New Community Growth Strategy

EXECUTIVE SUMMARY

To facilitate strategic and efficient growth in new communities, developers and The City of Calgary (The City) work together to resolve matters related to infrastructure needs, timing and financial impact of proposed developments. A shared goal is to realize new communities that are financially sustainable, address market demand, and help achieve the goals of the Municipal Development Plan (MDP) and Calgary Transportation Plan (CTP).

The City has invested, and will continue to invest, in new community development through its capital and operating plans and budgets. At any given time, The City has many priorities and projects, and limited financial capacity. As a result, there are instances where developers are interested in initiating new communities, and The City has not funded the necessary capital and operating expenses to provide services. In these cases, a Growth Management Overlay is in place, indicating that required funding sources and amounts are yet to be secured. The primary questions being addressed through this work are: Does The City need to encourage more new community development? And if so, how should it be funded?

This work responds to the development industry's (Industry) requests associated with The City's strategic growth decision processes for new communities. Through the Industry/City Work Plan, Administration has been working closely with Industry to create a New Community Growth Strategy (Strategy) to clarify how development proposals with Growth Management Overlays will be evaluated, and what options may be available to resolve outstanding capital and operating funding issues.

This report addresses funding options for new community development where a Growth Management Overlay is in place. Administration evaluated four specific options for funding, considering fiscal sustainability, assumption of risk, service levels, market response, and cost drivers. In addition to considering new communities, there are currently 27 actively developing communities that continue to require various levels of funding for both capital and operating costs. Financial decisions for the 2019-2022 budget will need to balance investment between new communities and actively developing communities, as well as investments in established and industrial areas to ensure development overall is moving in the direction set out in the MDP/CTP.

This report responds to Council direction approved through the Strategic Growth and Outline Plan Applications in Developing Areas report (PFC2017-0480). This work is part of continuing efforts to improve The City's strategic growth decision processes. Future work through the Industry/City Work Plan will expand beyond new communities to address strategic growth in established areas and industrial areas.

Approval(s): **Dalgleish, Stuart** concurs with this report. Author: **Davies Murphy, Kathy**
City Clerk's: L. McDougall

New Community Growth Strategy

ADMINISTRATION RECOMMENDATION:

Administration recommends that the Priorities and Finance Committee recommend that Council:

1. Direct Administration to report back to Council, through the Priorities and Finance Committee in Q2 2018 with strategic growth recommendations that increase the level of City commitment and investment in new communities, beginning with the 2019 – 2022 budget cycle, as identified in option 1(b) in this Report, and prioritize future growth areas outlined in Attachment 1, including financial implications for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using the property tax;
2. Direct Administration to bring a monitoring report on the implementation of the New Community Growth Strategy to the Priorities and Finance Committee no later than Q4 2019; and
3. Direct Administration to bring a report to Council, through the Priorities and Finance Committee, no later than Q3 2018, with findings and recommendations toward the development of an Established Areas Growth Strategy, including funding and timing considerations, that complements the New Community Growth Strategy.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTED, DATE 2018 FEBRUARY 22:

That Council:

1. Direct Administration to report back to Council, through the Priorities and Finance Committee, in Q2 2018 with strategic growth recommendations that increase the level of City commitment and investment in new communities, beginning with the 2019 – 2022 budget cycle, as identified in option 1(b) in this Report, and prioritize future growth areas outlined in Attachment 1, including financial implications for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using the property tax;
2. Direct Administration to work collaboratively with industry on potential new capital and operating options including those outside current policy constraints to:
   - Help share risk;
   - Leverage private investment;
   - Reduce City costs; and
   - Other mutually beneficial outcomes.

   And report back to Council through the Priorities and Finance Committee, as part of Recommendation 1 above;
3. Direct Administration to develop and share criteria by which business cases will be evaluated to be shared with Council, in a Memo, on or before April 2018.
4. Direct Administration to bring a monitoring report on the implementation of the New Community Growth Strategy to the Priorities and Finance Committee no later than Q4 2019; and
5. Direct Administration to bring a report to Council, through the Priorities and Finance Committee, no later than Q3 2018, with findings and recommendations toward the development of an Established Areas Growth Strategy, including funding and timing considerations, that complements the New Community Growth Strategy.

Opposition to Recommendation 1, 2, 4 and 5:

Against: Councillor Farrell

PREVIOUS COUNCIL DIRECTION / POLICY

From 2012 to the present, Council approved the use of Growth Management Overlays (Overlay) in individual Area Structure Plans in order to manage growth related issues, including unfunded capital and operating costs and strategic alignment with Council priorities.

