EX15-22

October 14, 2015

To: Members of Executive Committee

Re: Servicing Agreement Fee (SAF) and Development Levy (DL) Policy Review and Final Phasing and Financing Project

RECOMMENDATION

1. That the following recommendations be forwarded to the October 26, 2015 meeting of City Council:

   a) That the Administration and Calculation of Servicing Agreement Fees and Development Levy Policy, Appendix A, be approved;

   b) That the greenfield Servicing Agreement Fee and Development Levy rate be approved with a three-year phase-in. The proposed phase-in results in an effective rate January 1, 2016 of $379,000 per hectare;

   c) That the Administration of Servicing Agreements and Development Levy Agreements Policy, Appendix B, which includes the new policy that defines submission requirements and the Endeavour to Assist framework, be approved;

   d) That in transitioning from the Interim Phasing and Financing Plan to the new Administration of Servicing Agreement Fee and Development Levy Policy that includes defined application requirements, all Service Agreement or Development Levy Applications in progress are subject to the conditions outlined in Appendix F.

   e) That the phasing and financing policy for inclusion in *Design Regina, the Official Community Plan Bylaw 2013-48*, Appendix C, be approved as it relates to the Servicing Agreement Fees;

   f) That the Administration be directed to consult with stakeholders and develop a proposed approach to charge Service Agreement Fees and Development Levy Charges for infill development, and that the Administration present the proposed approach to Council for approval in 2016 to allow for implementation of infill Service Agreements Fee and Development Levy charges beginning January 1, 2017; and

   g) That the Administration undertake research in 2016 to better understand the factors that influence industrial development in Regina which will help inform the need to consider an industrial land-development subsidy.

2. That the following recommendations be forwarded to the November 23, 2015 meeting of City Council which would allow sufficient time for advertising of the required public notices for the respective bylaws and consultation with the Rural Municipality of Sherwood:

a) That the City Solicitor be directed to prepare the necessary bylaw to amend the Development Levy Bylaw in accordance with the approved Administration and Calculation of Servicing Agreement Fee and Development Levy Policy and the approved Administration of Servicing Agreements and Development Levy Agreements Policy; and

b) That the City Solicitor be directed to prepare the necessary bylaw to amend the *Design Regina, the Official Community Plan Bylaw 2013-48.*

CONCLUSION

The City of Regina uses Servicing Agreement Fees (SAF) and Development Levies (DL) to fund major infrastructure investments required for new growth and development, as per the *Planning and Development Act, 2007*.

The development charge policy review is a key first step in implementing *Design Regina: The Official Community Plan Bylaw 2013-48* (OCP). To work towards meeting the goals of the OCP, the Administration and Urban Systems, the consultant retained to lead the project, have:

- Reviewed and updated the growth-related capital projects lists;
- Reviewed and updated the Administration and Calculation of SAF and DL Fees Policy;
- Revised the Administration of Servicing Agreements Policy to include the Endeavour to Assist tool as part of Servicing Agreements; and
- Developed a final Phasing and Financing Plan that considers the city's growth to a population of 300,000 (310,000 including the Special Study Areas).

With Council's approval, the Interim Phasing and Financing Plan and the SAF/DL rate for development charges that was approved by Council in June 2014 will no longer apply as:

1. The Administration of Servicing Agreements and Development Levy Agreements Policy will come into effect immediately;
2. The Administration & Calculation of Servicing Agreement Fees and Development Levies Policy will come into effect January 1, 2016; and
3. The final phasing and financing policies will come into effect in upon approval of the amendments to the OCP.

The recommended approach for the SAF/DL Policy considers the cost of growth along with overall City financing, the OCP goals and the associated Community Priorities, especially those related to developing complete neighbourhoods and achieving long-term financial viability. Extensive stakeholder consultation was undertaken throughout this project, particularly with the development community. Seeking feedback on the implications of changing policy variables was a key aspect of the consultation and the feedback received shaped the approach presented in this report. The recommended approach for development charges balances the City's aspirations for growth with the financial responsibilities to current and future residents.

BACKGROUND

The City of Regina previously established Service Agreement Fees and Development Levies to fund the infrastructure investment required for new growth pursuant to the *Planning and Development Act, 2007* and the *Development Levy Bylaw, 2011*. The current SAF/DL Policy was endorsed by City Council in 2009 based on recommendations and principles contained in the 2007 report prepared by Watson & Associates Ltd. (Watson). Through the endorsed policy, the SAF/DL rate is subject to Council approval on an annual basis. Review of the overall SAF/DL Policy every five years was recommended by Watson and engrained in the current SAF/DL Policy.

In 2013, *Design Regina: The Official Community Plan Bylaw 2013-48* (OCP) was approved. The OCP provided high level policy and direction around future growth of the city to a population of approximately 300,000. In addition to high-level policy, the OCP called for the creation of a Phasing and Financing Plan to help co-ordinate and finance growth of the City.

The Interim Phasing and Financing Plan (Interim Plan), completed in late 2013/early 2014, revealed that the City did not have adequate financial resources available to continue funding development in accordance with the 2009 SAF/DL Policy. The Interim Phasing and Financing project also revealed that sequencing growth would have a major impact on the SAF reserve cash flow and the City's debt position if the City continued to use SAFs and DLs to finance development specific infrastructure in accordance with the 2009 policy.

Based on the implementation of the OCP, the findings of the Interim Plan, recent rapid growth of the city, as well as the requirement to review SAF/DL Policy every five years, Administration along with its consultant, Urban Systems, carried out a major review of SAF/DL Policy. The updated policy and phasing plan will replace the Interim Phasing and Financing Plan that was approved by Council in June 2014, and will help the city grow to a population of 310,000 (including the Special Study Areas in the OCP Growth Plan) over the next 25 years.

