amend *The Development Levy Bylaw, 2011* and the City's Development Charges Policy by:
    a. repealing the Intensification Levy; and
    b. amending the Established Area Policy to exempt development on lands within the Established Area from the collection of Servicing Agreement Fees and Development Levies.

2. Direct Administration to proceed with Funding Option #1 as outlined in this report to:
    a. fund the costs of Capital Projects allocated to intensification-related infrastructure in accordance with the Development Charges Policy by applying the amount of any tax lift generated from intensification that occurs within the Established Area to such costs; and
    b. create a new capital reserve titled Intensification Infrastructure Reserve which will:
        i. be established for the primary purpose of funding intensification-related infrastructure as outlined in this report;
        ii. be funded by the transfer of an amount each year into the reserve that is based on the tax lift generated from intensification that occurs within the Established Area; and
        iii. allow transfers to be made from the reserve to fund Capital Projects allocated to intensification-related infrastructure in accordance with the Development Charges Policy, as approved by City Council, by resolution, bylaw or in the General Capital Program.

3. Instruct the City Solicitor to prepare the necessary bylaw amendments to give effect to these recommendations, to be brought forward to a meeting of City Council following approval of these recommendations and the required public notice.

4. Direct Administration to report back to City Council by Q4 of 2023 with a review of the implementation of the recommended funding option with any recommended changes based on analysis and stakeholder consultation.

5. Amend the motion passed in CR21-86 related to consultation on an intensification incentive to remove the Development Charge Rebate incentive option from the scope of consultation.

6. Remove item EX21-60 from the Outstanding Items List for City Council.

7. Approve these recommendations at its meeting on November 24, 2021.

ISSUE

At the September 22, 2021 meeting of Executive Committee, a referral motion was approved regarding the City of Regina Development Charges Annual Rate Review. The motion requested that Administration review and report back with alternative policy options to fund the currently estimated $125 million in growth-related infrastructure needed to support intensified development in established areas. This is based on the 30 per cent intensification target from *Design Regina: The Official Community Plan Bylaw No. 2013-48* (OCP).

IMPACTS

Financial Impact

Tax revenue is needed to fund all municipal services and take advantage of opportunities.

Tax lift may be described as the difference in municipal taxes on a property before new development occurs and the taxes after new development is completed.

Using tax lift is one tool to fund intensification-related infrastructure. There are risks associated with using the tax lift funding tool as a funding source for intensification-related infrastructure projects and upgrades:

- Directing tax lift from intensified development within the established area to finance intensification-related infrastructure, reduces future tax revenue that otherwise would have been directed to the General Fund. Shifting to funding from a tax lift is expected to result in more development creating an increase to the tax base in the future once the cost of infrastructure has been funded.
- The viability of the tax lift tool is dependant on the premise that property tax revenue growth will increase by a certain amount.

- If expected property tax revenue growth is not realized, alternative funding sources for intensification-related infrastructure will need to be secured.

In the proposed financial model, the risk to using a tax lift are similar to those inherent in the current Development Charges Policy through the collection of an Intensification Levy.

The Housing Incentive Policy includes an Intensification Levy Rebate incentive for new affordable housing development. Incentives under the Housing Incentive Policy are funded through the Social Development Reserve. If the Intensification Levy were removed the Intensification Levy Rebate incentive would no longer be applicable. To date, no rebates have been issued under this policy.

Policy/Strategic Impacts
Intensification of established areas meets several Community Priorities from the OCP, including: *"Promote conservation, stewardship and environmental sustainability"*. This Community Priority involves reducing the City's environmental footprint and aligns with the City's community goal of achieving net-zero emissions and sourcing of net-zero renewable energy by 2050.

Removing the Intensification Levy is intended to promote intensification in established areas and advance the OCP.

