A Vibrant Future for Saskatoon's Downtown - An Exploration of Potential Funding Opportunities to Bring the Vision to Life

ISSUE

The City of Saskatoon (City) has several capital priorities aimed at building new amenities and improving existing current assets that enhance Saskatoon's competitiveness, attractiveness, and quality of life. Central to this is finding the path forward that will bring life to the vision for Downtown Saskatoon that incorporates new public amenities to act as catalysts for future long-term growth and vibrancy.

Achieving this outcome requires a substantial long-term investment and a partnership between the City, other orders of government, and industry. The investment in Saskatoon's future should contemplate the use of non-traditional revenue sources used in several other North American jurisdictions. What potential revenue raising opportunities could the City use to pay for capital infrastructure projects that aim to achieve this vision?

BACKGROUND

A suite of transformational projects has been identified over the past four years. Three main projects stand out as potential catalysts for Downtown development, namely:

- an arena;
- a convention centre; and
- a Bus Rapid Transit (BRT) system.

Convenient and reliable BRT service to an event and entertainment district established around a new arena and new or renovated convention centre is integral to ensuring the public has a range of options to gather and enjoy premier entertainment venues, nightlife, and lifestyle amenities offered in Saskatoon's Downtown.

An active entertainment district, including an arena and convention centre, will rely on attracting visitors from throughout the city and region. Ease of access with a range of transportation options and parking facilities will be necessary. As a key component, the BRT system will enable high capacity, high frequency access to this area from across the city while also reducing the reliance on area parking spaces. The BRT system's stations will add to an integrated, well-designed public realm, and are centrally located to serve the high volume of visitors anticipated to these facilities. Tied together, these facilities are central to moving the vision of Downtown forward.

While the three projects above are fundamental to transforming Downtown, other complementary projects will build on those elements, such as:

- Imagine Idylwyld and Active Transportation;
- North Downtown City Yards Relocation;
- White Buffalo Youth Lodge renewal/replacement;
- Outdoor Festival Site;

- Fire Hall No. 1 Replacement;
- Utility Upgrades to Support Downtown Infill and Increased Densification; and
- Attainable housing and other initiatives to reduce risk of homelessness.

Considered as a suite of actions, these projects would bring renewed energy and interest to Saskatoon's Downtown. Creating new entertainment, cultural and community spaces; enhanced multi-modal transportation options; as well as supporting facilities and infrastructure, will effectively renew the public sphere in the Downtown for the coming decades. These types of transformative public investments have, in other centres, been shown to catalyze and attract further private development in the surrounding district, enhancing existing businesses and attracting new ones. The long-held vision for Downtown as the heart of Saskatoon would be re-invigorated by these strategic and diverse investments.

Details on the arena, convention centre and BRT projects have been presented in reports to Standing Policy Committees and City Council. Only the BRT system has received City Council approval to proceed. Appendix 1 elaborates on those projects and the decisions made by City Council about them. Appendix 2 provides descriptions of the remaining projects noted above.

CURRENT STATUS

The suite of projects mentioned above offer a range of new amenities to the residents of Saskatoon. However, the price tag associated with achieving this vision has been a legitimate barrier to advancing actions on each of these projects. Financial pressures faced by the City and taxpayers, along with what has been called "capital project fatigue" have all contributed to the current state of these projects. To move forward with these amenities, a comprehensive funding strategy needs to be a primary focus. Intergovernmental financial support is a fundamental component of this strategy, as this report explains later. Some of the projects may have greater policy appeal to one order of government (e.g., federal) relative to the other (e.g., provincial). Creative solutions are needed to overcome this potential barrier.

Setting aside government transfers for a moment, a past report considered by City Council offered information about potential financing and funding tools that various jurisdictions in North America have used to pay for newly built, publicly owned arenas and convention centres. That report indicated cities have used a mix of various revenue sources, including accommodation taxes, rental vehicle taxes, ticket surcharges, and Tax Increment Financing (TIF). This report builds on the previous report by considering these revenue sources in more detail.