On 2016 January 11, as part of C2016-0023 Off-site Levy Bylaw report, Council directed Administration to “implement the key deliverables of the 2016 work plan to address issues that arose through this process”. Issues that are addressed in this report include the funding and financing of capital and operating costs, and increasing clarity in the Overlay process.

On 2017 July 31, as part of PFC2017-0480 Strategic Growth and Outline Plan Applications in Developing Areas report, Council approved an amendment to the Municipal Development Plan (MDP) in Volume 2: Part 1, 4.3.1(d). This amendment changed the policy to allow for the submission of combined Land Use and Outline Plan (LU/OP) applications prior to removal of an Overlay.

Also on 2017 July 31, as part of PFC2017-0480 Strategic Growth and Outline Plan Applications in Developing Areas report, Council adopted the following recommendation:

3. Direct Administration to continue working with Industry on developing a process for strategic growth analysis and decisions, and bring an update report to the Priorities and Finance Committee no later than 2018 Q1.

BACKGROUND

Policy and Budget Framework
The City has planned for and invested in new community development considering the following three factors: where and when should the city grow, what are the market factors that inform growth patterns, and can The City afford the capital infrastructure and operating costs.

The City sets policy for design and growth patterns, and approves funding arrangements for infrastructure and servicing. Design and growth patterns are implemented through Area Structure Plan (ASP) policy. ASPs are approved by Council to provide a policy foundation for development in greenfield growth areas within the city. While an ASP typically identifies required capital and operating costs necessary to bring full City services to the plan area, it does not commit The City to a timeframe to fund the infrastructure and services. The Overlay identifies growth related costs to ensure they are recognized and intentionally managed.

Once the policy framework is in place, and it is identified that there is a need for new community development, The City works to secure funding for required capital and operating investments. The approval of these funding arrangements has been the pre-requisite for Overlay removal. This has historically been achieved through Council approval of multi-year service plans and budgets, or through alternative developer driven funding arrangements such as Construction Finance Agreements.

Beginning in 2012, all ASPs have been approved with Overlays to indicate that the required capital and operating funding was not within approved City budgets. For all ASPs, capital infrastructure investments have historically been budgeted in a manner that reflects approved policy, Council priorities, and the Council directed target of 3-5 years of fully serviced suburban land supply (MDP, Section 5.2.3). Operating costs are included in the budget at the time development necessitates City services. A current map of actively developing communities and future investment areas is provided as Attachment 1. All future investment areas are in ASPs approved since 2012.

Over time, the policy framework of the ASPs in relation to the Overlay has evolved. The three generations of ASPs that span the last ten years are summarized in the chart below, and the current growth strategy used in making new community growth decisions is detailed in Attachment 2.

New Community Growth Strategy

Generation	Key Attributes	Key Development Milestones
1	• Approved prior to 2012 • Initiated by The City, considering growth policy, City finances and land supply • ASP funded by The City • No Growth Management Overlays ○ Example: *West Macleod ASP*	• LU/OP applications can be submitted following the Council approval of the ASP • Development initiates after LU/OP approval
2	• Approved between 2012 and 2013 • Initiated by The City, considering growth policy, City finances and land supply • Number of ASPs began to grow faster than The City's ability to fund servicing • ASP funded by The City • Growth Management Overlays included where unfunded City servicing was required • Example: *Keystone Hills ASP*	• LU/OP applications can be submitted following Council approval of ASP • Overlay can be removed (and LU/OP can be approved) once the funding of City servicing is addressed to the satisfaction of Council • Development initiates after LU/OP approval
3	• Approved in 2013 to present day • ASP funded by Developers • Moved the consideration of City finances and land supply into budget development discussions • Allowed for greater ASP approvals as role of ASP shifted to provide improved information for budget decisions • Growth Management Overlays included where unfunded City servicing is required • Example: *Providence ASP*	• LU/OP applications can be submitted following Council approval of ASP. • Overlay can be removed (and LU/OP can be approved) once the funding of City servicing is addressed to the satisfaction of Council • Development initiates after LU/OP approval

The City continues to approve policy, review planning applications, and make significant investments in new communities. The City's capital and operating investments currently define the new community market: when Council approves public funding and financing for required City infrastructure and services, it allows developers to move along the approvals process and begin to invest private capital into new lands, ultimately leading to construction and occupancy of new units.

New Community Growth Strategy

Industry/City Work Plan
Alongside the approval of the Off-site Levy Bylaw (C2016-0023), Council directed Administration to work with Industry on an Industry/City Work Plan to address identified initiatives that would help improve the context for development in Calgary. As part of this work plan, strategic initiatives were initiated for new communities, industrial areas, and established areas, and reporting has been brought to Council regularly. The New Community Growth Strategy initiative has been primarily focused on clarifying process and addressing capital and operating mitigation options and alternative funding and financing approaches for developers pursuing removal of Growth Management Overlays.

