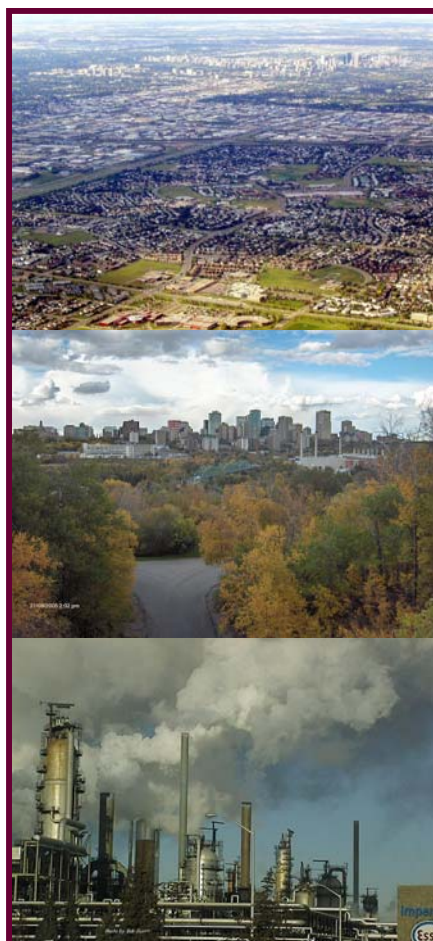


# CREATING A STRONGER EDMONTON REGION

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## EXECUTIVE SUMMARY

**HEMSON** Consulting Ltd.

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February 2007

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# I INTRODUCTION

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The Edmonton region has been experiencing the economic benefits of significant investment in Alberta, particularly in the energy sector. High levels of investment are anticipated to continue and the region, already a manufacturing, logistics and transportation hub, will thus play a central role in Alberta's efforts to attract the value-added spin offs this investment brings.

The benefits of investment-driven growth are well known, but there are problems that growth brings. Traffic congestion, labour shortages, a growing infrastructure deficit, crime, the high cost of housing, and the deterioration of the natural environment are among the concerns identified by the region's citizens. The City of Edmonton believes that the region is at a significant disadvantage in managing growth. Major concerns relate to: maintaining the current high quality of life; ensuring the equitable sharing of the costs and benefits of growth; and ensuring that the region remains an attractive location for investment.

In response to these challenges, the City of Edmonton retained Hemson Consulting Ltd. to review the City and the region's ability to manage future growth effectively. Hemson has many years of experience assisting Canadian municipalities with growth management and fiscal and taxation policy. The existing tax system and fiscal tools available to the region are a focus of the review.

Hemson has concluded that the Edmonton region currently has a number of problems that will worsen with rapid growth. There is no region-wide plan to deal with these problems. There is also no formal mechanism by which municipalities can jointly manage growth. Moreover, no fiscal or governance framework exists to ensure that the benefits and costs of growth are shared appropriately across the region, even though growth will have a significant impact on all municipalities. Fiscal disparities that exist among municipalities in the region will widen over time. This will make current infrastructure deficits more difficult to manage. In short, the status quo management of the region is not in the best interests of its citizens.

Change is therefore necessary. Without change, fiscal disparities risk diminishing quality of life and may result in the region not harnessing its economic potential. *We recommend that a regional growth management plan be developed, that a more equitable local*

*taxation system be implemented, and that a representative accountable and regional body be created to set growth management and fiscal priorities.* The Edmonton region is missing the advantages of effective regional organization that are available to all other metropolitan areas in Canada. The Province will need to assist the region in resolving these problems.

This report summarizes the results of the analysis completed by Hemson for this review. The analysis itself is contained in two companion technical reports issued under separate covers:

1. **Technical Report 1. Growth in the Edmonton Region: Responding to Rapid Expansion of the Energy Industry** — This report examines economic and demographic growth in the region. Particular attention is given to the effect of anticipated energy-related investment on that growth, because it will be the most influential factor on the growth *range*. It is hereafter referred to as the Growth Report.
2. **Technical Report 2. Fiscal Problems in a Rapidly Growing Edmonton Region** — This report assesses the fiscal impact of growth, including future energy-related investment, on municipalities in the Edmonton region. It is hereafter referred to as the Fiscal Report. The Fiscal Report relies heavily on the Growth Report for its analysis.

This summary report identifies the growth management and fiscal problems facing the region. It also outlines future growth potential in the region and its effect on these problems. Finally, it makes recommendations for a regional solution to these problems.