For context, the City pays for capital projects in three general ways. First, it borrows from capital markets and allocates property tax or user fee revenues to service that debt, including principal and interest payments. Second, the City makes contributions from the property tax or user fees over time so that it builds up sufficient reserves to pay for a project.

Third, the City receives a transfer payment (or grant) from federal and provincial orders of government. A fundamental transfer program for the City is the Investing in Canada Infrastructure Program (ICIP), a federally established outcomes-based ten-year capital infrastructure program that allocates money to provinces based on the project streams.

Specifically, in October 2018, the Governments of Canada and Saskatchewan signed an Integrated Bilateral Agreement (IBA) as a mechanism to deliver ICIP funding. Among other things, the IBA allocates $896.3M in federal funding to Saskatchewan through four distinct infrastructure funding streams:

- $307.9M for Public Transit;
- $416.3M for Green;
- $56.2M for Community, Culture, and Recreation; and
- $115.9M for Rural and Northern Community.

This federal allocation represents about 40% of total eligible project costs, resulting in a total ICIP project value in Saskatchewan of $2,240M. Moreover, the IBA stipulates that the province shall contribute 33.33% of total eligible costs where the project owner is a municipal government. For such projects, a municipality shall contribute 26.67% of eligible costs.

Because the public transit stream is distributed inside the provinces to communities based on ridership, the City was allocated $162.7M of the federal allocation to Saskatchewan. Thus, Saskatoon can invest about $406M in public transit (or other eligible) projects. However, the IBA explicitly states that a project is ineligible for ICIP funding if it is used for a "professional or semi-professional sport facility that is primarily a commercial operation, such as those that serve major junior hockey leagues."

At time of writing, no transit projects have been approved, but community, culture, and recreation projects, such as Shakespeare on the Saskatchewan and upgrades to Gordie Howe Bowl have been. Several green infrastructure projects are awaiting approval.[1] Together, these projects have a total eligible cost of $116.2M, leaving the City with about $290M (including its cost share of $77.6M) in remaining ICIP project value that could be allocated to this suite of projects noted in the previous section.

The City's ability to use alternative forms of taxation is limited by legislation. For example, *The Cities Act* restricts the City to levying a property tax or charging an amusement tax. Currently, the City only levies an amusement tax for Prairieland Park, but all proceeds are returned to the organization. The City cannot, however, levy a sales tax on accommodations or rental vehicles like cities can in other North American jurisdictions. However, Tourism Saskatoon does charge a voluntary Destination Marketing Fee of 2% on the sale price of a hotel/motel room. The fee is only collected from those hotels participating in the program and all proceeds go directly to Tourism Saskatoon.

[1] The City had agreed to move some of its Transit allocation to other project streams so that it could address other project priorities, such as climate change and environmental quality projects.

DISCUSSION/ANALYSIS

North American cities have been granted the authority to use non-traditional taxes or fees to pay for specific capital infrastructure projects. One major difference in the United States is that several cities have been granted the authority to use combinations of hotel taxes, motor vehicle rental taxes, and ticket surcharge taxes to pay for building new tourism-related projects such as stadiums, arenas, and convention centres. While the bulk of these sales taxes are imposed to pay for professional sports facilities in major cities, smaller cities, such as Lincoln, Nebraska, have been granted the authority to use them.

In Canada, some of these alternative revenues have been granted to cities and municipalities alike. No cities have been granted the authority to levy a tax on rental cars, but they have been given authority to enact accommodation taxes. For example, the City of Winnipeg has the legislative authority to charge a 5% accommodation tax, with the intent to "generate revenue to support Destination Winnipeg, the Winnipeg Convention Centre, and special events including other organizations, projects and events that will encourage tourism to Winnipeg."[2] On average, the tax generates about $10M per year in a pre-COVID-19 environment. The tax does not yet apply to short-term rentals, such as Airbnb and similar organizations, but is anticipated to do so. If contemplating such a tax, it makes good economic sense to apply it to all short-term accommodations to avoid economic distortions in the market.

