Understanding Development in Winnipeg – Executive Summary

An Informational Briefing for City Council and Winnipeg Citizens

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Introduction

The City of Winnipeg is exploring new mechanisms for funding infrastructure deficits and impacts of growth. In the spring of 2016, the City commissioned a study to identify options, determine development-related costs and revenues, and define a growth financing model and implementation framework. The study, completed by Toronto-based Hemson Consulting (the Hemson Report), was released to the public on September 1, 2016. The Hemson Report recommended development charges for residential, office, commercial/retail, institutional and industrial development. On Friday September 16, 2016, the City of Winnipeg put forward a proposed by-law to introduce 'impact fees' on the Executive Policy Committee agenda. If approved, the by-law would come into force January 1, 2017. The administrative report that accompanied this item included recommended fees for each type of development. The administrative report also recommends the Chief Financial Officer be provided the authority to determine how the fees collected through this scheme will be used.

The development industry has a long history of working with the City of Winnipeg to build new communities. This has included extensive work in planning these communities, determining the measureable impacts of the development, and negotiating developer and City responsibilities for the costs. It is in the context of this relationship, and a sincere interest in a strong, sustainable Winnipeg, that this report is offered.

Residential and commercial developers and Manitoba home builders are very concerned about the proposed development financing mechanism because:

- There was no true stakeholder engagement on principles, impacts or attribution of costs through what became a rushed process;
- The capital project costs that are the basis for calculating the proposed fees appear to be significantly inflated, are not supported by detailed infrastructure plans, include projects that have not been approved by Council, and include projects already completed and in use since in 2009; and
- There is no clear explanation of the basis on which costs have been attributed to growth, how benefit was determined, or how this relates to who pays.

State of Winnipeg's Infrastructure

The Hemson Report put forward an argument that development is not paying for new development, because Winnipeg does not have a development charge system. The report does not consider the net new revenues from property taxes from new development or other reasons for under-funded infrastructure.

In the 1990's, a lack of growth in the city and decisions to spend money on operations instead of capital led to a serious infrastructure deficit. In 2009, the City of Winnipeg estimated that 'the added investment required to maintain infrastructure assets at appropriate service levels and in a good state of repair' was $3.8 billion for existing infrastructure and $3.6 billion for 'new strategic' infrastructure. For both types of infrastructure, approximately half was to maintain at current (2008) condition and half was to "raise the average condition to appropriate asset management condition". A significant amount of the investment identified as strategic new infrastructure is really 'catch up' needed to service the City as it exists today. For example, bringing wastewater treatment plants up to modern standards is included in new infrastructure. The City has previously stated these treatment plants had existing, sufficient capacity to service not only growth in the city, but also in neighbouring municipalities, and were already included in rate plans.

Current Development Agreement Parameters Process

The City of Winnipeg Charter requires an owner seeking approval of a subdivision to enter into a development agreement. The City of Winnipeg and the development community negotiated Development Agreement Parameters that were adopted by City Council in July 2002. The existing development agreement parameters, that have been in existence for 15 years, address land acquisition and dedication, services and improvement, maintenance, compliance and general administration and finance. Developers are required to transfer land to the City for various purposes and to construct various types of municipal services that become part of the City's infrastructure. Currently, developers pay 100% of the costs within the development and the costs of identified impacts outside the development (e.g. adjacent roads, nearby intersections). The City has recorded over $630 million in this private sector investment over a 9 year period.

> Developers have built over $630 million in infrastructure since 2007 that are now City of Winnipeg assets.

In December 2015, the City and the development community agreed to discuss improvements to the Development Agreement Parameters. A schedule of meetings was agreed to begin in the winter of 2016. Instead, the City deferred these discussions, electing instead to undertake a study into alternative financing mechanisms. The Urban Development Institute and the Manitoba Home Builders Association offered to contribute to the cost of a comprehensive study that would form the basis for new agreement parameters. The City declined, choosing to pursue the study independently through the Finance department, without industry engagement.