## **II CURRENT PROBLEMS IN EDMONTON REGION WILL WORSEN UNLESS CHANGES ARE MADE**

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Investment in the Edmonton region is straining the supply of labour and housing as well as the capacity of public infrastructure to service growth. The fiscal pressures on the region's municipalities to deliver services are not distributed equally and the City of Edmonton in particular shoulders a disproportionate level of cost and responsibility for infrastructure and service delivery. The rapid growth anticipated in the future will exacerbate the current problem unless changes are made to the structure of governance in the region.

### **A. GROWTH MANAGEMENT AND FISCAL STRUCTURE IN THE EDMONTON REGION AND THE NATURE OF THE CURRENT PROBLEM**

There is currently no growth management plan for the Edmonton region. Municipalities in the region therefore make planning decisions largely independently of each other. This fragmented system has stayed in place over a long period of steady and sustained growth, despite its inherent deficiencies. However, rapid and dislocated growth of the kind currently being experienced requires coordinated and strategic planning at a regional level; simply put, the pace and location of development in the region now demands that planning be conducted at a speed and with a clarity of vision that is not possible under the current governance structure.

This reality is most evident when viewed from a fiscal perspective. The infrastructure required to service growth is constraining many municipal budgets in the region. Moreover, these fiscal pressures are not being felt equally by the region's municipalities. Total municipal expenditures in the region—capital and operating—currently exceed \$1.8 billion per year. More than 60% of these expenditures are for five services: police, public transit, roads, fire protection, and parks and recreation.

The City of Edmonton accounts for 80% of the region's municipal expenditures and is critical to the delivery of most of the high demand services. However, it accommodates just 70% of the region's population. Three of the largest expenditure areas for the City are for the delivery of police, fire and public transit services. For these services the City

bears an even greater share of regional expenditures: public transit 92%, police services 90%, and fire protection 82%. These services, particularly transit and police services, provide significant regional benefits as the usage and demand for these services is driven, in part, by Edmonton's role as the central city in the region.

This situation is not unusual in Canada, where central cities in large economic regions are relied upon to deliver key municipal services, particularly police services, large cultural and recreation facilities, public transit and other regional transportation routes. However, unlike other large urban areas in Canada, the Edmonton region has no regional mechanism to mitigate the disparities that inevitably arise between municipal jurisdictions.

The cost of maintaining existing infrastructure compounds these disparities. Newly developed municipalities carry less of a financial burden for repairing and replacing aging infrastructure than older municipalities like the City of Edmonton.

A snapshot of the fiscal disparity in the region is displayed in the table overleaf. The table shows the current value of residential and non-residential assessment per capita as well as the current property tax mill rates for all of the region's municipalities.

The range in residential assessment per capita is relatively narrow though some of the smaller towns and villages are exceptions. There is, however, a significant disparity in the non-residential assessment per capita. As a fiscal measure, non-residential assessment per capita is a good indicator of a municipality's fiscal capacity: a high value indicates that a municipality has a significant non-residential assessment base relative to its population. This gives it greater flexibility when responding to demands on municipal services because less pressure is placed on property tax rates.

As shown, the range in mill rates across the region is significant. The residential rates range from a low of 4.33 in Sturgeon County to a high of 20.50 in the Village of Warburg. The Counties and the City of Edmonton are all able to operate with residential mill rates below 6.00. At the other end of the range, many of the small towns and villages need to levy residential tax rates of more than 10 mills.

MUNICIPALITY  (arranged by 2006 non-residential assessment per capita)	MEASURE OF FISCAL CAPACITY		2006 Property Tax Mill Rates	
	2006 ASSESSMENT PER CAPITA		RESIDENTIAL	NON- RESIDENTIAL
	RESIDENTIAL	TOTAL NON- RESIDENTIAL		
TOWN OF BON ACCORD	\$ 41,500	\$ 1,600	15.3086	21.4883
TOWN OF BRUDERHEIM	\$ 37,200	\$ 2,400	11.4000	11.4000
TOWN OF GIBBONS	\$ 44,200	\$ 3,100	7.9780	7.9780
TOWN OF LEGAL	\$ 55,200	\$ 3,600	10.6286	17.2286
TOWN OF CALMAR	\$ 41,800	\$ 4,900	10.4063	22.9741
VILLAGE OF NEW SAREPTA	\$ 43,100	\$ 5,200	12.1307	12.1307
TOWN OF BEAUMONT	\$ 81,600	\$ 5,400	8.0385	9.4995
VILLAGE OF WARBURG	\$ 25,100	\$ 7,200	20.5000	22.5000
TOWN OF MORINVILLE	\$ 50,400	\$ 8,400	8.0054	8.0054
CITY OF ST ALBERT	\$ 77,200	\$ 9,500	9.7770	14.5290
TOWN OF STONY PLAIN	\$ 75,500	\$ 11,500	6.3500	10.1880
TOWN OF DEVON	\$ 68,900	\$ 12,200	7.0518	8.4185
VILLAGE OF THORSBY	\$ 61,800	\$ 14,700	15.3040	20.3040
CITY OF SPRUCE GROVE	\$ 73,300	\$ 16,700	7.6805	12.2630
TOWN OF REDWATER	\$ 38,700	\$ 17,100	11.3033	17.8004
CITY OF LEDUC	\$ 77,900	\$ 27,200	8.9570	14.0310
CITY OF EDMONTON	\$ 70,500	\$ 31,700	5.7484	20.0100
COUNTY OF PARKLAND	\$ 79,500	\$ 43,500	5.0893	7.0311
STURGEON COUNTY	\$ 74,000	\$ 63,200	4.3319	8.4530
STRATHCONA COUNTY	\$ 85,900	\$ 68,000	5.6450	8.5611
CITY OF FORT SASKATCHEWAN	\$ 68,200	\$ 110,700	7.2049	7.2049
COUNTY LEDUC	\$ 65,500	\$ 160,900	4.7400	9.5900
VILLAGE OF WABAMUN	\$ 34,600	\$ 190,000	6.4900	14.0900
EDMONTON REGION	\$ 72,100	\$ 35,800	9.1334	13.0142

