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COMMUNITY REVITALIZATION LEVY AS A MUNICIPAL FINANCING MECHANISM IN ALBERTA

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SUMMARY

What do Edmonton's glittering new Arena District and Calgary's complete overhaul of its Rivers District have in common? Both cities pulled their projects off using a novel method of financing: the community revitalization levy (CRL). Because CRLs can cause economic harm when they are used incorrectly, there are general principles that cities should follow when using them. Unfortunately, these principles are not fully in place in Alberta. The result could be that, for all their charm, Calgary's Rivers District and Edmonton's Capital City Downtown Plan may not have lived up to be quite the deal citizens might have expected.

A CRL should only be used if it is in fact the best financial tool available for the project. It must past certain tests. In the case of Calgary's River District, it appears that those tests were not properly met, and so it is unclear whether the CRL really was the best financial tool available for the city to use in its effort to improve the area. While the property tax base in the Rivers District has grown more quickly than in the rest of the city, it is impossible to know how much more quickly it would have grown without the use of the CRL as a tool. There also seems to be a lack of clarity of whether new projects funded by the CRL will be in the public's best interest or if the money would be better used if returned to the tax base.

Edmonton, meanwhile, did not pre-define the scope and the cost of all the projects it expects for its Capital City Downtown Plan. While that provides flexibility to develop new project ideas as more revenue materializes, it also allows for scope creep, and the risk that revenues will continue to be spent, even beyond their need, rather than being returned to the tax base. It is also unclear whether the Edmonton plan has actually succeeded in inducing economic growth. It may be that it has only shifted where people spend their money away from other parts of the city and into the downtown district, potentially harming some residents and businesses.

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CRLs are powerful tools, but they come with risks. They can lead to poor outcomes for taxpayers or businesses and residents in other areas, and they can divert tax revenues away from necessary infrastructure into subsidizing private infrastructure, as may be the case with the Edmonton arena. It is unclear whether the CRL plans in Calgary and Edmonton have turned out to be the best approach for revitalizing parts of the two cities' downtowns. The province, and the two cities, should look at implementing new measures to better protect taxpayers, and ensure CRLs are being used correctly.

1. INTRODUCTION

Municipal governments are able to incentivize private development in particular areas through a number of financial measures, for example through tax incentives, investment in public development that could attract private development, or rezoning (Kerth et al. 2011). Other financial tools include land-value capture (LVC) financing, public-private partnerships, and tripartite agreements between a municipality, the province and the federal government. LVC is based on the principle that new public-sector investment in an area increases land values that benefit private landowners in this area. Governments recover part or all of that incremental land value either via taxes, fees or other financial measures (Friendly 2017). Tax increment financing (TIF) is a type of value capture that is emerging as a flexible financial tool for local governments. It has traditionally been used by local governments to promote growth in blighted areas that are not able to attract private investment due to economic decline, rampant crime or run-down infrastructure (Kerth et al. 2011).

TIF allows municipal governments to borrow funds for the revitalization of underdeveloped areas ("revitalization zones"), which they then repay over a predetermined amount of time through incremental property tax revenues from new development in the revitalization zone. TIF works on the principle that infrastructure and public-space improvements can attract private investment and spur development in underdeveloped areas, bringing more property tax revenues to all taxing authorities in the long run (Kerth et al. 2011). The first TIF was used in California in 1952. While TIF has since been widely used in the United States, it has only gained greater acceptance in Canada in recent years. In 2007, the City of Calgary introduced the first TIF in Canada — in Alberta, it is more commonly called a community-revitalization levy (CRL) — for the revitalization of the Rivers District (City of Calgary 2007c). A CRL can be seen as the "Alberta approach" to TIF and is the focus of this paper.

Proponents of TIF view it as a self-financing mechanism that does not require new taxes or increased tax rates on residents within or outside the revitalization zone (Greifer 2005). TIF is viewed as a flexible tool for local governments that allows them to finance a broad range of activities within the revitalization zone with the possibility of leveraging public-private partnerships and without relying on provincial or federal financial approvals. However, implementing a successful TIF is more complicated than it first appears. A 2001 study by Jeff Chapman examined the history of redevelopment in California and concluded that "TIF can be a useful tool… But it only works correctly if it is carefully planned, monitored and implemented under the light of scrutiny" (Chapman 2001). Government officials must account for growth in property values that would have occurred without the TIF in order to not attribute it incorrectly to the TIF (Kerth et al. 2011). A TIF that fails to achieve its economic development goals diverts tax revenues away from other initiatives that may be more worthwhile to the public, such as education, parks or other important municipal services (Kerth et al. 2011). TIFs that are implemented without appropriate safeguards and transparency measures can lead to municipal governments supporting special interests at the expense of the public. Safeguards should be implemented to ensure that the short-term and long-term needs of the revitalized area are accounted for and to ensure long-term sustainable development.

While there are concerns in the United States that the increased use of TIF within municipalities is diverting tax revenues away from the general tax base (in 2007, the city of Chicago had 161 TIF districts representing approximately 26 per cent of the city's land area (Farris et al. 2009)), TIF has not yet been used extensively in Canada. In Alberta, only five CRLs have been approved for three municipalities: one in Calgary, one in Cochrane and three in Edmonton. As such, there is an opportunity to ensure early on that the CRL framework in Alberta allows for the successfully implementation of CRLs that are financially sound and in the public's best interest. This paper reviews the CRLs used as part of the Rivers Plan in Calgary and the Capital Plan in Edmonton. The paper first outlines a general framework for the effective implementation and use of CRLs. It then describes the current CRL framework and mechanisms in Alberta. Next, it discusses the use of the CRLs in the Rivers Plan and the Capital Plan based on available data. Finally, it concludes with a recommendation on how to improve the CRL framework in Alberta, as well as within each revitalization zone.

2. FRAMEWORK FOR THE USE OF A CRL

A successful CRL framework is built on the principles of transparency, accountability and public awareness (Kerth et al. 2011). Prior to implementing a CRL, it is important for municipal governments to clearly formulate their objectives and to assess all tools that could achieve these objectives. By ensuring the CRL is in fact the best available financial tool to incentivize private investment in revitalization zones, local governments can demonstrate to their citizens that local resources are used efficiently and support the sustainable long-term development of the area and of the municipality in general. Local governments must be able to provide evidence that the CRL responds to local needs, that private investment would not have occurred in the absence of the CRL (the "but-for test"), that the revitalization zone meets the criteria of "blight" (the "blight test") and that the local economic environment will grow sufficiently over the lifetime of the CRL to cover the costs of borrowing to incentivize that growth (Skidmore et al. 2010). Both the "but-for" and "blight" tests are safeguards to ensure a CRL zone is scoped correctly and to ensure sustainable long-term growth in the revitalization zone. The "but-for" test ensures it can be demonstrated that private sector investment would not have occurred in the revitalization zone but for the use a CRL. If it would occur without the CRL, then a CRL could result in increased costs for taxpayers and tax revenues from incremental property-value increases being diverted from the general tax base to subsidize development in a particular area (Skidmore et al. 2010). CRL revenues rely heavily on an increase in property values over a set period of time. When CRLs are used in blighted areas, the assumption is that property values are low in the base year. The investment from CRLs provides an impetus for the required growth in property values over time and in turn generates higher CRL revenues in the long run (Lester 2014). Using CRLs in non-blighted areas limits the increase in property values and can result in a failed objective of raising enough funds to repay the initial CRL loan. Framing CRLs within the "but-for" and "blight" tests minimizes the financial risk associated with CRLs.