UDI and MHBA want to return to discussions, with all relevant departments, of how costs of development should be funded through the Development Agreement Parameters process. They are seeking a process that incorporates detailed plans for infrastructure development; objective analysis based on reasonable costing at the level of detail that ensures fair attribution; clear, consistent policy; transparency and accountability of both the City of Winnipeg and the development community; and dedicated reserves that ensure the funds collected to pay for the impacts of new development are spent to execute those projects.

The Urban Development Institute and the Manitoba Home Builders Association want to return to discussions of how cost of development should be funded through the Development Agreement Parameters process

The Overarching Vision for Winnipeg

Modern, thriving cities provide their citizens and future citizens with **choice** of where they want to live -- reflective of their needs and wants at different stages of their lives. *OurWinnipeg* was developed after extensive consultation and establishes the City of Winnipeg's vision for the next 25 years. It focuses on three key directions -- a city that works, sustainability and quality of life. These directions are intended to address questions such as how growth and change will be accommodated while making sure the city stays liveable, affordable and desirable.

The development community has fully embraced SMART Growth principles and the vision of Complete Communities

Complete Communities is one of the four Direction Strategies supporting *OurWinnipeg.* It is intended to guide Winnipeg's physical growth and development by introducing a new urban structure. *Complete Communities* states that new development should only be approved when a full range of municipal services can be provided in an environmentally sound, economical and timely manner; there is a reasonable relationship between the supply of land and the projected demand; new development is adjacent to and compatible with existing development, and is designed to minimize the spatial use of land. Some have referred to recent growth in Winnipeg as "urban sprawl". Urban sprawl generally includes low density, homogenous, single use developments disconnected from the existing development. This is not a true characterization of recent development in Winnipeg. Recognized principles for Smart Growth include mixed land use, a range of housing opportunities and choice, walkable neighborhoods, distinctive, attractive communities with a strong sense of place. **Recent developments such as Waverley West and Sage Creek are clear examples of modern, complete communities designed with Smart Growth principles and the *Complete Communities* vision.**

The Value of New Development

New development expands the number and value of properties, enabling the city to grow its assessment base. This revenue is crucial to support the services of a modern city. Without new development, the existing tax base must pay higher taxes as the costs of delivering municipal services rise, along with the backlog of needed investments in infrastructure renewal to meet modern regulatory standards and citizens' expectations. New development also provides modern infrastructure that costs less to maintain and provides the capacity and appeal necessary to support and attract population growth.

Without new development the existing tax payer will pay higher taxes for:

- Rising costs of delivery of municipal services
- Infrastructure renewal to meet modern service requirements and regulatory standards

Once lots are sold and new homes constructed, homeowners pay property taxes on the assessed value of the property. New homes are generally assessed at a much higher value than the 'average home' in Winnipeg and thus contribute a larger share of municipal revenue than the average home. Winnipeg has the oldest housing stock in western Canada and the 3rd oldest housing stock of major cities in Canada which contributes to lower assessed values. This explains, in part, why average property taxes in Winnipeg appear low compared to other cities. Assessed values, and thus property taxes, vary significantly by neighborhood. The average municipal levy per dwelling in Winnipeg was $1,303 in 2015. In 2013, an average new single detached home paid over $2,900 in property taxes and frontage levies, 2.2 times the amount paid by the 'average home'.

New homes contribute a larger share of municipal revenue than the average home

New homes built from 2006- 2015 are estimated to have contributed about $200 million in new assessment revenue, and will continue to add over $33 million to city coffers per year. These new homes also pay frontage levies, waste diversion fees, and utility rates for water and sewer. New businesses in commercial developments also pay the business tax.

Cost benefit studies required by the City of Winnipeg as part of the development approval process have repeatedly shown the net benefits of these new developments to Winnipeg. Waverley West is estimated to provide the city with $892 million (NPV of $250 million) net revenue, after paying all capital, operating and maintenance costs.

Waverley West will provide the city with $892 million net revenue *after* paying all capital, operating and maintenance costs

Comparison to Neighbouring Municipalities

A new home is for most people the most significant investment a family will make. This is also true of facilities built for business owners. Cost is an important consideration to individuals, businesses and families. Homebuyers and new businesses are price and value sensitive and can be highly mobile in these decisions.