## Notes:

1) The City of Edmonton is the only municipality in the region to levy a business tax. The non-residential assessment value and tax rate includes a provision for the City's business tax revenue and tax rate.

The range in non-residential property tax mill rates is almost as wide. The County of Parkland has the lowest rate at 7.03; the highest rate is 22.97 in the Town of Calmar. The county municipalities are all able to levy low non-residential mill rates in the range of 7.00 to 9.60. Many of the towns, cities, and villages need to impose non-residential mill rates in excess of 12 mills. The City of Edmonton's full non-residential rate (adjusted to account for its business tax) is 20.01.

This is only a snapshot of the current relative fiscal position of municipalities across the region. Growth forecasts for the region, and their impact on current fiscal disparities, are described in more detail below.

A detailed analysis of the current fiscal state of the Edmonton region is provided in Section II of the Fiscal Report.

## **B. RAPID ECONOMIC EXPANSION AND URBAN GROWTH IS ANTICIPATED IN THE REGION**

After two decades of modest growth, the Alberta economy is again growing rapidly. The Edmonton region is a full participant in this economic boom. Based upon current investment plans related to oil-sands development and major bitumen upgraders an extended period of rapid growth is possible. However, economic growth based on these proposed investments is not assured. In fact, much of it is at risk due to rising construction costs, labour shortages and competition from other jurisdictions.

As part of this review a range of economic outlooks was prepared for the region. The economic outlooks in turn generate population growth forecasts. It is against these economic outlooks and population forecasts that growth management and new fiscal arrangements need to be examined.

### **1. Level of Investment for Upgraders and Petrochemicals Depends on Ability to Create an Attractive Investment Climate**

Investment in the energy sector is the key driver of economic growth in the Edmonton region. The scale of potential investment and economic growth is very large, but it is not assured. To attract investment the region must remain competitive. For while proximity to the oil sands is attractive to investors, the geographic advantage by itself is no guarantee that future investment will occur.

There are four key components to future energy-related investment and each carries its own risks. The components include: upgraders in the Edmonton region; downstream value-added investment; the ability to provide support services for upgraders and downstream investment; and the potential loss of upgrader and downstream investment to other locations. While many of the risks are far outside the municipal purview, many can be influenced through careful planning and coordinated action. To prepare the

economic outlooks, each of these four components has been examined. The components and their associated risks are summarised in the table below.

