Growth Strategy Evaluation

This attachment provides an evaluation of City investment and financial risks associated with a potential infill Light Rail Transit (LRT) station in Fairview Industrial, as proposed in the Midtown Station application.

OVERVIEW

The Midtown Station proposal is unique from other comprehensive development proposals in the Established Area, in that it proposes development intensities that require substantial public transit infrastructure that is not pre-existing, or planned, in the area. While the developer proposes to fund and construct an infill LRT station to satisfy these needs, there are financial considerations beyond this. Specifically, capital costs associated with purchasing additional Light Rail Vehicles (LRVs) and operating costs for the station itself.

FINANCIAL IMPACT

Summary	
Capital Investment	**City capital investment to be determined through Special Development Agreement:** The developer proposes to voluntarily fund and construct an infill LRT station. Cost responsibility of an anticipated five LRV cars has not been finalized and would need to be considered at time of a Special Development Agreement.
Operating Investment	**Incremental property tax revenue will not offset infill LRT station operating costs for a period of time:** Based on the estimated tax revenue generated per year by the proposed development, the total operating costs not offset by tax revenue are estimated at **$4M** to **$15M,** dependent on the pace of development.

Capital: An LRT Functional Planning Study determined the 2021 cost of the infill LRT station to be approximately **$54M** for construction of the station and **$25M** for five LRV cars. These additional cars would be required maintain current LRT service levels in light of the extra stopping time created by the new station.

To formalize responsibilities for these costs, and other responsibilities associated with the proposed LRT station, A Special Development Agreement would be required before construction of the station can begin. Any other transit system costs or other capital cost implications that are identified through the Special Development Agreement process would be considered at that time. The Special Development Agreement will not be entered into if there are identified capital impacts that are not amendable to The City, resulting in the construction of the station not proceeding and the LRT-dependent intensities not being considered.

Operating: The annual operating cost of the infill LRT station was estimated at **$3.3M per year**. Due to the requirement of an LRT station being provided prior to consideration of LRT-dependent intensities, there will be a period of time for which tax revenue generated by the site will be less than the operating costs of the infill LRT station. The pace of development will determine the time at which tax revenue generated by the area exceeds the infill LRT station operation costs.

To estimate the possible timeframe that LRT station operating costs exceed tax revenue, the Incremental Operating Cost Model used in the evaluation of New Community Growth Applications was adapted and applied to the Midtown Station application. Three development scenarios were evaluated to understand the range of potential risks based on the pace of development as follows:

Development Scenario	Description	Time for tax revenue to exceed LRT operating costs	Total operating costs that are not offset by tax revenue**
Rapid **proposed by Applicant*	25-year buildout of the development	4 years	$4M
Moderate	40-year buildout of the development	6 years	$6M
Gradual	80-year buildout of the development	13 years	$15M

__NOTE:__** The City budgets for additional revenues from redevelopment and new development, meaning that the estimate of municipal taxes provided as a part of this analysis is not implied to be additional unbudgeted tax revenue. Rather, this provides an estimate of the change in proportion of overall tax revenue for the development site.

REDEVELOPMENT OPPORTUNITY & MARKET CONSIDERATIONS

Summary
• The area is well positioned for redevelopment to higher intensification, dependent on the provision of necessary supporting infrastructure.
• The proposed development is likely to draw demand from other priority growth areas.
• The proposal may utilize some of the market demand for the Macleod Trail South Main Street area as well as other identified TOD areas.

Given the age of the existing buildings, the developed area location, the lack of recent investment, and location in proximity to Super Regional Retail (Cadillac Fairview Chinook Centre) and major transportation networks (Glenmore Trail, Macleod Trail, Chinook Station and Anderson Station LRT proximity), the area is well positioned for redevelopment to higher intensification. However, the extent of intensification proposed by Midtown Station requires major infrastructure investments to appropriately service, particularly an infill LRT station.

Based on a market analysis completed in 2021, the proposed development is likely to draw demand from other priority growth areas, such as Victoria Park and East Village. This would extend the buildout horizons and return-on-investment in these priority growth areas, since market absorption would be spread across a wider area.

From a Main Street perspective, the proposal will utilize much of the market demand for higher intensity housing in the local area and may slow redevelopment immediately on the Macleod Trail South Main Street. Macleod Trail South is not a priority Main Street for near-term investment.

From a Transit-Oriented Development perspective, the proposal may utilize some of the market demand for identified TOD areas, such as Chinook and Anderson stations. These identified TOD areas may have a different market appeal in the short-term given the existing amenities, like transit service and development opportunities.

CONCLUSION

SUMMARY: The City's capital investment needed to support the infill LRT station would be determined through a Special Development Agreement. In the initial years of development the total operating costs not offset by tax revenue are estimated at **$4M** to **$15M,** dependent on the pace of development. At full buildout, the calculated incremental property taxes more than exceed the anticipated incremental operating costs for the proposed infill LRT station.

	Risk	Value	Implication	Mitigation
1	Developer fails to fund or complete construction of an LRT station after development intensities that require an LRT station have been approved.	Up to $54M, the estimated (2019) cost of constructing the Midtown Infill Station	LRT station is not provided; **or** The City constructs and funds the completion of the LRT station.	Direct Control Bylaw structure requires an LRT station to be provided before consideration of LRT-dependent intensities.
2	At the time the Special Development Agreement (SDA) is entered into, capital cost implications are identified for The City.	To be determined	SDA not approved; **or** capital budget requested.	SDA is not approved and ultimate densities and heights requiring an LRT station are not permitted **or** City Council approves capital budget request.
3	Development of Midtown Station slows or stalls before operating costs for the Station are offset by the incremental property tax revenue.	Up to $3.3M per year for 4 to 13 years, dependent on pace of development	Operational costs of the LRT station put strain on The City's operation budget.	Cannot be mitigated.