Once it has been determined that the CRL is the best available tool to revitalize an area, it is important that clear conditions are in place for its successful implementation. A successful CRL framework ensures CRLs are targeted and temporary, to attract new economic activity rather than shift it from one part of the city to another (Kerth et al. 2011). It also sets a cap on the percentage of provincial or municipal land that can be included in CRL revitalization zones to ensure the CRL is indeed being used for targeted initiatives and that overlapping taxing authorities do not face an increasingly shrinking tax base (Kerth et al. 2011). The framework also ensures that the designation of CRL revitalization zones is transparent and that local governments are held accountable for measuring, tracking and reporting to the public on whether the CRL revitalization zones meet their objectives. To ensure full transparency and accountability, objectives should be specific, measurable, attainable, relevant and able to be met within given timelines (rules encapsulated in the acronym SMART) (University of New

Hampshire 2017). Additionally, municipalities should explicitly indicate which projects within the revitalization zone will benefit from the CRL revenue, the expected benefits of developing these projects, and the contingency plan if revenue targets are not met (Kerth et al. 2011). When the amount borrowed is repaid, unspent funds should be returned to the jurisdiction from which they were diverted rather than spent on new projects, unless these were approved through a publicly accountable process. Finally, municipalities should demonstrate that the objectives of the CRL are in view of long-term community development, to ensure the sustainability of the revitalized area.

In order to ensure CRLs are governed by open and transparent processes, it is important for the public to be engaged and consulted with on key issues: for example, the revitalization-zone boundaries (including potential CRL gradation zones), project proposals and the impact of the CRLs on the overall municipal budget (Kerth et al. 2011). The public should have access to CRL plans that state the overall goals of the CRL revitalization zone, the value of the expected CRL, specific benefits expected to be generated by the CRL and detailed information on the proposed projects. Information on the CRL should be readily available and accessible online in one centralized location (Kerth et al. 2011). In addition to the CRL plan, it should include information on who the recipients of CRL funds are, particularly if funds flow directly or indirectly to private developers, and safeguards that are in place (for example, contractually) to ensure developers deliver their projects as promised (Kerth et al. 2011). Finally, a successful CRL framework needs to ensure that funds raised through CRLs meet at least the same transparency and accountability standards as would ordinary municipal spending, to allow the public to gain a clear understanding of the opportunities and costs of using the CRL. Table 1 below provides an overview of a framework for the effective implementation and use of CRLs:

TABLE 1 CRL FRAMEWORK SUMMARY

Step	Public-Accountability Tools	Examples of Metrics
1. Developing CRL-specific legislation	Acts and regulations with CRL criteria, timeframe and consultation process	Percentage of provincial and municipal land within CRL district; “but-for” test methodology; “blight” test methodology
2. Assessing the use of a CRL versus other municipal development tools	Comparative cost-benefit analysis	Property assessments; tax revenues; job creation; long-term municipal debt
3. Demonstrating that a CRL is in the public interest in the short and long term	CRL plan with SMART goals; “but-for” test; “blight” test; up-to-date local economic-environment forecast; detailed and complete explanation of allocation of public funds; expected increased property values; housing-impact study	Projected revenues based on property-assessment forecasts; private investment value; percentage of vacant/underdeveloped land; expected job creation; amount borrowed; spending by project; verification of long-term benefits (for example, through housing-mix studies)
4. Consulting with the public	Fit-for-purpose public-consultation plan and process; publication of public concerns, issues raised and mitigations	Number of public engagements; number of addressed public concerns
5. Obtaining council approval for a CRL plan	Council-meeting minutes	N/A
6. Implementing CRL plan and developing projects	Bylaws approving loans and CRL amounts; annual CRL-revitalization-zone business plans and audited annual plans; municipal budgets	Annual spending by project; annual amount borrowed; annual CRL revenue; incremental property assessments; increase in residential/retail/commercial units; annual tax amount forgone by other taxing authorities
7. Completing the CRL revitalization at the end of the CRL period.	Final report	Assessment against metrics in the CRL plan, both short and long term

One example of a consideration not covered within the scope of this paper, but important to ensuring the success of a CRL, is testing the built-in assumption that a CRL will result in private investment and economic growth. Municipalities could stress-test the assumption by exploring scenarios in which the required private investment does not occur and, to the extent possible, look at potential unintended consequences of implementing a CRL. An unintended consequence could, for example, be that individuals living and working in the CRL revitalization zone are no longer able to afford living there due to higher costs brought on by increased property values or limited diversity of new housing. A lack of diversity in housing could result in unoccupied buildings, which could decrease the ability of the municipality to raise incremental tax revenue and repay the initial CRL loan. To mitigate this scenario, municipalities should consider focusing on sustainable mixed-use development. Research has shown that mixed-use developments in conjunction with other land uses are more likely to be successful in meeting the intended objectives of a CRL (Bhatta et al. 2003). Other areas of research include, for example, impacts of CRLs on smaller, local businesses that may face challenges competing with new larger companies if these are subsidized by municipalities or if rental or leasing fees increase due to higher property values. Diversification of economic activity is likely to be key to ensure the sustainable long-term revitalization of a CRL zone. Further research needs to be done to explore the link between sustainable economic development and the success of a CRL revitalization zone.

3. CRL FRAMEWORK AND MECHANISMS IN ALBERTA

In order to understand the existing CRL framework and mechanisms in Alberta, it is important to first comprehend the property tax system in the province. As per the Municipal Government Act, municipalities collect taxes for municipal and educational purposes (Alberta Municipal Affairs 2010). There are two distinct annual processes related to the property tax system in Alberta: assessing the value of properties and determining the tax rate. Most properties are assessed by a local assessor based on a market-value-based standard, i.e., the price at which a property could reasonably be expected to be sold (Alberta Municipal Affairs 2010). The most reliable method of market valuation is based on the comparison of the sale price of similar properties. For those properties where it is difficult to assess a market value (farmland, linear properties, machinery and equipment, and railway property), Alberta Municipal Affairs prescribes rates and procedures to assess their values. These properties are known as "regulated properties." Municipalities are required by the Municipal Government Act to produce annual assessment rolls, which contain a list of all assessable properties and their assessed values (Alberta Municipal Affairs 2010).

Municipal councils determine on an annual basis how much revenue they need to operate their municipality. Once they subtract known revenues, such as those from licences or permits, they determine the amount they need to raise through property taxes (Alberta Municipal Affairs 2010). The municipal tax rate is calculated by dividing this revenue requirement by the assessment base, i.e., the total value of all assessed properties within the municipality:

$$\begin{aligned} &Municipal\ Tax\ Rate \\ &\qquad = Municipal\ Revenue\ Requirement \div\ Municipal\ Assessment\ Base \end{aligned}$$

In addition, the provincial government determines each year the funds required for education in Alberta and the amount of education taxes each municipality is required to collect.