<b>Components of Oil-Sands-Based Economic Outlook</b>		
<b>Components</b>	<b>Role and Scale</b>	<b>Risks</b>
Upgraders	<ul style="list-style-type: none"> <li>Over half the under construction and proposed upgrading capacity in Alberta is in the Edmonton region</li> <li>For Edmonton region this represents an addition of about 1.3 million bpd capacity with a direct capital investment in the range of \$25 billion</li> </ul>	<ul style="list-style-type: none"> <li>Requires an attractive investment climate, including infrastructure, utilities and support services the region will be challenged to meet</li> <li>Labour availability, construction cost, infrastructure and quality of life factors may put competitiveness at risk</li> </ul>
Downstream Value Added	<ul style="list-style-type: none"> <li>Potential to use upgrading products and by-products for value-added investment in the petro-chemical and related industries</li> </ul>	<ul style="list-style-type: none"> <li>Requires highly attractive investment which requires coordinated efforts by all governments and the private sector to deliver</li> </ul>
Utility and Services Support for Upgraders	<ul style="list-style-type: none"> <li>Attraction and support of proposed upgraders enhanced by coordinated utilities and infrastructure and the broader services required by major facilities</li> <li>Water, wastewater and electricity, at minimum, but collective co-generation, hydrogen production and CO<sub>2</sub> sequestration will be increasingly advantageous</li> </ul>	<ul style="list-style-type: none"> <li>Requires municipal and Provincial government coordination and cooperation</li> <li>Private sector role could be compromised by absence of public encouragement and cooperation</li> </ul>
Ex-Alberta Upgrading	<ul style="list-style-type: none"> <li>Current pipeline proposals could export up to 1.5 million bpd of bitumen for upgrading elsewhere</li> </ul>	<ul style="list-style-type: none"> <li>Places upgrader investments at risk</li> <li>“Value-added” potential is exported — leaves Albertans as just “miners” of the resources</li> </ul>

Based upon an assessment of these major investment components, three economic scenarios have been prepared. These are summarised in the following table. Each scenario makes assumptions about factors that influence competitiveness and future investment activity. The focus here, however, is on the critical role that the public sector can play in delivering the desired economic future of the Edmonton region.

<b>Scenarios of Investment and Government Role in Edmonton Region Upgrader and Petrochemical Industries</b>				
<b>Scenario</b>	<b>Description</b>	<b>Municipal and Regional Role</b>	<b>Senior Government Role</b>	<b>Upgrader and Related Investment (\$billion, 2006–26)</b>
<b>1 Do Nothing</b>	Many projects cancelled or significantly delayed	Status quo	Uncertain and unclear commitment	\$ 14.4
<b>2 Achieving Current Proposals</b>	All current proposals completed by 2026	Regional planning, coordination and investment in infrastructure	Provincial and Federal coordination and investment	\$ 35.9
<b>3 Attracting Downstream Value Added</b>	Addition of significant downstream investment	Aggressive coordinated plan to establish a major petrochemical cluster		\$ 45.8

All scenarios other than the “do nothing” scenario require, among other things, a coordinated and timely delivery of regional and local municipal infrastructure. A particular challenge for the Edmonton region is the Counties’ significant reliance on the province to fund and deliver infrastructure, by its nature an uncertain source. The need for government action that would increase the likelihood of achieving higher-end results is becoming pressing.

The decisions that are being made in a highly competitive global marketplace are already undermining the most optimistic economic future. Even within the half year of this review, some delays have occurred in upgrader projects, including CNRL’s proposed upgrader near Cold Lake. Bitumen export projects are also proceeding rapidly toward to construction, including Enbridge’s Gateway and Southern Lights projects.

## **2. Outlook for Population Growth and Infrastructure Closely Tied to the Economy**

The range of the economic outlook is also reflected in the range of future population growth. Of course, Alberta and the Edmonton region are prosperous economic areas and they will attract a significant base level of growth, regardless of the level of oil-sands-related investment. However, the greater the investment, the greater economic and population growth will be.

The table below summarises the forecast population growth in the region under the three economic scenarios. In scenarios 2 and 3 growth in the next ten years will exceed growth in the past ten years due to energy industry focus on construction and development. Absolute population growth will be greater still in the 2016 to 2026 period as employment that provides support and service to the energy industry expands.

<b>Range of Edmonton CMA Population Forecasts Under Three Economic Scenarios</b>						
<b>Scenario</b>	<b>1 Do Nothing</b>		<b>2 Achieving Current Proposals</b>		<b>3 Attracting Downstream Value Added</b>	
	<b>Population (000s)</b>	<b>Compound Annual Growth Rate</b>	<b>Population (000s)</b>	<b>Compound Annual Growth Rate</b>	<b>Population (000s)</b>	<b>Compound Annual Growth Rate</b>
<b>1976</b>	570	—	570	—	570	—
<b>1986</b>	800	3.4%	800	3.4%	800	3.4%
<b>1996</b>	880	1.0%	880	1.0%	880	1.0%
<b>2006</b>	1,040	1.6%	1,040	1.6%	1,040	1.6%
<b>2016</b>	1,160	1.1%	1,210	1.6%	1,250	1.9%
<b>2026</b>	1,260	0.8%	1,410	1.6%	1,530	2.1%

Population increases of between 220,000 and 490,000 in twenty years will create significant demands for new infrastructure across the region. Much of the infrastructure will be regional in nature and its benefits will be widely shared. Without new approaches to planning and infrastructure financing however, the ability to effectively provide the necessary roads, transit, water and wastewater services will be compromised. Ensuring the quality of life of the region's residents while at the same time managing its natural resources in an environmentally responsible manner is a challenge and requires the cooperation of all governments.

