EAGCS Phase 1 Funding Strategies and Tools

This attachment provides details on the following topics:

- Analysis of Funding and Financing Tools
- Phase 1 Funding Strategy
- Pilot Program: Implementation of a Property Tax Uplift Allocation in North Hill Communities Local Area Plan
- What's Next: EAGCS Phase 2 and Longer-Term, Funding Plan for Public Realm Infrastructure

In collaboration with communities, Business Improvement Areas, and the development industry, Administration created a Financial Planning & Investment (FP&I) working group. This group was tasked to provide a strategic funding recommendation and develop a sustainable and consistent financial strategy that will create more certainty around funding infrastructure to support redevelopment and change in established communities.

Issues identified by the FP&I working group included:

1. Predictability and certainty - Industry is seeking tools to improve the predictability of the cost of development in the established area.
2. Financial risk - Industry is seeking tools to reduce the financial risks related to utility servicing requirements (pipe upgrades) in the established area.
3. Increased amenities in communities - Community expectation that growth will bring amenities is not being realized as shown in the Local Area Plans (LAP).
4. Service level maintenance - Perception that there may be a gap in maintaining service levels for existing public realm.

Recommendations stemming from this work:

1. Through consultation, and for Council's decision, develop a local-sized water and sanitary pipes levy as part of the Off-Site Levy bylaw review;
2. Pilot a property tax uplift tool in 2021 and 2022 with the North Hill area to test, monitor and gauge the effectiveness of this funding strategy;
3. Establish a new reserve to facilitate monitoring of the fund balance and financing of the investments, and accommodate replenishment with fund replenishment tools to be further developed; and
4. Explore and develop longer-term and more sustainable funding sources that support ongoing Established Area Investment Fund replenishment against its planned spending.

Analysis of Funding and Financing Tools

In 2019 May (PUD2019-0305), Administration outlined the process that the FP&I working group used to arrive at various financing and funding tools. These options considered appropriately scaled, sustainable, long-term funding mechanisms, and alternative funding options. The options also identify the primary driver for the infrastructure capital investment, the various parties that could contribute financially and the specific tools and funding sources that are available in each circumstance. This is outlined in Table 1.

Table 1: Assessment of Funding Sources and Financing Tools by Infrastructure Driver

	Operations, Maintenance, and Lifecycle	Growth Infrastructure	Public Realm Improvements
City (All Existing Residents)	• Property Tax • Utility Rates • *Other User Fees (e.g. Recreation Fees)* • Debt* • Pay As You Go • P3s*	• Property Tax • Utility Rates • *Other User Fees (e.g. Recreation Fees)* • Debt* • Pay As You Go • P3s*	• Property Tax • Utility Rates • Debt* • Pay As You Go • P3s*
Community (Specific Areas)	[hatched]	[hatched]	• Other Taxes • Debt* • Pay As You Go
Developers (New Residents)	[hatched]	• <u>Levies</u> • <u>Development Conditions</u> • *Land Use Bonusing* • First-in/ Endeavours to Assist • Construction Financing Agreements*	• <u>Levies</u> • <u>Development Conditions</u> • *Land Use Bonusing* • First-in/ Endeavours to Assist • Construction Financing Agreements*
Others	• *Other Gov's* • *Sponsorship* • Debt* • Pay As You Go	• *Other Gov's* • *Sponsorship* • Debt* • Pay As You Go	• *Other Gov's* • *Sponsorship* • Debt* • Pay As You Go

***** Tool is accounted for as City debt for the purposes of debt limits and servicing.

Italics Tool may not be a reliable funding source, as it is a voluntary choice of third parties to utilize.

<u>U-line</u> Tool may not be a reliable funding source, as it is reliant on the choice of third parties to submit a development application.

[hatched] These infrastructure components may benefit these funding sources depending on timing and service level standard applied. Future work is required to determine what scenarios may utilize tools in these categories.

Refining the Options

In the established area, since the growth infrastructure requirements are often less predictable, and there is existing infrastructure, different funding and financing programs are required for established area redevelopment compared to new communities. Currently, in the established area the developers and communities financially contribute to their neighbourhoods, however there is also an opportunity for The City to directly invest in these areas to promote and lead growth and development, aligned to policy objectives. Focusing on growth infrastructure and targeted investment in public realm improvements will help address both industry and communities' concerns.

The Funding Sources and Financing Tools outlined in Table 1 summarize how to effectively and appropriately pay for certain infrastructure and identify eligibility for each party to bear the cost. For the purposes of the Phase 1 investment strategy, the focus is on growth infrastructure for utility pipe upgrades and public realm improvements.

The following sections discuss which tools and strategies were evaluated and the resulting conclusions.

Growth Infrastructure (Utilities)
For water and sanitary linear pipe upgrades related to growth, the FP&I working group agreed that the use of a local-sized pipe levy should be considered and developed for Council decision.