Between 2016 and 2018, Council approved the initial six developer funded ASPs, the new rate structure in the Off-site Levy Bylaw, and the initiation of the Industry/City Work Plan. Over that time, a consistent number of developers have been in close contact with Administration, seeking clarity on The City's processes and financial requirements for initiating new community development, both inside and outside of City budgets. Developers have been clear with Administration that there is interest in continuing to invest in new communities in Calgary, over and above what The City is financially able to support. Administration, in turn, has committed to reviewing when and where new community growth should occur and how new community growth should be funded.

Proposed Investment Strategy Discussion Areas
In 2016, Administration developed an investment strategy that identified areas for priority capital investment in greenfield communities, established areas and industrial areas. Through Infrastructure Calgary, these priorities were presented to Council on 2017 March 6 for in-principles funding approval (C2017-0214). In 2017, Council approved capital investment of $84.24 million in infrastructure and public amenity investment to support development in established areas and industrial areas as well as 212/Deerfoot interchange that supports greenfield development.

Business Case Invitation
In 2016 October, Administration extended an invitation to Industry to submit business cases in support of development in Overlay areas. Ten business cases were subsequently received. Developers were asked to include information outlining how their lands and development plans advance the objectives of the MDP and CTP, meet market demand, contribute to economic development in Calgary through property tax generation, private capital investment and job creation and their proposal to fund required infrastructure ahead of City budgets. Each developer submission receives an initial review, a second more detailed review and set of comments, and a response letter providing initial conclusions and outlining next steps.

Outline Plan Submissions Prior to Growth Management Overlay Removal
In parallel with the business case analysis work, BILD Calgary Region submitted a letter in 2017 March requesting that The City amend policy to allow Land Use/Outline Plan application prior to Overlay removal for all ASPs. Following an extensive review and further engagement, Administration brought forward an amendment to the MDP in Volume 2: Part 1, 4.3.1(d) to enact this change. Council approved the amendment during the 2017 July 31 Combined Meeting of Council. The Overlay still must be removed prior to Council approving land use. The following table displays the status of business cases and Land Use/Outline Plan applications received for areas with Overlays in place.

Area Structure Plan	**# of Business Cases**	**# of Land Use/Outline Plans**
Keystone Hills	1	3
Belvedere	1 City prepared 1 Developer prepared	2
South Shepard	1	2
Rangeview	1 City prepared	2
Haskayne	1	1
Providence	1	2
Glacier Ridge	3	3
Nose Creek	1	0
East Stoney	1	1
Total	**12**	**16**

Emergency Response Service Times in Relation to Urban Growth
In parallel with this work, at the 2017 July 31 Combined Meeting of Council, through a motion arising during the Strategic Growth and Funding in the South Shepard Area Structure Plan (PFC2017-0445) report, Council directed Administration to complete a review of the Calgary Fire Department's Service Level and Response Times Target policy, including as assessment of the impacts of residential sprinklers in growth areas, best practices, policies and performance objectives for fire response times in other Canadian municipalities and provide a comparison in relation to the National and Provincial Building Code standards to inform the Service Levels and Response Times Target policy review. Administration will report back to the 2018 March 5 meeting of the Standing Policy Committee on Planning and Urban Development. This report will consider options and risk mitigations that could enable growth in new communities beyond the seven-minute response time. The report will also consider the financial impacts of an interim service model including that interim servicing would commit The City to operating and capital budget requirements for Fire later in the build out timeframe of a new community when costs are closer in alignment to property tax generated in the new community.

The report on emergency response is an input to the overall new community growth strategy. As service delivery evolves, the growth strategy is intended to incorporate changes to policy or service standards for any service. The emergency response report does not change the focus of the new community growth strategy, which is to guide growth decisions that consider strategic policy alignment, market factors and prudent management of The City's finances.

Motivation for this Work
The goal of reviewing the Strategy is to develop a system that appropriately manages The City's risk and provides for the following outcomes: transparency and accountability of City investments, creating the conditions for The City to be nimble and able to react to shifts in market demand, supporting the local economy through job creation and private capital investment, improving Calgary's regional competitiveness, furthering Calgary's reputation as an investment market of choice, and supporting a healthy and profitable development industry.

New Community Growth Strategy

The challenge for this work is to establish an improved strategic growth framework for new communities – one that works for developers seeking to invest in Calgary and in new communities, and that also works for The City, and its perpetual obligation to provide services in new communities.

It is acknowledged that new community development generates significant economic activity, from the planning stage through to construction. Development supports short term job creation through the construction phase and long-term job creation in commercial and light industrial developments in these areas. Private investors that have indicated a desire to invest in this type of development opportunity in Calgary may redirect their investment to other markets if it is not facilitated in Calgary.