Policy 1.1 under Goal 1 – Financial Principles, outlines the City's benefits model which allocates the cost of delivering programs and services, based on the following principles:

- *1.1.1 – Where the benefits of a program or service are city-wide and shared collectively among numerous beneficiaries, the costs are to be paid for by the general revenues of the City of Regina* (Example: fire service).
- *1.1.2 – Where the benefits of a program or service are directly attributable to specific beneficiaries, the costs are to be paid through user fees or similar charges* (Example: transit user).
- *1.1.3 – Where some of the benefits of a program or service are city-wide and some of the benefits are directly attributable to specific beneficiaries, the costs are to be paid for by a combination of general revenues of the City of Regina and user fees or other similar charges* (Example: new aquatic centre).

The Development Charges Policy, which defines the Intensification Levy, aligns with OCP Section B – Financial Policies, Goal 4 – Revenue Sources, Policy 1.16, which states:

- *1.16 – Ensure that growth pays for growth by:*
  - *1.16.4 – Aligning the City's development fees, property taxes and other charges with the policies and intent of this Plan.*
  - *1.16.5 – Achieving a balance of employment and residential lands.*

Tax lift funding is another tool that aligns with these policies,but pays for intensification-related infrastructure through the tax base rather than the developer, which may increase intensification development to help us achieve our targets.

The City's intensification target comes from OCP Section C – Growth Plan, under Goal 1 – Long-Term Growth. The target is the basis for the Growth Plan and implementation of the Development Charges Policy. Costs of growth-related infrastructure projects within the Development Charges Model that have a shared benefit between established and greenfield areas are split 30 (established area)/70 (greenfield area), based on this target.

- *2.3 – Direct at least 30% of new population to existing urban areas as the City's intensification target.*

Environmental Impact

City Council set a community goal for the City of Regina of achieving net-zero emissions and sourcing of net-zero renewable energy by 2050. In support of this goal, City Council asked Administration to provide energy and greenhouse gas implications of recommendations so that Council can evaluate the climate impacts of its decisions.

This report outlines potential models for funding growth-related infrastructure needed to support intensified development in established areas of the city. The recommended funding option discussed in this report has limited direct impacts on energy consumption and greenhouse gas (GHG) emissions.

Intensification in established areas of cities is generally known to contribute to the reduction of energy consumption and associated GHG emissions in various ways, including:

- Reducing travel distances
- Encouraging active transportation and use of transit
- Making more efficient use of land and infrastructure already developed and in place
- Becoming a more compact city by building up existing areas versus sprawling outward

Intensification can also contribute to the restoration of the environmental quality of contaminated sites achieved through environmental remediation during site development.

Risk/Legal Impact

The City collected $1,030,334.40 in Intensification Levies during the time the bylaw amendments that established the Intensification Levy were in force in accordance with the requirements of *The Planning and Development Act,* 2007. Should the Intensification Levy be repealed, there is no legal obligation for the City to refund any payments duly collected pursuant to the applicable policy and regulations in place during that time. In addition, refunding previously collected Intensification Levies would not have been considered or accounted for in the financial modelling on which the Development Charges Policy is based on and would have a significant impact on the model. On that basis, Administration does not recommend that refunds be considered.

OTHER OPTIONS

1. Refer the report back to Administration. If City Council has specific concerns, the report may be referred to Administration to be considered by Executive Committee or brought back directly to City Council. Should the report not be presented by December 31, 2021, the 2021 Intensification Levy Rates would continue to apply, unless suspended by City Council.

2. Direct Administration to use tax lift from intensified development in the established area to fund intensification-related infrastructure, supplemented with a budgeted $2 million added to the Intensification Infrastructure Reserve for the first five years (Funding Option #2). This would put upward pressure on the 2022 Budget and subsequent budgets.

3. Deny the recommendations and adopt the Intensification Levy Rates recommended in EX21-60 (see Table 1), effective January 1, 2022. If City Council were to proceed with this option, the scope for planned stakeholder consultation on an intensification incentive and intensification-related policy authorized by City Council in CR21-86 would remain unchanged.