Municipalities then determine the local education property tax rate by dividing the required education tax amount by the assessment base (Alberta Municipal Affairs 2010):

$$\begin{aligned} &\mathit{Local\ Education\ Property\ Tax\ Rate} \\ &\qquad = \mathit{Education\ Revenue\ Requirement} \div \mathit{Municipal\ Assessment\ Base} \end{aligned}$$

Table 2 provides an overview of 2017 assessed taxable values and tax rates as reported by the City of Calgary:

TABLE 2 CITY OF CALGARY 2017 ASSESSED TAXABLE VALUES

	Tax Amount	Taxable Assessment	Tax Rate
MUNICIPAL			
General Municipal:			
Residential	$817,760,243	206,333,167,652	0.0039633
Farm Land	52,553	2,985,587	0.0176021
Non-Residential	940,713,204	67,765,450,295	0.0138819
Machinery & Equipment	0	0	0.0138819
Sub-Total Municipal Portion	$1,758,526,000	274,101,603,534	
EDUCATION			
Alberta School Foundation Fund and Calgary Catholic Board of Education:			
Residential	$522,707,399	205,993,063,552	0.0025375
Farm Land	7,576	2,985,587	0.0025375
Non-Residential	258,293,161	66,870,284,649	0.0038626
Machinery & Equipment	0	350,000,000	0.0000000
Sub-Total Education Portion	$781,008,136	273,216,333,788	
TOTAL TAX AMOUNT	$2,539,534,136		

Source: 2017 City of Calgary Bylaw 21M2017 (City of Calgary 2017a).

Property owners are informed of the assessment of their property via assessment notices (Alberta Municipal Affairs 2010). Taxes are paid based on the assessed value of their properties and the aggregated municipal and education tax rates for each type of property. For example, a residential property owner in Calgary that has an assessed property value of $350,000 will pay the following 2017 tax amount:

$$\mathit{Total}\ 2017\ \mathit{Tax\ Amount} = \$350{,}000 \times (0.0039633 + 0.0025375) = \$2{,}275.28$$

In 2005, the Municipal Government Act was amended to allow councils to pass CRL bylaws (Government of Alberta 2017). The bylaws allow a municipal council to impose a levy on the incremental assessed value of all properties in a CRL revitalization zone, where the incremental assessed value means "the increase in the assessed value of property located in a CRL revitalization zone after the date the CRL bylaw is approved by the Lieutenant Governor in Council" (Government of Alberta 2017). The act states that the levy may be used toward the payment of infrastructure or toward costs that are required for the redevelopment of property in the CRL revitalization zone. Once the bylaw is approved by the lieutenant-governor in council, the incremental assessed value of property in a CRL revitalization zone is excluded from the calculations that determine the education amount required to be paid to the province for a period of up to 20 years (Government of Alberta 2017). Under the act, the lieutenant-governor in council may make regulations establishing CRL revitalization zones. There are currently five CRL regulations under the act, including the City of Calgary Rivers District Community Revitalization Levy Regulation and the City of Edmonton Capital Downtown Community Revitalization Levy Regulation.

Based on the act, properties within CRL revitalization zones are taxed in the following way (City of Calgary 2017c):

$$\begin{aligned} \textit{Total Tax Amount} = {} & \textit{Baseline Assessment} \times \textit{Municipal Tax Rate (1)} \\ & + \\ & \textit{Baseline Assessment} \times \textit{Local Education Property Tax Rate (2)} \\ & + \\ & \textit{Incremental Assessment} \times \textit{CRL Rate (3)} \end{aligned}$$

where the CRL rate is the aggregate of the municipal tax rate and the local education property tax rate, the baseline assessment is the assessed property value in the year a CRL bylaw is approved and the incremental assessment is the increase in the assessed value of property after the bylaw is approved. The amount collected under (1) above is used by the municipality to finance local programs and services across the municipality. The amount collected under (2) flows through to the province to fund educational programs. Finally, the amount collected under (3) is used solely by the municipality and only to cover costs incurred for the redevelopment of the community revitalization zone. The assessment process for determining the market value and taxes for properties within the CRL revitalization zone is the same as for any other property within the city. Additionally, properties within a CRL revitalization zone are taxed at the same rates as all other properties in the city within the same class.

Table 3 provide an overview of 2017 total taxable incremental value, the CRL rate, and exempt incremental assessment in the City of Edmonton.

TABLE 3 CITY OF EDMONTON 2017 ASSESSED TAXABLE VALUES

BYLAW 17909
SCHEDULE A

2017 City of Edmonton Capital City Downtown Community Revitalization Levy Rates

Municipal Equivalent

Assessment Class	Total Taxable Incremental Assessment	Levy Rate	Municipal Equivalent ($)	Exempt Incremental Assessment
Residential	142,153,334	0.0060066	853,858	17,000
Farmland	0	0.0060066	0	0
Other Residential	148,619,540	0.0069076	1,026,604	9,116,537
Non-Residential*	826,513,411	0.0168561	13,931,793*	1,116,499,644
Machinery and Equipment**	0	0.0168561	0	0
Totals	**1,117,286,285**		**15,812,255***	**1,125,633,181**

* **Revenues are prior to adjustment for the Arena Tax Agreement**
**Exempt by City Bylaw

Education Equivalent

Assessment Class	Total Taxable Incremental Assessment	Levy Rate	Education Equivalent ($)	Exempt Incremental Assessment
Residential	142,153,334	0.0025021	355,682	17,000
Farmland	0	0.0025021	0	0
Other Residential	148,619,540	0.0025021	371,861	9,116,537
Non-Residential	821,000,911	0.0039026	3,204,038	1,115,608,644
Machinery and Equipment	0	0	0	0
Totals	**1,111,773,785**		**3,931,581**	**1,124,742,181**

Source: Bylaw 17909 — 2017 City of Edmonton Capital City Downtown Community Revitalization Levy Rate and Supplementary Levy Rate Bylaw — Attachment 1 CR_4473 (City of Edmonton 2017c).

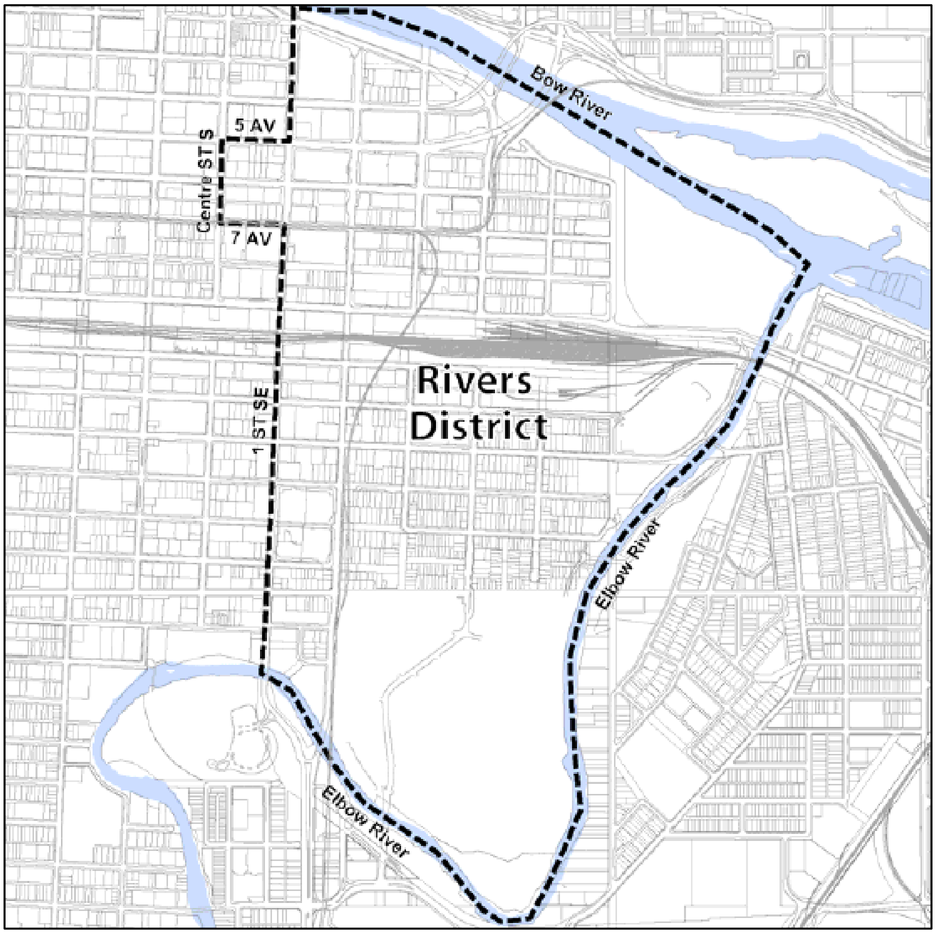
In Alberta, specific requirements, such as the content of the CRL plan, revitalization zone boundaries, levy-amount calculations, and reporting and public-consultation requirements are set out in the individual regulations for each revitalization zone. CRL plans typically must include the objectives, risks and benefits of the CRL, substantiation that redevelopment will not progress significantly in its absence, and the amount and timing of projected costs, revenues and borrowings (Government of Alberta 2017). The plans must generally also include a projection of estimated changes in the incremental assessed value of property in the CRL revitalization zone and consequent impacts on projected revenues from the CRL, as well as expected impacts on residents within the CRL revitalization zone (Government of Alberta 2016). City councils are typically required to hold one or more public hearings on the proposed plans and they must include all of the information contained in the plans in their CRL bylaws, which are to be approved by the lieutenant-governor in council. Under the regulations, changes to the bylaws have no effect unless approved by the lieutenant-governor in council.

