



Nichols
APPLIED MANAGEMENT INC.

Edmonton Annexation Municipal Government Board Merit Hearing

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MANAGEMENT & ECONOMIC CONSULTANTS

Introduction


This presentation provides an overview of the key assumptions, methodology, and findings of:

- The City of Edmonton's Growth Study; and
- The Fiscal Impact Analysis of the City's of Edmonton's Proposed Annexation.

The Growth Study provides an overview of:

- The historic and regional context in which the City of Edmonton's growth is considered.
- Anticipated future growth and land needs of the City.
- The methodology, data, and assumptions relied upon in the analysis.
- The City's proposed annexation area.

The Fiscal Impact Analysis provides an overview of:

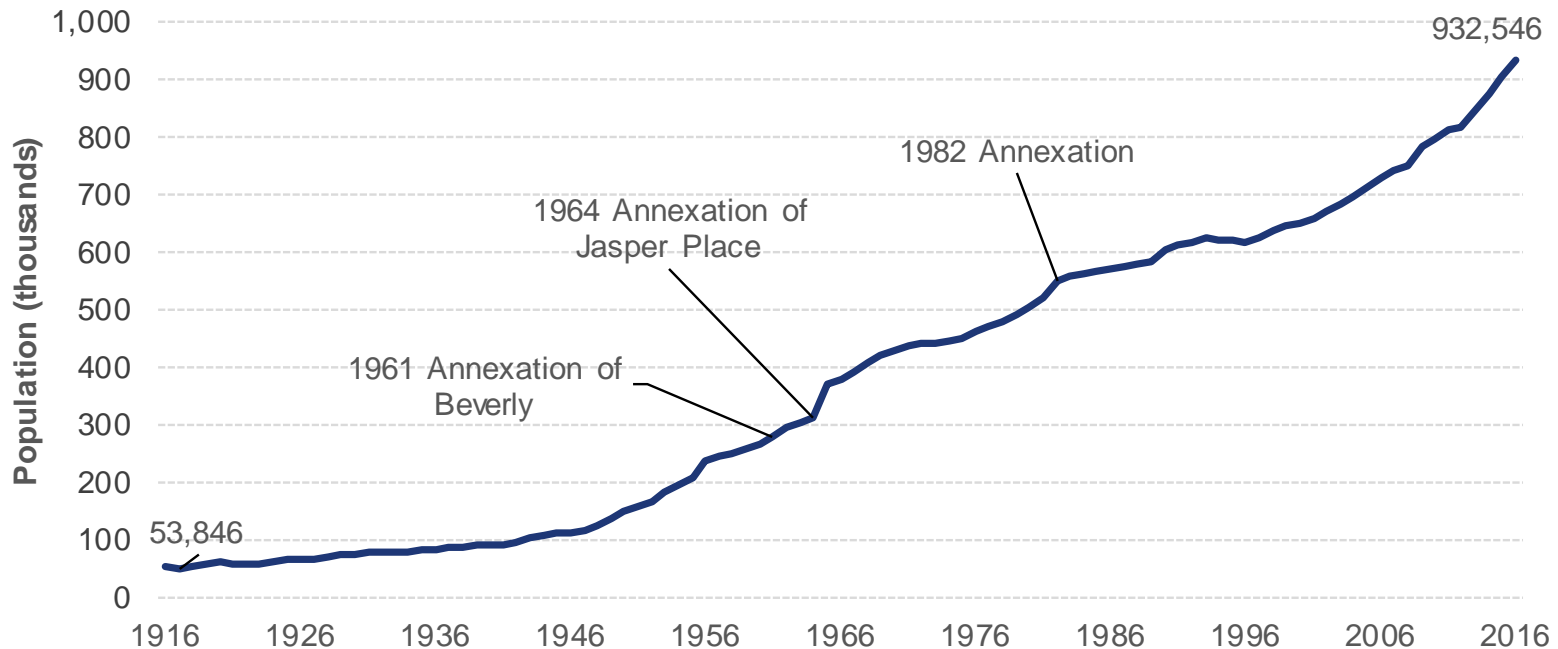
- The prevailing fiscal conditions of the three parties to the proposed annexation: the City of Edmonton, Leduc County, and the Town of Beaumont.
 - The short- and long-term fiscal impacts of the proposed annexation on the three municipalities and property owners.
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Growth Study



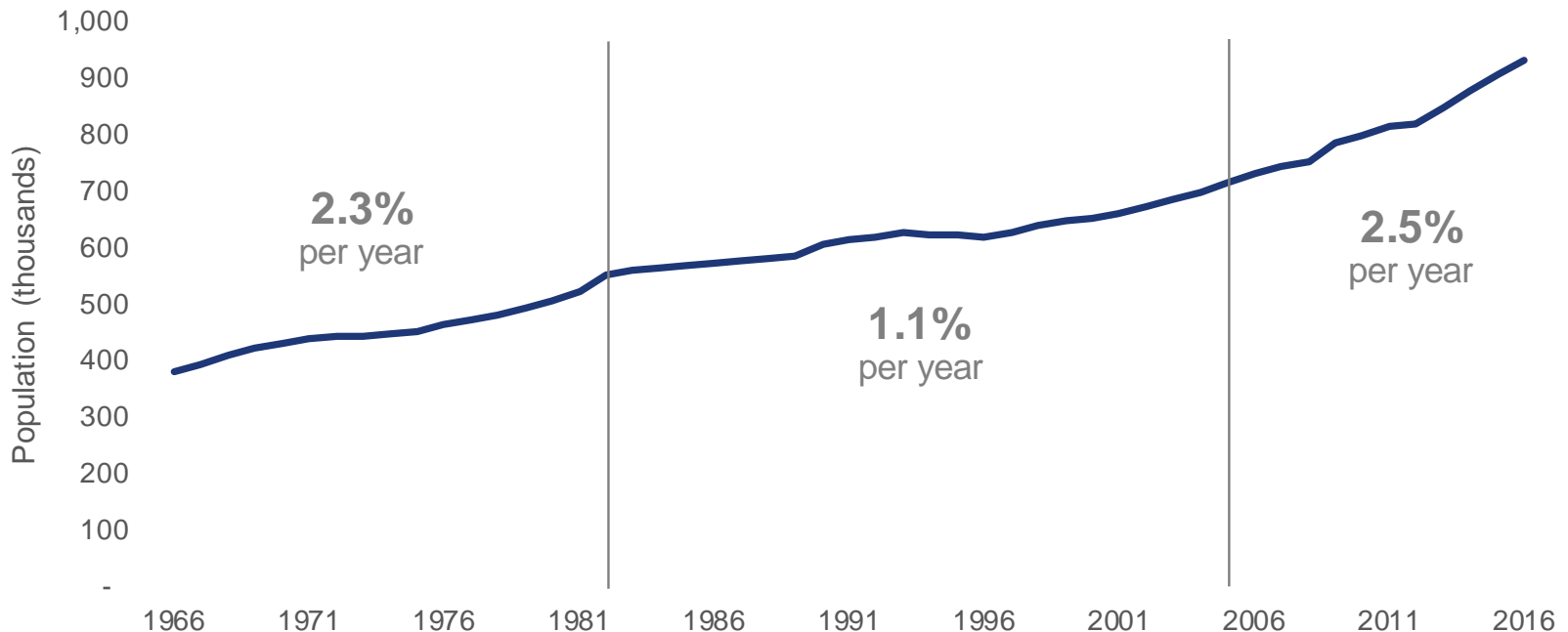
Growth Context

- The City's growth profile over the past 100 years has generally been positive and, in the past 5- years, in parallel with the expanding resource-based growth of the province.



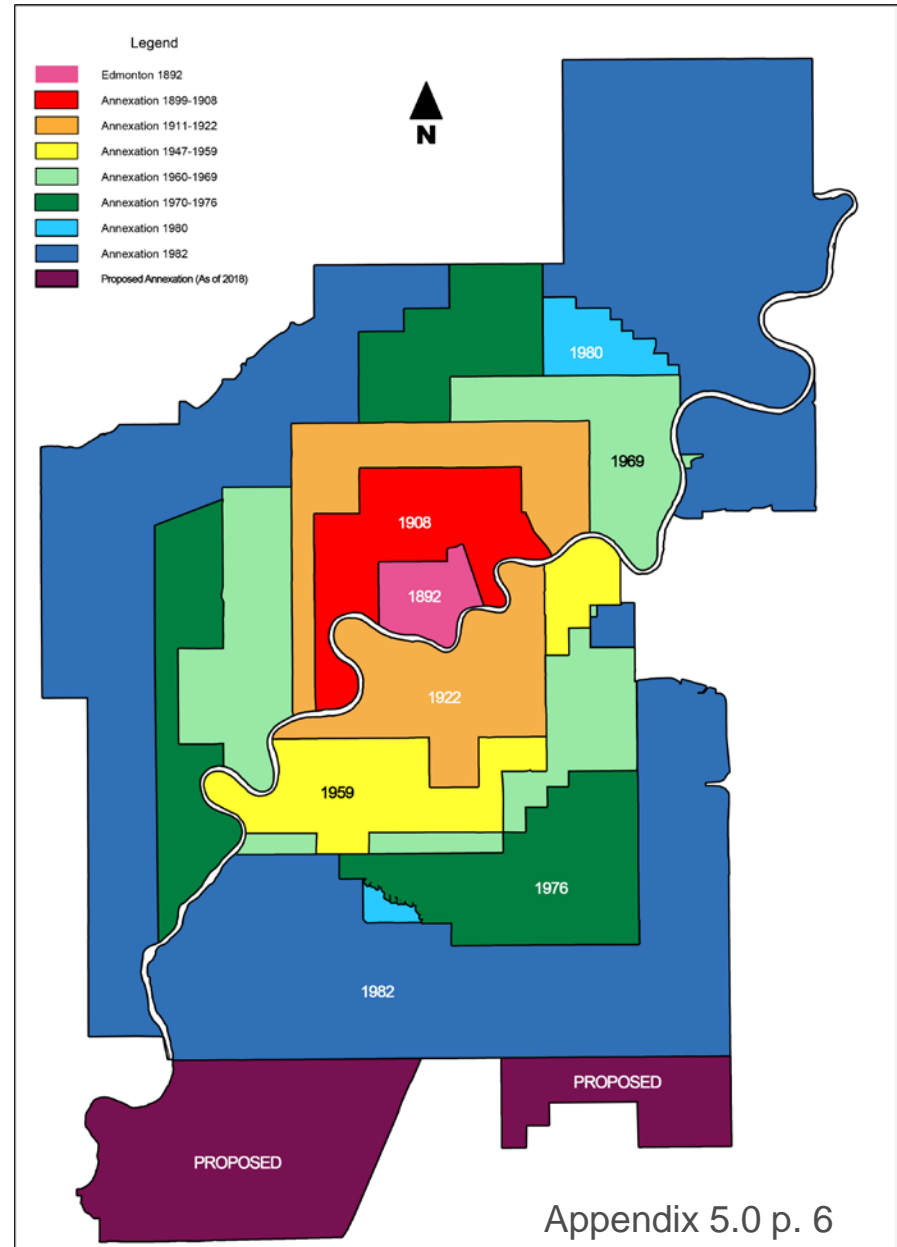
Growth Context

- Over the years, the City has experienced periodic cycles of faster and slower growth that have reflected changing levels and fluctuations in global, national, and provincial economic activity.



Growth Context

- This growth has been accommodated through period annexations to accommodate new development – the most recent of which took effect 36 years ago.