Detailed analysis of the effect of energy-related investment in the region on regional economic and demographic growth is provided in the companion Growth Report.

### **C. ECONOMIC EXPANSION AND URBAN GROWTH WILL EXACERBATE THE CURRENT PROBLEM**

Hemson has developed fiscal impact models that forecast the impact of growth and upgrader investment on assessment, expenditure, revenues and tax rates in the region to 2026. A model has been developed for each municipality using publicly available base data (e.g. 2006 budgets, tax rate by-laws). Each model projects future operating expenditures and revenues, net tax levy requirements, growth in residential and non-residential assessment, and residential and non-residential tax rates.

The fiscal analysis demonstrates that the Edmonton region is fiscally strong and that the rapid growth in assessment, notwithstanding the infrastructure and servicing demands that growth brings, will strengthen its fiscal position as a whole. However, the fiscal benefits of growth will not be distributed evenly across the region. Indeed some parts of the region may not experience the benefits at all.

Complete details on the methodology used for the fiscal impact analysis are provided in Section III of the Fiscal Report. The analysis results are presented in Section IV of that report and are summarized here.

### **1. Impact of Growth on Assessment Base**

The ability of a municipality to fund expenditures is highly dependent on its current property assessment base and future growth potential. In rapidly growing economic regions in Canada, the pattern of development has been one in which outlying areas have attracted a larger share of large industrial land uses than central cities. These land uses represent high value-added assessment which generates significant tax revenues while placing marginal pressure on municipal services.

Assessment growth in the region will be derived from two principal sources. First, it will come from the construction of new upgraders and other non-residential space built to accommodate employment that is induced by this construction. Second, it will come from housing built to accommodate ongoing population growth and from other non-residential development unrelated to the upgrader investment.

The City of Edmonton will continue to attract relatively large shares of the residential growth but not a corresponding share of the added non-residential assessment growth. It is residential rather than non-residential growth that typically drives municipal costs (relative to the total added assessment).

The distribution of the non-residential assessment base will change significantly over the next 20 years. The Counties of Strathcona and Sturgeon are forecast to experience a significant increase in the total value of their non-residential assessment bases over the next 20 years. Strathcona's non-residential assessment base is projected to more than double and Sturgeon's is set to increase by almost eight-fold, accounting for 62% of the region's non-residential assessment growth over the period 2006 to 2021. The City of Edmonton, which will continue to attract two-thirds of the residential growth, will see its share of the region's non-residential assessment base decrease dramatically, from 63% to 50%, as it captures only 30% of new growth over the next 20 years.

The uneven location of residential and non-residential assessment growth will significantly affect the fiscal capacity of some municipalities, and the region as whole, to respond to the infrastructure and servicing demands growth brings.

## **2. Impact of Growth on Property Tax Levies**

A municipality's greatest source of revenue is the property tax levy. Increases in the tax levy can be the result of many factors but the most significant is the expansion of services in response to the demands of new residents and employees.

The fiscal impact of the change in the tax levy is directly linked to the change in a municipality's assessment base. A municipality that has a growing assessment base is better positioned to accommodate increases in the tax levy requirement without significant property tax rate increases. As mentioned above, projected growth in the assessment base, especially in the non-residential base, varies significantly across the region. The growth in the assessment base and the increases in tax levy requirement are therefore not proportionate in all municipalities across the region: some will experience limited assessment growth with continued upward pressure on the tax levy while others are forecast to have significant increases in the non-residential assessment base and will experience comparatively modest pressure on municipal expenditures.

The change in assessment over the period 2006 to 2026 means that the City of Edmonton, the other Cities, and those municipalities receiving a large share of the residential growth, will increasingly fund a greater share of their tax levies from the residential assessment base. Conversely, funding of the tax levies in the Counties of Strathcona and Sturgeon will shift to the non-residential assessment base. At the same time, these two Counties will be in a position to both lower residential and non-residential tax rates.

## **3. Current Variation in Property Tax Mill Rates Across the Region Will Widen Dramatically**

Municipal property taxes are a largely a function of both a municipality's assessment base and its net property tax levy requirement. As a municipality grows the assessment base increases and so does the need to expand infrastructure and the provision of municipal services. Typically (and this is true across the province and the country), the assessment and taxes raised from non-residential development exceed the costs associated with servicing non-residential land uses. Residential development on the other hand generates a disproportionate demand on all municipal services.