Examining different approaches for new community growth that enable developers to advance their lands ahead of typical growth patterns will leverage private investment and support local economic recovery and future growth. Additionally, being proactive in investing in new community growth is expected to position The City to be ready for an upswing in housing demand and ensure that The City is prepared to meet the demand.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration considers strategic policy alignment, market forces and trends, and The City's fiscal capacity when making growth recommendations. The following sections describe some of the pertinent market and financial analysis completed during this work.

Market Forces
The City of Calgary monitors both capacity and demand for housing in the Calgary market. This monitoring supports The City in its efforts to ensure that capacity does not fall too low (and risk pushing housing prices up while reducing affordability), or become too high (and risk inefficiency in delivering City services and/or overinvestment in City infrastructure and push housing prices down). Furthermore, a balanced capacity scenario can increase competition and innovation, while encouraging communities to build out in order to support public and private amenities

There are 27 actively developing communities with serviced capacity for ~14,100 single residential and ~33,000 multi residential units. These communities are in various stages of the development cycle, from initial stages (e.g., Belmont, Yorkville) to nearing completion (e.g., Sherwood, Cranston). Based on current population forecasts, this represents a citywide serviced land supply of four to five years, meaning that at the estimated rate of population growth, there would be enough housing units in the city to accommodate housing needs for four to five years.

Considering both current capacity analysis and The City's own demand forecast, there is currently a balanced level of single residential capacity and choice among actively developing communities. However, there are a number of communities that will nearly complete their single residential build out within the next budget cycle (2019-2022). These completions will be partially offset by expected additional capacity in new communities in the Keystone Hills ASP, the West Macleod ASP, and the Cornerstone ASP, as well as any supply initiated through the next budget cycle.

The City will need to monitor both the supply and the number of actively developing communities to ensure that there remains sufficient choice and competition in the market. Furthermore, if demand trends are higher than the current City forecast, accelerating new capacity into the market may be required. Third party market forecasts, including one prepared by Altus Group for The City, anticipate a higher level of demand in the next ten years than The City's forecast. Finally, capacity levels for multi residential units remain well in surplus of expected demand. Attachment 3 provides analysis of capacity and demand in the Calgary market.

Direct Incremental Operating Costs
A great deal of research has been conducted by Administration on direct incremental operating costs to inform this work, both the amount of cost to be used in the analysis of new community growth as well as the timing of service introduction in a new community. For the purposes of this work, a direct incremental cost model is being used that identifies resourcing costs that result from an increase in City service activity. Once a new community starts to develop, these direct incremental costs will be incurred by The City and need to be included in operating budgets. Funding of these costs is through property taxes. Broadly, these costs are introduced as a community builds out, with different costs introduced at different points. Some costs are incurred at initiation (e.g., black cart) while others are introduced later on when there is a larger population (e.g., base transit). Most of the service introduction timing is linked to build out. Typically, a new community builds out with single residential housing introduced first followed by multi residential and non-residential. Build out rates gradually accelerate to 300-400 constructed units per year. A breakdown of each cost component along with the timing of service introduction and what is included in the cost assumptions is in Attachment 4.

A new community will generate property tax revenue as it builds out, and some level of credit against costs is warranted for this revenue. It is suggested that the credit consist of the proportion of property tax that provides service directly to the community calculated as the same proportion as all taxpayers, citywide. In order to understand what proportion of property tax to allocate, Administration considered the costs associated services delivered community by community and those services that are delivered on a regional basis. It has been determined that 30 per cent of tax revenue is attributable to provide service on a regional basis (e.g., 311 operators and libraries), meaning 70 per cent of revenue is attributable to individual community services (e.g., Calgary Transit).

It should be noted that the calculation of community based costs is different from the calculation of direct incremental costs. For example, it has been determined that Calgary Transit provides services community by community. Therefore, all Calgary Transit costs are included in the 70 per cent allocation. For direct, incremental costs purposes, however, only the costs of additional transit routes are considered, and not the balance of all costs within Calgary Transit, such as costs to support the bus storage and maintenance facilities and the fare processing centre. This means that the direct incremental costs are less than the 70 per cent calculation.

Capital Costs
Each community requires capital infrastructure to be developed at various points through the development timeframe. Interchanges, linear utility extensions and other investments are often required prior to a community being able to develop, while infrastructure like libraries and recreation centres are often delivered later in the community's development.

