Council Memo

Date	March 30, 2022
To	City Council
From	Colm Lynn, Senior Corporate Analyst Financial Strategy
Service Area	Corporate Services
Department	Finance
Subject	**Shaping Guelph Financial Implications Summary**

Executive Summary

The Official Plan sets population and targets which will require significant investment in growth-related infrastructure. The Shaping Guelph Municipal Comprehensive Review: Fiscal Impact Analysis Memo was prepared by Watson and Associates to assess the fiscal impacts of growth in the city.

This Council Memo contains an overview of key information contained in the Watson Fiscal Impact Analysis (FIA) report as well other financial implications of the Growth Strategy which Council should be aware of.

The FIA report was prepared at a high level to give an order of magnitude financial impact of anticipated growth in the City. All figures will likely change based on finalization of numerous masterplans and growth-related studies currently nearing completion. However, there are several key themes and risks that are worth consideration:

- With the City's shift to higher density growth, the overall cost effectiveness of City services will likely improve which reduces the pressure on the tax rate. High density residential growth also increases the potential revenue opportunity from the community benefit charge.
- Development charges (DCs) will likely increase to fund some of these infrastructure costs. Initial estimates predict that new rates will likely be in line with comparator municipalities.
- There will be a shortfall in the non-tax (rate) businesses and future rate increases may be required to cover these costs. This is due to significant infrastructure costs in non-tax businesses to accommodate growth.
- Parkland acquisition costs are significant and will require further discussion about how the current targets could be achieved in a financially viable way.
- Growth-related revenues should be sufficient to fund the costs of tax supported services at full build out in 2051. However, while growth is expected to be sustainable at full build out, there will be fiscal challenges as

much of the costs are in the early years while revenues and assessment occur after.

While the FIA was provided at a high level and is subject to change based on many upcoming masterplans and studies, this analysis provides confidence that future growth could be accommodated within a moderate range of tax and rate increases.

Report

The Official Plan sets population and targets which will require significant investment in growth-related infrastructure. The Shaping Guelph Municipal Comprehensive Review: Fiscal Impact Analysis Memo was prepared by Watson and Associates to assess the fiscal impacts of growth in the city. This Council Memo contains a summary of key information contained in the Watson FIA report referred to above as well other financial implications of the Growth Strategy which Council should be aware of.

Caveats

It is important to note that the FIA prepared by Watson and Associates relied on masterplan information that were in various stages of completion. The results of the FIA are therefore subject to change based on the finalization of the masterplans and servicing plans. In addition, the City is currently undertaking a number of growth-related financial studies including a Community Benefit Charge Study and an update to the DC Background Study which will be finalized over the next two years.

The analysis presented at this time are for illustrative purposes to understand high level financial impacts and to identify broad themes and risks for Council's awareness.

Capital Impact

Future growth needs will require significant investment in infrastructure to support the population and employment growth over the next 30 years. The FIA report identifies over $800 million in infrastructure needs over the next 30 years to support this growth. The cost of much of this infrastructure can be funded from revenue tools including DCs, a new community benefits charge (CBCs), and potential future grants.

Much of the development-related infrastructure costs will be incurred well before the City is able to collect related development revenue. This will require significant up-front investment which will stretch the City's debt capacity limits. To address these cash flow needs, the City may need to enter into agreements with developers to provide cash flow assistance for the related infrastructure work. These types of agreements have been used successfully in other municipalities, but since they are new for the City of Guelph this may require coordination and negotiation with developers.

Growth Revenues

DCs are the primary funding source for growth-related capital costs in the city. The FIA report estimates that the current DC rates will need to increase by

approximately 40% to cover the costs of growth. While specific rates won't be calculated until the City completes the DC Background Study in 2023, and subject to change, the estimated rates are in line with comparator municipalities.

A Community Benefits Charge (CBC) can be applied to high density residential development of over 5 stories (and 10 units). As the City's future growth contains more high-density development than currently exists, the CBC could become a useful funding source, but it is limited to projects not currently covered by DCs. More information regarding the proposed CBC will be presented to Council on April 13, 2022.

Operating Impact

The FIA estimated operating costs on a per capita and per employee basis using the current approved operating budget as a baseline. As the City grows, many City services should become more efficient on a per capita basis (since there are more taxpayers to cover the cost of the service).

It should also be noted that as a city grows, residents often demand/expect a higher level of service than is currently provided which could increase the cost per capita compared to current levels. A good example of this increased expectation is seen in transit, as City's grow, the investment in transit services typically increases beyond a linear per capita growth curve.

Residential Tax Burden

Another important theme is that much of the future growth is residential (rather than employment) compared to previous growth in the city. While this would normally indicate a shift in the tax burden to residential taxpayers, the overall assessment base will shift more to non-residential due to high density residential growth. The direct impact of this can't be reliably calculated at this time, but Staff will monitor this as development occurs and adjust tax ratios as needed through tax policy conversations.

Tax Supported Impact

Tor the tax supported businesses, much of the anticipated costs of development (aside from parkland acquisition) will be covered by the anticipated assessment growth by 2051 buildout. It is important to note that while fiscal sustainability may be reached by 2051 at buildout, there will be many years in between where a mismatch between revenues and expenses will occur. This timing difference may require tax rate increases to fund the gap which can be then smoothed out over time.

Parkland Acquisition Costs

The sustainability of tax supported businesses tax referred to above generally does not consider the significant costs of parkland acquisition. The City estimates that it could need up to 112 acres of additional parkland to satisfy current targets. Land acquisition costs have increased in recent years, and this could cost the City an estimated $140 million which the City could not fund through growth-related revenues.

Non-tax Supported Impact

For the non-tax businesses, the FIA estimates an overall shortfall in rate revenues related to costs by 2051. This shortfall is driven largely by significant infrastructure costs for water supply and wastewater treatment infrastructure to accommodate future growth. Growth related revenues or existing rate revenues will not be sufficient to cover these costs and will likely require a rate increase to cover this shortfall.

This estimate is a final state by 2051 accounting for total costs and revenues. There will be individual years where the mismatch of revenues and expenses may require larger short term increases and future rate increases could be smoothed out over time. Unlike the tax supported businesses, the non-tax supported program will not be fiscally sustainable at full buildout.

Summary

Historically the costs of funding growth generally exceed the related revenues. In other words, “growth does not fully pay for growth”.

However, higher density development tends to generally be more cost effective than low density development since per capita costs decrease in a denser City. In addition, revenues such as the Community Benefits Charge is applicable exclusively to high density residential development. With the City’s shift to higher density growth, the overall cost effectiveness of City services should improve. The FIA estimates that the tax supported businesses would reach fiscal sustainability at full buildout by 2051.

While it is estimated the City will reach fiscal sustainability at full buildout there will many fiscal challenges along the way as most of the costs will occur before the associated growth revenues. This will likely strain the City’s debt capacity and require financial tools to cover the shortfall in cash flow timing.

The investment in growth related non-tax supported infrastructure is significant and will likely require an increase to rates to support the shortfall in associated revenue.

Finally, the acquisition of parkland, which has not been fully costed and will depend on site locations and future land values. The cost of this parkland is significant and will require further discussion about how the current targets could be achieved in a financially viable way.

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