TABLE 1 – Proposed 2022 Intensification Levy Rates (EX21-60)

Land Use Types	Ratio	2021 (current)	2022 (proposed)	Change+
Residential				
Secondary Suite	1.3	$4,200	$4,500	$300 (7.14%)
Single Detached	2.7	$8,700	$9,300	$600 (6.90%)
Semi-Detached (e.g. duplex)	2.6	$8,400	$9,000	$600 (7.14%)
More than 2 Dwelling Units	2.5	$8,100	$8,600	$500 (6.17%)
Apartment (Less than 2 Bedrooms)	1.3	$4,200	$4,500	$300 (7.14%)
Apartment (Two or More Bedrooms)	1.9	$6,100	$6,600	$500 (8.2%)
Residential Group Care Home	2.7	n/a§	$9,300	n/a§
Office/Commercial/Institutional (per m2)	0.02778	$90	$100	$10 (11.11%)
Industrial (per m2)	0.01333	$40	$50	$10 (25%)

+ Increase from 2021 (Current) to 2022 (proposed) intensification levy land-use specific rates

§ The “Residential Group Care Home” land-use type is new for the 2022 rates as a result of the new Development Charges Policy approved in May of 2021 (CR21-73)

COMMUNICATIONS

Following Executive Committee on September 22, a communication was sent to industry stakeholders advising them of Executive Committee’s referral motion and the planned presentation of this report.

Stakeholders and other interested parties have received a copy of the report and notification of the meeting to appear as a delegation and will receive written notification of City Council's decisions. Any changes to the Intensification Levy will be updated on the City's website.

Should City Council direct policy changes related to the Intensification Levy, an amendment to *The Development Levy Bylaw, 2011* (Bylaw) and Development Charges Policy (Schedule A to the Bylaw) will be required before changes come into effect. Public notice for the public hearing required to be conducted in conjunction with Council's consideration of the amending bylaw will be given in accordance with *The Public Notice Bylaw, 2020*.

DISCUSSION

Intensification Levy Background

The Intensification Levy became effective on October 1, 2019, to fund the portion of growth-related infrastructure attributed to intensification, currently estimated at approximately $125 million. This infrastructure is needed to support the 30 per cent intensification target.

Since coming into effect, the Intensification Levy has been collected on 52 developments in the established area, totalling $1,030,334.40. The 52 developments have included residential, commercial and mixed-use developments.

The Development Charges Policy directs that the Intensification Levy be applied to development in the established area (Appendix A) where there is an intensification of land use resulting in more residential units, or an increased floor area to what previously existed on the land. This is because intensification results in an increased demand for capacity on system-wide infrastructure. To sustain growth and support intensification, the City invests in growth-related infrastructure projects. Growth-related infrastructure projects that support both established and greenfield growth areas allocate 30 per cent of cost to the established area and 70 per cent to greenfield areas.

Growth Targets

The current OCP Growth Plan manages the city's growth from a population of 235,000 to a population of 300,000, while setting the stage for longer term development.

At the time of OCP development, a population of 235,000 represented existing and approved neighbourhoods not fully built-out, highlighted in green on the Phasing of New Neighbourhoods Map (Appendix B).

Per the OCP, population growth from 235,000 to 300,000 will be achieved by adding:

- 45,000 in population growth in new greenfield neighbourhoods
- 20,000 in population growth in established areas, with 10,000 of this growth occurring specifically within the boundaries of the City Centre

The pace of development for established and greenfield areas, is shown in Table 2.

TABLE 2 – Greenfield vs Established Area Growth (2014-2020)

City Population Growth 2014-2020	217,347* to 239,497*
Greenfield Growth**	17,636 population (7,425 units)
Established Area Growth**	2,456 population (1,210 units)

* In non-censual years, the City estimates population using data released by Statistics Canada that provides estimates for Census Metropolitan Areas as of July 1. Statistics Canada releases this estimate in January of the year following the July 1 estimate date.

** The City annually monitors the portion of population growth in greenfield and established (intensification) areas by using current building permit data. The population estimates are based on the number of dwelling types built and the average people per unit for the corresponding dwelling type.

Funding of Growth-Related Infrastructure through Tax Lift

Canadian municipalities have several tools available to fund growth-related infrastructure:

- Grant funding (subject to availability)
- Profits from a municipal land development corporation
- Development charges
- Contributions from regional partners
- Borrowing/expenditure bylaws
- Local improvement bylaws
- Utility bill levy
- Tax lift/increments from development
- Operating and capital budgets

Many municipalities elect to use a combination of these options. Appendix C contains jurisdictional research outlining funding sources for growth-related infrastructure and intensification growth targets in four comparable cities.