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Required City delivered infrastructure is funded, in part, through off-site levies paid by developers. Not all costs of off-site infrastructure are covered through levies as The City is required to fund a portion of this infrastructure. Funding sources for The City's portion include grants and utility rates. Debt is also a financing tool used to pay for capital infrastructure. Current guiding principles for the use of debt is that debt will be used if there is a specific and identifiable repayment source for interest and principle. In addition, there must be consideration given to The City's capital priorities, debt policies and debt servicing capacity to inform the level of investment and by which projects that can be made by The City using debt as a financing tool.

Capital costs typical of a new community can be an interchange (~$70M), linear utility extensions (~$10-$100M), and fire halls (~$15-$20M), as well as contributions to regional costs like wastewater treatment plant upgrades. These costs are largely covered by levies, however the portion benefitting the population outside of new communities is the responsibility of The City. This City portion can become a challenge to fund depending on availability of other funding sources.

Each developer constructs and pays for local infrastructure in a new community. This includes infrastructure like roads, parks, storm ponds and utilities. Upon completion, this infrastructure is turned over to The City to operate and maintain.

Overall Revenue
The City has a number of emerging issues in the financial outlook. Slower growth than experienced in the past is anticipated, combined with the on-going accommodation of past growth decisions, continued inflationary expenditure pressures and anticipated low property tax rate increases. Operating costs are funded through property taxes, user fees, utility rates and other lesser corporate revenue sources such as franchise fees. The current financial outlook predicts lower assessment base growth than in the past, as well as lower increases to future anticipated property tax rates have, in turn, lowered City revenues projections. Property taxes are the only available source of revenue that can be directly adjusted to balance increases in expenditures. Rates and user fees can be changed, but the revenue associated with them is dependent on demand.

The balancing of direct incremental operating costs, capital costs, and various revenue sources both now and over time is the key challenge underlying the stated goal of developing a growth strategy that fits within The City's fiscal capacity.

Budget Impacts
Infrastructure and servicing costs are introduced at various times of community development. To deliver services to the actively developing communities and future development areas, the following investment is required:

	Capital	Operating		
	Estimated one time investment	Estimated total remaining annual operating cost	2019-2022	2023+
27 Developing Communities	$700 million	$72 million	$28 million	$44 million
Future 13-15 Communities	$950 million	$66 million	$10 million	$56 million
Total	$1,650 million	$138 million	$38 million	$100 million

Further detail regarding capital investment requirements for currently developing communities and future investment areas can be found in Attachment 5.

Options
Weighing the considerations of market demand, The City's financial capacity, and providing clarity on process, four options were evaluated and are described below:

1. (a) **Maintain funding allocation in line with past budgets** for new community growth in the 2019-2022 Business Plan and Budget. Use current growth strategy decision making inputs (strategic alignment, meeting demand forecasts, and City financial capacity) to make recommendations. Identify for Council what investments best prepare The City for growth over the next ten years. Historically, this has meant two ASPs are brought on each budget cycle, resulting in four to six new communities starting in the next budget cycle.
   - *Operating Costs:* Funded through City budgets, allocated from standard funding sources (property taxes and user fees).
   - *Capital Costs:* Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go).

1. (b) **Increase funding allocation** for new community growth. Use current growth strategy decision making inputs (strategic alignment, meeting demand forecasts, and City financial capacity) to make recommendations. Identify for Council what investments best prepare The City for growth over the next ten years with an added perspective to stimulate economic growth and attract additional private investment. This could result in three to four ASPs or six to twelve new communities starting in the next budget cycle.
   - *Operating Costs:* Funded through City budgets, allocated from standard funding sources (property taxes and user fees). Increased allocation and funding sources to be identified through future reporting, ahead of the 2018 November One Calgary budget.
   - *Capital Costs:* Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go). Increased allocation and funding sources to be identified through future reporting, ahead of the November presentation of One Calgary.

2. **BILD Calgary Region Proposal.** As part of an agreement that allows any developer to proceed ahead of City budget timelines, BILD Calgary is proposing that costs will be funded in the following ways:

- *Operating Costs:* City costs funded through City budgets, allocated from standard funding sources (property taxes and user fees). Developer will make a payment to The City (revenue contribution) that offsets a portion of operating costs by paying an amount equal to the growth impact of identified City services, starting at initiation of a community and finishes at the point when The City introduces the service, or at a relative efficiency point to be determined by both parties. The developer continues to provide this payment until the point is reached, transferring some market and efficiency risk to the developer (see Attachment 6 for more information).
- *Capital Costs:* Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go) (see Attachment 6 for more information). Introduce, or reintroduce:
  - Construction Financing Agreements, where required capital is built, financed by the developer, with The City agreeing to repay a developer in full at a set future time.
  - The ability to pay for infrastructure and be repaid as off-site levies are paid by other developers citywide
  - The ability to pay levies with infrastructure in lieu of cash
  - The ability for The City to provide a stronger recovery mechanism that allows developers who pay for infrastructure without recovery, to be able to recover from other benefitting landowners