Growth Context

The City of Edmonton constitutes the primary centre and dominant urban core of a large metropolitan region that has doubled in size over the past 40 years to roughly 1.3 million people today. The City:

- Is home to 71% of the region's population and more than three-quarters of the region's employment.
- Acts as a central hub for the movement of goods and people within the region and with other parts of the province.
- Is a regional service centre for education, health care, housing, and social services and facilities.

Growth Context

The continued prominence of the City in the Capital Region is a stated objective of the City, as articulated in its Municipal Development Plan (MDP):

- “[to] support and maintain Edmonton as the major growth centre in the Region” the City “will maintain its share of regional population and business growth within its boundaries” (MDP 8.1.2)

The City has established important planning policies in support of these goals:

- Ensure a combination of single-family and multi-family housing development potential is available for the next 30 years (3.2.1.1).
- Ensure there is sufficient land available to sustain economic opportunities (3.2.1.2).
- Achieve a balance between residential, industrial, commercial, institutional, natural and recreational land uses in the City through land development policies and decisions. (3.2.1.3).

Growth Context

The role of the City in the region is echoed by the Edmonton Metropolitan Region Growth Plan.

- The Plan incorporates a number of key strategies for managing the region, including:
 - Increasing livability in the region; and
 - Improving the region's global economic competitiveness.
- The City provides a number of critical supports necessary to achieving the goals set out in the Plan.
 - Leadership in compact and contiguous development.
 - Efficiency in land use.
 - Ability to accommodate a variety of employment activities and provide the required supports.
 - Provision of critical infrastructure and services.

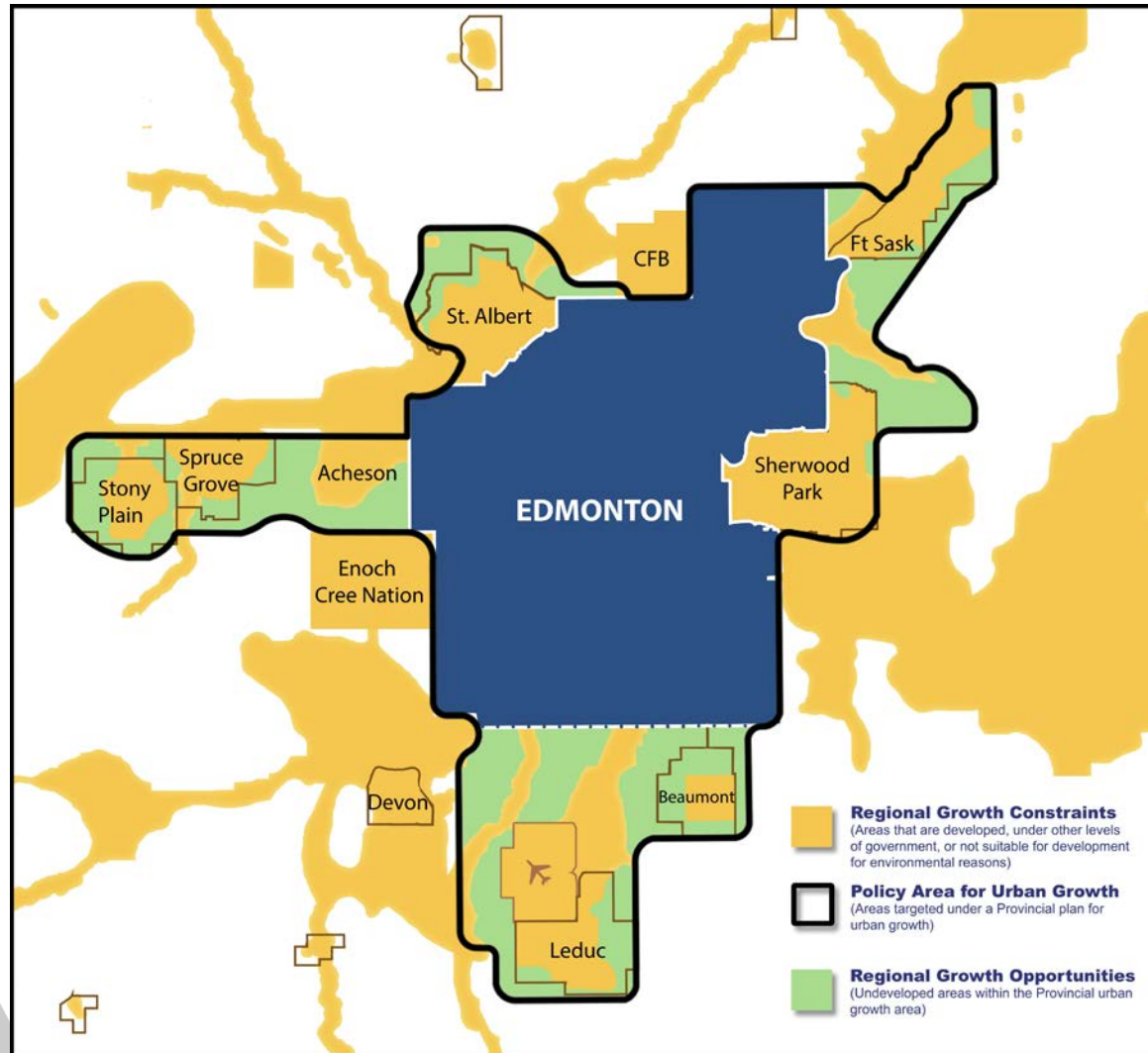
Growth Context

- The Edmonton Metropolitan Region Board (EMRB, formerly the Capital Region Board) has developed a policy framework for managing population and employment growth in the region.
- Within this framework, the EMRB has identified areas to support urban growth throughout the region and Edmonton's proposed annexation is within an area identified for future urban growth so as to optimize existing and planned infrastructure.



Growth Context

Appendix 5.0 p. 16

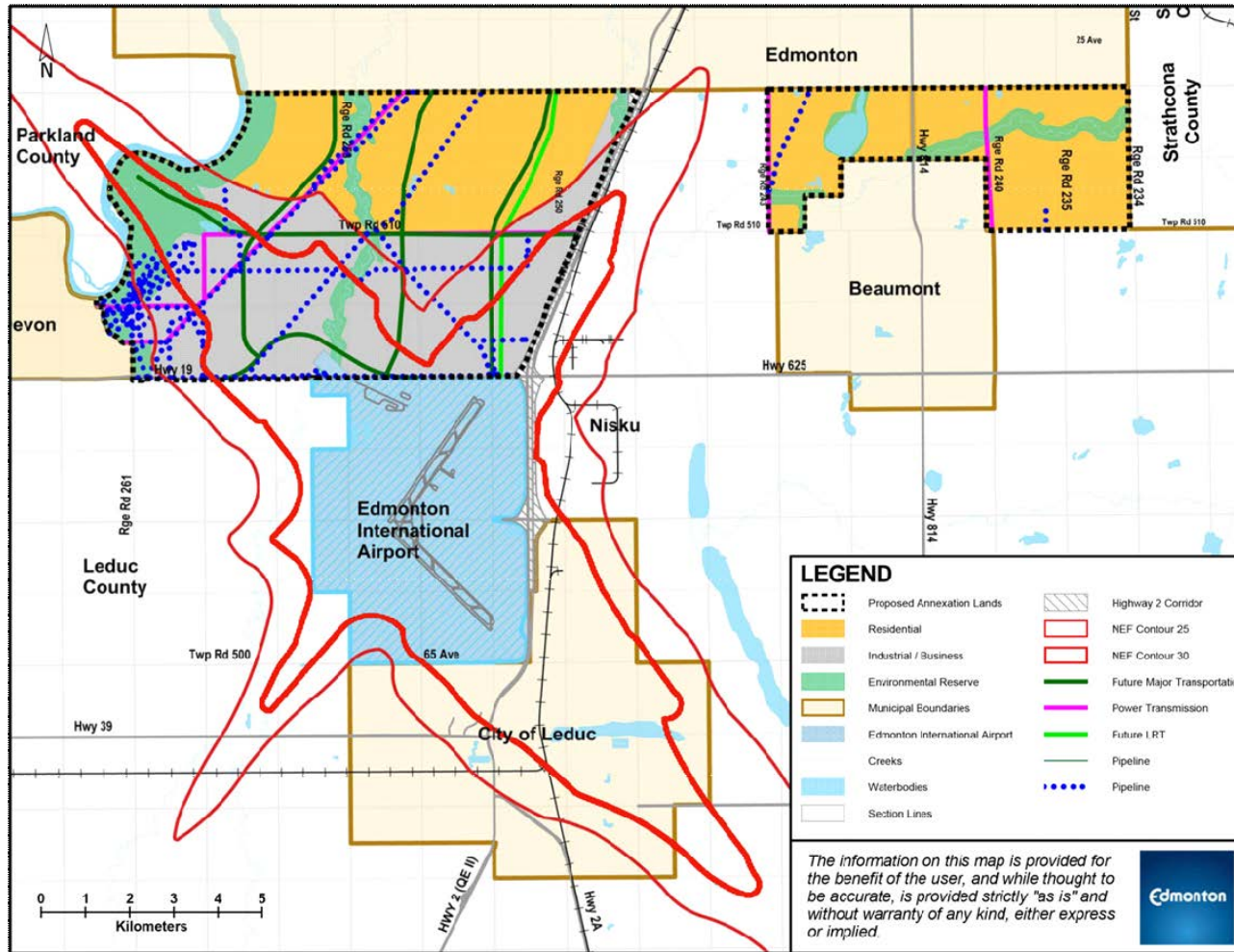


Study Methodology

In brief, the study approach was to:

- Quantify the long-term land requirements of the City for residential, commercial, and industrial uses.
- Compare the future needs to the remaining supply of land within the City.
- Identify the needs of the City that cannot be accommodated within its current land base.
 - Establish the need for the annexation area lands to accommodate future growth.

Proposed Annexation Area



Key Assumptions - Residential

Population growth:

- Driven by Capital Region Board (CRB) projections for the region (2014 to 2044):
 - Adjusted to reflect 2016 census
 - Extended to a 50 year time horizon
 - Modified to show the City of Edmonton accommodating 70% of the region's growth.
- In 2016, the City of Edmonton was home to 932,500 people.
- In the high growth scenario, City of Edmonton is expected to reach 2.17 million people by 2066.

Key Assumptions - Residential

In general, we made a number of conservative assumptions when forecasting the City's land needs. Some examples include:

Housing Preferences:

- Current housing preferences in the City favour low-density, single-family homes.

Unit Type	Proportion of Building Permits 2006-2015
LDR	55%
MDR-R	11%
MDR-A	29%
HDR	5%

- We've assumed a shift towards a market preference for higher density units over a 20-year period.

Key Assumptions - Residential

- We've assumed a shift towards a market preference for higher-density units over a 20 year period.

Unit Type	Future Proportion of Housing Demand (% units)
LDR	50%
MDR-R	13%
MDR-A	29%
HDR	8%

- We've also assumed that an increasing portion of residential land needs will be met by infill development over the next 20 years.
 - 14% average over past ten years
 - Policy target of 25% by 2036

Key Assumptions - Residential

- We've also assumed infill occurs at a higher density than existing levels.

Unit Type	Future Proportion of Housing Demand (% units)
LDR	23%
MDR-R	8%
MDR-A	53%
HDR	16%

- The geographic distribution of growth will follow historic patterns – preference for southern portion of the City (59%).