The usage of tax lift, also referred to as tax increments, is a funding option that can be used by municipalities to fund area-specific growth-related infrastructure. Tax lift can be described as the difference between taxes on a property before development and the new assessment of taxes after development, typically increasing property taxes. The method uses future taxes on intensified development in established areas to subsidize current infrastructure improvements.

The tax lift funding concept is similar to a formal Tax Increment Financing (TIF) program. Section 281.1 of *The Cities Act* (the “Act”) grants a city council the authority to enact a bylaw to establish a TIF program in a designated area of a city. Per the Act, the TIF program would define the geographical boundaries of a designated area, set a baseline of municipal taxes levied in the area and then set a period in which incremental taxes would be placed in a reserve to be used for a variety of purposes, as described in the Act. Saskatchewan legislation limits the usage of TIF programs to the municipal portion of taxes only.

The recommended funding option from this report does not involve establishing a TIF program as described in the Act. Implementing a formal TIF program requires approval of a bylaw by City Council. The recommended funding option does not involve a bylaw which allows the City to make changes to the amount of taxes collected or the area in which they are collected on properties without having to pass bylaw amendments.

Analysis of Funding Options

Administration has conducted a financial analysis to estimate the tax lift that could be expected if the Intensification Levy was removed. To develop this analysis, the average intensification rate in the three years before the introduction of the Intensification Levy was assumed as the growth in intensification beginning in 2022. Other assumptions include:

- The average new residential units added per year is calculated by dividing the intensification growth in persons by 1.7 persons per unit.
- Average municipal taxes per unit of tax lift will be $2,000.
- Taxes grow via mill rate increases and assessment growth at an average of four per cent per year comprised of an assumed three per cent increase in mill rate and a one per cent increase in assessment value.

Administration's analysis is based on residential tax revenue growth only. Commercial intensification can yield higher tax revenue growth than residential. Two examples include:

1. Sobey's Liquor Store on 13th Avenue – the parcels consolidated for this development had combined pre-development municipal taxes of $5,808.47. After development, municipal taxes rose to $20,791.69, which equates to an annual tax lift of $14,983.22.

2. Residence Inn by Marriott – before development, the parcel had municipal taxes of $8,046. Post-development municipal taxes rose to $178,752, which means the annual tax lift for this parcel is $170,705, as a result of the development.

<u>Funding Option 1 (Recommended)</u>

In this option, the Intensification Levy would be removed following City Council's approval of the applicable amendments to *The Development Levy Bylaw, 2011* and *The Regina Administration Bylaw, 2003*. The capital cost of growth-related infrastructure to support intensification would be paid for by utilizing the increase in taxes or tax lift, from growth in the established area. These funds would be placed in a reserve and allocated through the Annual Budget Process.

Under these assumptions, tax lift from intensified development in the established area could generate approximately $125 million by the end of the current growth horizon to provide funding for intensification-related infrastructure.

As outlined in the report's recommendations, this recommendation requires the creation of a new Intensification Infrastructure Reserve. The reserve would be funded by transferring the incremental municipal taxes from intensified properties to the reserve. Expenditures from this reserve to fund intensification infrastructure will be authorized through the Budget process. Collection of tax lift from intensified development in the established area would start upon approval of this report.

Properties in the established area that have intensified development will have the corresponding tax lift re-directed to the Intensification Infrastructure Reserve after new development is completed. The tax lift will continue to be re-directed into the reserve annually until the intensification-related infrastructure is fully funded. Once funded, the tax lift will be available to general revenues.

Pro's

- Intensification-related infrastructure can be funded through tax lift.
- No change required to the greenfield rate.
- The tax lift estimated is greater than the revenue currently being generated by the Intensification Levy over the life of the model.
- May result in more development as it reduces a developers' cost to develop the land.