3. **Cost Coverage Method.** Based on funding approved by Council, costs would be managed in the following ways:
   - *Operating Costs:* City portion funded through City budgets, allocated from standard funding sources (property taxes and user fees). Through an agreement with a developer, The City would identify the required operating costs to bring standard servicing to a new community. This amount would become fully funded from the following sources:
     - 70 per cent of property tax generated though development would be recognized to offset direct incremental costs
     - An Economic Benefit Credit would be established and funded by property tax to acknowledge economic uplift to the city from the advancement of the development
     - Any remaining cost gap would be the responsibility of the developer
   - *Capital Costs:* Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go).

4. **Enact Special Taxes on Benefitting Areas to recover operating costs.** Use current growth strategy decision making inputs (strategic alignment, meeting demand forecasts, and City financial capacity) to make recommendations on new communities.
   - *Operating Costs:* Funded through City budgets, allocated from standard funding sources (property taxes and user fees). For growth areas outside of City budgets, any increased operating costs would be funded through a special tax assessed to homeowners in the benefitting area.
   - *Capital Costs:* Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go).

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The table below highlights advantages, disadvantages and recommendations for the above options:

Option	Advantages	Disadvantages	Conclusion
1(a) Maintain current new community investment levels	• Established method, track record of new community initiation • No additional property tax burden, managed within existing budgets • Control of growth decisions remains with Council • Cost certainty for City and developers	• Does not address Industry concerns around developer initiation of communities • Does not expand new community investment or seek the associated economic activity	• This option is not recommended. While it provides a balanced approach, this option does not sufficiently address industry concerns or the risk of capital flight
1(b) Increase new community investment levels	• Established method, track record of new community initiation • Expands new community investment and the associated economic activity • Control of growth decisions remains with Council • Control of investment amount remains with Council • Cost certainty for City and developers	• May not address Industry's concern around developer initiated communities • There will be a financial impact on capital and operating that may not be fully recovered through levies and property taxes • May result in increased property tax commitment, diversion of funding from other City priorities or delayed introduction of services to manage operating costs	• This option is recommended, as it retains much of the strategic growth control and financial oversight, while also accepting some risk and partnering with Industry
2. BILD Calgary Region Proposal	• Partners with Industry through revenue contribution to allow developer initiated communities, seeking the associated economic activity • Cost certainty for developers	• Council concedes some control of community initiation to developers • No cost certainty for City as developer contribution does not fully cover operating cost/revenue gap • Unknown property tax increase required to fund proposals as they are brought forward • Additional administrative burden • Debt impacts likely if Construction Finance Agreements and other tools are introduced	• This option is not recommended. While it provides a limited amount of additional revenue, it shifts control of growth to developers without fully transferring risks. Total cost acceptance by The City is unknown.

Option	Advantages	Disadvantages	Conclusion
3. Cost Coverage Method	• Partners with Industry through shared cost contributions to allow additional communities, seeking the associated economic activity • As City contribution would be capped, The City has cost certainty and Council can decide on the communities in which to invest	• This option is not supported by Industry as it is thought to create two tiers for community initiation, (1) City funded and (2) City/developer funded • Modeled developer contributions are believed to be unaffordable to most developers • Would result in a property tax increase to fund City contributions	• This option is not recommended. While it demonstrates clearly how any additional costs would be funded, it is not supported by Industry and therefore cannot be implemented.
4. Special Taxes	• Allocates additional operating costs directly onto benefiting residents • No citywide property tax impact • No developer contributions	• A bylaw must be approved annually by Council, adding uncertainty • Limited application, only applicable for services specifically listed in the Municipal Government Act • Fairness concern as residents pay for the same services as others through regular and special tax • Additional administrative burden • Potential for market distortion	• This option is not recommended. The concerns around fairness, funding uncertainty and market distortion are significant.

Options Summary
Through this work, a considerable amount of effort involving Administration and Industry went into evaluating alternative funding options that would allow a developer to advance their lands ahead of City approved budgets and plans. In depth analysis and stakeholder engagement was conducted to evaluate costs, risks and various tools that may be available to The City and developers.

While the current approach (Option 1(a)) has served The City and Industry well, it is not without opportunity for improvement. This approach does not address Industry's desire to invest capital and develop new communities in Calgary and is not recommended.

Next, BILD Calgary Region brought forward a proposal (Option 2) that provides the full benefit of advancing development with limited operating cost coverage and without fully transferring the risks of market fluctuations and service costs to the developer. After careful consideration and analysis, Administration could not move forward with BILD's proposal as the residual financial risk is considered to be too great for The City to assume.