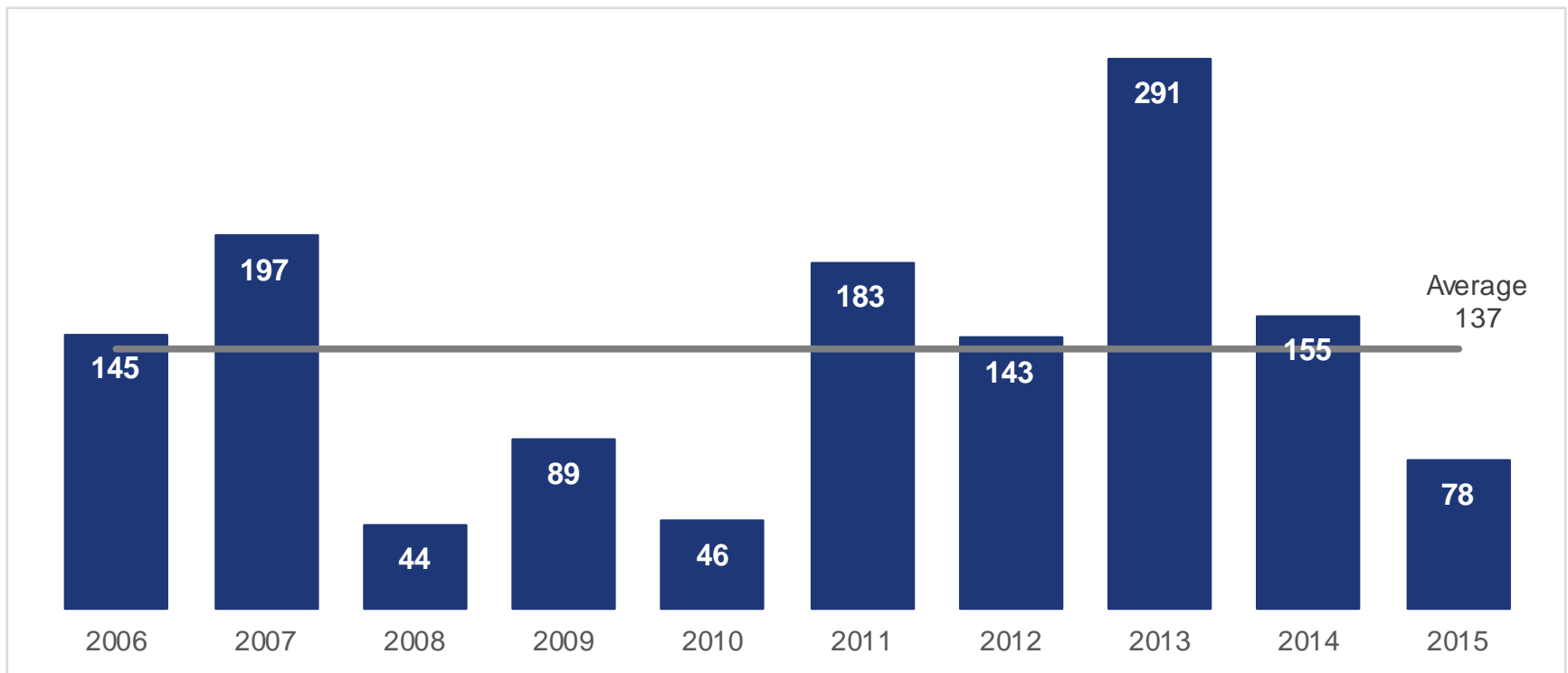
Conclusions - Residential

Remaining Supply of Residential Lands

Unit Type	South	North
LDR	2033	2047
MDR-R	2033	2039
MDR-A	2044	2055
HDR	2062	2086

Key Assumptions - Industrial

- Historic absorption rate of industrial lands varies between 44 net ha/yr and 291 net ha/yr.
 - Mostly light and medium industrial development



Key Assumptions - Industrial

Area of the City	Supply at Year End 2015 (net hectares)
Conventional Industry	
South/Southeast	481
Northwest	687
Northeast	122
Edmonton Energy & Tech Park	<u>2,097</u>
Total Conventional	3,387
Petrochemical	
Edmonton Energy & Tech Park	<u>1,232</u>
Total Petrochemical	1,232

Key Assumptions - Industrial

Currently, the City's three major industrial areas serve, with some overlaps, largely different market segments:

- the northwest: logistics, distribution, and construction;
- the south/southeast: oil and gas and mixed commercial/industrial uses; and
- the northeast: medium/heavy construction and processing.

Land shortages in one industrial area are unlikely to simply shift demand to another industrial area elsewhere in the City.



Key Assumptions - Industrial

The City's south industrial sector is particularly attractive to industrial businesses because of its proximity to:

- the Anthony Henday ring road;
- the QEII highway, rail lines, and the Edmonton International Airport (EIA);
- the large south Edmonton labour force and marketplace; and
- regional commercial amenities such as South Edmonton Common.

Key Assumptions - Industrial

- Continued split of absorption 40% south, 60% north.
- Lands in the south will be fully exhausted before moving into the annexation area
 - Conservative due to lack of choice
 - Has the effect of overstating the amount of supply remaining in the City.

Conclusions - Industrial

- The City will exhaust its current supply of industrial lands as follows:

Area of the City	Supply Exhausted
Conventional	
South/Southeast	2023
Northwest	2030
Northeast	2031

Conclusions – Annexation Area

The proposed annexation area will extend the supply of land available to the City to accommodate future residential and industrial growth.

- With respect to residential lands:

Unit Type	Annexation Residential Supply Exhausted (Year)
LDR	2051 (33 years)
MDR-R	2055 (37 years)
MDR-A	2055 (48 years)
HDR	2066 (48 years)

- Will accommodate 206,000 more people in the City as compared to no annexation.
- Industrial supply will be exhausted by 2044 (26 years).

Fiscal Impact Analysis



Overview

The Fiscal Impact Analysis (FIA) of the proposed annexation examined the immediate and long-term impact of the proposed annexation on affected ratepayers and municipalities.

The FIA addresses the financial implications of the City's final application.

- Reflects compensation and other financial conditions proposed by the City in consultation with Leduc County and the Town of Beaumont.

Methodology

Conceptually, our approach consisted of:

- Developing financial models of affected municipalities and forecasting future fiscal conditions in the absence of the proposed annexation.
- Adjusting the parameters of the financial models to reflect the gain/loss of annexation lands.
 - Taxation revenues
 - Non-tax revenues
 - Operating expenditures
- Quantifying the fiscal difference between “with” and “without” annexation.
- Results presented for immediately following the annexation and in the longer-term.

Data and Assumptions

Focus on Leduc County as the Town of Beaumont is nominally affected – transfer of one-mile right-of-way of 50th Street from the Town to the City of Edmonton.


Financial analysis based on 2016 budgets for the affected municipalities.

- The derivation of key metrics can be seen in Appendix A of the FIA.



Municipal Fiscal Context

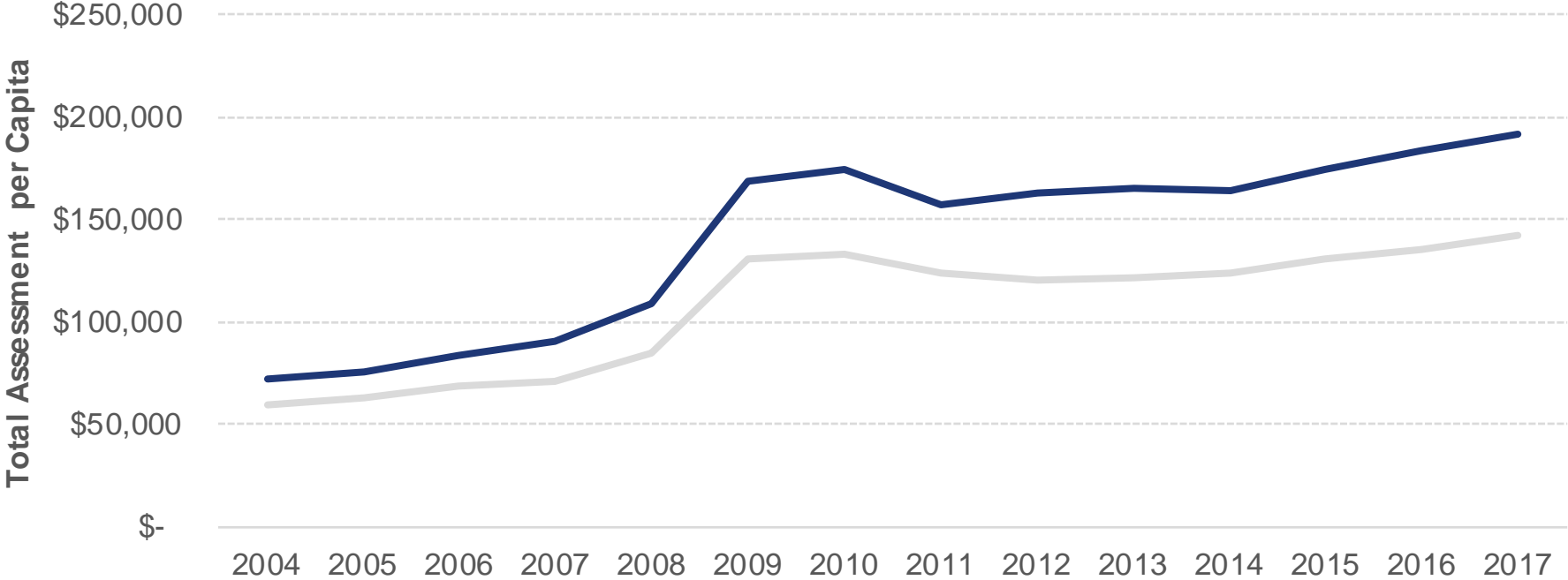
Key indicators used to assess elements of the City and County's current fiscal wellbeing:

- Equalized assessment.
 - Non-residential assessment base.
 - Relative share of region's property assessments.
 - Comparative level of residential and non-residential tax rates.
 - Municipal debt level as a percentage of provincially defined limit.
 - Municipal expenditures per capita.
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Municipal Fiscal Context - Edmonton