This report explains the process undertaken to conduct a major review of the SAF/DL Policy, the key considerations, and the resulting recommendations, which include:

- The proposed SAF/DL development charge for 2016;
- The updated Administration and Calculation of Servicing Agreement Fee and Development Levy policy;
- The updated Administration of Servicing Agreements and Development Levy Agreements Policy, inclusive of the new sections related to Endeavour to Assist and submission requirements; and
- The final phasing and financing policies for inclusion in the OCP.

The approach presented through these policies reflects the true costs of providing services to new developments throughout the city and seeks to ensure financial viability and sustainable growth. The updated SAF/DL Policy proposes a fair and equitable share of development costs between taxpayers and the developers to ensure that new development will not cause financial burdens to Regina taxpayers. The phasing plan for sequencing land development also fosters complete neighbourhoods by limiting the number of neighbourhoods developing at any one time.

DISCUSSION

Project Overview

There are two primary components of this project:

- The review of the policy guiding the determination of SAFs and DLs and the updating of associated policies, which includes the review and updating of the SAF/DL-eligible growth-related capital projects; and
- The development of a final phasing and financing plan to direct the sequencing of land development.

These components relate to one another and as part of the Interim Plan process, were directed to be completed concurrently.

This project contributes to defining how the City of Regina enacts OCP policies related to financial sustainability and complete neighbourhoods. The development of the SAF/DL policies and the final phasing and financing plan seeks to meet the following outcomes, including:

- Minimizing the long-term financial impacts to taxpayers;
- Realizing the goals and policies of *Design Regina: the Official Community Plan Bylaw 2013-48,* including the OCP Policy 1.16 that states ‘growth pays for growth’;
- Ensuring the SAF/DL rate is equitable and understandable;
- Ensuring market choice for new development; and
- Meeting residents’ service level expectations for new and existing programs and services.

The project largely focused on how infrastructure costs required for growth are allocated between developers and taxpayers. This discourse must be set in the context of the City’s broader financial picture. This includes consideration of the existing infrastructure demands, as well as recognition of the costs related to providing services that support growth but are beyond what can be charged to SAFs/DLs, as per the *Planning and Development Act, 2007*. For instance, SAFs/DLs do not cover growth-related costs associated with operations or maintenance (e.g. snow removal or garbage collection), costs for infrastructure repairs or renewal that benefits existing residents or costs associated with other growth-related capital costs, such as police or fire stations, libraries, and transit.

Growth-related capital projects that can be funded by SAFs/DLs fit into three main categories:

- Roads and transportation infrastructure, including multi-use pathways and traffic signals;
- Utility infrastructure, including water, wastewater and storm water (drainage); and
- Parks and recreation infrastructure.

The projects that compose the Growth-Related Capital Projects Lists form the core basis for the SAF model. The SAF model uses the projects required to service the 300,000 population (310,000 including Special Study Areas) to determine the annual development charge, or SAF rate, for residential, commercial and industrial development.

The projects required to support future growth were identified through various studies and plans that have been undertaken as well as servicing plans submitted by the developers for the various new neighbourhoods. The City is in the process of undertaking the development of comprehensive water and wastewater master plans. These plans will inform future reviews of the SAF/DL rate and policy. In the meantime, the Capital Project List includes placeholders based on high level assumptions about the cost of system-wide water and wastewater improvements required to service new growth, as per preliminary analysis completed by consultants. The projects funded by SAFs/DLs have been reviewed extensively by both the Administration and the development community.

Process Overview

The project was initiated in September 2014 and has progressed through three phases, as outlined in Figure 1.

PHASE 1 Develop and Discuss Options	PHASE 2 Develop and Discuss the Preferred Option	PHASE 3 Seek Approval of the Recommended Option and Prepare for Implementation
Sept 2014 – March 2015	April 2015 – June 2015	July 2015 – Dec 2015
• Reviewing & refining Project Lists • Confirming initial policy direction • Prepare draft SAF models with different variables. • Review initial results and seek feedback	• Revise model and policy and determine a preferred SAF model option and associated guiding policy • Review preferred option and associated results and seek feedback	• Revise model and policy • Finalize policy, rates and phasing • Seek council approval • Train staff to use new model
Working Group Sessions – Dec 2014 & March 2015	Working Group Sessions – April & June 2015	Working Group Sessions – August, September & October 2015

Figure 1: Process Overview of SAF/DL Policy Review and Final Phasing and Financing Project

Early in the project, the City of Regina established a Working Group to reflect perspectives of various stakeholders affected by the SAF/DL policy and rate review and the subsequent phasing and financing plan. The members of this Working Group include the Regina and Region Homebuilders' Association (RRHBA), Regina and District Chamber of Commerce, Regina and Region Opportunities Commission, residential, commercial and industrial developers, and infill developers, along with members of the City Administration.

The Working Group met regularly and extensively for the duration of the project to:

- Build a collective understanding of the current situation;
- Understand implications of different options in updating the policy;
- Ensure that concerns and ideas are consistently understood and considered when developing the recommended SAF/DL Policy and Final Phasing and Financing Plan; and
- Collaborate on the generation of alternate solutions.

The final recommendations were developed in consideration of the feedback that was provided through the project. An overview of feedback provided is in Appendix D.