Concurrently, The City developed a cost coverage method (Option 3) that provided a credit for property tax generated in a new community and additionally acknowledged the economic benefit to the city of an increase in capital investment and job creation in the local economy. The method would require a developer to pay the remaining operating costs. This approach was not accepted by Industry as it was considered to be a two-tiered system and did not provide cost certainty to the developer.

Finally, the option of a Special Tax (Option 4) was evaluated. A Special Tax is not universally applicable under the Municipal Government Act and must be approved annually by Council. This option is not recommended. The concerns around fairness, funding uncertainty and market distortion are significant.

Since options 1(a), 2, 3 and 4 were not acceptable, Administration considered what approach could best address the objectives of supporting economic development, creating the conditions for The City to be nimble and able to react to shifts in market demand and addressing the Industry's interest in investing in new community development. Administration came back to the current approach of funding new community investment through City budgets and considered increasing the level of investment for the 2019-2022 budget cycle. Option 1(b) is recommended as it best meets the objectives and manages The City's risk.

Recommendation
1(b) Increase new community investment levels

Administration is recommending approval of a Strategy which maintains the current approach to new community investment and provides Council with an option to increase the level of investment to bring on additional communities, while considering financial implications for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital costs would be funded using property tax. This option ensures that The City is ready to meet market demand in five to ten years and provides a contingency plan for the next four years should market conditions shift in the short term.

This approach meets the objectives of managing an appropriate level of risk for The City, creating the conditions for The City to be nimble and able to react to shifts in market demand, furthering Calgary's reputation as an investment market of choice and supporting a healthy and profitable development industry. If this recommended approach above is accepted by Council, Administration proposes to provide Council with recommendations for investment levels and areas in 2018 Q2, to be included in the 2019-2022 One Calgary service plans and budget.

New Community Growth Strategy

To implement the recommendation, a developer seeking to remove an Overlay and invest in new community development will do so by preparing a business case for analysis. It is recommended that all business cases be evaluated together, once every two years, so that Council has the opportunity to consider the cumulative impact of many communities potentially proceeding and the resulting impact on The City's investment capacity.

Currently, Administration makes major capital and operating recommendations through the four-year budget cycle, with another opportunity occurring at the two year, mid cycle point. Business cases that are selected to be funded in the budget can have their Overlays removed through an ASP amendment. Going forward, it is intended that strategic growth decisions be made on a predictable two-year cycle in alignment with budget decisions. Business cases not selected for budget inclusion can be reconsidered through the mid-cycle budget adjustment process. The mid-cycle next budget adjustment for 2019-2022 will occur in 2020 Q2. Timelines of this work and connection to the One Calgary timelines is outlined in Attachment 7.

It is further recommended that a monitoring report be completed no later than Q4 2019, and prior to the mid-cycle budget adjustment recommendations anticipated in 2020, so that stakeholder feedback can be gathered and changes and improvements to the Strategy can be considered and recommended, if necessary.

Additionally, it is recommended that a similar approach to growth funding for Established Areas be brought forward for Council's consideration. The Established Areas Growth Strategy will address strategic alignment to the Municipal Development Plan, market factors, financial benefits of redevelopment, a review of existing funding and financing tools and timing of investment levels.

Stakeholder Engagement, Research and Communication

Extensive engagement was carried out through the New Community Growth Strategy initiative of the Industry/City Work Plan. A group of Industry representatives and City staff met biweekly for over a year. Since 2017 August, a smaller group of BILD Calgary Region representatives met with City staff. It is expected that this engagement will continue past this report as the topics of determining the business case prioritization approach and continuing discussions on alternative funding and financing will required input from Industry.

Administration also met with Calgary Economic Development to understand economic benefit derived from advancing new communities and capital investment in Calgary. Additionally, a strategic session with the banking industry and commercial lenders was held to gain valuable insight into funding and financing capacities within the Calgary market.

Within Administration, City staff frequently updated the cross-corporate growth decision-making teams, including the Directors Integrated Growth Committee (DIGC) and the General Managers Strategic Growth Committee (GMSGC).

New Community Growth Strategy

Strategic Alignment

All new community development must be aligned with Municipal Development Plan and Calgary Transportation Plan policies, as well as relevant Area Structure Plans and other City standards.

In Part 5 of the Municipal Development Plan, there is language calling for The City to provide essential infrastructure when granting land use for new developments, as well, that "municipal capacity to finance growth shall be priority consideration in growth and change decisions including ... major land use applications". The recommendation remains aligned with this by continuing to link municipal finances to growth decisions, and by requiring that Council remove an Overlay prior to any land use approvals.
By exploring increased investment in new communities, the recommendation is also well aligned with City efforts aimed at retaining or increasing economic activity, and with the Municipal Development Plan goal of building a prosperous city. This has been a key message in annual reporting and annual budget deliberations. Supporting the economy, enabling businesses to invest, and keeping Calgarians working are key goals. At the same time, prudent management of City costs and debt is also critical.