Total Equalized Assessment per Capita

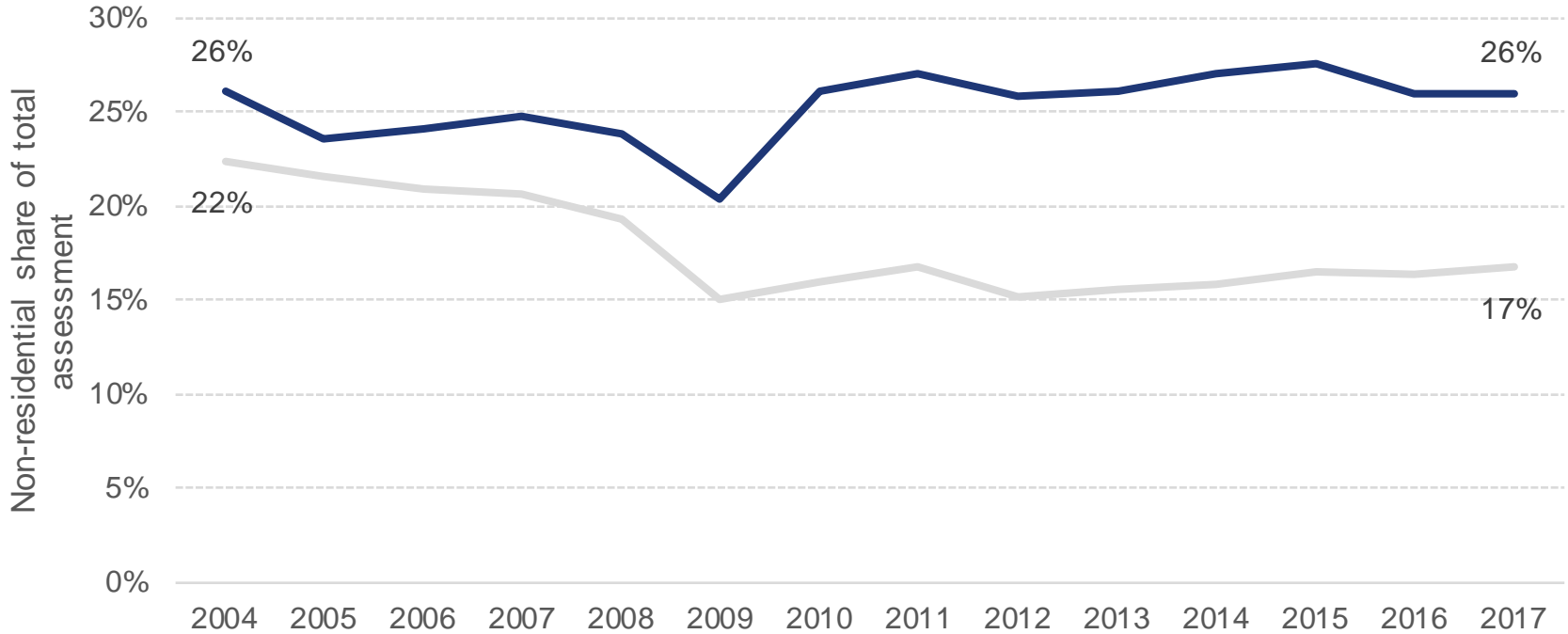
Edmonton | Other CR Urbans



Municipal Fiscal Context - Edmonton

Non-Residential Share of Assessment Base

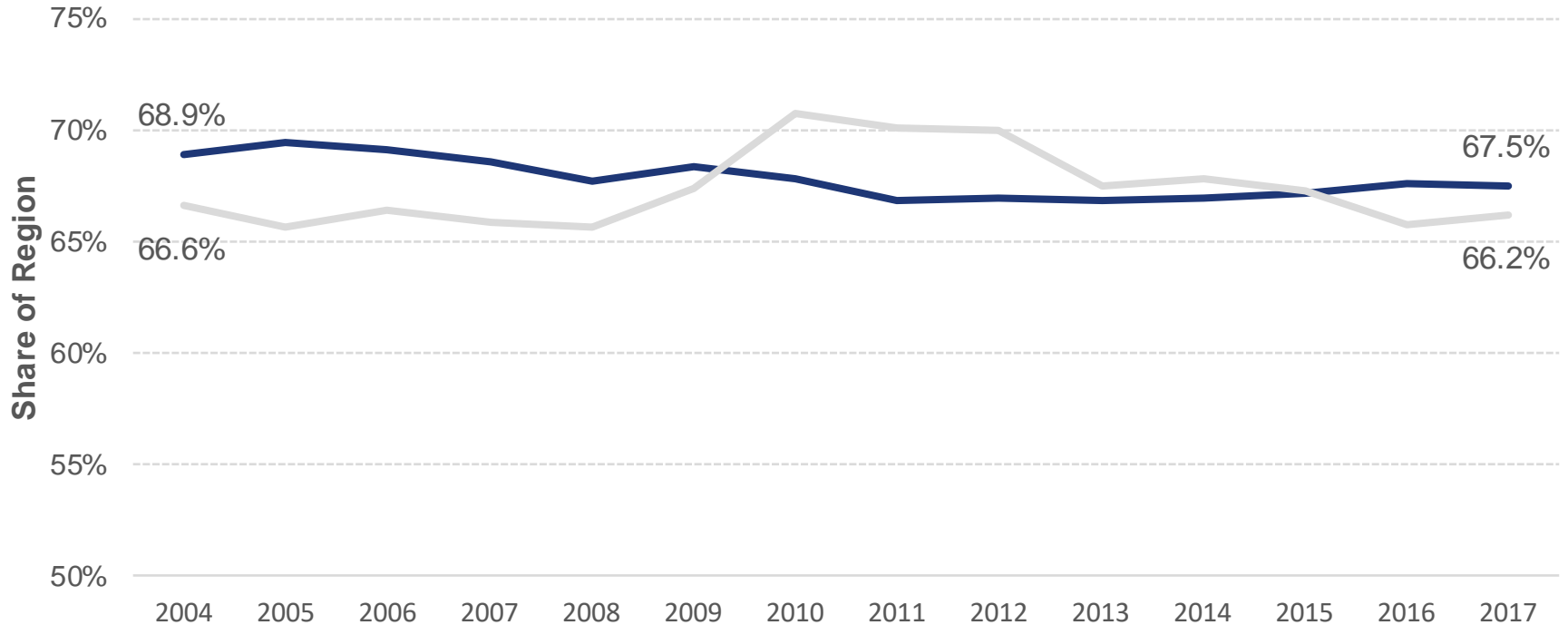
Edmonton | CR Urbans without Edmonton



Municipal Fiscal Context - Edmonton

Share of Capital Region Residential and Non-Residential Assessments

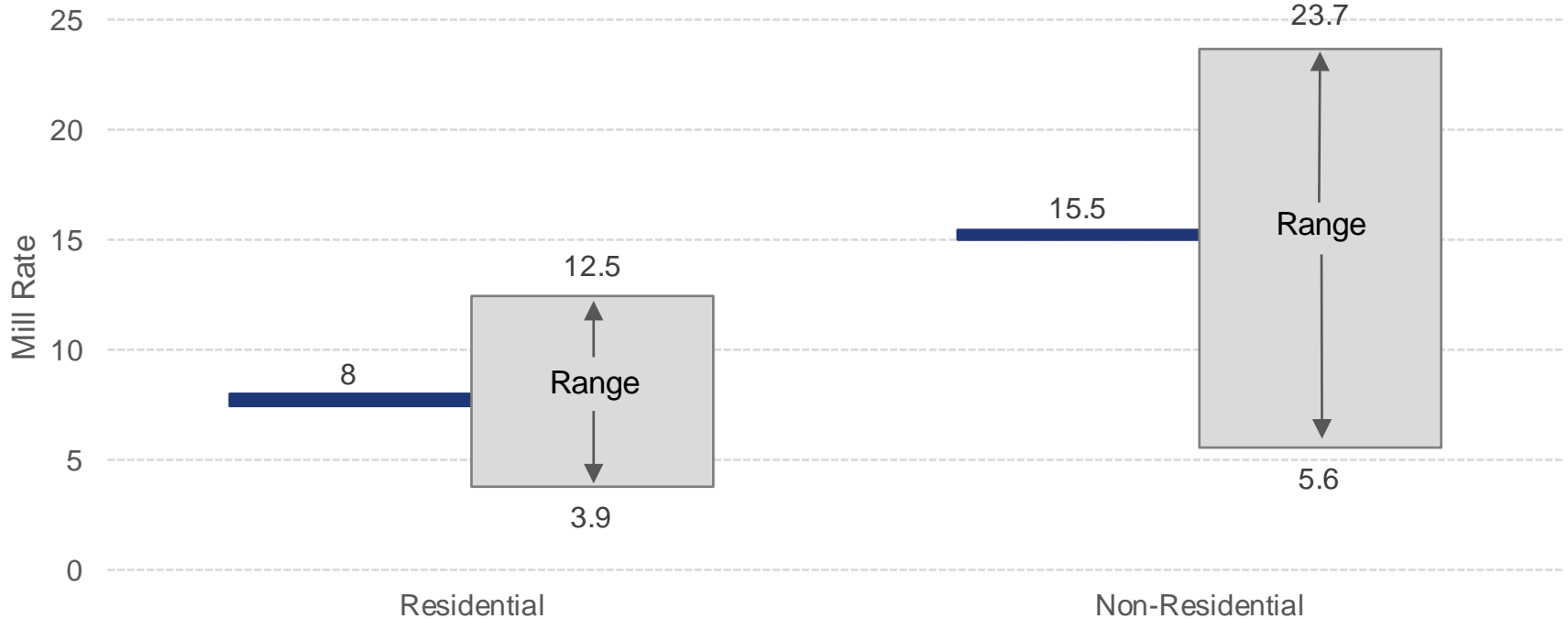
City Residential Share | City Non-Residential Share



Municipal Fiscal Context - Edmonton

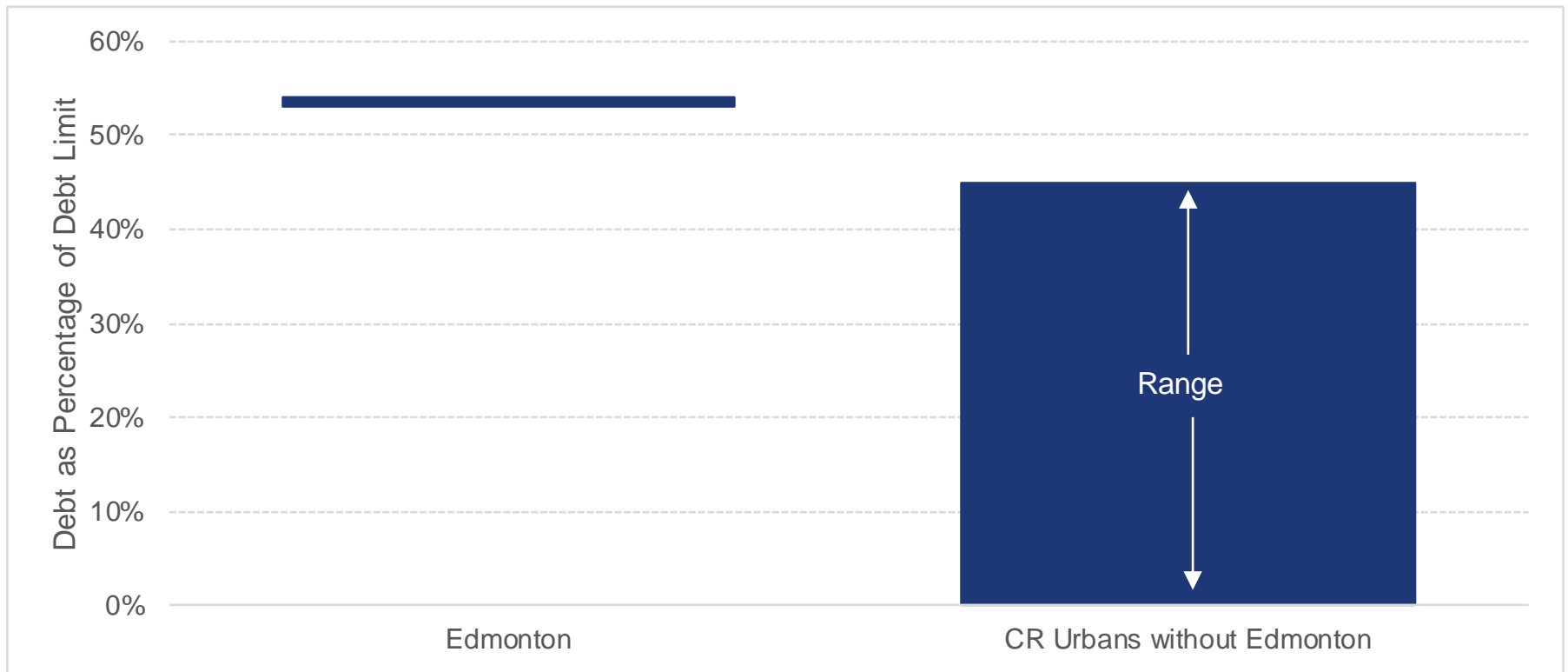
Residential and Non-Residential Property Tax Rates