The analysis indicates that over time most municipalities in the Edmonton region, including the City itself, will be able to maintain current residential tax rates in spite of growth pressures. There are some notable exceptions. Sturgeon County and

Strathcona County will be in a position to significantly lower their residential mill rates so that by 2026 they would have the lowest tax rates in the region. Conversely, the Counties of Leduc and Parkland will experience significant upward pressure on tax rates as they experience a proportionately greater level of residential growth but do not receive the non-residential growth that they have experienced in the past.

The variation in the non-residential tax rates becomes dramatic in the future as unevenly distributed upgrader related investment assessment occurs. Strathcona County, and in particular Sturgeon County, both major beneficiaries of this investment, will be in a position to lower their non-residential property tax mill rates significantly by 2026.

The impact of these changes will be that the oil upgrader industries will benefit from significant tax breaks and these industries will be able to retain much of the tax money they would otherwise have to pay in other jurisdictions. At the same time, all municipalities in the region will continue to shoulder the costs of managing growth.

The fiscal analysis demonstrates that there is a growing fiscal disparity across the Edmonton region. The table below displays the forecast change in non-residential assessment per capita (i.e. the fiscal capacity referred to earlier) to 2026 based on economic scenario 2 or the “Achieving Current Proposals Scenario”.

The table shows that the City of Edmonton, like the other cities in the region, is forecast to have a stable, even declining, fiscal capacity and that its fiscal capacity is below that of the region as a whole. Conversely the counties, with the exception of Parkland County, currently have high fiscal capacities, between two to four times the region as a whole.

The counties of Strathcona and, in particular, Sturgeon will experience a significant increase in fiscal capacity over the next 20 years as a result of bitumen upgrader investments within their jurisdictions. They will also experience a relatively low increase in demand for municipal services. The City of Edmonton, and the other smaller urban centres, will experience significant residential growth and a disproportionate increase in demand for services. The existing fiscal disparity in the Edmonton region will therefore become more pronounced.

MUNICIPALITY (by population size)	MEASURE OF FISCAL CAPACITY: NON-RESIDENTIAL ASSESSMENT PER CAPITA <sup>1</sup>		
	2006	2016	2026
CITY OF EDMONTON <sup>2</sup>	\$ 31,000	\$ 32,000	\$ 32,000
STRATHCONA COUNTY	\$ 68,000	\$ 110,000	\$ 98,000
CITY OF ST ALBERT	\$ 9,000	\$ 10,000	\$ 10,000
COUNTY LEDUC	\$ 161,000	\$ 148,000	\$ 134,000
COUNTY OF PARKLAND	\$ 43,000	\$ 39,000	\$ 35,000
CITY OF FORT SASKATCHEWAN	\$ 111,000	\$ 105,000	\$ 96,000
STURGEON COUNTY	\$ 63,000	\$ 168,000	\$ 363,000
CITY OF SPRUCE GROVE	\$ 17,000	\$ 17,000	\$ 17,000
CITY OF LEDUC	\$ 27,000	\$ 25,000	\$ 23,000
TOWN OF STONY PLAIN	\$ 12,000	\$ 11,000	\$ 11,000
TOWN OF BEAUMONT	\$ 5,000	\$ 6,000	\$ 6,000
TOWN OF MORINVILLE	\$ 8,000	\$ 9,000	\$ 9,000
TOWN OF DEVON	\$ 12,000	\$ 12,000	\$ 12,000
TOWN OF CALMAR	\$ 5,000	\$ 6,000	\$ 6,000
TOWN OF GIBBONS	\$ 3,000	\$ 3,000	\$ 4,000
TOWN OF REDWATER	\$ 17,000	\$ 16,000	\$ 16,000
TOWN OF BON ACCORD	\$ 2,000	\$ 2,000	\$ 2,000
VILLAGE OF WABAMUN	\$ 190,000	\$ 178,000	\$ 168,000
TOWN OF BRUDERHEIM	\$ 2,000	\$ 2,000	\$ 2,000
VILLAGE OF THORSBY	\$ 15,000	\$ 15,000	\$ 16,000
TOWN OF LEGAL	\$ 4,000	\$ 4,000	\$ 4,000
VILLAGE OF WARBURG	\$ 7,000	\$ 7,000	\$ 8,000
VILLAGE OF NEW SAREPTA	\$ 5,000	\$ 5,000	\$ 5,000
<b>EDMONTON REGION</b>	<b>\$ 36,000</b>	<b>\$ 42,000</b>	<b>\$ 44,000</b>

## Notes:

- 1) Results based on Economic Scenario 2: Achieving Current Proposals.
- 2) City of Edmonton: non-residential assessment includes an allowance for business tax revenue based on equivalent assessment that would generate the calculated business tax in each specific year.

