

Development Benefit Considerations for the Off-Site Levy Bylaw

Issue: *The off-site levy bylaw #4157 was adopted on September 4, 2013 under the Corvus model with levy rates reviewed each year commencing in 2014 and adjustments made annually based on that same model. With the economy and businesses just starting to recover from challenging financial and regulatory circumstances the Municipal Assist program needs to be evaluated and adjusted to ensure maximum benefit for development in our community and to ease the process and create stability and predictability.*

EXECUTIVE SUMMARY

The off-site levy bylaw review commenced in April 2012 with involvement from the Medicine Hat & District Chamber of Commerce, the Canadian Home Builders Association, the Urban Development Institute, the Intensification/Redevelopment area, a Greenfield Developer and a Citizen at large. At that time, the Medicine Hat & District Chamber of Commerce recommended that the development benefit or assist factor continue to be implemented, with consideration given for competitiveness, development and current economy. In 2015, the Chamber also requested that the City mitigate the percentage increase in the levies by providing a phased approach to the assist, while also working to maintain off-site levies as one of the lowest in the province and market the competitive advantage to prospective businesses and developers. The Chamber requested that Council also reconsider the application of levies to brownfield development and consider any expansion in Node 0 on a case by case, ad-hoc basis with consideration for whether there is an increased demand on off-site infrastructure services for the development proposed. Most recently, a 40% assist was given in 2016, a 40% in 2017, 30% in 2018 and 90% for priority intensification areas throughout that same timeframe. Currently, the City has not confirmed the continuation of the Municipal Assist program beyond 2018 with Bylaw #4157 most recently amended by Bylaw #4434 in August 2017. As it has been six years since inception of the Bylaw, the Medicine Hat & District Chamber of Commerce recommends that the Bylaw and Municipal Assist development benefit be re-evaluated in order to have a stable program and consistent application beyond 2018 to promote competitiveness, stability and predictability.

BACKGROUND

Off-site levies provide a mechanism to recover capital costs incurred for infrastructure to support growth and development. The Municipal Government Act provides the framework for off-site levies in Division 6 of the Act (section 648, page 385) and under Alberta Regulation 187/2017 with provision that an off-site levy is to be used only to pay for all or part of the capital cost of any or all of the following:

- (a) New or expanded facilities for the storage, transmission, treatment or supplying of water;
- (b) New or expanded facilities for the treatment, movement or disposal of sanitary sewage;
- (c) New or expanded storm sewer drainage facilities;
- (c.1) new or expanded roads required for or impacted by a subdivision or development;
- (d) Land required for or in connection with any facilities described in clauses (a) to (c.1).

In addition to the capital costs described above, an off-site levy may be used to pay for all or part of the capital cost for any of the following purposes, including the cost of any related appurtenances and any land required for or in connection with the purpose:

- (a) new or expanded community recreation facilities;
- (b) new or expanded fire hall facilities;
- (c) new or expanded police station facilities;
- (d) new or expanded libraries.

In addition to the above levies the recent changes within the Municipal Government Act also enables off-site levies, by bylaw, to be charged for municipal road projects that connect to or improve the connection to provincial highways.

Off-site levies may be collected only once in respect of land that is the subject of a development or a subdivision and off-site costs must be used for the specific purpose for which it is collected with the bylaw setting out the object of each levy and how the amount of the levy was determined.

The Municipal Assist program that is currently in place has been offered since 2013 to promote development and to offer an incentive to new development to consider Medicine Hat when locating their business. The current municipal assist

schedule provided 40% assistance in 2016, 40% in 2017 and 30% in 2018 and 90% for priority intensification areas during that same timeframe.

The Chamber of Commerce had regularly conducted research on off-site levy costs across municipalities in Alberta to determine competitiveness and methodologies used as detailed in the chart below.

MUNICIPAL COMPARISONS:

Municipality	Cost/hectare	Notes
Medicine Hat (Node)	Node 1: \$383,244 Node 2: \$200,747 Node 3: \$173,546 Node 4: \$238,988 Node 5: \$229,679 Node 6: \$ 266,086 Node 7: \$200,101 Node 8: \$306,189 Node 9: \$196,776 Node 10: \$196,776 Node 11: \$194,708 Node 12: \$153,523 Node 13: \$203,955 Node 14: \$194,708 Node 15: \$179,460 Node 16: \$144,276 Node 17: \$184,315 Node 0: \$233,512	(Average \$219,576)
Grand Prairie (Single System ¹)	Transportation Levy: \$60,158.26/gross hectare	Greenfield: Recover full cost of transportation only. Brownfield: Not charged, unless substantially increases demand. Note: In 2007 administration recommended a staged increase of the fees from \$36,578 to \$55,480, so not to be onerous on the development industry. Administration also recommended that the full increase not be passed on to the Developer. If no updates to schedule D (rates) are made, rates shall automatically be adjusted on March 31 of that year by the annual percentage change in the consumer price index for the previous calendar year.
Red Deer (Single System)	Water Trunk: \$14,107 Sanitary Trunk: \$30,370 Storm Trunk: \$66,372 Major Thoroughfare: \$104,934	Greenfield: Recover full cost Brownfield: Not charged unless there was no off-site levy charged during original construction. Downtown is exempt from all levies. Bylaws were updated in 2015.
Lethbridge (Single System)	2017: \$257,000 2018: \$265,000 2019: \$273,000 2020: \$281,000	Greenfield: Recover full cost Brownfield: Not charged unless redevelopment creates demand for increased service – negotiated on an ad-hoc basis, less than full cost recovery.