Edmonton | Other CR Urbans



Municipal Fiscal Context - Edmonton

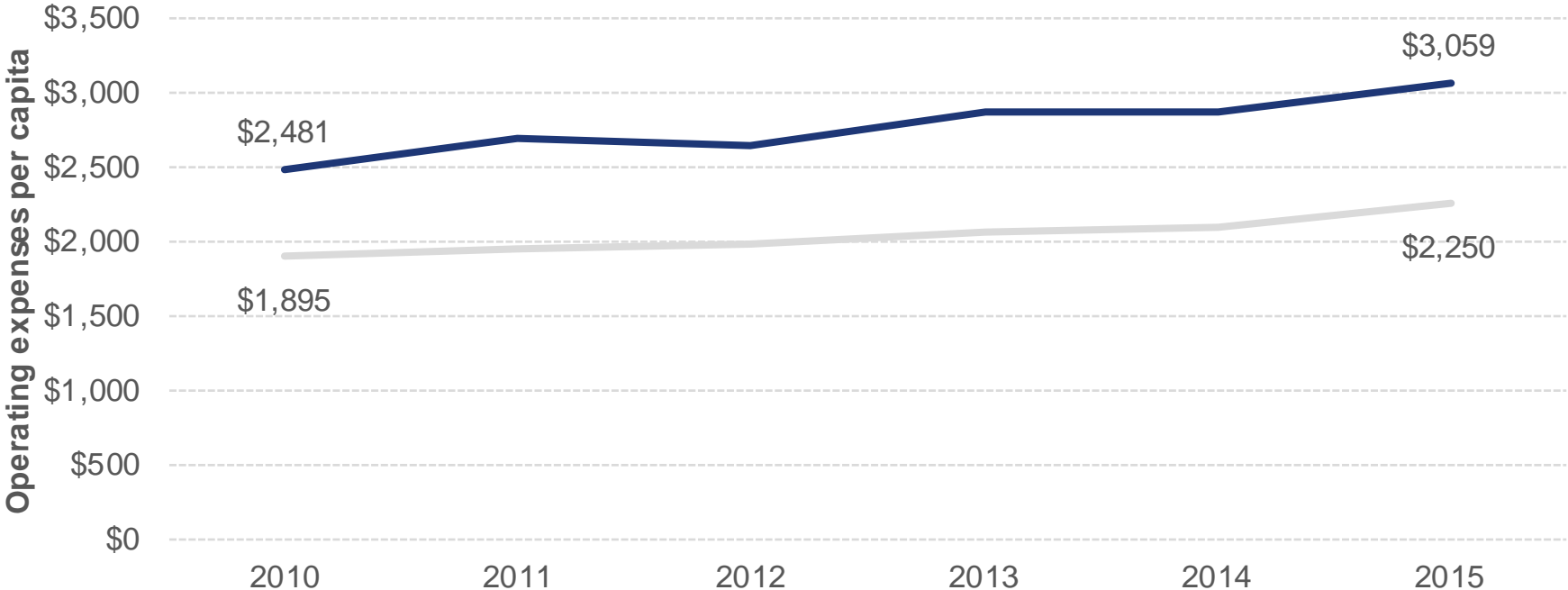
Debt as a Percentage of Debt Limit



Municipal Fiscal Context - Edmonton

Municipal Operating Costs per Capita

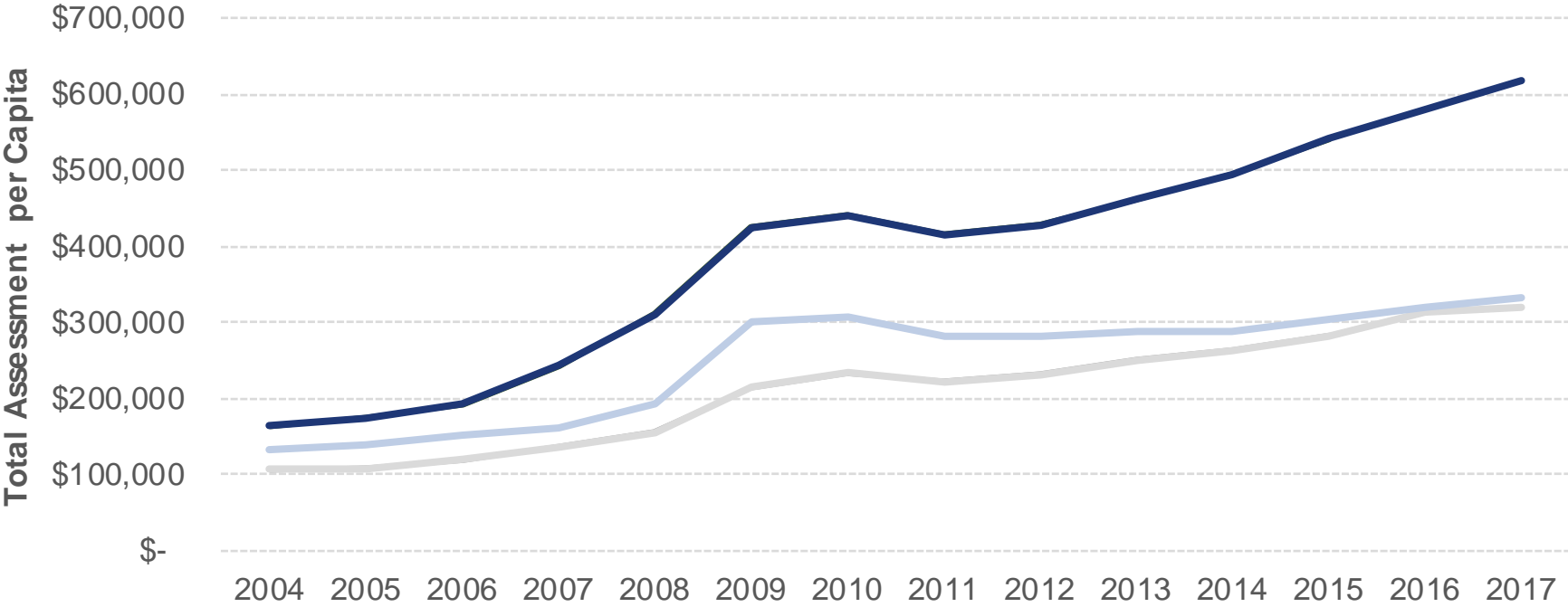
Edmonton | CR urbans without Edmonton



Municipal Fiscal Context – Leduc County

Total Equalized Assessment per Capita

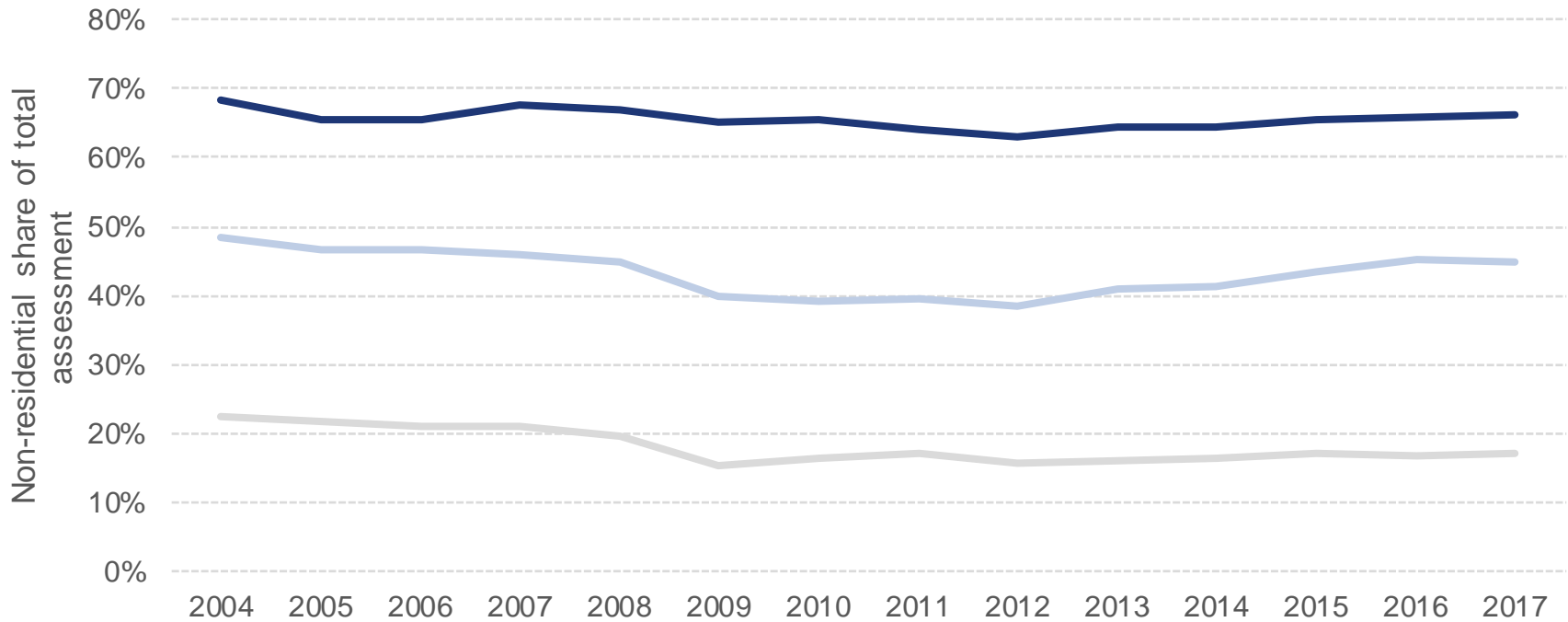
Leduc County | CR Urbans with Edmonton | CR Rural without Leduc County