Early in Phase 1, Industry members identified risks associated with the current practice where the development that triggers the local-sized pipe upgrade pays and constructs the entire upgrade without a means to recover costs from other developers that benefit from the upgrade. Local-sized pipe upgrades in the established areas are difficult to anticipate due to the variability in redevelopment. Upgrade costs can range significantly, and the need for them is not normally identified until the development application stage when the project details (density and form) are known. As a result, developers are unable to reliably account for upgrade risk in their early pro formas resulting in increased financial risk. To address these risks, Industry members expressed a desire for a more predictable contribution to utility upgrades that can be accounted for early on in a project.

The City may, through a bylaw, define the infrastructure for which alocal-sized will be imposed. this local-sized levy may be used to fund: the capital costs of the infrastructure, including required land, and the associated interest costs. More work is required to determine the methodology for the local-sized levy which also needs to take into consideration how the funds are replenished and how risks associated with delays in fund replenishment related to slower than aniticpated development will be managed

The use of a levy to fund local-sized water and sanitary linear infrastructure would provide greater cost certainty to developers, addressing the issues identified above. Howerver, as observed with the off-site levy, the City could bear higher risk while the rate of growth is slower than anticipated resulting in a potential cash flow shotfall. A linear local-sized water and sanitary pipe levy in established areas is recommended to be developed with stakeholder consultation and for Council’s decision as part of the Off-Site Levy bylaw review in 2020. Currently, a similar approach is used in the Centre City Levy for water and sanitary pipes. The Centre City levy was established in 2007 and there are many lessons that can be learned from this approach for further application in the established area. It is suggested that any development of a local-size water and sanitary pipe levy in established area look to the Centre City Levy for input into the development of such a tool.

To support their work in identifying an appropriate cost share tool, the Financial Planning & Investment Working Group made the following requests to the Utility Working Group:

1. Identify what specific infrastructure should be considered for funding within a levy or other tool; and
2. Provide supporting information to assist in quantifying a scale of cost related to this infrastructure.

The Utility Working Group undertook a series of analyses to support the work of the Financial Planning & Investment Working Group. The first analysis explored case studies of neighbourhoods that have historically experienced high growth and examined the relationship between that growth and utility upgrades. Next, the Utility Working Group explored recent water and sanitary analyses conducted through the Main Streets project to examine the projected growth within these neighborhoods and the upgrades anticipated to accommodate that growth. Lastly, the last ten years of Indemnification Agreements were reviewed, and any upgrades implemented by developers to the water and sanitary system were noted. Together, these analyses provided the basis for a “scale of cost” for the Financial Planning & Investment Working Group to identify a financial tool for local-sized water and sanitary pipes.

The FP&I Working Group, in consultation with the Utility Working Group, explored different approaches to development conditions and levies with the goal to recommend a sustainable, ongoing funding tool. The discussions focused on funding tools for local-size water and sanitary pipe upgrades to accommodate new growth. Identifying the best tool focused on the following:

1. Financial Certainty: For developers this means that the rate is known in advance and the cost is predictable. However, depending on the methodology used, similar to other off-site levies, this new levy could mean a higher financial risk for the City when the rate of growth is slower than anticipated.
2. Fairness & Equity. This follows the principle established by Council that “growth pays for growth” and The City will pay for lifecycle and maintenance.
3. Geographic area can be well defined.
4. Ease of Administration: To ensure ease of Administration, the tool requires information that is already collected or simple to collect and the tools application is easy to explain.

As a result of these discussions, the FP&I Working Group arrived at the recommendation to consider and explore adding local-sized water and sanitary pipes into the list of infrastructure funded by an Established Areas Levy. It was acknowledged that future discussions would need to further explore the full cost and benefit of a pipe upgrade, including the growth component, lifecycle and maintenance component as well as benefits to existing customers.

Public Realm Improvements

For public realm improvements, multiple tools were considered. Tools such as property tax uplift / tax value capture, favourable variances from investment, capital and operating programs, and dedicated tax support were evaluated.

Property tax uplift or tax value capture is a subset of the property tax tool and is distinct from a “Value-Capture Tax” (which is an additional tax levied against land, in addition to the property tax). Property Tax Uplift refers to the increase in property taxes due to an increase in property values from redevelopment. The strengths of this tool are that the investment program is data driven, and the methodology is intuitive with an understandable rationale. However, risks of this tool include: uncertain revenue forecasts, investment timelines impacted by cost inflation, longer collection time periods, and potentially long delays between population growth in communities and investment. To better understand the efficacy of this tool, it is recommended that this tool be piloted in 2021 and 2022 with the North Hill Communities Local Area Plan to monitor and gauge the effectiveness of this funding strategy for further implementation. The pilot approach is described below in this attachment. This timeframe may need to be extended if the timeframe is not be long enough to quantify and validate the benefit from tax uplift.

Favourable interest variance. In 2020 February, Council approved Notice of Motion (PFC2020-0131) which dedicated $30M for public realm investments from favourable interest income in 2019. This will be placed in a new reserve and will be used as startup/seed funding to pay for Phase 1 public realm growth investments, with fund replenishment tools to be further developed. The proposed Fund Terms are outlined in Attachment 4 of this report.