In 2017, Ontario enacted legislation to allow the City of Toronto and all other municipalities to levy a "transient accommodation tax" that applies in some cities at various rates to hotels, motels, and internet-based short-term rentals.[3] The legislation also prescribes that revenues are to be used for tourism-related infrastructure and programs. To date, several Ontario municipalities have enacted bylaws to charge a 4% municipal accommodation tax and have eliminated the pre-existing voluntary destination marketing fee. The City of London's tax does not apply to Airbnb and similarly owned properties but appears to be the outlier in the province.

Could these alternative revenue sources work in Saskatoon? If so, could they generate sufficient revenues to pay for the range of projects cited in this report?

One major challenge in today's environment is predicting how the demand for tourism, entertainment, and conventions will respond in a post-COVID-19 pandemic. Will demand return to pre-COVID-19 levels in the short term? Some reports indicate that demand will slowly scale up over a period of years. This uncertainty has severe limitations for estimating the revenue yield from tourism and entertainment-based activities. Investing in strategic infrastructure and amenities will provide an opportunity to provide economic stimulus during the construction phase and will help position the city for long term prosperity.

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[2] http://winnipegassessment.com/asmttax/english/other_taxes/accommodation.stm
[3] https://www.ontario.ca/laws/regulation/170435

Considering all factors, the Administration estimates that through a combination of new revenue sources, government transfers, and existing revenue sources, there would be sufficient revenues to pay for the core projects without any property tax contributions other than the amount already committed to fund the City's portion of the primarily ICIP-funded BRT. However, this is conditional on receiving expected provincial and federal fiscal support, the legislative authority to enact alternative revenues, and using education property tax revenues in a Tax Increment Financing (TIF) district. As such, the Administration estimates revenues between $700M and $1,200M over 25 years from these sources, which would be more than enough to cover the cost of the convention centre, arena, and BRT. The projects could be completed once the revenue sources are finalized and implemented, and these revenues then could be used to service debt over this period, with a goal of no further contribution from property taxes.

The aim of this funding/financing strategy is to minimize contributions from property taxes to pay for the bundle of sub-projects within this transformational project. It also attempts to generate revenues from those benefiting from the amenity by exporting some of the costs to non-residents who tend to benefit from tourism-based infrastructure. Borrowing will still be a major component of the interim funding strategy; however, the repayment of interest and principal is intended to be primarily from these other forms of funding.

FINANCIAL IMPLICATIONS

The primary financial implications are addressed in the previous sections of this report. A secondary implication that emerges is about the City's borrowing capacity. Depending on the scope of the projects and thus, the size of the borrowing requirements, the City will need to consider its debt limit and credit rating. Our current debt level is relatively low as confirmed through our bond rater Standard & Poor's, and our current AAA credit score means that debt financing would be a financially attractive means of funding the project. As project scope and funding strategies are further evolved, the Administration will report further on impacts to borrowing limits and projected possible impact on the City's credit rating.

The Administration believes that the projects and approach outlined in this report will be of significant interest to both the federal and provincial governments, although each may be interested in different components of the vision. Putting in place a strategy that achieves the City's needs while also meeting the objectives of other orders of government will maximize the City's ability to attract funding from the federal and provincial governments.

OTHER IMPLICATIONS

The legal implications are noted by the legislative restrictions that limit the City's ability to use non-traditional revenue sources to pay for capital projects. The information in this report does not produce any direct social or environmental implications. The reports listed in Appendix 1 and Appendix 2 do address such implications, especially as it relates to the BRT. Potential environmental and social implications for the broader project bundle - and/or its component projects - will be addressed in the next phases of project development.

NEXT STEPS

Any next steps on this issue are subject to the direction of City Council. This could include more detailed analysis of project costs and scope, estimated revenues from alternative sources and engagement with all relevant stakeholders. The engagement process will likely include consideration of timing, and a resolution could be that any new taxes or levies would not be implemented in the next 24 months or even longer. Local businesses need time to begin the recovery process, but the City cannot let the current economic situation deter Saskatoon from putting in place a strategy to achieve its long-term vision.

APPENDICES

1. Catalyst Project Backgrounds
2. Complementary Project Backgrounds

Report Approval

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