As the total cost of ownership increases in one area, new homebuyers will look to another. There are many attractive areas in the CMA surrounding the city that provide these alternatives within an easy commute. While there are development charges in Manitoba municipalities outside of Winnipeg, homeowners consider the total cost of buying and operating a new home. A sample of active listings of to-be or just built homes indicates that the cost per square foot of the homes in Winnipeg averaged over 10% higher than comparable homes (3 bedroom, two bath under $400,000) in surrounding municipalities. The average selling price for the Winnipeg homes averaged over $16,000 higher, for smaller homes, and smaller lots. Property taxes for CMA municipalities also average 1/3 less than in Winnipeg. The combination of these factors lead many new home purchasers to perceive greater value in neighboring municipalities, even with the current charges. Surrounding municipalities are growing at double the rate of Winnipeg. If new homebuyers choose to build a home outside the city, the related new assessment revenue is lost. These individuals and families then use Winnipeg roads, parks and other amenities without providing the taxes that support their maintenance. An additional tax on a new home in Winnipeg will drive more people to the surrounding municipalities.

Surrounding municipalities are growing at over two (2) times the rate of Winnipeg. This new assessment revenue is lost to Winnipeg

Growth Assumptions

Underpinning the calculation of the development taxes proposed in the Hemson Report are population and employment forecasts. Winnipeg grew at an average annual rate of .086% from 2001 to 2015. The Census Metropolitan Area outside of Winnipeg grew at 1.78% over the same period, over two times the rate inside the city. The forecast to 2040 shows a similar trend where growth in the areas surrounding Winnipeg (77%) is expected to be more than two times the growth rate inside the city (28%). International immigration is the major contributor to population growth in Winnipeg. Although it is expected that Winnipeg will benefit from continued international migration, caution is warranted. While Winnipeg is the seventh largest city in Canada in 2006, it ranked 22nd in attractiveness to migrants in the Conference Board of Canada's benchmarking report (2010). Employment growth is projected at 1.1% for 2016, down from a 20 year high of 3.4% in 2015. The Conference Board of Canada's employment outlook indicates growth will continue to be the highest in the service sectors in the next five years.

If the assumptions are wrong, the numbers are wrong and the fees are wrong

The Census Metropolitan Area outside of Winnipeg grew at over two times the rate inside the city

The City of Winnipeg forecasts an average of 4,000 new housing starts per year, although this level of housing start has only been seen in two out of the last 20 years. The Hemson Report has forecast an average of 4,200 housing units per year for the next ten years. Rental vacancy rates have now increased to 3% from 1% and are expected to rise as new units under construction are introduced to the market. According to CMHC's Housing Market Assessment, complete and unsold multi-family units remain elevated and are at the threshold of overbuilding. The CMHC Spring Housing Market Outlook for Winnipeg CMA forecasts total housing starts below the levels of the last three years. For the *entire CMA,* the forecast for 2017-2018 housing starts is 3,600 compared to 4,200 in 2016. The rate of building in the other municipalities has been two times the rate of growth in the city and will absorb some of this demand. Developers in Winnipeg confirm market conditions in Winnipeg have somewhat cooled. Many have not increased lot prices for two or more years and have needed to offer incentives to encourage lot sales. While everyone hopes that the population grows at the rate projected in the study and this translates into greater housing starts, actual growth may be more modest.

Capital Project Assumptions

A second key component in the calculation of the new charge is the identification of capital costs associated with projects considered related to development. This data is based on information provided to Hemson by the City of Winnipeg. Hemson refers to them in their report as "development-related projects and their gross and net costs." It is not clear what criteria was used to determine what was 'development related'. The projects and their costing were not independently validated by the consultant. Hemson has stated that the "development related capital forecast ensures that regulatory fees are only imposed to help pay for projects that have been or are intended to be purchased or built in order to accommodate future anticipated development". An initial analysis finds that:

> Many of these projects are not included in sufficiently detailed plans and cannot be reliably and accurately costed

- Many projects are not included in sufficiently detailed plans to enable reliable and accurate costing
- Many projects are listed at amounts far above the amount in approved budgets or plans
- Many projects are not included in capital budgets or master plans and have not been approved by Council
- Several projects have already been completed, with any additions to capacity unclear.