Social, Environmental, Economic (External)

Social
There are no social impacts directly arising from this report.

Environmental
There are no environmental impacts directly arising from this report.

Economic (External)
Industry has indicated that the current policy and practice is deterring private investment in new communities. Therefore, the recommendations are anticipated to help retain or increase investment and result in greater investment of private capital in new communities and support job creation in Calgary.

Financial Capacity

Current and Future Operating Budget:

The extent to which Council chooses to approve new communities will have an operating budget impact. At budget time and as development proposals come forward to Council for Overlay removal and land use approval, consideration of the impacts to current and future operating budgets will be required. How any funding gaps for operating costs are to be funded using property tax will also require Council decisions.

Current and Future Capital Budget:

As with the operating budget, the extent to which Council chooses to approve new communities will have a capital budget impact. This is will include considerations for both capital expenditures and any associated debt and debt servicing capacity. How any funding gaps for capital costs are to be funded using property tax will also require Council decisions.

Risk Assessment

The topic of new community growth impacts many services and every City department. Considering the magnitude of investments and service delivery for citizens that live in new communities is critically important to the success of a Strategy. Risks related to financial impacts, policy outcomes and inaction are included below.

Capital spending for new communities often places additional burden on The City's debt capacity. The City is considering funding many major projects and initiatives, and the sum of these projects will put pressure on The City's debt capacity.

Investment in new communities may impact the efficiency of previous capital investment in communities that are currently developing, if market dilution is the result.

An increase in the number of new communities developing may lead to slower absorption rates and development timelines, resulting in inefficiency as operating budget gaps where services have been introduced and property tax revenue is not materializing to cover the costs of service.

There may be a desire to relax servicing standards to mobilize community building, which would bring a risk of The City having to improve the servicing at an unknown later date, or continue to accommodate a lower level of service.

The proposed changes are modelled on estimated values of The City's operating costs. With any model, there are baseline assumptions that are required, and these assumptions will be tested as the new system is implemented. Growth targets and the range of operating expenses may prove to be different from the modelled assumptions and can be tracked and adjusted over time.

With more investment in greenfield areas, The City may not be able to meet its long term Municipal Development Plan (MDP) targets for growth and intensification. Developers in established areas may raise concerns about implementation practices that do not align with approved policy.

The economic downturn has resulted in a decrease in investment and jobs in the residential construction industry. Increased investment will assist to support the construction industry through this downturn and mitigate further job loss. Taking no action may result in further job losses across the residential development and construction industry, and increase the potential that developers in the Calgary market may redirect investments to other markets. This in turn may change the market perception of the value of investing in the Calgary residential market.

New Community Growth Strategy

REASON(S) FOR RECOMMENDATION(S):

Administration is recommending approval of a New Community Growth Strategy which maintains the current strategic approach to new community investment through City budget approval. This provides an increased level of investment to bring on additional communities in 2019-2022, identifies financial implications for the 2019-2022 budget cycle and future budget cycles, and how any funding gaps for operating and capital would be funded.

In Q2 2018, Administration will bring forward a report to Priorities and Finance Committee with strategic growth recommendations that increase the level of City commitment and investment in new communities, beginning with the 2019-2022 budget cycle.

This approach meets the objectives of managing an appropriate level of risk for The City, creating the conditions for The City to be nimble and able to react to shifts in market demand, furthering Calgary's reputation as an investment market of choice and supporting a healthy and profitable development industry.

It is also recommended that a monitoring report of this approach be completed no later than Q4 2019, prior to the mid-cycle budget adjustment recommendations anticipated in 2020, so that stakeholder feedback can be gathered and changes and improvements to the Strategy can be considered and recommended, if necessary.

Finally, it is recommended that a report on the Established Areas Growth Strategy be developed that includes funding and timing considerations and that complements the New Community Growth Strategy. This work will identify funding tools available to support redevelopment and consider service costs in established areas and property tax uplift that is a result of redevelopment in these communities.

ATTACHMENT(S)

1. Attachment 1 – Actively Developing Communities with Land Use and Future Investment Areas
2. Attachment 2 – Current Growth Strategy for New Community Development
3. Attachment 3 – New Community Forecasted Demand and Current Capacity
4. Attachment 4 – Direct Incremental Operating Costs in New Communities
5. Attachment 5 – Historical and Unfunded Capital Costs
6. Attachment 6 – BILD Calgary Region Submission
7. Attachment 7 – New Community Growth Timelines