Con's

- Incremental taxes collected in this process are encumbered or not available to fund current and future programs, services or other projects. This is considered an "opportunity cost".
- Tax lift funds take time to build. In the initial years of removing the levy, tax lift will not be sufficient to cover capital outflows. A reserve funded from tax lift could be in a negative position until funds are sufficient. Negative reserves reduce the amount in investment income the City generates.
- If the assumptions from the financial analysis are not correct, tax lift would be insufficient to pay for the intensification-related infrastructure. This would be similar to the risk of not collecting sufficient Intensification Levies over the current growth horizon, as such, this is not a new risk.
- Potentially eliminates the option of using a TIFF as a funding source for potential future recreation infrastructure or other City brownfield initiatives such as The Yards, as the tax lift would already be devoted to funding intensification related infrastructure. If a TIFF were desired at a future time for another project, further analysis would be required as to the impact on the proposed Reserve and what adjustments would be required to the policy.

Funding Option 2
Administration considered a variation of Option 1, supplemented by General Fund contributions in the initial years. This option was evaluated as a possible way to reduce the risk that the assumptions in Option 1 are not attained. In Option 2, to supplement the tax lift created by removing the Intensification Levy, a budgeted $2 million would be added annually to the reserve for the first five years following removal of the Intensification Levy. These funds would need to be added to the 2022 Budget, putting upward pressure on the preliminary mill rate presented to Executive Committee on October 20, 2021.

Pro's
- No change required to the greenfield rate.
- The tax lift estimated is greater than the revenue currently being generated by the Intensification Levy over the life of the model.
- May result in more development as it reduces a developers' cost to develop the land.

Con's
- Incremental taxes collected in this process are encumbered or not available to fund current programs, services or other projects. This is considered an "opportunity cost".
- Requires funding from the 2022-2026 Budgets. An assessment would be required to determine if this funding was sufficient or if future Budget commitments would be required.
- Tax lift funds take time to build. In the initial years of removing the levy, tax lift will not be sufficient to cover capital outflows. A reserve funded from tax lift could be in a negative position until funds are sufficient. Negative reserves reduce the amount in investment income the City generates.
- If the model assumptions are not correct, the tax lift would be insufficient to pay for all intensification-related infrastructure.

Funding Option 3
In this option, the allocation of greenfield and intensification costs through the Development Charges Model would be adjusted periodically to reflect the actual pace of intensification, rather than basing it on the OCP's 30 per cent intensification target. Currently, 30 per cent of the cost of projects that support both greenfield and intensification growth are allocated to the Intensification Levy. The cumulative rate of intensification observed to date is approximately 12 per cent. Changing the Development Charges Model to allocate 12 per cent of project costs that benefit both growth types would reduce the amount of infrastructure to be paid for through tax lift.

This scenario would require further analysis, consultation and changes to policy.

Pro's

- No additional funding required from the General Fund.
- The tax lift estimated is greater than the revenue currently being generated by the Intensification Levy.
- The amount to recover through tax lift is lower than other options.
- It may be an opportunity to reflect a more realistic population growth split between greenfield and established areas based on current growth rates.

Con's

- Incremental taxes collected in this process are encumbered or not available to fund current programs, services or other projects. This is considered an "opportunity cost".
- Tax lift funds take time to build. In the initial years of removing the levy, tax lift will not be sufficient to cover capital outflows. A reserve funded from tax lift could be in a negative position until funds are sufficient. Negative reserves reduce the amount in investment income the City generates.
- If the model assumptions are not correct, the tax lift would be insufficient to pay for all intensification-related infrastructure.
- The methodology does not apply the same principle between development in established and greenfield areas, because it is reflective of actual development versus the target for this growth horizon.
- If the City does not maintain the intensification target of 20,000 people (30 per cent) in the Growth Plan to a population of 300,000, then the Growth Plan and growth-related capital project lists would need to be reevaluated.
- This policy change would not reflect the City's commitment to intensification and becoming a renewable city by 2050.