Municipal Fiscal Context – Leduc County

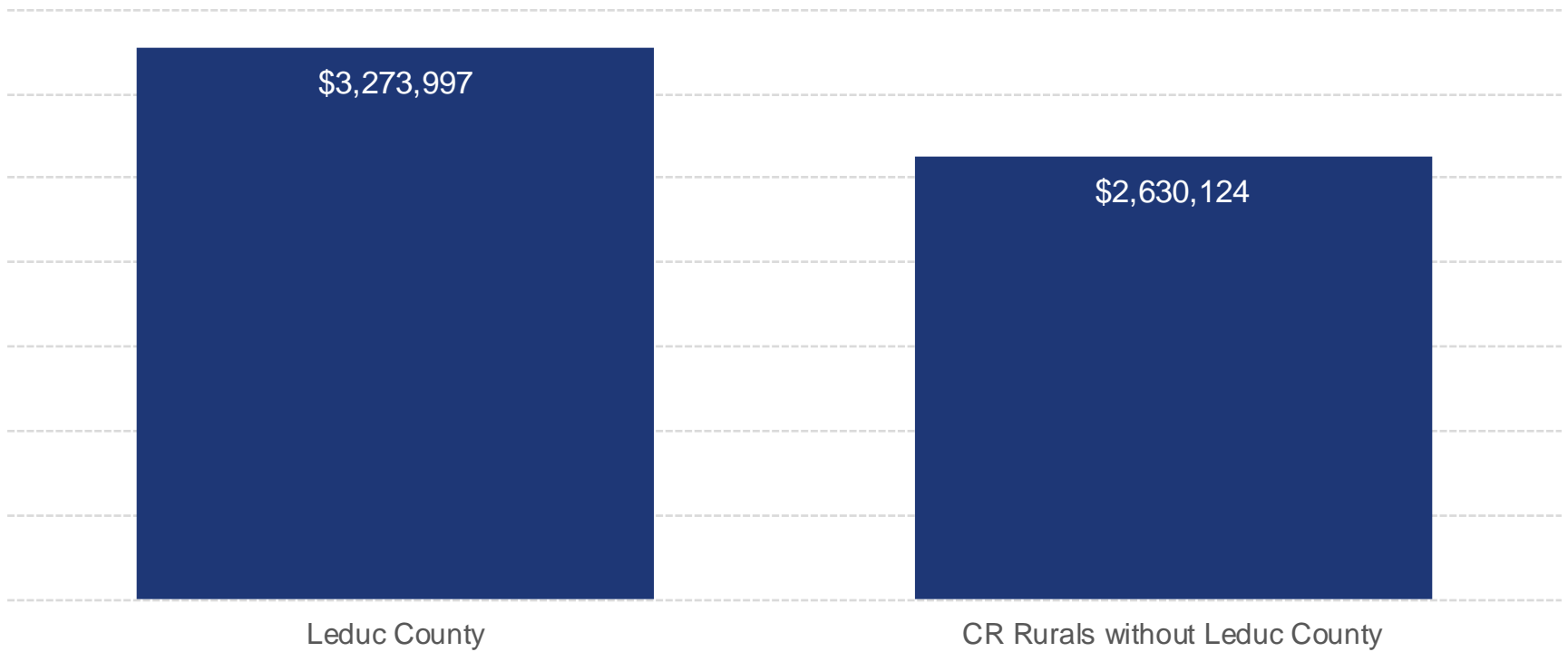
Non-Residential Share of Assessment Base

Leduc County | CR Rurals without Leduc County | CR Urbans with Edmonton



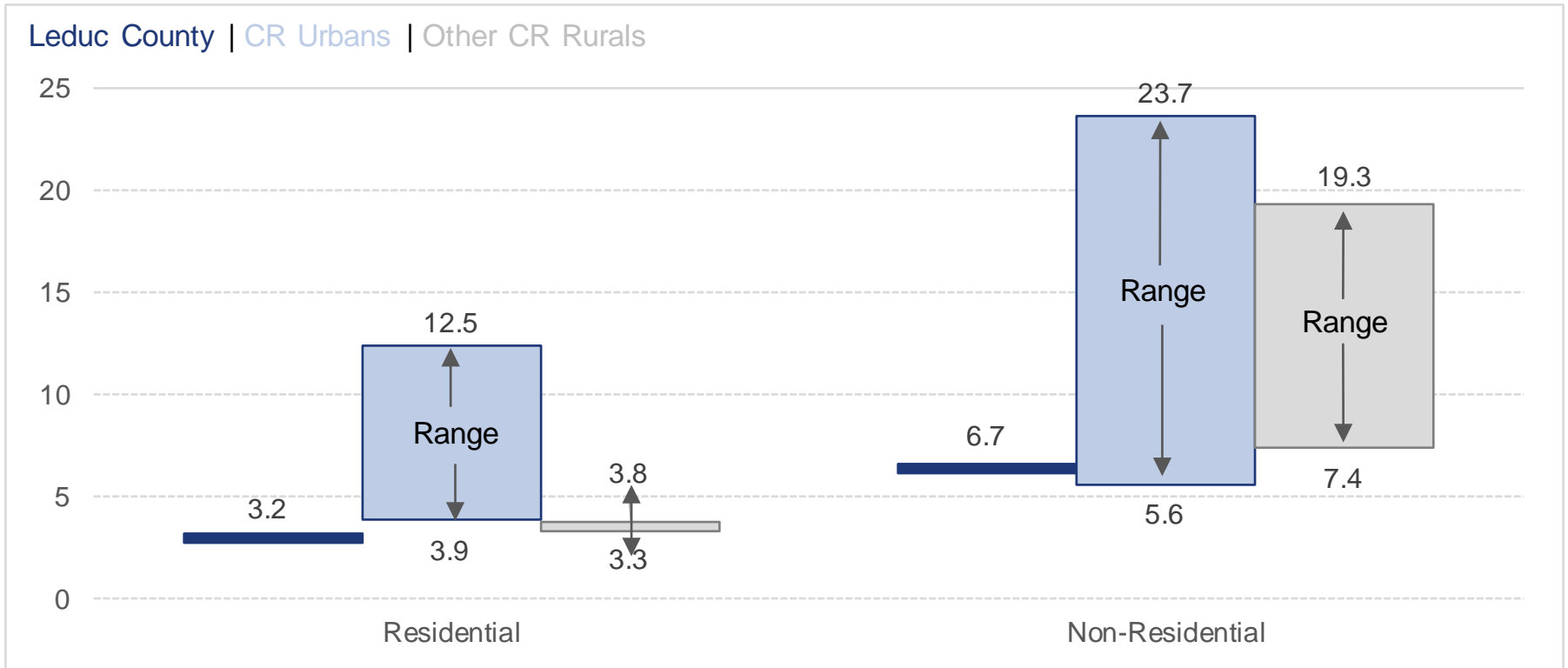
Municipal Fiscal Context – Leduc County

Equalized Assessment per Road Kilometer



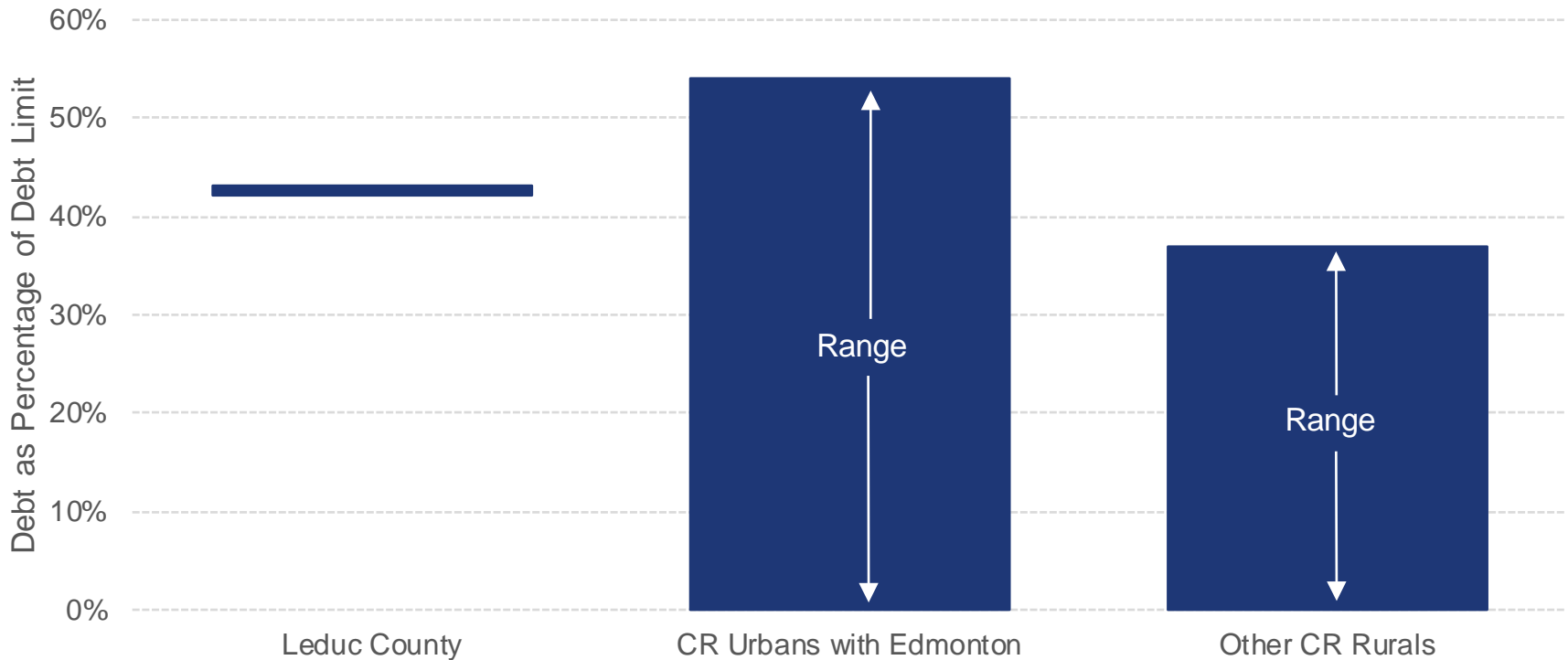
Municipal Fiscal Context – Leduc County

Residential and Non-Residential Property Tax Rates



Municipal Fiscal Context – Leduc County

Debt as a Percentage of Debt Limit



Proposed Annexation Area

- The proposed annexation area is largely undeveloped.
 - Mostly agricultural or parkland use
 - Some residential acreages
 - Approximately 700 people would be affected
- Would add 12% to City's land base.
- Would reduce County's land base by 3%.
- Town of Beaumont's land area minimally reduced by the proposed transfer of the one-mile right-of-way of 50th Street to the City's jurisdiction.
- Increase City's assessment base by 0.1%.
- Reduce the County's assessment base by 1.9%
- The Town's assessment base would be unchanged.

Immediate Impacts – Leduc County

- Foregone revenues of approximately \$780,000 annually (mostly taxes and user fees).
- Realize operating cost savings of nearly \$400,000 annually.
- Before compensation, the result is a loss of net revenue equal to \$380,000 annually.
- The City and County have agreed to tax loss and other compensation totaling \$8.5 million.
 - \$3.2 million in 2019
 - \$5.3 over 10 years
 - Will more than offset the potential cost to the County

Immediate Impacts – Town of Beaumont

- The annexation of the one-mile stretch of 50th Street will have the effect of reducing the Town's transportation and operational maintenance costs by \$60,000.
- No assessable lands (i.e. 50th St ROW) are affected by taxation matters between the City and Town.



Immediate Impacts – City of Edmonton

- Annual cost increase of approximately \$5.1 million.
- Taxes and other revenue are expected to increase by about \$1.1 million annually.
- Net cost to the City will be approximately \$4.0 million annually.
 - Add to this the compensation package payable to Leduc County.
 - With compensation, the effective cost will average about \$5.0 million annually over the first ten years following annexation.
 - This will require a tax increase of about 0.5% in the City of Edmonton over the same period.

Immediate Impacts – Landowners

- The City recognizes that its property taxes for residential and non-residential properties (but not farmland or machinery and equipment) are higher than those in Leduc County.
- Without tax protection arrangements:
 - Taxes on residential and non-residential properties would be set to increase by 85% and 148% respectively.
- The City has agreed to tax protection for a 50-year period for annexed properties (excluding linear).
 - Pay the lower of the City or County rates.
 - Subject to triggering conditions

Long-Term Impacts – Leduc County

The County has a favourable financial position.