4. CRL USE IN CALGARY — RIVERS PLAN OVERVIEW

In April 2007, the Calgary city council approved the Rivers Plan and passed the CRL Bylaw 27M2007 for the use of the CRL for a period of 20 years (City of Calgary 2007c). It was the first CRL used in Canada (Calgary Municipal Land Corp. 2017b). With the Rivers Plan, the City of Calgary aimed to reclaim, redevelop and revitalize the underdeveloped eastern inner-city area by encouraging high-density and mixed-use development (City of Calgary 2007c). The lack of adequate infrastructure, as well as the fact that the area was marked by social issues, crime and contaminated lands, discouraged private investment and the redevelopment of the area. The Rivers Plan states that the median household income in East Village, the only neighbourhood fully included in the CRL revitalization zone, was $16,224 in 2000, compared to $57,879 for the greater city. Of the people who lived in East Village in 2000, 62.2 per cent were living in low-income households, compared to 14.8 per cent in the greater city (City of Calgary 2007c). Based on the Rivers Plan, 46.6 per cent of land within the Rivers District was owned by the City of Calgary and development in much of the Rivers District had been stagnant for decades. The Calgary Municipal Land Corp. (CMLC) was incorporated as a wholly owned subsidiary of the City of Calgary to implement and execute the Rivers Plan. In 2008, the City of Calgary approved Loan Bylaw 35M2008 for a loan amount equivalent to the book value of land within the Rivers District to be transferred from the City of Calgary to CMLC and to be repaid from the proceeds of sale of the land (City of Calgary 2008c). CMLC has since proceeded with several land sales (Calgary Municipal Land Corp. 2018b). In its 2018 Business Plan Update, CMLC stated that only one full city block remained within East Village for development opportunities (Calgary Municipal Land Corp. 2018a).

It is important to note that the boundaries of the Rivers District revitalization zone were originally drawn to include Encana's "The Bow" building, which was planned to be built on 5th Avenue and Centre Street before the Rivers Plan was approved (City of Calgary 2007c). Figure 1 below shows the River District revitalization-zone boundaries.

FIGURE 1 RIVERS DISTRICT REVITALIZATION-ZONE BOUNDARIES



Source: 2007 Rivers District Revitalization Plan (City of Calgary 2007c).

In its 2007 Rivers Plan, the City of Calgary estimated The Bow would generate $14.3 million in annual CRL revenues. By comparison, the estimated 2017 CRL revenue was $36 million

(Calgary Municipal Land Corp. 2018a). While increases in property assessments from The Bow are included in the CRL revenue, it is important to note that they cannot be attributed to the CRL. The inclusion of The Bow in the revitalization-zone boundaries means that the Rivers District does not fulfill the "but-for" and "blight" criteria. As a consequence, it is unclear if the CRL is, in fact, the best available financial tool to revitalize the area.

In its 2007 Rivers Plan, the City of Calgary estimated that it would need to borrow $135 million for the front-end costs of the initial projects that would be undertaken within the first five years. These initial projects are shown in Table 4 below.

TABLE 4 INITIAL RIVERS PLAN PROJECTS

Initial Projects	Estimated Costs
East Village Infrastructure	
• Underground utilities	$ 14,000,000
• Surface improvements	$ 40,000,000
• Sidewalk & streetscape	$ 24,000,000
• Parks & open space	$ 7,000,000
• Cost escalation contingency	$ 28,000,000
SUBTOTAL	**$113,000,000**
Riverwalk	
• Consultant estimate	$17,300,000
• Cost escalation contingency	$ 4,700,000
SUBTOTAL	**$22,000,000**
Total Initial Project Costs	**$135,000,000**

Source: 2007 Rivers District Revitalization Plan (City of Calgary 2007c).

Subsequent projects would begin after the initial projects were underway. No detailed scope or costs were assigned to these subsequent projects in the Rivers Plan (City of Calgary 2007c). As of December 2017, the City of Calgary had approved $523.5 million in projects, representing an additional scope of $388.5 million compared to 2007, as well as four loan bylaws totalling $275.5 million to support the development of these projects (Calgary Municipal Land Corp. 2018a). In its 2018 Business Plan Update, CMLC requested approval for an additional $70 million for new East Village infrastructure for which the city would need to issue new borrowing and loan bylaws. It also outlined its top 10 potential projects for the next 10 years. The fact that the Rivers Plan did not assign a detailed scope or cost for all projects to be undertaken within the 20-year CRL period has, on the one hand, provided flexibility to develop projects as the CRL revenue materializes and future CRL revenue forecasting becomes more certain. On the other hand, it has also allowed for scope creep and for future unspent CRL revenue to be continually tied to new projects within the Rivers District rather than returned to the broader municipal tax base. Considering the inclusion of The Bow in the Rivers District boundaries, it is important for the public to be aware of the implications of these new projects. While the CMLC states in its business plans that it is engaging the public on new proposed developments, there are no records of consultation available on CMLC's website that could showcase how well informed the public is on the impacts of additional projects and what, if any, concerns were raised (Calgary Municipal Land Corp. 2017b). As such, it is currently unclear if the new projects are in the public's best interest, or if unspent CRL revenue would be better served by flowing back to the broader tax base.

In 2007, the City of Calgary estimated that the revitalization would add between $8.4 billion and $11.6 billion in residential assessment value in the Rivers District over 20 years, as well as between $3.8 billion and $6.7 billion in new non-residential assessment value (City of Calgary 2007c). As a result, it was estimated the CRL would generate between $725 million and $1.166 billion in revenues. In 2018, CMLC estimated the CRL would generate $755 million over the CRL period, which remains within the 2007 predicted range (Calgary Municipal Land Corp. 2018a). The 2007 residential assessment base in the Rivers District was $328 million and the 2007 Non-Residential Assessment Base was $647 million (City of Calgary 2007c). Figures 2 and 3 below show the growth of the residential and non-residential assessment bases in Calgary as a whole and the growth of the residential and non-residential assessment bases within the Rivers District based on the yearly property-tax-rate bylaws for both the City of Calgary and the Rivers District CRL (City of Calgary 2007a; 2007b; 2008a; 2008b; 2009a; 2009b; 2010a; 2010b; 2011a; 2011b; 2012a; 2012b; 2013; 2014a; 2014b; 2014c; 2015a; 2015b; 2016a; 2016b; 2017a; 2017b).