### **III CHANGE IS REQUIRED IN THE EDMONTON REGION**

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The desire to harness the economic potential of the Edmonton region and address the region's current fiscal problems means that change is required. Based on our analysis, we recommend that two changes be made. First, a regional growth management plan that allocates growth and plans for the efficient delivery of supporting infrastructure and services needs to be developed. Second, region wide fiscal reforms that ensure that everyone in the region benefits from future growth should be implemented.

Successful implementation of these changes requires effective governance. An accountable, representative and responsible body is required if public funds are to be raised and public spending priorities are to be set. The Edmonton region is the only large urban area in Canada that does not have an organization that, at a minimum, carries out the roles and responsibilities outlined below.

#### **A. EDMONTON REGION REQUIRES A GROWTH MANAGEMENT PLAN**

Accommodating the level of growth anticipated in the Edmonton region over the next 20 years under any of the growth scenarios outlined earlier would be done more efficiently with a regional growth management plan. A growth management plan can be "high level" but must contain, at a minimum, two basic components:

- The allocation of future population and employment growth to strategic geographic areas within a region. In the case of the Edmonton region, allocation by municipality is likely to be sufficient.
- An infrastructure plan that identifies the infrastructure required to support the allocated growth (thereby avoiding excess capacity in the region). In the Edmonton region's case, regional transportation (including transit), waste management and water management should be the core infrastructure elements addressed though other services could also be examined in the same way. This could include shifting the provision of other municipal services, possible of an opt-in/opt-out basis, from the existing municipalities to a regional service provider.

It is important to understand what can be excluded from a regional growth management plan. Development plans, land uses and approvals can remain entirely under local

authority as long as the plans fit within the regional growth and infrastructure allocations.

The preparation of a growth management plan is only a first step towards setting priorities for the region. Its objectives, though broad, must be linked to public spending and investment policies to be effective.

## **B. REGION-WIDE FISCAL REFORMS NEED TO BE MADE**

A regional growth management plan by itself will not be sufficient to remedy the fiscal inequities in the Edmonton region. Fiscal reforms need to be made as well. Two changes in particular should be considered. First, new money for regional infrastructure must be secured. Second, a mechanism for matching the costs and benefits of growth needs to be implemented. These fiscal reforms could be accomplished through the development of a regional growth fund, which would be financed by two new revenue sources.

Municipal infrastructure that provides a regional benefit and supports the initiatives of the regional growth management plan should be funded from a new regional tax levy. A uniform regional tax levy could raise a significant amount of revenue that would grow in line with new assessment growth in the region. As shown in the table below, a region-wide non-residential mill rate of 1.0 and a region wide residential mill rate of 0.5 would raise more than \$70 million in 2007 and more than \$110 million per year by 2026.

	TAXES GENERATED WITH A REGIONAL TAX RATE APPLIED UNIFORMLY AGAINST ALL ASSESSMENT		
	2007	2016	2026
Special Regional Mill Rate:			
Region-wide Non-Residential Mill Rate	1.000	1.000	1.000
Region-wide Residential Mill Rate	0.500	0.500	0.500
Additional Taxes Generated (000's \$)	<b>\$72,200</b>	<b>\$91,900</b>	<b>\$111,400</b>

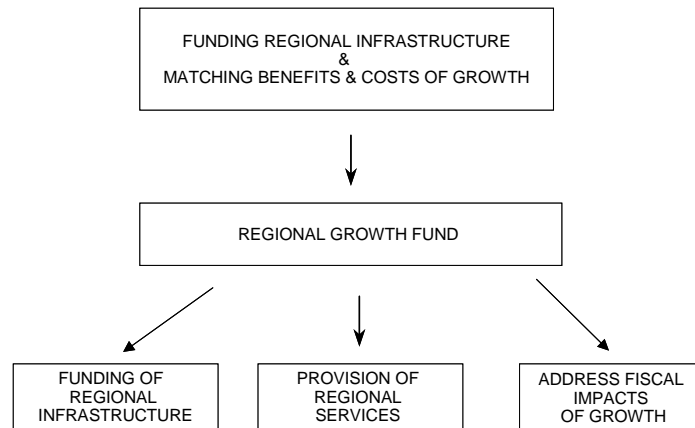
The revenue raised could be used to fund future growth-related infrastructure, such as a new region-wide solid waste disposal facility. It could also fund infrastructure already identified in municipal documents, which is judged to be of “regional” benefit. Moreover, although a new revenue source, a uniform regional tax levy would provide

region wide fiscal and economic benefits that would lessen the pressure on local tax rates as projects previously paid for almost exclusively by one municipality would now be cost-shared with other “benefitting” municipalities in the region.