¹ Single System is also referred to by the City of Medicine Hat as the “Postage Stamp” System whereby levies are equally distributed across the municipality and shared equally by all development on a per hectare cost.

Wood Buffalo (Node)	Range from \$6,083 to \$28,767/per 1500 sq. ft	The Municipality endeavours to apply for all grants (Provincial, Federal and Other) to assist with funding of capital infrastructure projects. Where project specific grants have been secured for infrastructure the total project cost for the Municipality is reduced by the grant amount. Only the net project cost incurred by the Municipality is used to calculate the offsite levy.
Calgary (Node)	2016 Levy Rate: (\$/ha) Nose Creek Watershed: \$354,548 Shepard Watershed: \$385,927 Bow River Watershed: \$350,206 Pine Creek Watershed: \$360,035 Fish Creek Watershed: \$343,223 Elbow River Watershed: \$343,223 All above watersheds have a Community Service Charge of \$78,850	Greenfield: Levies are determined at the time of subdivision and area paid on a 3-year payment plan of 30%, 30% and 40% per year. Brownfield: Treatment plant levy imposed on all land within the Established Area that is to be subdivided or developed for which a levy for water or sanitary sewers has not previously been paid. Levies are not imposed on land that is designated as environmental reserve or that is a skeletal road. In Established Areas levies are also determined through a development permit and are paid prior to development completion certificate. If a development reaches a density equivalent of 285 or more people and jobs per hectare, they qualify for a density incentive program and their levy rate is capped.
Brooks (Node)	Purchase price for some lots include off-site levies. Offsite levies for commercial properties are currently set at \$11.61 per square metre of building area.	Greenfield: Recover full cost unless infrastructure projects benefit existing or future development, which is allocated accordingly.
Airdrie (Node)	Varies from \$88,659 per acre to \$95,986 per acre based on recovery area	Greenfield: Varies based on node. Rates will increase by 3% in 2016-2025.
Lloydminster (Single System)	Arterial acreage off-site: \$72,397 Utility off-site: \$40,474	Greenfield: Recover costs of undeveloped land only.
Strathmore (Single System)	Charge per hectare for commercial development Water: \$26,852 Transportation: \$31,752 Sanitary Sewer: \$15,239	

Strathcona County (Node)	<p>Residential: Wye Road – Central: \$17,038 Wye Road Northeast: \$12,055 Suburban Estates: \$12,230 + Rural Road Levy of \$22,810/lot</p> <p>Mixed Use: Wye-Central: \$142,265 North of Yellowhead: \$231,962</p> <p>Industrial: Central Trunk: \$59,256</p> <p>Country Residential: Central: \$519 per lot NE Trunk: \$20 per lot</p> <p>Rural Roads: Country Residential: \$22,810 Rural Roads: \$6,656</p> <p>NW Sherwood Park Drainage: Area 1: \$2,552 Area 3: \$6,693</p>	<p>Levies are assessed to all lands within the development area of a subdivision, except for arterial road right-of-ways; land or existing rights-of-way not in title of the developer; environmental reserve;. The County, at its sole discretion, may allow the exclusion of those lands dedicated for the preservation of trees, natural habitat, or parks and natural areas dedicated over and above the 10% MR requirements, not utilized for PUL or utility requirements, and provided the subject lands are deeded to the County.</p> <p>All other lands including roads, easements, public utility lots, municipal reserve dedication, storm ponds, etc. are assessed offsite levies. Municipal improvements, such as stormwater management facilities, are allowed to include land and levy costs as eligible for cost sharing.</p> <p>For special features or major facilities which will service a land area larger than the subdivision under development (such as neighbourhood parks and stormwater management facilities), the County may, at its discretion, allow payment of these levies to be deferred to the whole of the benefitting lands under ownership of this developer, provided that any levies so deferred shall be escalated and indexed to the years that actual payments are made.</p>
Stony Plain (Node)	<p>East: \$67,437 Central: \$80,557 West: \$70,817 North: \$61,950</p>	All development is charged the cost if there is no evidence of charge in the past.
St. Albert (Node)	Average of all areas: \$283,281 (Ranging from \$201,753 to \$379,149)	St. Albert has 54 separate development areas. Municipal assist is called “demonstrated benefit” and offered most often for water infrastructure, however is factored into some transportation projects based on a case by case basis
Cypress County	<p>Irvine: \$5,500.00 per lot Walsh: \$3,500.00 per lot Dunmore: Actual rate: \$167,393 per hectare, rate recovered through bylaw is \$50,000 per hectare Seven Persons: \$5,154</p>	Brownfield: Do not charge
Redcliff	<p>High: \$125,985.16 Low: \$92,326.70 Weighted Average: \$115,726.30</p>	Currently reviewing new bylaw model with Corvus, but have an infrastructure capacity fee