The methodology deducts grants and contributions from other levels of government and the "portion of the project that may confer benefits to existing residents". It is unclear how the relative demand from growth and related benefit has been determined.

The City of Winnipeg has repeatedly said that those who benefit from growth should pay for the impacts of this growth. What the actual impacts are of growth and who benefits is at the crux of this issue. Although it could be argued that all Winnipeggers benefit from ongoing growth and development, the methodology employed by Hemson Consulting (citywide average), ***results in anyone purchasing new homes or opening new businesses regardless of where in the city will pay for all estimated costs attributed to growth regardless of where the development is in the city***. For example, homeowners in the north east of the city will pay for investments in the south west. While the vice versa applies, the related investments are not necessarily equal.

Other Jurisdictional Practices

The City of Winnipeg has repeatedly referenced development charges in other major cities and surrounding Manitoba municipalities as justification for the imposition in Winnipeg. ***Every municipality has its own unique characteristics, including the provincial legislation and regulatory scheme, physical geography, social and economic environment, extent and condition of existing infrastructure, and growth characteristics***. While the general mechanisms to generate revenue are similar, municipalities may employ them in different ways or with different emphasis. There may be different policy considerations or goals that the municipality is trying to achieve. In all cases, understanding what underlies another city's policy, budgets or costs, and how they are affected by timing, reporting and other considerations is important to make a fair comparison. The practices in British Columbia, Alberta, Saskatchewan and Ontario were reviewed to understand what may be learned from the experience in these other jurisdictions. While there are significant differences in the 'basket of services' included in the costing and the amounts charged, there are common principles that may be found where systems have been established to recover capital costs from new developments.

Determination of Costs

In all cases, the fundamental premise of a development levy is that costs charged to new development must be related to the development. Determining the amount of the levy begins with a clear understanding of what these costs are, and how they are connected to the development, generally through detailed infrastructure planning.

Stakeholder Engagement

Methods for involving the public in the decision making process in other provinces included external advisory groups and general provisions for a meaningful public process to obtain input on the proposed changes. Methods implemented include opportunities for municipal departments, local developers and the public to review and contribute their opinions.

Attribution to Growth

The concept of those who benefit should pay is reflected in all reviewed jurisdictions. Other jurisdictions include some parameters for what may reasonably be attributed to new growth.

Accountability and Transparency

Attributing cost and collecting levies is only one part of the necessary system of development levies. Establishing the administrative structures to ensure the funds collected are clearly spent for the purpose which they are collected, returned when warranted, and clear public accountability and reporting are also key elements that are required in Acts, Regulations and By-laws of other jurisdictions. In every province examined, development charges must be used only for the projects outlined in the DCC program. In most cases this involves segregated special reserves for each purpose, with separate accounting and reporting on their use.

Authority

The City of Winnipeg does not have the legal authority to implement broad-based impact fees

The City of Winnipeg only has the legal authority that it is granted by the Province of Manitoba through *The City of Winnipeg Charter Act (*The Charter*).* The Charter sets out a development approval process that places clear limits on what costs, fees and charges the City of Winnipeg may impose on new developments.

The Hemson Report does not address the question of whether the City of Winnipeg has the authority to impose regulatory charges, levies or fees. In a similar study conducted by Hemson for the City of Saskatoon, Hemson commented that The Charter does not provide the City of Winnipeg the authority to implement development charges. The City itself has previously come to this conclusion.

The proposed by-law states its authority is found in the general authority of the City under subsection 6(1) of *The City of Winnipeg Charter Act*. It does not acknowledge the more specific direction of The Charter under Part 6 - Planning and Development, or subsection 259(1) which is quite specific on the matter. Use of the General Authority when specific authority has been clearly contemplated and subsequently restricted is an unreasonable use of this general authority, and could be considered an attempt to subvert the authority of the Act.

The City of Winnipeg has not completed planning at the level of detail necessary to accurately and reliably determine which projects are required because of new development or what costs should be attributed to new development. This lack of rigour and detail undermines the validity of any regulatory scheme.

Winnipeg requires detailed and approved plans before it can properly state what infrastructure needs to be built and what should be attributed to new development