

Downtown Event and Entertainment District – Revenue Instruments

ISSUE

Planning for the Downtown Event and Entertainment District continues to progress. Administration has engaged the services of KPMG LLP (KPMG) to conduct an in-depth analysis of five non-property tax revenue instruments that could be implemented to help pay for the project and its debt commitments.

This report presents KPMG’s final report regarding the five non-property tax revenue instruments and outlines Administration’s next steps in the development of a potential funding plan for the district.

BACKGROUND

At its November 19, 2018 Regular Business Meeting, City Council considered the report entitled "[TCU Place / SaskTel Centre Market Analysis](#)." Attached to this was a report from the Administration entitled "[Financing Options – New or Renovated Arena and Convention Centre](#)," which outlined several financing options that may support the funding strategy for the Downtown Event and Entertainment District.

In considering this item, City Council resolved in part:

- "4. That one of the overall principles be to seek approaches that minimize the reliance on Property taxes to pay for this arena;"

At its April 26, 2021 meeting, City Council received a report entitled "[A Vibrant Future for Saskatoon’s Downtown - An Exploration of Potential Funding Opportunities to Bring the Vision to Life](#)" and resolved in part:

- "2. That the Administration be directed to work with stakeholders and other levels of government on achieving a detailed funding plan based on the Administration’s presentation of April 19, 2021, (investigating all funding opportunities that include information on potential bonds for the arena) with the goal of constructing the entertainment district with no contributions from property taxes;"

DISCUSSION/ANALYSIS

KPMG has completed its analysis of five non-property tax revenue instruments (Appendix 1), namely:

- Accommodations tax,
- Facility fee,
- Tax-increment financing,
- Vehicle rental tax, and
- Parking fee adjustments.

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For each of these revenue instruments, KPMG has provided a low estimate (lowest tax/fee amount or most narrow implementation scenario), mid-point estimate and high estimate (highest tax/fee amount or broadest implementation scenario). As presented on page 38 (section 3.1) of Appendix 1, and summarized in Table 1, KPMG estimates that the incremental revenue associated with the five revenue instruments may range from \$6.7 million/year to \$21.4 million/year. It is important to note these revenues are gross figures, before accounting for any expenditures that would be required to implement or operate these additional revenue streams, such as additional enforcement, customer support or administrative effort to manage the revenue stream.

Table 1: Summary of Revenue Potential by Instrument (KPMG)

Revenue Tool	Estimated Annual Revenue Potential (\$M)					
	Low	Notes	Mid-Point	Notes	High	Notes
Accommodations Tax (analysis considers the current opt-in Destination Marketing Fee at 3%)	\$ 1.6	Additional 1% tax (4% total)	\$ 3.1	Additional 2% tax (5% total)	\$ 4.7	Additional 3% tax (6% total)
Facility Fees	\$ 2.3	\$4.50 per ticket	\$ 3.0	\$6.00 per ticket	\$ 3.7	\$7.50 per ticket
Tax-Increment Financing (TIF) (considering City, Library and/or Education components - discounted and annualized over 25 years)	\$ 2.0	City component only	\$ 4.9	City and Library components	\$ 9.0	City, Library and Education components
Vehicle Rental Tax	\$ 0.5	5% tax	\$ 1.1	10% tax	\$ 1.6	15% tax
Parking Fee Adjustments	\$ 0.3	Extend pay parking hours to include Sunday 9am - 6pm Downtown only	\$ 1.4	Average of low and high estimates	\$ 2.4	Extend pay parking to seven days a week 9am - 9pm Downtown and Riversdale; increase rate to \$3.00* per hour
Total	\$ 6.7		\$ 13.5		\$ 21.4	

* This calculated increase is from the existing \$2.00/hour rate and does not take into consideration the recent resolutions of the Governance and Priorities Committee at the Special Budget Meetings

With City Council's approval, the Administration will be performing additional analysis on the following four non-property tax revenue instruments and incorporating them into the Downtown Event and Entertainment District funding plan:

Accommodations Tax

An accommodations tax is a mandatory charge that is applied to short-term hotel, motel, hostel and online platform stays and has been implemented in many municipalities across Canada.

The Administration's subsequent analysis on this instrument is twofold:

- Solidifying tax base assumptions (e.g., room counts, occupancy rates, room rates, etc.).
- Analyze the sensitivity implications for various tax rates.

Moreover, as is the case in other Canadian jurisdictions where such a tax exists, fiscal support is provided to tourism organizations. In this case, the Administration will also analyze potential scenarios to provide Discover Saskatoon with ongoing fiscal support, ensuring that a minimum of the existing annual funding amounts to Discover Saskatoon remain in place.

As it stands today, the City of Saskatoon (City) does not have the legislative authority to implement a mandatory accommodations tax. As such, amendments to *The Cities Act* would be required to enable the City to levy such a tax.

Facility Fee

A facility fee is a charge that is applied to event tickets and has been implemented at many event venues across Canada. The fee is sometimes applied as a percentage of the ticket price or fixed rate charge. The City currently has the legislative authority to do this, as SaskTel Centre and TCU Place currently charge facility fees on their event tickets.

The Administrations subsequent analysis on this instrument will investigate the potential of various fee structures (e.g., percentage or fixed rate), and implementation timelines.