As discussed above, there currently exists a disparity in the fiscal capacity amongst the municipalities in the Edmonton region. The City of Edmonton and the other urban centres have a lower fiscal capacity to respond to the infrastructure and servicing pressures of development. Conversely, the large yet sparsely populated counties have significant non-residential assessment bases that are taxed below competitive rates. The fiscal disparity will increase because future non-residential development (bitumen upgraders) is largely focussed in Sturgeon County and Strathcona County while future residential development, and its associated population servicing demands, continues to be centred in the City of Edmonton and the other urban centres in the region.

A similar situation arose in the Minneapolis-St. Paul “Twin Cities” metropolitan region of the State of Minnesota in the late 1960s. The Twin Cities region comprises the central cities of Minneapolis and St-Paul, seven county governments, and more than 130 other municipalities. As with the Edmonton region in 2006, the region was experiencing a period of significant economic growth though the fiscal benefits of this growth were not spread across the region equitably. In 1971 the State of Minnesota intervened and provided a mechanism to address the fiscal and infrastructure issues arising from new regional development. The program ensures that the fiscal benefits of growth are assessed by means of a mechanism of regional tax sharing.

A similar mechanism, modelled on the Twin Cities region, should be developed in the Edmonton region to enable a more equitable sharing of the costs of servicing development and the revenues generated by new non-residential assessment. Specifically, a share of the tax revenues arising from new non-residential assessment should be allocated into the regional growth fund. This would ensure that non-residential growth, largely related to the bitumen upgraders, is taxed in a reasonable and equitable manner and a share of the related tax revenues are used to fund increased municipal costs in the region.



As shown above, a regional growth fund can serve three functions. First, it can raise funds to pay for new growth-related infrastructure across the region. Second, funds currently spent at the local level can be pooled in the fund to pay for services that would be delivered at the regional level, resulting in lower local taxes. Thirdly, the fund can be used to address other fiscal impacts of growth where the locations of benefits and costs are not aligned.

### **C. AN ACCOUNTABLE REGIONAL BODY IS REQUIRED TO SET PRIORITIES**

The preparation and implementation of an effective regional growth management plan and the fiscal reforms proposed here require an accountable and representative regional body. Some form of regional organization, with real decision-making powers, exists in all other large Canadian cities.

The form and structure of the various regional authorities in Canada varies greatly. However, their functions are broadly similar: regional growth management; infrastructure planning; and some type of cost–revenue sharing.

#### **D. EDMONTON REGION'S SOLUTION WILL REQUIRE PROVINCIAL INVOLVEMENT**

Finding an appropriate solution for the Edmonton region will require the involvement and support of the Province. Many of the region's municipalities are already working hard to find a solution. Their collective efforts will expedite any changes that need to be made and provide some assurance that solutions will best meet regional needs. However, experience in other jurisdictions suggests that consensus on a regional governance structure is highly unlikely. The Provincial government will therefore need to set a framework that establishes minimum requirements for a co-operative region and make some decisions on governance issues before the process is complete.

Any effective regional solution for Edmonton, based on our analysis, will also require that some legislative change be implemented. The Province has an additional role in this regard that requires its involvement at all stages of the process.

Finally, it must be stated that the Province has a strong interest in the development of a regional solution for Edmonton. As one of Alberta's two large urban areas, the Edmonton region is critical to the economic well being of the Province. Jeopardising that future, by allowing regional problems to worsen, is not in the interests of the City of Edmonton, the Edmonton region or the Province of Alberta.

# **HEMSON CONSULTING**

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## **About Hemson Consulting**

Hemson Consulting is a consulting firm with a combination of planning, economic and financial expertise, and a wealth of experience in municipal governance and urban policy. While its practice is largely based in Ontario, the firm undertakes assignments for clients throughout Canada, ranging from large urban agglomerations to smaller cities, regional and county governments, and smaller rural towns and townships. Hemson has established a strong reputation for communicating complex concepts to audiences ranging from technical and academic groups to litigation hearings, political forums and public arenas.

## **Study Contributors**

The assignment involved the entire firm, the following being the main contributors:

**Russell Mathew, Partner**

Project Manager - Economics, Demography and Planning

**Craig Binning, Partner**

Project Manager - Fiscal Impact Analysis

**Ray Simpson, Partner**

Overall Project Direction and Advisor

**John Hughes, Partner**

Project Advisor on Tax Policy and Assessment

**Stefan Krzeczunowicz, Consultant**

Research and Writing

## **Contact Details**

30 St. Patrick Street, Suite 1000

Toronto, ON, M5T 3A3

T: 416-593-5090

F: 416-595-7144

[www.hemson.com](http://www.hemson.com)