Due to the complexity of the subject matter, public input was sought through focus groups and a telephone survey. The goal of the public involvement was to better understand residents' priorities and attitudes towards growth and the funding of future development. Based on the resident surveyed, findings (as per the Summary Report in Appendix E) related to who should pay for growth were inconclusive. There was no consensus about who should pay for growth-related infrastructure outside of new developments. Maintaining existing infrastructure was seen to be more important than investing in growth. At the same time, a strong majority also agree that it is a priority for the City to be planning for growth.

Interested public were directed to find information on the project online (designregina.ca) and could also sign-up to receive regular project update emails.

Key Considerations, Findings and Recommendations

Throughout this project, a number of factors were considered when determining the recommended approach. These are outlined below.

a) Improved Knowledge and Understanding of Projects Required for Growth

Since the Interim Plan was undertaken in 2013/2014, additional information was uncovered about the constraints of existing infrastructure systems. As such a number of projects were added to the Growth-Related Capital Projects Lists, a primary input for determining the SAF/DL rate, that were previously not identified. The increase in growth-related capital project capital costs, as opposed to shifts in policy, represents the majority of the proposed rate increase.

b) Defining 'Growth Pays for Growth'

To ensure revenue growth and financial sustainability, *Design Regina: The Official Community Plan Bylaw 2013-48* (OCP) includes Policy 1.16 that states that the City "ensures that growth pays for growth". Defining how to interpret this phrase in the context of this project was important as it defines how costs for growth-related infrastructure are to be allocated between developers and taxpayers/utility ratepayers.

The Growth-Related Capital Project List identifies the projects required to enable new developments to meet service levels for water, wastewater, storm water, roads and transportation, and parks and recreation infrastructure. When looking at the projects in the list, the phase 'growth pays for growth' means:

- Projects that are only required for growth are assigned to be paid for by developers either:
    - Directly, if the project primarily serves a single development area/region, or
    - Indirectly through SAF/DL, if it provides a broader benefit to multiple new developments.
- Projects that are required for growth but also address a service deficiency for existing residents or a new service that is currently not offered (e.g. Zone-Level Dog Parks), a portion of that cost is assigned to taxpayers or utility ratepayers.

Through this policy review, the majority of projects in the Growth-Related Capital Projects List are assigned to be paid for by developers either directly or through SAF/DL as they are deemed to be required for growth. These developer contributions only cover the costs of the initial installation of the infrastructure. Taxes and utility rates will fund operation, maintenance and renewal costs for the infrastructure.

c) Grade Separations

Grade separations include bridges, flyovers, interchanges and rail overpasses and underpasses.

Prior to the Interim Phasing and Financing Plan, taxpayers contributed between five and 15 per cent of the costs of all road expansion projects and 50 per cent of all grade separation projects. The rationale for this taxpayer contribution was (1) infill was not paying DLs; and (2) existing residents benefit from the growth. Through this project, Administration explored the validity of these two rationales. Administration is now recommending that infill development pay a DL to offset their consumption of infrastructure capacity, rather than rely on taxpayer contributions.

Furthermore, Administration has identified that without growth, the existing taxpayers would not need to add capacity to the existing system in order to meet service level expectations. The approach to allocate 100% of the costs of growth related capital projects to SAF/DL is known as the “trigger line approach”: Users that trigger the need for a new infrastructure investment are the ones who should pay for it. It is common in municipalities across Canada to use the trigger line approach and to maximize the use of development charges to fund growth related capital projects.

As a result of the shift to the “trigger line approach”, Administration is recommending that grade-separation and interchange projects be shifted to 100 per cent SAF/DL funded. This recommendation is based on the recognition that: (1) if the city stopped growing, taxpayers would not need to invest in this infrastructure; (2) growth over the next 25 years will be using and benefiting from all the existing infrastructure in the city, including existing grade separations; and, (3) to be consistent with all other capacity adding transportation projects which are 100 per cent SAF/DL funded.

d) Need for Key Policy Shift to Fund Major ‘System’ Improvements

Under the current SAF/DL Policy, fees were used to both recover costs for connecting new neighbourhoods to the major infrastructure systems as well as to ensure that these broader infrastructure systems had capacity to absorb the impact of the new neighbourhood. It has become clear that while that was the intention of the fund, the reality is that the SAFs/DLs were only able to fund the infrastructure to connect neighbourhoods and that the improvements required to support the long-term sustainability of the major infrastructure systems were being deferred. Due to frequent payments required for connecting infrastructure, the SAF/DL reserve fund was not able to build up a sufficient balance to fund the major improvements. The major improvements for which available funds are insufficient include the eastern water pressure zone, additional pumps and force mains from McCarthy Boulevard pump station to the wastewater treatment plant, and road expansion projects such as the Pasqua Street and 9th Avenue North interchange.

To ensure that the City has the means to fund major infrastructure improvements required for growth, a policy shift is proposed that would see SAFs/DLs being used to recover only costs associated with broader system improvements. Projects that serve a single area (including storm water projects, arterial roads, trunk mains and pump stations) would be transferred from being SAF-funded to being 100 per cent developer-funded. This shift means:

- SAF/DL investments will be for projects that support the broader infrastructure systems, ensuring that these systems are able to absorb the impact of new development without significantly reducing the level of service for the existing community;
- A more equitable SAF/DL rate will be charged to developers as the SAF/DL fund will be used for projects that serve a broader benefit versus projects that are required to serve individual developments; and
- Developers will directly fund those projects that are specific to their development; on average, this results in about a $50,000/hectare increase in developer-specific costs as compared to the Interim Plan period. The cost variance to individual developers/neighbourhoods will depend on the specific infrastructure needs of the area. This cost is in addition to other developer-specific costs that developers already paid for their developments.