ANALYSIS

The methodology for determining off-site levies across the province is varied and the fees range in costs as demonstrated by the table above. Medicine Hat has a lower average unsubsidized off-site levy rate than that of Lethbridge and Calgary, similar rates to Red Deer and Airdrie, but a much higher rate than neighbouring communities in Cypress County and the Town of Redcliff or rural mid-sized centres such as Grand Prairie or Lloydminster.

While a current model for Medicine Hat has already been established, there is also concern about potential rising costs moving into the future, with the amendments to the Municipal Government Act. Within the Modernized Municipal Government Act there have been further provisions that enable off-site levies, by bylaw, to be charged for additional

municipal facility projects and projects that connect to or improve the connection to provincial highways. Though the legislation allows for this additional levy to be collected, every municipality will need to consider whether this provision will be adopted and implemented. This potential additional development cost must be assessed as to whether there will truly be a significant and enduring benefit to a specific development node or whether the project is for the benefit of the entire community. Many smaller, rural communities have difficulty paying for public facilities and roads due to a smaller tax base and larger metropolitan centres tend to build facilities for specific communities within the City. However in mid-sized cities, public facilities and major connector routes are generally seen as a taxpayer supported cost and are viewed to be a benefit to the community as a whole. Additional costs such as these could be viewed as an added regulatory and cost burden that is being imposed on development and investment, offloading municipal costs onto the backs of new investment, development and expansions.

Furthermore, it was agreed, at the time of the bylaw inception that the road levies would be equally dispersed across all nodes as the road projects identified were viewed to be a benefit to the entire community and so the costs were equally dispersed. Additionally, it is often misconstrued that road costs within a development are offsite costs, subsidized by the taxpayer, however any projects that occur within a development are borne by the developer as part of their costs already. As our City grows, roads and connector routes for services and neighborhoods benefit the entire community in the movement of goods and people, particularly in a mid-sized centre where travel from one side of our community to the other is a regular occurrence for most residents. For this reason, we have consistently stated that the road levy could feasibly be removed from the bylaw and be a taxpayer supported costs as a municipal service.

The other element of consideration is the off-site levy collected from Node 0. During consultation in 2012-2013, stakeholders asked for a development node outside of development areas with the intent at the time to distribute the total development costs of growth through all development areas. What occurred since that time is that any off-site levy fees collected from Node 0 are being allocated out to each of the current projects in the other Nodes. Therefore, when fees are collected in Node 0 for Roads, Sewer, Water and Storm, they are actually allocated to all of the current projects, where the costs are actually in other Nodes, rather than within that specific development in Node 0. For this reason, we feel it is more reasonable to analyze nodes outside of the 17 nodes on a case by case basis and only charge a levy if there is increased demand on off-site infrastructure services for the development proposed, rather than have those developments incur costs for development in other areas that are specifically attributable to certain nodes.

Council has previously stated that they wish to have the Municipal Assist factor phased out. If the bylaw is amended to remove the road levy, this would be unarguably something that could be done by 2019. However, there are certain areas of development that a municipal assist can be favoured in support of growth, development and the addition to the assessment tax base. If the Municipal Assist program is used to support growth and development, a further application for this assist would be to incentivize development, re-development and growth in areas of the city that face natural challenges and vulnerabilities, as well as within designated intensification areas. Natural challenges may be a result of major flooding events that have occurred, less desirable locations, contamination issues or erosion/topography issues. An assist could be used as a means to revitalize and rebuild areas of the city that have seen challenges and negative prejudices because of environmental factors or areas that are prioritized for intensification purposes.

In addition, any assist should not be viewed as solely a cost, as it is only triggered when development occurs and the subsidy is not used unless there is an offsite levy being paid for a development. Subsequently, when development occurs, the municipality then receives tax revenue from that property in perpetuity. For example, the regional commercial site on 2501 Strachan Road SE would have 6.94 ha ready for development, if we based the offsite levies on Node 13, the levy cost would be \$203,955/ha or \$1,415,447.70 with a 30% municipal assist covering \$424,634.31 of that total cost. However, based on the 2017 non-residential assessment that same property has an assessed value of \$7,903,500, resulting in annual taxes paid of \$149,964.17 on an undeveloped property. This would result in a return on investment for the municipal assist, and the assist cost would be paid off in taxes in less than three years with an overall net gain from the residual taxes paid in perpetuity.