- Strong tax base
- Low property tax levels

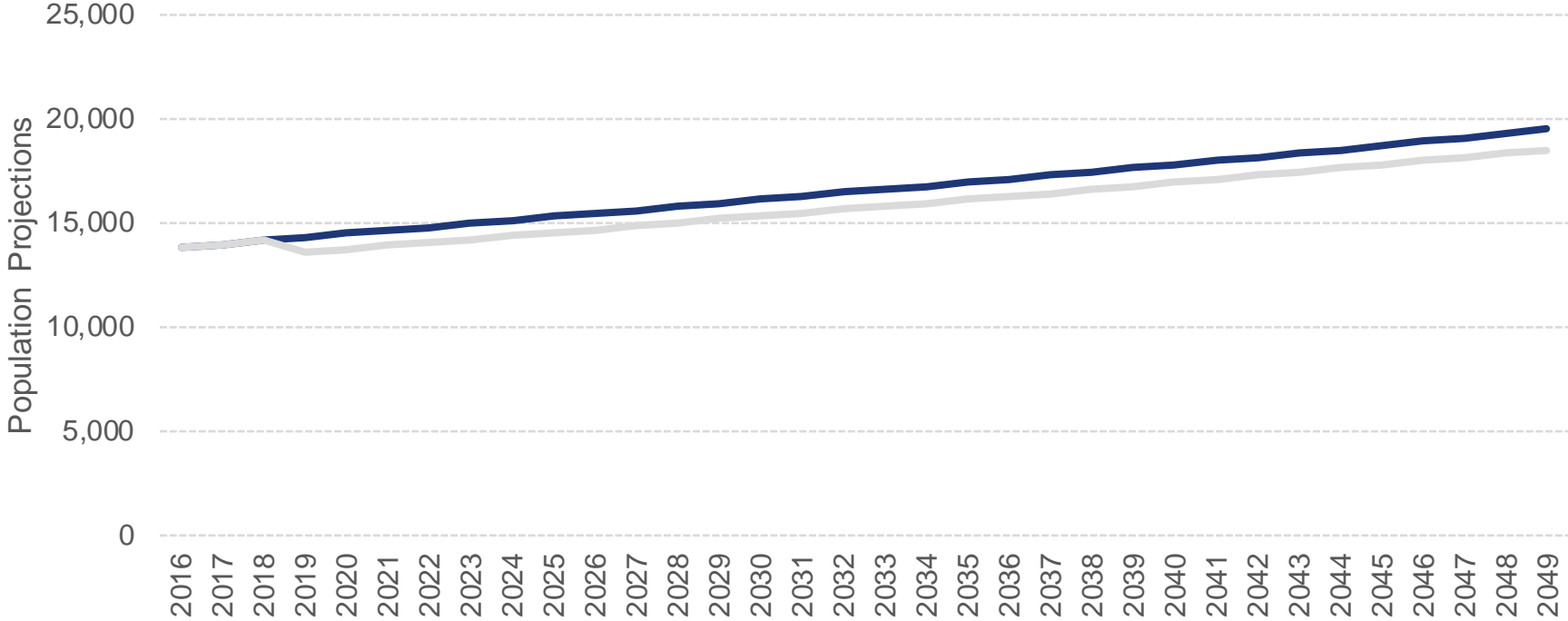
Our analysis indicates that the County:

- Will experience continuing but modest residential growth.
- Well-positioned to accommodate considerable non-residential development.
 - Nisku and North Nisku
 - Within the EIA lands
 - South Devon industrial zone
- Non-residential growth will serve to offset the costs of its residential growth while maintaining a positive fiscal position.

Long-Term Impacts – Leduc County

Leduc County Population Projections

Without Annexation | With Annexation



Long-Term Impacts – Leduc County

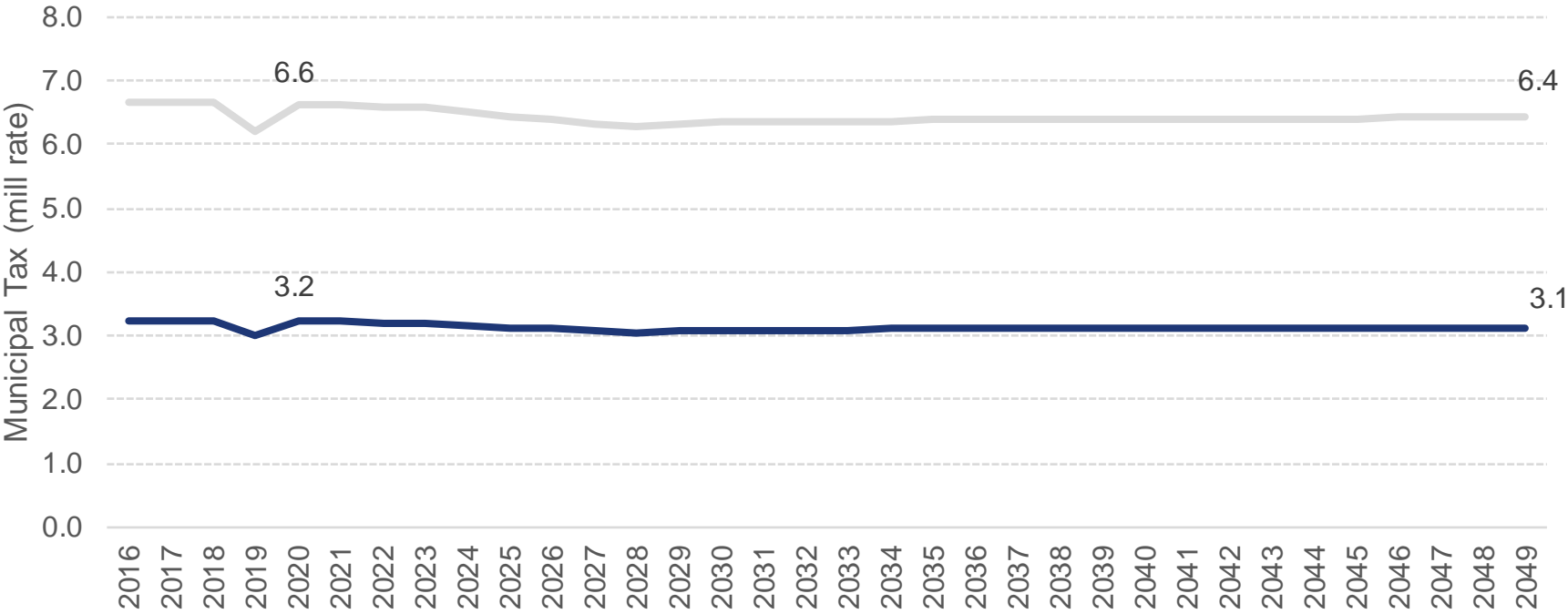
The proposed annexation will not adversely affect the fiscal condition of the County.

- In the years following the annexation, the County's tax levels are expected to decline modestly (constant dollars).
 - Compensation agreement
 - Continued strong industrial growth in the County

Long-Term Impacts – Leduc County

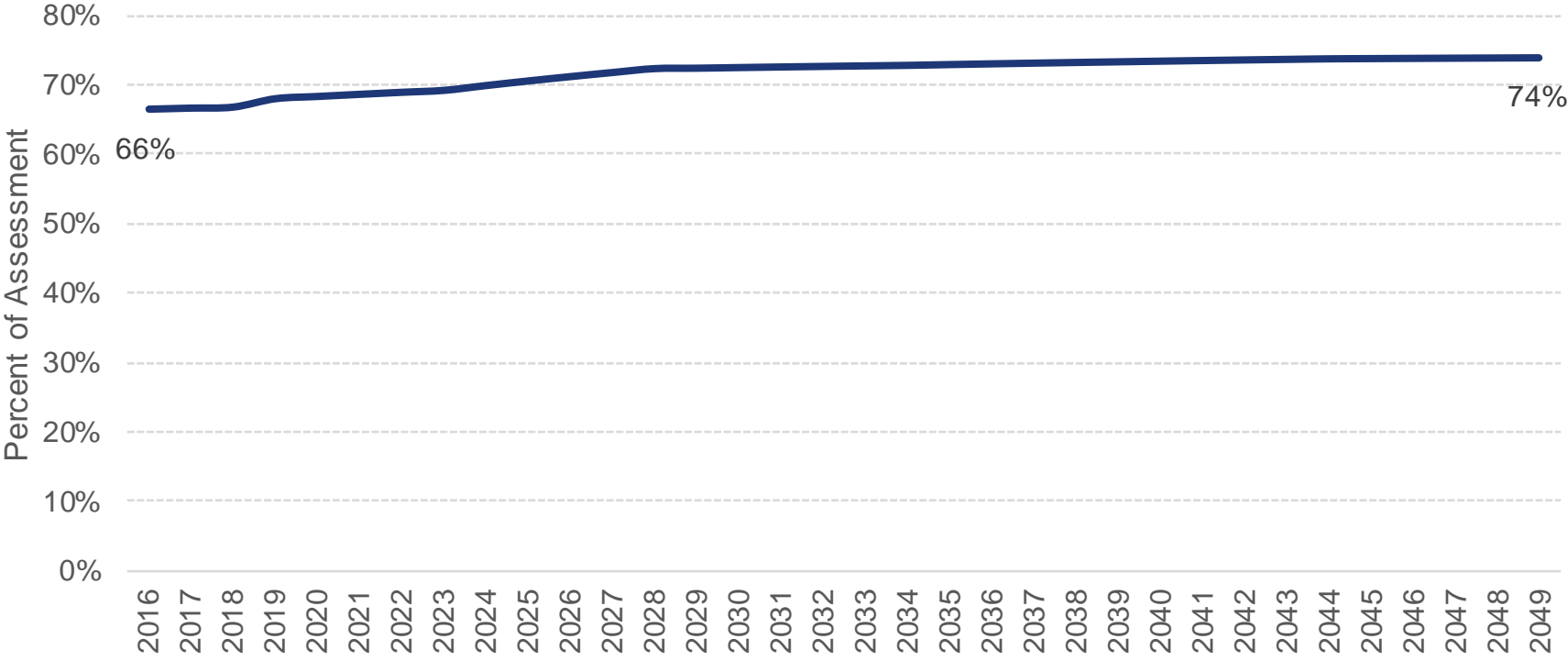
Leduc County Property Tax Rates with Annexation