As such, this approach does not result in more total costs being paid for developers; it only alters the amount funded by SAF/DL versus the amount funded directly by developers.

This change is consistent with other municipalities; it helps keep the overall SAF rate lower; and it provides developers more flexibility in managing projects for their specific developments. Additionally, developers directly funding more of the upfront infrastructure may create natural cost incentives for lower cost neighbourhoods to proceed earlier than higher cost neighbourhoods.

e) <u>Tool Required to Help First-In Developers: Endeavour to Assist</u>

With more projects that serve a single development being allocated to developers directly, developers have suggested that they require a formal tool to recapture costs when projects they build benefit other developers.

Endeavour to Assist Agreements are a tool that can assist current developers in recovering some of these costs from future developers for projects that provide benefit to the surrounding area. An example of the type of project that would be eligible for an Endeavour to Assist Agreement would be over-sizing of water or wastewater trunks, which ensure that subsequent neighbourhoods can easily connect to the water and wastewater systems.

This tool is recommended to be embedded in the Administration of Servicing Agreements and Development Levy Agreements Policy as Part D (see Appendix B) as it would be executed at the time of developing Servicing Agreements. The City will ensure that the future developers, who benefit from infrastructure installed and paid for by the first-in/initial developer, make payment to first-in developer prior to the issuance of subdivision approval.

During consultation, Administration heard concerns that the development industry would like the Endeavour to Assist Agreements to be extended over the entire 25 year planning horizon. Administration also heard that the first-in developers would like certainty that when they are eventually repaid through these agreements that the payment should reflect the opportunity cost of paying for infrastructure that only benefits future developers. As a result of the feedback, Administration adjusted the policy so that Endeavour to Assist Agreements may be extended to a period beyond the Agreement's initial term. Administration also adjusted the policy to require future developers to pay interest on the first-in developer's investment.

f) Managing the SAF Reserve Fund

Various scenarios were tested through the SAF/DL review. In evaluating these, two key outcomes were reviewed: (1) the implications to the SAF/DL rate, which developers are charged at the time of subdivision; and (2) the SAF/DL reserve balance which is related to the City's cash flow.

The more negative the SAF/DL balance (i.e. the more it has borrowed from either the general reserve, the utility reserve or from lenders), the greater the City's financial risk. A negative balance in the SAF/DL reserve is particularly concerning if investments in infrastructure have been made and growth significantly slows or stops, as this would jeopardize or delay the ability of the City to recapture the funds borrowed from the general reserve and/or utility reserve, or to repay a debenture.

Of the scenarios tested, the option to prioritize water and wastewater projects and delay transportation projects to minimize the deficit in the SAF/DL reserve account was preferred. Water and wastewater projects were prioritized, as they are most urgently required to enable system upgrades to foster growth in the city. This approach minimizes financial risk to the taxpayers.

This approach does not rely on debt to fund growth projects. Therefore, the City retains flexibility to use debt to address existing infrastructure and asset renewal needs and service improvements. All growth-related capital SAF projects (including delayed transportation projects) will be built by the end of the period (2040).

As shown in Figure 2 below, with delays, the SAF/DL reserve fund deficit is projected to be maintained in the range of -$50M, with a maximum deficit of approximately -$60M in 2036. Without delaying transportation projects the deficit is projected to be as high as approximately $420M. In reality, the SAF fund balance will be significantly impacted by the pace and variability of growth; the current SAF reserve projection assumes that 81 hectares of land are subdivided every year.

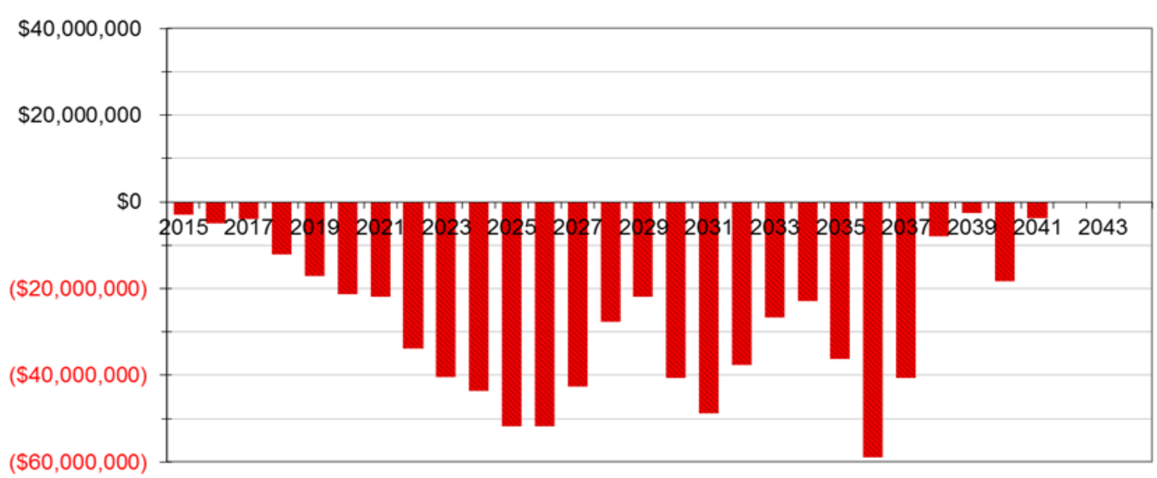

Figure 2: Projected SAF/DL Reserve Fund Cash Balance

To maintain the reserve deficit at this level, most transportation projects are delayed from 2 to 12 years. These delays will result in temporary service level reductions for all residents of the city, with potential implications including increased congestion, more use of local roads and challenges meeting emergency response times, especially in peak travel periods.