Any development will pay for itself through development of taxable property and increasing property tax income through developed land. Additionally, if the municipal assist rate is discontinued it would not result in a decrease of the mill rate,

as it's deemed an inconsequential amount and would not impact the overall mill rate imposed, even though there is an additional budgeted amount and subsequent mill rate percentage allocated for anticipated assist to be paid.

Development benefits a municipality through creation of an expanded tax base and ultimately a reduced tax burden because of the growth and share in the tax burden. The creation of commercial development and a new residential tax base will ultimately benefit the community as a whole, contribute to the tax base and will motivate, rather than stagnate, growth.

With consideration that municipalities vary in their methodology and each determine the benefit and cost to the developer, the City of Medicine Hat must consider all of the implications of increased costs and potential benefit that can be realized through this program. The City must consider and set the best methodology and best practice for our municipality.

RECOMMENDATIONS

In order to create an offsite levy program that has a consistent application beyond 2018 to promote competitiveness, stability and predictability, the Medicine Hat & District Chamber of Commerce recommends that the City of Medicine Hat:

1. Remove the transportation levy from the offsite levy costs within the bylaw (As listed in Schedule A);
2. Work to maintain off-site levies as one of the lowest in the province and market the competitive advantage to prospective businesses and developers;
3. Continue the application of a municipal assist to priority intensification areas;
4. Expand the Municipal Assist to include those areas that have additional natural challenges and vulnerabilities;
5. Remove Node 0 from the existing fees schedule and consider any development in Node 0 on a case by case, ad-hoc basis with consideration for whether there is an increased demand on off-site infrastructure services for the development proposed.
6. Reject any additional offsite levy provisions provided for under the Modernized Municipal Government Act that allows for municipalities to charge for municipal facility projects or road projects that connect to or improve the connection to provincial highways.

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Date Revised: July 2, 2015 & August 29, 2015

Date Reviewed: September 16, 2015

Date Approved: September 16, 2015

Date Originally Reviewed: April 17, 2013

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Schedule A

Below is a table that shows the total levy rates and the potential levy rates without the transportation levy included:

Area Ref. #	Area Name	Transportation Charges (\$/ha.)	Water Charges (\$/ha.)	Sanitary Charges (\$/ha.)	Storm Charges (\$/ha.)	Total (\$/ha.)	Offsite levy cost without transportation levies (\$/ Net ha.)
0	Development outside the nodes	\$90,779	\$84,637	\$45,159	\$12,936	\$233,512	\$142,733
1	Downtown	\$90,779	\$139,995	\$152,470	-	\$383,244	\$292,465
2	River Flats	\$90,779	\$58,751	\$47,619	\$3,598	\$200,747	\$109,968
3	IXL Area	\$90,779	\$58,751	\$24,016	-	\$173,546	\$82,767
4	Burnside Estates	\$90,779	\$58,751	\$50,571	\$38,887	\$238,988	\$148,209
5	Cancarb Lands	\$90,779	\$126,781	\$12,119	-	\$229,679	\$138,900
6	Cimarron / SW Lands / Saamis 7	\$90,779	\$98,428	\$68,255	\$8,624	\$266,086	\$175,307
7	Suntech Lands	\$90,779	\$58,751	\$50,571	-	\$200,101	\$109,322
8	Airport	\$90,779	\$85,966	\$79,885	\$49,558	\$306,189	\$215,410
9	Box Springs	\$90,779	\$126,781	\$12,119	\$38,887	\$268,566	\$177,787
10	Canyon Creek	\$90,779	\$52,825	\$53,172	-	\$196,776	\$105,997
11	Hamptons	\$90,779	\$53,325	\$41,980	\$8,624	\$194,708	\$103,929
12	Ranchlands 4	\$90,779	\$50,625	\$12,119	-	\$153,523	\$62,744
13	Southlands 7	\$90,779	\$53,325	\$51,227	\$8,624	\$203,955	\$113,176
14	Southlands 6C	\$90,779	\$53,325	\$41,980	\$8,624	\$194,708	\$103,929
15	South Vista 11	\$90,779	\$65,287	\$14,769	\$8,624	\$179,460	\$88,681
16	Ranchlands 3C	\$90,779	\$50,625	\$2,782	-	\$144,276	\$53,497
17	River Ridge	\$90,779	\$52,212	\$41,324	-	\$184,315	\$93,536
Totals		\$1,634,022	\$1,329,141	\$802,137	\$186,986	\$3,952,379	\$128,797.61