Other Initiatives Supporting Intensification

Through their deliberation on the Intensification Incentive Discussion Paper presented in April 2021 (CR21-86), City Council authorized Administration to undertake a market analysis measuring consumer housing and locational preferences and proceed with stakeholder and public consultation on an intensification incentive and three discussion points related to land use policy:

1. Incentivizing temporary, public usage (community gardens and public spaces)
2. Restrictions and/or disincentives on where certain housing types can be built to compel particular developments in the neighbourhoods assigned in this report [City Centre, Heritage, North-Central]
3. Expanding the City's land development strategy to include the recruitment of certain developments and development types in assigned neighbourhoods

The market analysis is currently in progress and will involve a quantitative review of housing conditions in the city, as well as a qualitative analysis consisting of surveys to consumers regarding factors on why they find greenfield areas desirable and what amenities or conditions would need to be in place to draw them to core areas.

Stakeholder and public consultation are targeted for December 2021 and early January 2022, respectively. A report to Executive Committee with the results of the consultation and market analysis is targeted for Q1, 2022.

Other initiatives underway that support intensification include:

- Undertaking a multi-year program to complete Neighbourhood Planning for 31 mature neighbourhoods. This will guide future growth and development and help meet the goals of complete neighbourhoods and the intensification target.
- Streamlining City Centre to address barriers identified by stakeholders
- Saskatchewan Drive Corridor Plan Project
- Rehabilitation of Dewdney Avenue
- Energy & Sustainability Framework
- Implementation of:
  - City Centre Core Framework
  - The Yards Neighbourhood Plan
  - 2019 Underutilized Land Improvement Strategy
- Ongoing monitoring and evaluation of related planning policy

In addition, planning for the 10-year OCP review will commence in 2022. The 10-year review will entail extensive evaluation and consultation on OCP policies, such as the Growth Plan, Phasing Plan, growth targets and others.

DECISION HISTORY

Design Regina: The Official Community Plan Bylaw No.2013-48 (OCP) was adopted by City Council in December 2013 (CR13-173) and received Ministerial Approval from the Province in March 2014.

In 2012, an infrastructure gap in the city was recognized with aging infrastructure requiring significant investment to support a backlog of asset replacement, renewal and/or maintenance. In 2015, Servicing Agreement and Phasing policies were updated through City Council's approval of the following policies through CM15-14:

- Administration and Calculation of Servicing Agreement Fees and Development Levies
- Administration of Servicing Agreements and Development Levy Agreements

In June 2018, City Council directed changes to *The Development Levy Bylaw, 2011* that established intensification development rates applicable to new intensified development (CR18-55). The Intensification Levy has been in effect since October 1, 2019.

In May 2021, City Council (CR21-73) approved an amendment to *The Development Levy Bylaw, 2011* that included an updated Development Charges Policy.

In May 2021 (CR21-86), City Council authorized Administration to proceed with stakeholder consultation on an intensification incentive that uses the following options identified in the Intensification Incentive Discussion Paper as a starting point for discussion:

- Development Charge Rebate
- Choice of Tax Increment Equivalent Grant or Tax Exemption
- Annual Tax Increment Equivalent Grants Covering Eligible Project Costs

City Council added the following three land-use policy discussion points related to intensification to the scope of this consultation, in addition to a market analysis:

1. Incentivizing temporary, public usage (community gardens and public spaces)
2. Restrictions and/or disincentives on where certain housing types can be built in an effort to compel particular developments in the neighbourhoods or other newer or existing subdivisions assigned in this report
3. Expanding the City's land development strategy to include the recruitment of certain developments and development types in assigned neighbourhoods

In September 2021, City Council (CR21-129) approved the 2022 Servicing Agreement Fee and Development Levy rates applicable to greenfield subdivision and development. The rates will be effective January 1, 2022.

Respectfully Submitted,

Diana Hawryluk
Executive Director,
City Planning & Community Development

Respectfully Submitted,

C. Holden

Chris Holden
City Manager

Prepared by: Luke Grazier, Coordinator, Integration & Stakeholder Relations

ATTACHMENTS

Appendix A - Established Area Map
Appendix B - OCP Map 1B - Phasing of New Neighbourhoods
Appendix C - Jurisdictional Research