Ultimately, the timing of all SAF/DL funded projects will be determined during the annual budget process; if the City has financial capacity to allow additional deficit within the SAF/DL reserve fund, accelerating transportation projects could be considered at that time.

As well, as part of the development and implementation of the Long Range Financial Plan, Administration will be able to clearly describe the long-term effect of decisions on services and the funding requirements to sustain them. This would include the development of a strategy to sustain transportation service levels while addressing asset renewal.

g) Reduced Impact on City SAF Cash Flows from Phasing of Development

During the Interim Plan process, phasing (or sequencing) of land development significantly impacted the City's cash flow due to the local projects that were triggered by different developments.

As a result of the key policy shift noted above, which transfers capital projects that were previously funded by the SAF to being funded directly by the developer, the impact of phasing of development on cash flows is reduced.

However, phasing is still important for managing operating and maintenance costs; it assists with faster build-out of specific developments, which ensures there is a sufficient tax base to cover the operating and maintenance costs of new neighbourhood infrastructure and helps promote faster development of complete neighbourhoods for those new residents.

As such, the Phasing and Financing policies and map to be included in the OCP and presented in Appendix C (which also includes other associated OCP amendments) recommend a sequencing of new neighbourhoods and new mixed-use neighbourhoods based on:

- Servicing as a constraint;
- Limiting neighbourhoods to foster faster build-out; and,
- Developer-readiness.

Zoning approval will continue to trigger the phasing and development of employment lands (e.g. urban corridors, industrial areas), consistent with the Interim Phasing and Financing Plan. Approval for employment lands can be granted or denied based on considerations including servicing constraints and solutions, developer-readiness, and compatibility. As such, pending Council approval;

- All urban corridors could immediately proceed;

- Land north of the Global Transportation Hub (GTH) could proceed following the build out of the bypass and completion of the eastern water pressure solution and the identification of a wastewater solution;
- The first phase of the Fleet Street Business Park could advance; and
- Commercial lands within residential areas would proceed as those areas build out.

This Phasing and Financing Plan will be reviewed and updated regularly, particularly as new information becomes available with respect to servicing solutions within Secondary Plans, the Special Study Areas meeting the requirements of the OCP, and consideration of development timing for lands that were recently annexed.

h) Softer Market

Since 2006, Regina had been experiencing a boom in population growth; this has resulted in record building starts and a flurry of development activity. However, over the past couple of years, growth has slowed to a more moderate rate; this combined with a higher amount of unabsorbed housing units than in the past is causing a market adjustment in home prices and demand.

The OCP was based on the foundational assumption that the growth rate experienced by the City of Regina over the 2006-2012 would not be sustained over the life of the plan. Rather, the OCP assumed that housing starts of 1100-1500 would be sustained under a medium growth scenario over the 25-year horizon. As such, the market slow down does not change assumptions used for the OCP, though there are short-term impacts to development while it adjusts to a more sustainable growth rate.

i) Phase-In of the SAF Rate

Due to the recent market changes, the identification of additional capital projects to support growth and the proposed policy change to transfer development-specific projects to the developers to fund directly, the development industry was nearly unanimous in seeking a three-year phase-in of the SAF/DL rate. This phase-in will allow them to adjust to the new policy regarding projects that are developer-funded, the new SAF/DL rate and the change in market.

A review of the implications of phasing-in the rate was undertaken and revealed that while there was an impact on the SAF reserve balance, it was not significant. The phase-in results in a higher rate after the three years to compensate for the lesser cost years. With this understanding, the development community was overwhelmingly supportive of this option.

As such, Administration recommends that the rate for residential, commercial, and industrial development for 2016 be set at $379,000/ha to cover growth-related capital costs.

This rate is the first of a three-year phase-in of the greenfield rate. If the rate was not phased-in, it would be approximately $410,000/ha in 2016. Initiating this phase-in will result in reduced rates for 2016 and 2017; in 2018, the rate will be slightly higher than it would have been if the rate was not phased-in, in order to compensate for fees not captured between 2016 and 2017.

The project list will be reviewed annually and rates for subsequent years will be approved by City Council. The Administration and Calculation of Servicing Agreement Fees and

Development Levies Policy (Appendix A), updated as a part of this process, was used to guide the development of this rate and will also guide future rate setting.

j) Differential Rates for 235K and 300K Neighbourhoods

Traditionally, the City has had a single flat rate for all neighbourhoods. During the Interim Plan process, different rates for 235K (the rate per hectare was $304,960) and 300K (the rate per hectare was $359,089) neighbourhoods were implemented. Having a lesser rate for 235K neighbourhood instead of the same rate as 300K neighbourhoods results in a higher SAF rate overall.

The Interim Plan period is deemed to have provided the phase-in of the new rate for the 235K neighbourhoods; moving forward, the remaining 235K areas will pay the same rate as the 300K areas.

Administration considered using differential rates based on population growth horizon (235,000 versus 300,000) and on a neighbourhood basis and deemed that all growth has the same demand on the City's system-wide infrastructure and should therefore pay the same rates. Furthermore, establishing which infrastructure is required due to one neighbourhood or growth area as compared to another is not practical on a city-wide basis and it is unlikely that the City and development community would reach consensus on how to allocate costs.

k) Housing Affordability

Feedback from the development industry is that increasing SAF/DL rates will affect housing affordability. The City is in agreement that housing affordability is a key consideration but notes that there are a number of factors that go into housing costs, including raw land costs, consulting fees, contractor salaries, building materials, and profits.