FIGURE 2 CITY-WIDE RESIDENTIAL AND NON-RESIDENTIAL ASSESSMENT BASE (IN MILLIONS)

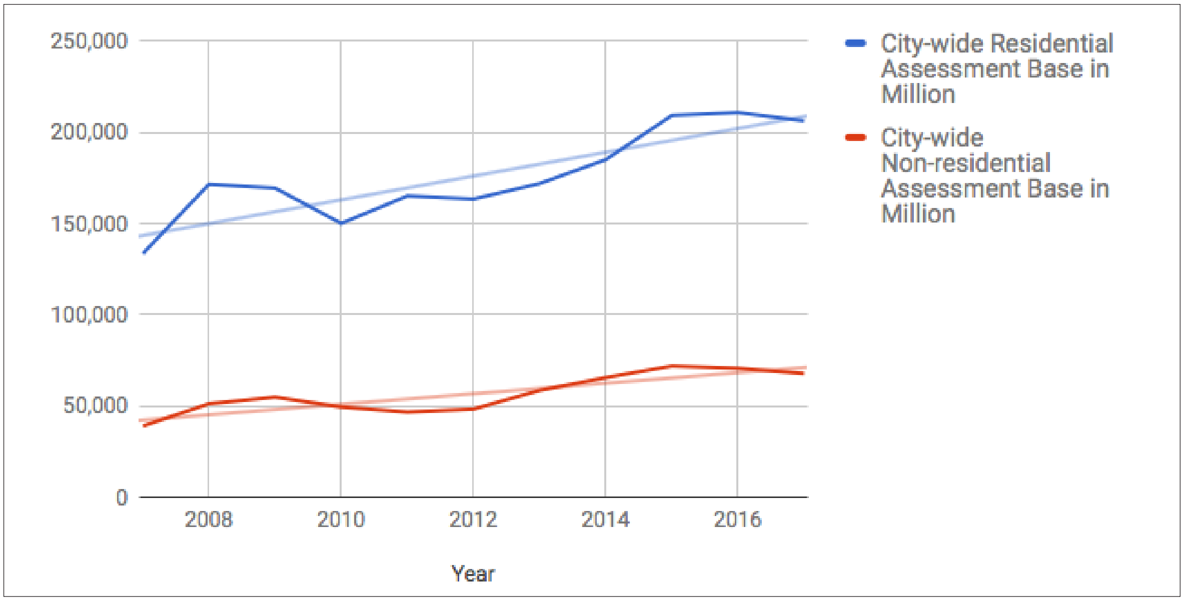
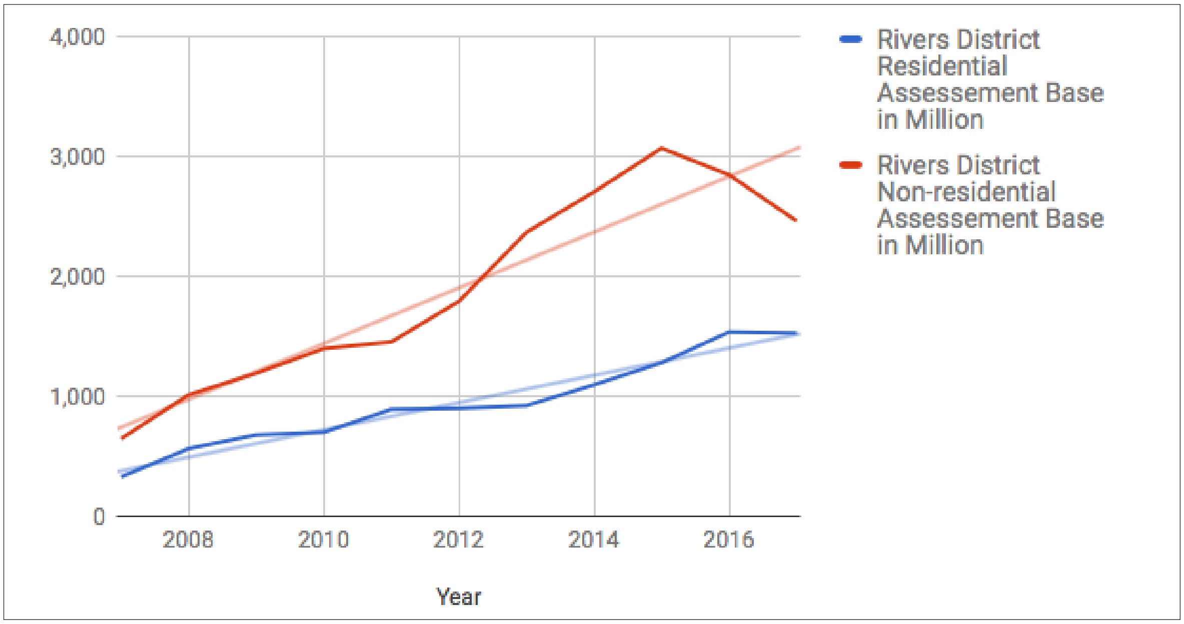


FIGURE 3 RIVERS DISTRICT RESIDENTIAL AND NON-RESIDENTIAL ASSESSMENT BASE (IN MILLIONS)



Whereas the residential assessment base in the Rivers District grew on average by 18.14 per cent from 2007 to 2017, the residential assessment base in the City of Calgary grew only by an average of 4.93 per cent over the same time frame. Similarly, the non-residential assessment base in the Rivers District increased by 15.8 per cent from 2007 to 2017, whereas the non-residential assessment base in the City of Calgary only increased by 6.35 per cent. While faster growth can be observed in the Rivers District for both residential and non-residential assessment bases compared to the broader city, it is difficult to assess what would have happened in the absence of the CRL. As previously noted, non-residential assessment growth due to the construction of The Bow cannot be attributed to the CRL.

It is interesting to note the dip in the Rivers District non-residential assessment base starting in 2015. Vacancy rates in downtown office towers in Calgary have dropped significantly in recent years due to the economic downturn in the province. For example, The Bow experienced a 22-per-cent drop in assessment value in 2016 alone, leading to a loss of property tax revenues for the Rivers District revitalization zone (Varcoe 2017). The loss of property tax revenue is important as it can impact the ability of the Rivers District to repay the CRL loans and finance planned projects. As such, future vacancy rates in The Bow are likely to have a significant impact on the CRL revenues generated over the 20-year CRL period.