Residential | Non-Residential



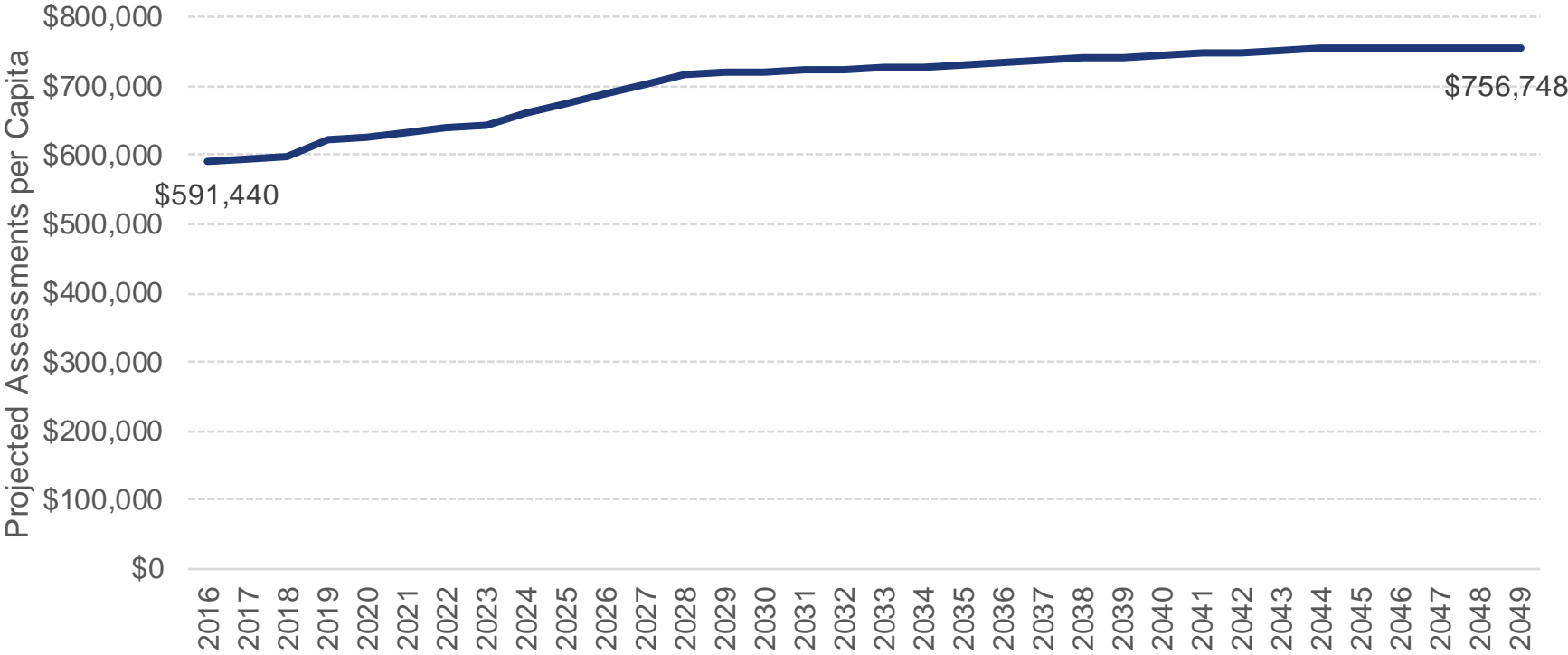
Long-Term Impacts – Leduc County

Projected Assessment Composition with Annexation (Non-Residential)



Long-Term Impacts – Leduc County

Projected Assessment per Capita with Annexation (constant dollars)



Long-Term Impacts – Leduc County

Without annexation:

- The County would retain the lands proposed by the City for residential growth and also the lands immediately north of the EIA, largely encompassed within the Noise Exposure Forecast-affected (NEF) area.
 - Could be used to further expand the County's non-residential assessment base.
 - Without additional residential growth, the County would likely further enhance its favourable fiscal outlook.

Long-Term Impacts – Leduc County

- If the County were to accommodate any residential growth, there would be significant fiscal implications to the County.
 - 206,000 people will need to be accommodated in the annexation lands – regardless of jurisdiction.
 - Ten-fold increase in County’s population
 - Significant expansion in the County’s costs associated with people-based service provision and elevated service provision.
 - The County’s favourable fiscal position and tax levels would be negatively affected as compared to if the City’s annexation is approved.

Long-Term Impacts – Town of Beaumont

Long-term fiscal impacts to the Town of Beaumont are expected to be positive.

- In the near term, avoided operating and maintenance costs related to 50th Street.
- In the long term, avoided recapitalization and upgrading costs.
- The Town's participation in a new Intermunicipal Planning Framework Agreement with the City and County is expected to yield fiscal benefits to the Town via more coordinated infrastructure planning and intermunicipal cost-sharing agreements.

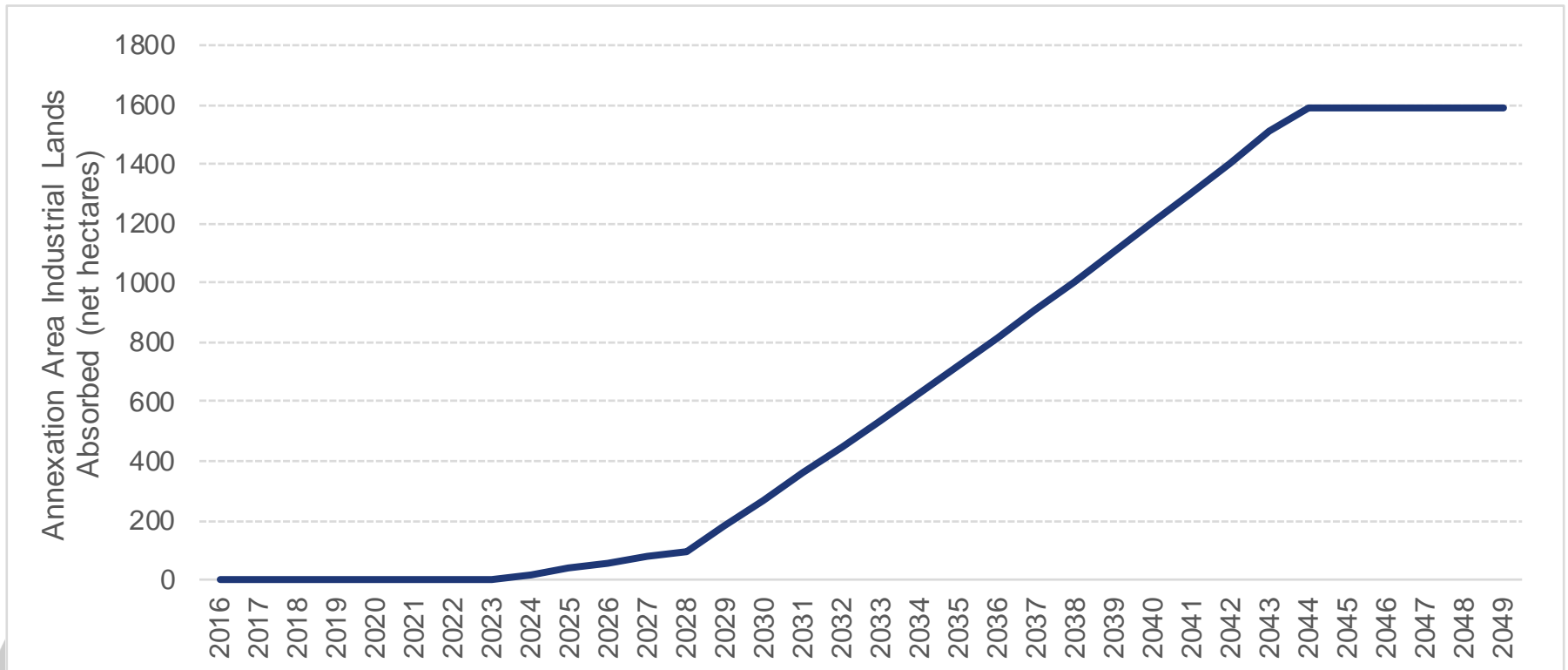
Long-Term Impacts – City of Edmonton

The City has demonstrated its ability to sustain itself fiscally over many decades of growth and geographic expansion.

- Current annexation is 1/10th the size of the City's last major annexation (in 1982) and the City has a population that is 75% larger than it was 35 years ago.
- The long-term impacts to the City largely reflect the implications of incremental growth and development to the City:
 - Accommodate an additional 206,000 people
 - Additional commercial and industrial development

Long-Term Impacts – City of Edmonton

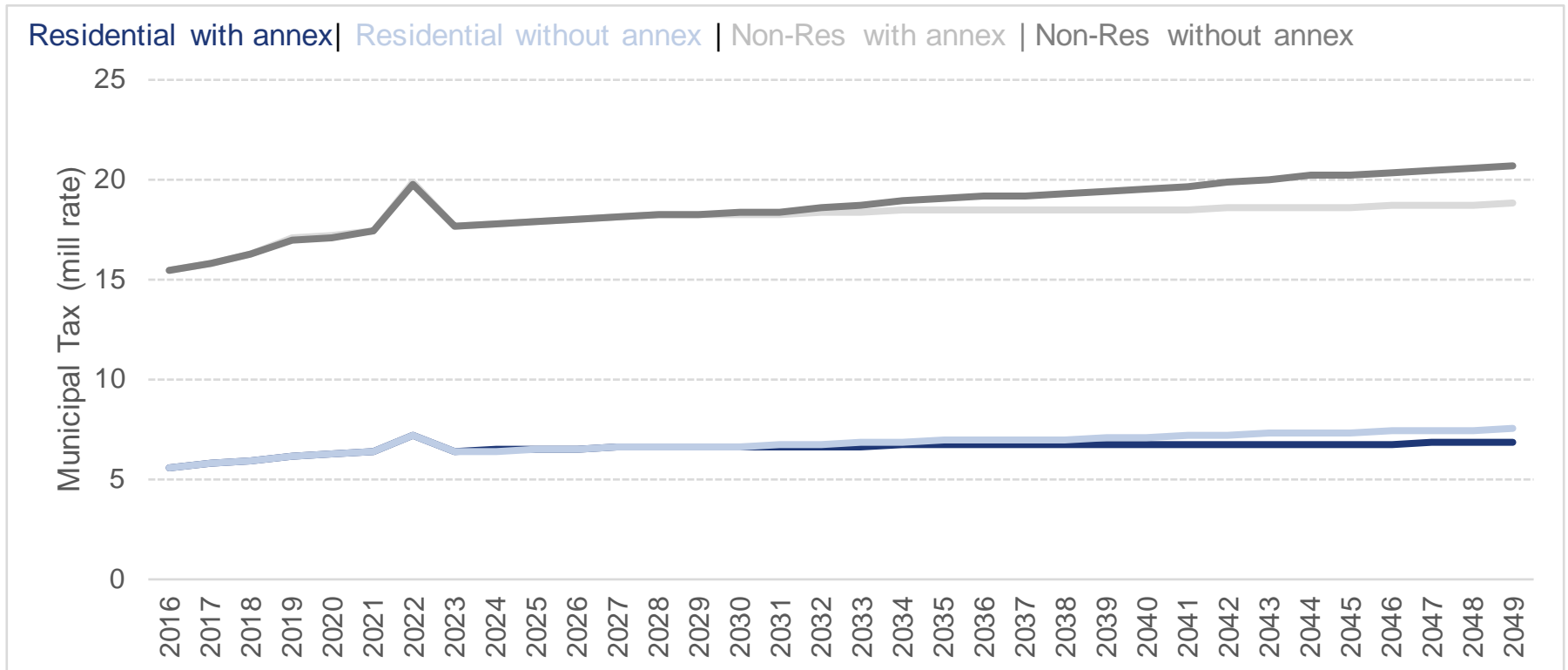
The fiscal benefits to the City will become more pronounced over time as development advances into the annexation lands.



Long-Term Impacts – City of Edmonton

- New industrial and commercial development helping to pay for costs related to regional growth and development.
- By the end of the projection period (2049), the City's tax rates with annexation are expected to be approximately 9.2% lower as compared to the 'without annexation' scenario.

Long-Term Impacts – City of Edmonton



Long-Term Impacts – Annexed Properties

The City has proposed long-term tax protection that will nullify potentially negative municipal property tax impacts on annexed residential and non-residential properties.

- Annexed residential and non-residential (excl. linear) will be taxed at the lower of the City and County rates.
- Farmland will benefit as the City's agricultural tax rates are below those of the County.

Summary of Conclusions

- A strong central City is a necessary condition for regional prosperity and the City needs land for balanced growth to sustain its current role in the region.
- The proposed annexation area will extend the City's supply of residential and industrial lands by 33 and 26 years respectively.
 - Conservative request in the current context of 50-year growth areas.
- A balanced land use mix in the annexation area combined with tax protection agreements has resulted in a proposal that has no detrimental effects on the County or Town and is positive in the long term for the City.



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MANAGEMENT & ECONOMIC CONSULTANTS

Study Methodology