Based on the 2016 phased-in SAF rate and projected median cost of a new house, SAFs will comprise 4.5% of the cost of a new detached or semi-detached house in 2016. Furthermore, between 2007 and 2016, the median cost of a detached or semi-detached home will have risen by a projected $232,000; SAF increases over the same time period only account for $12,500 of this total increase. On this basis, while SAFs do have an impact on the cost of a new house, recent increases to the price of a new house have largely been driven by other factors.

l) Infill Development Impacts Capacity of Infrastructure Systems

As per a City Council decision in 1989, infill within the exempt area (generally within the boundaries of the Ring Road) has not been charged DL fees. In addition, areas that had already paid SAF in the past were also exempt. However, for some infrastructure systems, there are impacts to capacity regardless of where growth occurs, such as for the water treatment plant, wastewater treatment plant, and internal roadway improvements, such as capacity upgrades along Saskatchewan Drive.

It was determined that to meet the objective of having an equitable SAF/DL Policy, it was important to start recognizing the impact of infill on our infrastructure systems, to remove the exemptions which applied to infill development, and to start allocating growth-related capital costs accordingly.

Through this policy review, Administration has established which projects benefit infill development and what share of the costs of each of those projects should theoretically be funded through an infill SAF/DL rate, based on *Design Regina* targets of accommodating 30 per cent of new population growth in existing built-up areas of the city.

At this time, Administration believes that further consultation and process review is required before implementing changes to the exempt area in 2016; but does anticipate removal of the exempt area and an infill rate being effective in 2017. Further consultation and study leading to a future report on infill SAFs and DLs will be forthcoming in 2016.

Related, at the time of this SAF/DL Policy review, the Regina Revitalization Initiative for the railway lands was getting underway. While some preliminary information was made available in terms of projects required for growth in that area, they have been excluded from being added to the Growth-Related Capital Projects List at this time. The forthcoming work around infill SAFs and DLs will consider how projects associated with the re-development of the railway lands should be funded.

m) Barriers to Industrial Development

To date, a single greenfield rate for all land uses has been used in Regina. Through this project, an alternative of having a separate industrial SAF/DL rate was explored. This rate was calculated based on the identification of projects that are primarily required to support industrial neighbourhood development, recognizing the full cost of industrial growth. Through this analysis, it was discovered that the majority of the projects identified support the development of residential, commercial and industrial areas, but that by creating separate rates, the industrial rate would be higher than the residential/commercial rate. The separate projected industrial rate presented to the working group was deemed to be too high. As such, at this time, maintaining a single combined greenfield rate is the preferred approach.

Both Administration and the development community recognize the value in ensuring the City of Regina stays competitive to attract industrial development to the city to maintain economic growth and to help offset the costs of operating the city. Preliminary research in this process was undertaken to better understand the industrial market in Regina and potential barriers; however, it was identified that a more involved research project would be required, particularly to determine the impact that SAF/DL have on industrial development and the potential for subsidies to be created to help incentivize industrial development. Working Group feedback was that incentives should not be built into the SAF/DL system as it results in the costs of the subsidy to be borne by other developers. Rather, should the City choose to incentivize industrial growth, these incentives should be open and transparent rather than hidden in the SAF/DL rates.

Administration will continue working to understand what barriers, including SAF/DL, may prevent industry from locating in the City of Regina.

Other Considerations:

Comparison of Charges with Other Communities

This recommended rate, with the phase-in, is comparable to that of other Saskatchewan municipalities, including Saskatoon and White City, and in the mid-range of other studied communities in Canada (Figure 3: unless otherwise noted, rates are for 2015 with the exception of Edmonton as it maintains a complex area-specific rate system which has not received a major update in two years). It is Administration's expectation that many of these rates will be increased in 2016, consistent with Regina's annual rate adjustment.