5. CRL USE IN EDMONTON – CAPITAL PLAN OVERVIEW

Similar to Calgary, Edmonton has started using CRLs as a financing mechanism for public infrastructure. The City of Edmonton's Sustainable Development branch, which is responsible for the advancement of urban renewal initiatives, is currently implementing three council-approved CRL revitalization plans:

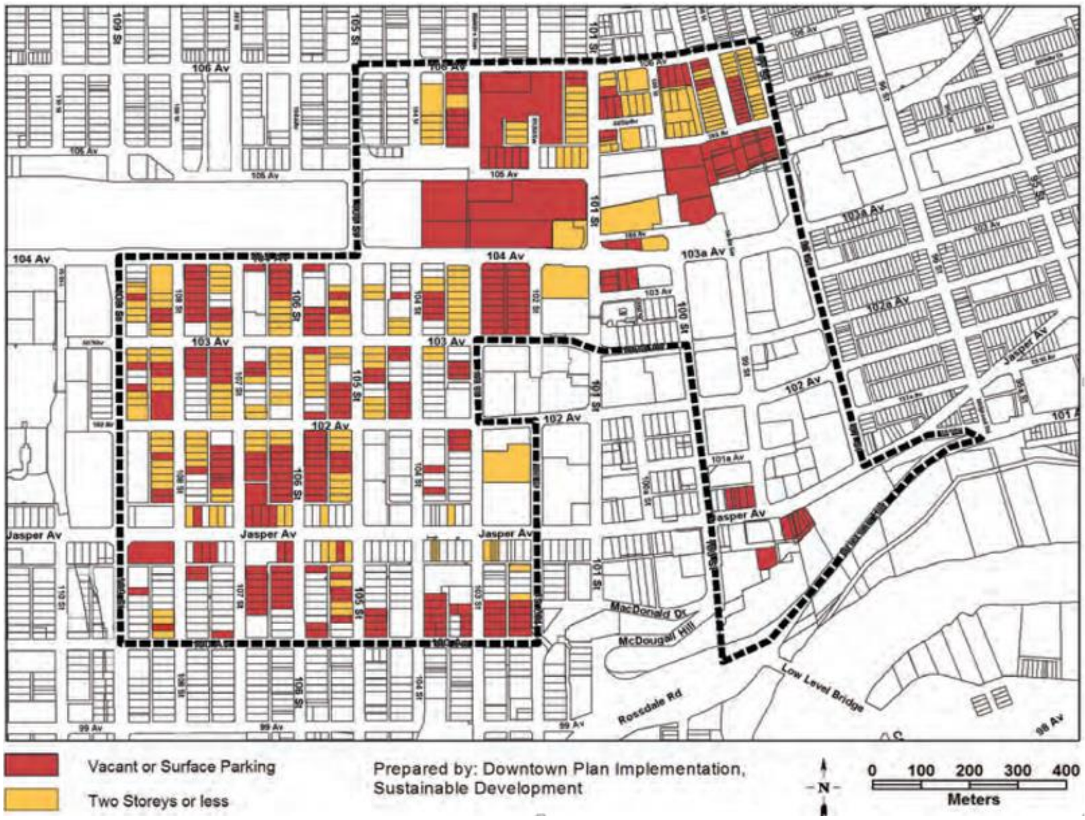
- the Quarters Downtown CRL Plan,
- the Belvedere CRL Plan, and
- the Capital Plan.

The CRLs are intended to attract new investment and development that would not otherwise have occurred in the revitalization zones (City of Edmonton Sustainable Development 2017). Out of the three, the Capital City Downtown CRL is the largest, as it finances costlier public infrastructure projects related to a public/private partnership between the City of Edmonton and the Oilers Entertainment Group for the construction of the Rogers Place arena. Rogers Place, the new home of the Edmonton Oilers, is a downtown arena that replaced Rexall Place, which was one of the oldest and smallest facilities in the National Hockey League. The Capital City Downtown CRL presents a timely case study of whether subsidizing the construction and operation of professional sports facilities is a viable economic-revitalization municipal strategy. From the Edmonton city council's perspective, Rogers Place is a transformational project that feeds into the council's vision of building a vibrant capital city (City of Edmonton 2015). However, there are valid concerns with using public dollars to finance a private endeavour with limited public benefits.

The revitalization of Edmonton's downtown began in 2006 with the development of the Capital Plan. On Sept. 17, 2013, the city council adopted the Capital Plan with the Capital City Downtown CRL Plan Bylaw 16521, which was approved by the province on April 16, 2014 (City of Edmonton 2016a). The CRL was established for a 20-year period starting in 2014 and ending in 2034. Similar to the Calgary plan, the Capital Plan outlines the objectives, risks and benefits associated with the CRL, the projects to be covered by the CRL, and projected borrowing and revenues. It also substantiates that redevelopment would not progress in the absence of the CRL. City council deemed the Capital Plan to be required for Edmonton's downtown because it had not received the investment it needed for new infrastructure, amenities, and increased service capacity that would attract and support a growing population. While the development in downtown Edmonton might not have happened, or might have happened at a slower rate without the CRL revitalization zone, it is uncertain whether the Capital Plan is truly inducing economic growth or if it artificially manufactures additional demand by shifting where money is spent.

The revitalization zone comprises 135.0 hectares of land of which 32 per cent was vacant and 20 per cent was underdeveloped in 2013 (City of Edmonton 2013). As shown in Figure 4, the area had many vacant lots that presented opportunities for development.

FIGURE 4 CAPITAL PLAN BOUNDARY (VACANT OR UNDERDEVELOPED LAND)



Source: Capital City Downtown Plan Revitalization Levy Bylaw (City of Edmonton 2013).

While the development community expressed interest in the downtown area, high construction costs and the need for significant investments in infrastructure deterred developers from proceeding with their projects (City of Edmonton 2013). According to the City of Edmonton and private sector proponents, the construction of the arena, new buildings surrounding the arena and associated public infrastructure would not have occurred without the CRL. According to council, the CRL revitalization zone passed the "but-for" test because of this lack of development. The Capital Plan would help to address the cost risks associated with the infrastructure investment all the while enabling the City of Edmonton to provide a co-ordinated approach to infrastructure redevelopment (City of Edmonton 2013). Additionally, the downtown area had been characterized as an area with a high crime rate that drove residents to move away from downtown, lowering the desirability of the area and making it a more attractive area for further criminal activity or socially undesirable behaviour (City of Edmonton 2013). With these challenges, the downtown area was deemed to meet the "blight" criteria. According to the city council, the new CRL is in the public's best interest as it will revitalize the area and draw people to live, work and play downtown.

In terms of its ability to spur economic development, the City of Edmonton projects that the CRL revitalization zone will result in more residential dwelling units and a doubling of downtown's population. The majority of future unit demand is expected to be for apartment-type, attached and semi-attached dwellings. The CRL is also expected to increase downtown's commercial development potential. The combination of downtown residential population growth and future demand for retail space is forecasted to support over 2.8 million square feet of net retail floor area across downtown over 30 years (City of Edmonton 2013). Over half of this new space is forecasted to be supported by downtown residents, with the rest sustained by spending generated in other areas of the city and beyond (City of Edmonton 2013). Finally, downtown Edmonton's office-employment base is forecasted to increase by 15 per cent over the next 30 years (City of Edmonton 2013). There will be demand for 1.05 to 1.51 million square feet of new office floor space in downtown in the next 30 years (City of Edmonton 2013). It is important to note that market conditions will be a key factor in determining how much and how fast development will actually occur. As the CRL zone has only recently been implemented, there is to date limited data available to assess if these objectives can be met.

To enable the realization of the vision of a vibrant, accessible, sustainable and well-designed downtown, the Capital Plan outlines a number of strategic public investment projects, also known as catalyst projects, which are viewed as essential to spur private investment within the CRL revitalization zone. The Capital Plan catalyst projects are grouped as Phase 1 and Phase 2 projects. Phase 1 projects are priority projects that have been undertaken first. This includes infrastructure in the "Ice District":

- Rogers Place, arena-related public infrastructure, the downtown arena community rink, a "green and walkable" downtown as the arena civic interface, downtown stormwater drainage and servicing, Jasper Avenue "new vision," Jasper Avenue underground infrastructure allowance, projects in the Civic Precinct, River Valley promenades, and the 105 Street/102 Avenue park (City of Edmonton 2013).