Tax-Increment Financing (TIF)

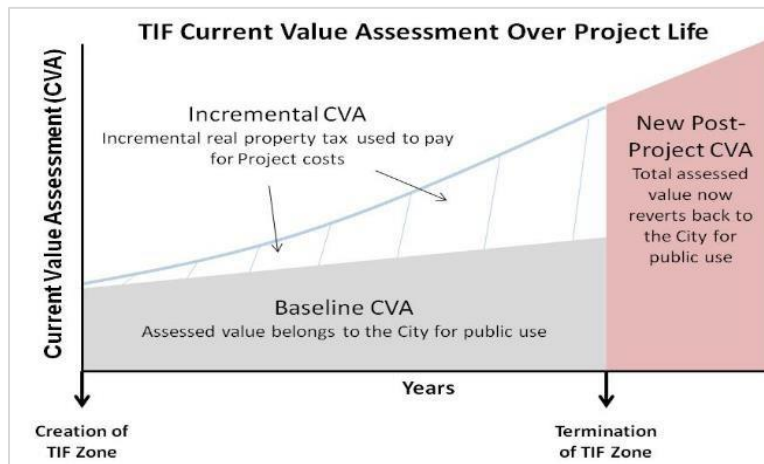
Generally used in areas of redevelopment, TIF divides property tax revenue earned on properties within a defined boundary or district into two streams: the base stream and the growth stream:

- The base stream is the taxes applied on the taxable assessed value of the properties in the TIF district prior to any redevelopment; and
- The growth stream is the taxed applied to properties in the district on any incremental increase in the assessed value after the redevelopment. Incremental increases may occur as a result of new construction/renovation and/or general economic improvement.

For a pre-determined time period (e.g., 25 or 30 years), the base stream would continue to be directed to general municipal use while the growth stream would be directed to help repay the costs of the redevelopment. Once this time period expires, or the outstanding project debt is paid for, the two streams are combined

and all property tax revenues go to general revenue. These concepts are graphically illustrated in Figure 1 and on page 20 of Appendix 1.

Figure 1: Tax Increment Financing Instrument (KPMG)



Moreover, on page 27 of Appendix 1, two potential TIF zones have been produced to conduct the analysis. Because this revenue instrument depends on the maximizing incremental growth and development potential, it is necessary to find the optimal size of the TIF district. To that end, the Administration’s subsequent analysis will analyze other boundary configurations and any policy implications and trade-offs of expanding or reconfiguring the zone.

The City has the legislative authority to implement a TIF. However, it is exclusive to only the municipal portion of the property tax. It excludes the Library portion of the property tax and the provincial education property tax. To include these portions in the TIF, amendments are needed to *The Cities Act* and the *Education Property Tax Act* or alternatively, new regulations will need to be enacted by Cabinet.

Parking Revenue from the New Parking Structure

The Administration does not plan on conducting any additional analysis on the parking adjustments for rates and hours. KPMG did analyze extending pay parking hours of day, days of week and hourly rates in the Downtown area and Riversdale areas. However, Administration is not pursuing this option as a funding source, at this time, because the rates and timing of parking charges are decisions that will continue to be made through appropriate analysis for the overall business requirements of the Community Standards Department.

Instead of adjusting parking rates and/or hours as analyzed by KPMG, Administration plans on including the net funding from the City owned parking structure as a funding option. The provision of at least 526 publicly accessible parking stalls on City owned lands at 22nd Street and Idylwyld Drive is an obligation specified in the agreement to purchase the Midtown North Lot that was approved by City Council at its meeting on [November 16, 2022](#).

The Administration will work on ensuring key inputs regarding the parking structure that will house these publicly accessible parking stalls (e.g., hourly rates, utilization rates, operating expenditures, etc.) are complete and current.

In Appendix 1, KPMG conducted analysis on potential revenue from the imposition of municipal motor vehicle rental sales tax, which is a charge applied to short-term vehicle rentals. This instrument is used extensively in several US states and municipalities but is virtually non-existent in Canada. In fact, only the Government of British Columbia has implemented such a tax.

Moreover, to implement such a tax, the City would need legislative authority to do so. For these reasons, and the lack of a direct relationship between motor vehicle rentals and the proposed Downtown Event and Entertainment District, Administration will not be including this revenue source in the future draft funding plan.

Based on KPMG's analysis in Appendix 1, these three revenue instruments (excluding the parking structure) could generate between \$5.9 million to \$17.4 million per year. On the high end, these annual revenue streams could support approximately \$250 million in borrowing assuming a 6% interest rate and 30-year repayment term. As explained in the appendix KPMG's analysis was based on several high-level assumptions and includes a wide range of financial outcomes, Administration's next steps are to refine these estimates into a more accurate projection and bring forward a draft funding plan and associated decision points.

FINANCIAL IMPLICATIONS

The full scope and financial plan for the Downtown Event and Entertainment District project has yet to be finalized and approved by City Council and thus, full project cost estimates and funding requirements have yet to be determined.

OTHER IMPLICATIONS

There are no privacy, legal, social or environmental implications identified. The legal implications, such as whether the City has the enabling authority to implement the revenue instrument are described in the body of this report. If such enabling is granted, City Council will need to enact and/or amend new and existing bylaws.

NEXT STEPS

Unless directed otherwise by City Council, Administration will continue to refine its analysis of the non-property tax revenue instruments as identified in this report and any other instruments that are identified through the development of the Downtown Event and Entertainment District funding plan. This will include analysis of the operating expenditures expected to be required to support each instrument and the optimal TIF boundary. The funding plan is expected to be presented to City Council in early 2024.

Subsequent to approval of the funding plan, the City would seek grant funding from other orders of government and any potential amendments to *The Cities Act* and the

Education Property Tax Act or alternatively, new regulations enacted by Cabinet, that would enable the City to employ all of the revenue instruments forming the funding plan.

APPENDICES

1. KPMG Report - Potential Revenue Tools Analysis

REPORT APPROVAL

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