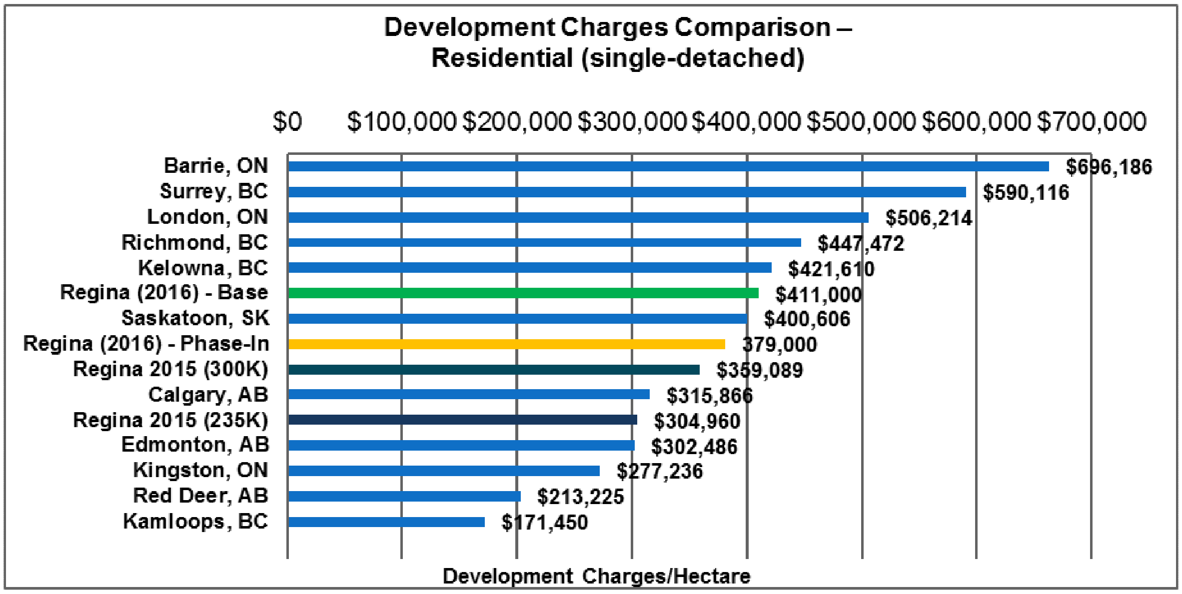

Figure 3: Development Charges Comparison for Residential Development

Policy Clarifications

Through the policy review, a lack of clarity was identified for the following policy components. As such, the following outlines the proposed policy directions for the lands that are exempt from being charged SAF/DL as well as the application requirements needed prior to a Servicing Agreement or Development Levy Agreement being issued.

a) Lands Exempt from SAF/DL

Clarification of the lands that are exempt from being charged SAF/DL is provided in section 4.7 in the Administration and Calculation of Servicing Agreement Fee and Development Levy Policy (Appendix A) as follows:

- Internal environmental reserves;
- Freeways;
- Expressways;
- Interchange lands;
- Major utility corridors (electrical transmission corridors and pipeline corridors unfeasible for development as a result of safety and/or environmental regulations) lakes; and
- Lands used to accommodate permanent City-owned pump stations or lift stations.

b) Application Requirements

The proposed application requirements are outlined in Part E of the Administration of Servicing Agreements and Development Levy Agreements Policy (Appendix B). Essentially, if developers submit the required documents to the satisfaction of the City, they have six months from the date a Servicing Agreement number is assigned to enter into the Servicing Agreement with the City or the policy/rate in effect the date the Servicing Agreement number was assigned will no longer be in effect.

The documents required for formal submission of an application include:

- Secondary Plan or Concept Plan approval if deemed required in accordance with the policies in the OCP;
- Zoning approval;
- Application for subdivision;
- Receipt by the City of an engineering submission;
- Receipt by the City of a landscape drawing submission; and
- Formal written request to enter into a servicing agreement.

In consideration of these application requirements not being included in the Administration of Servicing Agreements and Development Levy Agreements Policy previously, a transition period is recommended. This is outlined in Appendix F; it describes that during this transition period in 2015, zoning approval would not be required due to the expected time required for Administration to review applications; however, submission of the zoning application would be required by November 30, 2015 and all other documents would be need to be submitted by December 31, 2015 in order to be eligible for the Interim Phasing and Financing Plan (policy and rate). As well, Servicing and Development Levy Agreements initiated in 2015 must be executed by the development proponent and the City of Regina by June 30, 2016.

Options

Option 1: Include taxpayer contributions to grade-separation and interchange projects.

An option that can be considered to address stakeholder feedback regarding the allocation of costs for interchanges and grade-separation projects is described as follows.

Under Interim Phasing and Financing Policy, interchanges and grade-separation projects were funded 50 per cent by SAFs and 50 per cent by taxpayers. The recommendation in the proposed SAF/DL policy is to have these projects allocated 100 per cent to growth (i.e. SAF/DL) as they are triggered by growth. Furthermore, developers are not being asked to contribute to the interchanges and grade-separations that were built in the past to serve growth but which new neighbourhoods/developers will use and benefit from.

From a developer-perspective, maintaining the Interim Phasing and Financing Policy direction for SAF/DL would be positive as it would reduce the SAF/DL rate by about $35,000/hectare. However, taxpayers would then have to fund the approximately $60 million in growth-related infrastructure through property taxes over the next 25 years through a mill rate increase over and above what would be required for other purposes, such as infrastructure renewal and providing other growth-related infrastructure, such as fire halls. The development community supports this with the rationale that these projects should be partially funded by taxpayers since they will use them.

Administration's perspective is that the policy for allocating costs is not based on who will use something; rather it is based on whether the project is required to meet the service levels identified for that infrastructure component. In this case, if the city stopped growing, there would not be a need to construct new interchanges and grade-separations because the existing community's level of service would be met; as such, taxpayers should not be contributing to the capital costs for these projects. The existing population, along with the new population, will be responsible for the entire cost associated with maintenance and renewal of new interchanges and grade-separations over time.

The taxpayer research indicates that taxpayers consider it important to be able to travel to and from work with minimal delay. Taxpayers also were split on whether or not taxpayers should make any financial contributions to growth-related projects. In consideration of this research, Council may consider this a viable option.

Option 2: Include Southeast Special Study Area

In support of the OCP, the City's boundary was altered in 2014. As part of that boundary alteration, the City added a large area of land in the southeast quadrant of the City from Victoria Avenue to Arcola Avenue to the railway tracks. This area of land was not given thorough consideration for inclusion in the current (300K) planning horizon. Through the Southeast Lands Secondary Plan process, Administration will be evaluating the appropriate horizon for development of this land.

In consideration of this, and in response to the attached feedback (Appendix D.3), Administration has prepared an alternative phasing plan option (Appendix G), which would designate this area as a "Special Study Area" for the purpose of the Phasing Plan. At such time as the Secondary Plan is reviewed and approved, the OCP policy and Growth Map will be updated as required to reflect the City's decision regarding timing for development of this area.

Administration's perspective is that this option is not required. Amendments to the OCP that are identified through any secondary plan process would typically be brought forward as part of the approval process for that secondary plan. This would ensure that all OCP amendments related to a particular growth area would be consistent. If this special study area is added to the Phasing Plan map, it would be inconsistent with other maps and policies in the OCP.