Phase 2 projects are future unfunded projects that may be funded by the CRL later or as otherwise re-prioritized by council. These are:

- More downtown stormwater drainage and servicing, a central warehouse-housing incentive program, a warehouse-campus neighbourhood central park, other streetscape improvements as part of a "green and walkable" downtown, and the Edmonton Downtown Academic and Cultural Centre (City of Edmonton 2013).

The scope and cost of Phase 1 and Phase 2 projects were outlined in the Capital Plan. Phase 1 projects have been approved by council as part of the Capital Plan and are either completed or currently underway. To mitigate the changing market and economic conditions, city administration has decided to only bring forward catalyst projects for budget approval if there is sufficient financial capacity and if the project is included in the approved Capital Plan. Spending for Phase 2 projects will not be done until city council approves each project's budget.

The Capital Plan and CRL commenced in 2015. As the first priority, the Capital Plan undertook Phase 1 catalyst projects. Based on the latest reported profile, the total budget for Phase 1 catalyst projects is $616.7 million. The total expenditure as of Dec. 31, 2016 was $608.6 million (City of Edmonton 2017a). The debt servicing related to this borrowing will be funded largely through future CRL revenues generated through development, as well as lease revenues and arena-ticket surcharges (City of Edmonton 2016b). A summary of the Capital Plan expenditure and sources of funding is provided in Table 5. In a recent update report to city council, it was noted that there have been cost increases compared to the budgeted amount. Cost increases in corporate administration were largely a result of additional personnel costs and an increase in amortization due to the Rogers Arena coming into service in 2016 (City of Edmonton 2016b). Regarding the public-transparency perspective, updated expenditure data are not available at this time as the City of Edmonton has not published up-to-date expenditure reconciliation. In the latest Capital Downtown CRL update (dated Jan. 23, 2018), city administration notes that the economic outlook for the CRL has not changed significantly since 2016 (City of Edmonton 2018). The city administration currently uses the 20-year revenue forecast that was presented to city council in December 2016. These are the data used in this report.

TABLE 5 PHASE 1 PROJECTS FINANCIAL FRAMEWORK

Summary of Financial Framework Terms (in millions of dollars)							
		Sources of Funding					
Element	Estimated Cost	CRL	Other City Funding	Edmonton Arena Corporation Lease Funding (EAC - owned by Daryl Katz)	EAC Cash Funding	Ticket Surchage	Other
Rogers Place (the arena)	$483.50	$145.00	$81.00	$112.80	$19.70	$125.00	
Ford Hall Pedway	$56.80	$25.00	$0.10	$25.00	$6.70		
Pedestrian Corridor	$15.00	$15.00					
LRT Connection	$7.00	$7.00					
Community Downtown Arena	$24.90	$14.00	$0.10		$0.30		$10.50
Arena Land	$26.50	$25.00	$0.50		$1.00		
Total	**$613.70**	**$231.00**	**$81.70**	**$137.80**	**$27.70**	**$125.00**	**$10.50**

Source: City of Edmonton Rogers Place Agreement (City of Edmonton 2017b).

Rogers Place is financed by a mixture of public funding from the City of Edmonton and private financing from the Edmonton Arena Corp. (EAC) (City of Edmonton 2017b). The City of Edmonton owns the Rogers Place arena and the land that it sits on, and the EAC operates Rogers Place. It is important to note that, under this arrangement, the City of Edmonton is providing 51 per cent of the funding, of which approximately 38 per cent stems from the CRL (City of Edmonton 2017b). As determined in a council-approved tax agreement, the EAC will pay the City of Edmonton a maximum of $250,000 annually in municipal property taxes to minimize the loss of tax revenues that the arena would have generated had it been privately owned by EAC. At face value, the allocation of costs associated with this CRL may not seem to be in the public's interest, as public monies are funding a large portion of a venture that will greatly benefit the EAC, a private corporation. However, the City of Edmonton estimates that the revenue generated by the CRL over its 20-year life would be sufficient to fund the downtown arena and related infrastructure such as new parks, sewer lines and downtown street improvements (City of Edmonton 2017d). The CRL revenue projections were revised in 2017 to reflect current economic conditions. The revenue scenario presented in the current forecast and in previous projections reflects the medium-revenue scenario. As shown in Table 6, the CRL revenue over 20 years has been reduced by $282.6 million. This is primarily due to adjusted assumptions for the future market value of office properties (City of Edmonton 2016a).

TABLE 6 CRL MEDIUM-SCENARIO REVENUE PROJECTIONS

($000)	Project Total	Actual 2014 to 2015	Projected 2016	2017	2018	2019	2020 to 2034
Revenues							
Community Revitalization Levy	$ 701,835	$ 3,938	$ 5,226	$ 7,838	$ 15,935	$ 25,215	$ 643,683
Total Revenues	701,835	3,938	5,226	7,838	15,935	25,215	643,683
Expenditures							
Debt Servicing	467,431	10,931	10,473	15,409	20,139	22,053	388,426
Other Costs	22,276	1,644	1,525	698	846	871	16,692
Total Expenditures	489,707	12,575	11,998	16,107	20,985	22,924	405,118
Net Income (Loss) (Note 1)	212,128	(8,637)	(6,772)	(8,269)	(5,050)	2,291	238,565
Cumulative Net Income (Deficit), Reserve Balance	**$ 212,128**	**$ (8,637)**	**$(15,409)**	**$(23,678)**	**$(28,728)**	**$ (26,437)**	**$ 212,128**
Previous Cumulative Net Income (Deficit), Reserve Balance (Note 2)	494,738	(8,637)	(16,382)	(20,901)	(23,821)	(23,113)	494,738
Net Change (Note 3)	$(282,610)	$ -	$ 973	$ (2,777)	$ (4,907)	$ (3,324)	$ (282,610)

Source: Capital City Downtown Community Revitalization Levy Forecast (Attachment 3) (City of Edmonton 2016a).

The revenue projections prior to the revisions reflect the approved 2016–18 operating budget adjusted for actual results for the year that ended Dec. 31, 2015. As shown in Table 6, the Capital City Downtown CRL reserve has a projected year-end deficit balance of $23.7 million in 2017, which is slightly higher than the previous cumulative deficit projection of $20.9 million. From 2019 onwards, this program is projected to have a positive net income, which will be transferred to the CRL reserve if no further spending is approved. It is important to note that the cumulative net income will remain in a deficit by 2019. This deficit can be explained by the timing difference between the CRL revenues and expenditures, as catalyst project investments, including debt servicing and operating expenses, occur before the tax uplift in the CRL revitalization zone is generated (City of Edmonton 2016a). The City of Edmonton forecasts that growing levy revenues will exceed annual expenditures in the 2020-to-2034 time period, specifically in 2025. An in-depth net-present-value (NPV) analysis of expenditures and revenues will need to take place once up-to-date expenditure data are available to assess whether the projects within the revitalization zone will break even or generate a profit when costs and discounted revenues are compared. If the resulting NPV is negative, projects costs will not be recouped by CRL revenues. The CRL projects would then prove to not be in the public's interest, as tax revenues that could have been used on public infrastructure elsewhere in the city would have been diverted from a more efficient use.