RECOMMENDATION IMPLICATIONS

Financial Implications

The recommendations contained in this report will ensure that adequate SAF/DL are charged to more accurately cover the cost of infrastructure that is trigged by development. The drivers for the SAF/DL Policy ensure that growth does not create an unfair financial burden on Regina taxpayers to pay the capital costs of growth of the city. This is consistent with the OCP Policy that 'growth pays for growth'.

SAFs and DLs are not a tax. The City is mandated to keep the money collected through SAF/DL in an account(s) separate and apart from other funds of the municipality. The municipality is only allowed to use the funds to pay the capital costs of the infrastructure for which it was collected. The definition of capital costs includes the cost of construction, planning, engineering and legal services associated with that infrastructure.

The City does not profit from SAF/DL and historically, the SAF/DL reserve accounts have been in a negative position. When the SAF/DL reserve accounts are in a negative position, the SAF/DL are assessed an interest charge. When the SAF/DL reserve accounts are in a positive position, they collect interest. An SAF/DL reserve with a positive balance will enable the City to pay for infrastructure as it is required without having to draw funds from other sources, such as debt, to fund the cost.

The proposed approach will decrease the risk that taxpayers would need to fund SAF/DL deficits should growth of the city slow down. The taxpayer share of the plan, based on the current financing strategy, is roughly $212-million over the next 25 years. Therefore, the City will need to contribute an average of $8.5-million per year in taxpayer funding to pay for its share of the projects. These are costs that would have been incurred by the city, even if it stopped growing.

Using the 'growth pays for growth' perspective, this policy review has shifted all identified SAF/DL eligible growth-related capital projects to be paid for by developers – either indirectly via SAF/DL or directly, to be paid for by the developer. This shift minimizes the risk to taxpayers and allows for property taxes and utility fees to be focused on operations, maintenance, and renewal of existing infrastructure, managing other non-infrastructure programs and services, and funding other projects that result from growth that cannot be charged to SAF/DL as per the *Planning and Development Act, 2007* (for example, police and fire stations, libraries, and transit).

To mitigate risks to taxpayers, the City is in the process of developing and implementing a financial policies framework and a long-range financial plan. A long-range financial plan will support decision-making by clearly describing current and long-term funding requirements and the implications to services and service levels. The recommendation does not remove all risk as the model established to produce the recommended SAF/DL rate provides for a balanced SAF/DL reserve at the end of the 25-year model, but enables the reserve to reach a deficit of approximately $50-million in most years.

This risk can be eliminated by requiring the reserve to maintain a positive balance. Administration is not recommending this at this time as it would further reduce the projects that could be advanced while the reserve balance is increased and/or increases the rate to a level that would be unacceptable to developers. To manage the ongoing risks to taxpayers, all projects are reviewed and approved by Council through the City's annual budget process. This enables Council to re-evaluate its tolerance for risk / deficit in the SAF/DL reserve fund on an annual basis and ensure that projects proceed in an affordable and sustainable manner.

Environmental Implications

None with respect to this report.

Policy and/or Strategic Implications

The recommendations are consistent with the OCP Community Priorities and goals. In particular, the recommendations are built on the principle that 'growth pays for growth' and those that benefit from a service pay for the service.

Like in the interim plan process, the recommendations place particular weight on two of the Community Priorities:

- Long Term Financial Viability: The recommendations have attempted to find the appropriate balance between supporting growth and ensuring long term financial viability for the City and the taxpayer.
- Develop Complete Neighbourhoods: Regina has generally allowed development to occur when and where developers identify a market demand. Historically, this has resulted in

slow build-out of some neighbourhoods, delaying the development of support services that are inherent to the concept of 'Complete Neighbourhoods' (e.g. grocery stores and other retail, schools, transit, etc.). Keeping this Community Priority in mind, the recommendations focus development to allow for complete build out. This approach is likely to achieve complete neighbourhoods sooner.

Other Implications

None with respect to this report.

Accessibility Implications

None with respect to this report.

COMMUNICATIONS

The City's engagement objective was to involve the development community and related stakeholders in the exploration of options and the development of recommendations.

A Working Group, comprised of development community members and business representatives, supported by City staff and consultants was established to collectively work through the detailed material, ensure concerns and ideas were understood and considered and assist with the development of alternative solutions. This group met for six workshops throughout the project to share ideas, review project progress and provide feedback. The result was a process that allowed for significant information sharing and provided the opportunity to build a collective understanding of the issues.

To complement the in-person engagement, workshop summaries and participation opportunities were posted on DesignRegina.ca. This provided an opportunity for other interested stakeholders and residents to review updates on the project and to provide feedback or seek clarification throughout the process, if needed. The majority of the communication with this group was in the form of regular email updates that coincided with the Working Group sessions.

Due to the complexity of the subject matter, public input was sought through focus groups and a telephone survey to better understand residents' priorities, attitudes towards growth and how future development is funded. These results are included in Appendix E.

Upon Council approval, the rate and policy will be shared with the development community. As well, Public Notice related to the proposed amendments to the Development Levy Bylaw and the OCP with respect to the Phasing and Financing policies will commence in preparation for the bylaw amendments to be brought forward to City Council in November. The Phasing and Financing policies also require consultation with the Rural Municipality of Sherwood which will be undertaken concurrent to the Public Notice for the OCP amendment.

DELEGATED AUTHORITY

The recommendations contained in this report require City Council approval.

Respectfully submitted,

Shanie Leugner

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Planning

Respectfully submitted,

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