6. SUMMARY OF RECOMMENDATIONS

It has become evident that improvements can be made to the use of CRLs in the Rivers District and Capital City Downtown area, as well as to the legislation that governs the use of CRLs in Alberta. Table 7 below provides a summary of key recommendations to ensure CRLs are used in the public's best interest and to support long-term sustainable community development in Alberta.

TABLE 7 SUMMARY OF RECOMMENDATIONS

Step	Observation/Recommendation
Province of Alberta Legislation	
1. Developing CRL-specific legislation	CRL-specific legislation is in place in Alberta. It ensures the temporary use of CRLs and requires the development of CRL revitalization plans. Public accountability tools are in place as well, for example via city bylaws and municipal and provincial approval processes. "But-for" and "blight" test methodologies and criteria are not legislated. There also is no cap on the percentage of provincial and municipal land that can be included in CRL zones. Additionally, there are no set criteria on the definition of revitalization zone boundaries. This paper recommends amendments to the Municipal Government Act to fill these gaps. Additionally, regulations under the Municipal Government Act should ensure CRL plans provide results of a comparative cost-benefit analysis that demonstrates the CRL is the best available financial tool to achieve SMART objectives; municipalities should be required to report annually on these objectives. Regulations should also ensure projects over the lifetime of the CRL are either fully approved upfront or that there is a clearly regulated public-engagement process on projects that are added at a later stage. Long-term sustainable community development should be a well-defined objective of CRL plans, and municipalities should be required to include quantifiable measures on how they intend to achieve this objective.
Rivers District	
2. Assessing the use of a CRL versus other municipal development tools	A formal cost-benefit analysis of the different municipal development tools that were assessed to promote development in the Rivers District is not publically available. Given the inclusion of The Bow in the Rivers District boundaries and the potential for mission creep due to new projects not having been scoped into the original Rivers Plan, this paper recommends that an updated cost-benefit analysis be completed to ensure the CRL is in fact the best financial tool to support any new proposed projects.
3. Demonstrating that a CRL is in the public interest in the short and long term	The Rivers Plan provides information on the projected property-assessment growth and CRL revenues that are expected to be generated. However, there are no SMART objectives against which progress can be measured. This paper recommends that SMART objectives are developed for the remainder of the CRL timeframe and that annual reports include progress updates on the SMART objectives. Due to the inclusion of The Bow in the Rivers District boundaries, it is important that property assessment growth from The Bow be excluded from property-assessment growth that is attributed to the CRL. An NPV calculation of revenues and expenditures should be completed (excluding The Bow) to assess whether the projects within the revitalization zone will break even or generate a profit or a loss. CMLC should demonstrate in quantifiable terms that development of the revitalization zone will generate long-term sustainable economic growth.
4. Consulting with the public	Public hearings were required prior to the Rivers Plan approval. This paper recommends that public hearings should take place at certain project-spending thresholds to ensure that the public is informed and consulted with on new project expenditures. Records of concerns and how they were addressed should be publicly available. All records related to CRLs, present and future, should be made available in one centralized location.
5. Obtaining council approval for a CRL plan	This paper recommends that council-meeting minutes and bylaws that pertain to the CRL should be made available in the same centralized location as other CRL information, such as the business plans and annual reports.
6. Implementing a CRL plan and developing projects	Annual plans and business plans are published on the CMLC website and are important public-accountability tools. This paper recommends that public-consultation records be published on the CMLC website to demonstrate how well informed the public is on the impacts of new future projects and to keep track of concerns raised (see Step 4 above). The paper also recommends that public information related to project expenditures be reviewed to ensure it is consistent and complete, to allow for external analysis of the projects through tools such as NPV calculations.
7. Completing the CRL revitalization at the end of the 20-year period.	This paper recommends that a final report be created to demonstrate progress on the SMART objectives established for the remainder of the CRL period.
City of Edmonton	
2. Assessing the use of a CRL versus other municipal development tools	It is unclear if the CRL revenue forecasts account for the future value of the revenues and there is no evidence that other municipal development tools were assessed. This paper recommends that an in-depth NPV analysis be conducted with up-to-date expenditure data to assess whether the project will break even or generate a profit or a loss. If the resulting NPV is negative, other municipal development tools should be evaluated as alternatives.
3. Demonstrating that a CRL is in the public interest	The Capital Plan provides a good overview of the challenges faced in downtown Edmonton, the debt that is expected to be incurred for development, and the total property-assessment growth and CRL revenues that are expected to be generated. However, there are no SMART objectives against which progress can be measured. This paper recommends that the city administration develop SMART objectives for the remainder of the CRL time frame and report against these objectives on an annual basis. SMART objectives should be developed for Phase 2 CRL projects as well. The city administration should demonstrate in quantifiable terms that development of the revitalization zone will generate long-term sustainable economic growth.

4. Consulting with the public	Public hearings were required prior to the Capital Plan approval. The city administration published marketing tools (pamphlets and videos) to help the public understand CRLs. However, more in-depth documentation, such as financial reports, is not easily accessible to the public and should be made available online. Public engagements should take place at certain project-spending thresholds to ensure that the public is informed on project progress and can provide input on new project expenditures. Records of concerns and how they were addressed should be publicly available. All records related to CRLs, present and future, should be made available in one centralized location that is easily accessible to the public.
5. Obtaining council approval for a CRL plan	This paper recommends that council-meeting minutes and bylaws that pertain to the CRL should be made available in the same centralized location as other CRL information.
6. Implementing a CRL plan and developing projects	Capital City Downtown CRL project updates are published at a high level on the City of Edmonton website and more in-depth update reports are available through council or committee meetings. Up-to-date project expenditures and revenues data are not easily accessible. This paper recommends that public information related to project expenditures be reviewed to ensure it is consistent and complete, to allow for external analysis of the projects through tools such as NPV calculations.
7. Completing the CRL revitalization at the end of the 20-year period.	This paper recommends that a final report be created to demonstrate progress on the SMART objectives established for the remainder of the CRL period.

7. CONCLUSION

Edmonton's city-owned Rogers Place opened its doors on Sept. 8, 2016. It is an eye-catching landmark for citizens and visitors. Since its opening, city council and project proponents have showcased Rogers Place as a symbol of the Edmonton downtown revitalization (City of Edmonton 2016b). Similarly, CMLC has earned multiple awards in recognition for its work in the Rivers District in Calgary (Calgary Municipal Land Corp. 2017a). But can it be said that the CRLs are the best financial tool to promote development in these areas? And are both cities on the path to meeting their CRL objectives? These questions cannot easily be answered as there are gaps in the framework within which the CRLs are being used and implemented that need to be addressed. In the case of Calgary, it is unknown how fast non-residential property assessments would have grown without including the pre-existing development of The Bow in the revitalization zone. Additionally, the economic downturn in the province of Alberta over the past years, and associated office vacancy rates, pose a threat to realizing projected CRL revenues. If the revitalization costs cannot be covered by CRL revenues, then the shift in tax revenue will result in a shortfall in municipal funding needed to cover project costs and ultimately in an increase in overall property taxes. In the case of the Capital City Downtown, the Rogers Place arena is at least partially a private undertaking. As established previously, CRLs that are used to subsidize private development can divert tax revenues that might have generated a greater benefit to the public elsewhere in the community. It has become evident that the province of Alberta, as well as the cities of Calgary and Edmonton, can take measures to increase transparency, accountability and public awareness as they relate to the use of CRLs. By filling the gaps and enhancing public-accountability tools, governments can showcase how CRLs can be successfully implemented in the province and set a positive tone for the use of CRLs in the future.

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