Favourable budget savings contributions are a result of savings from other ongoing capital projects or favourable operating variances. This tool would redirect a percentage of unallocated funds from these other sources to pay for public realm improvements. Although this could pay for these improvements, it is an unpredictable and unreliable funding source. It is possible that other unfunded projects would compete for these funds. For these reasons, this tool would not be considered further.

A **dedicated tax support percentage** is another option to fund public realm and infrastructure improvements. It would provide a steady stream of revenue to ensure public realm and infrastructure improvements are funded. With the 2018 New Community Growth Strategy, a dedicated 0.75 per cent property tax allocation was approved for 2019. Given the current economic situation, Administration felt that there would be little desire at this time to add another tax to existing taxpayers. For this reason, this tool is not being considered at this time.

Operations, Maintenance, and Lifecycle
The City solely funds these investments for the established and greenfield areas in the budget cycle through property taxes and utility rates. The City invests $5 billion through the City's four year capital budget related to capital maintenance, upgrades, growth, and service changes, and approximately $1.7 billion is spent specifically for rehabilitation of existing infrastructure due to obsolescence, safety concerns, age, or condition of the infrastructures (C2018-1158 Att 9, p 99). For this Strategy, the public ream and utility projects identified are focused on growth-related investment and funding for projects that are solely for operations, maintenance and lifecycle are out of scope.

Phase 1 Funding Strategy

For Phase 1, as detailed in Attachment 1, the recommended portfolio investment amount is $35.4M. Investments in Public Realm Infrastructure are centered around core themes such as Traffic Calming & Safety, Pedestrian Connectivity, Parks & Recreation, and Public Space Programming. The utility network investments support water and sanitary upgrades in support of growth in the earliest Main Streets to undergo streetscape improvements.

On 2020 February 3, $30M in seed funding was approved to fund public realm improvements through the Established Area Investment Fund (Fund). The cashflow projection of the $30M from the 2019 Corporate Program Savings (investment income) will be managed as below:

- The seed funding will serve to allocate funding to priority areas and projects arising from prioritization decisions made and outlined through the Strategy in Attachment 1.
- For the first two years of implementation the spend is anticipated to be as follows: 2021 - $11.7M and 2022 - $18.3M. For the 2023-2026 service plans and budget cycle, the recommendations for investment will be presented to Council through the city-wide growth strategy. The level of investment will be determined through the growth framework that considers Municipal Development Plan/Calgary Transportation Plan (MDP/CTP) alignment, market factors, redevelopment readiness and financial capacity. The level of investment will be dependent on project priorities and available funding.
- Annual interest income earned from unused portions of the $30M will be recommitted to the Established Area Investment Fund.
- On an annual basis, a minimum 1 per cent of the favorable variance from the investment income generated within Corporate Programs will be allocated to this Reserve until 2026.
- To replenish the Fund and ensure it is an ongoing and sustainable funding source many options are being explored into Phase 2 of the Strategy. Examples include: dedicated tax support, density bonusing, and property tax uplift. The Terms and Conditions for this Fund are shown in Attachment 4 of this report.

Pilot Program: Implementation of a Property Tax Uplift Allocation in North Hill Communities Local Area Plan

To help determine the feasibility of a property tax uplift funding mechanism, three growth areas were identified for detailed analysis. The areas included South Calgary, Hillhurst/Sunnyside, and Montgomery. These areas were selected to represent a range of historical growth scenarios. The purpose of this analysis was to gauge the range of area-based tax uplift revenue at a high level, to help inform how this tool could be applied to areas with continued expectations for growth, such as the North Hill Communities Local Area Plan (LAP).

A tax uplift study was conducted on a 5, 10 and 20 year timeframe. Assessment provided raw data at the community level and data related to the provincial portion of tax rate, inflation, and mill rate changes was removed. The results of this analysis showed that for these three communities, the property tax uplift ranged from $0.2M to $8.5M per year in municipal tax revenues.

Throughout the high-level studies, strengths, weaknesses, and risks were identified with this tool.

Strengths:

- Data-driven investment program
- Intuitive and understandable approach for reinvestment in communities that is tied to growth
- Addresses some concerns from communities and Business Improvement Areas
- Designates funds for growth areas (replenish Established Area Investment Fund)
- Does not impose additional cost on development or tax / rate payers

Weaknesses:

- Uncertain revenue forecasts
- Long collection periods due to different rates of growth in communities
- Challenge in isolating growth from market movement
- Investment timeline impacted by cost inflation
- Funds are allocated through current budget cycle
- Increases pressure on the tax rate
- Reduces flexibility for allocating funding on a priority basis

Risks:

- Market risk – dependant on the city's economic condition and changes
- Financial risk – uncertain and unpredictable income source, increases pressure on the annual tax rate decision
- Strategic risk – change of Council priorities and strategy
- Reputational risk – possible perception of in equitable treatment from communities

To explore this option further, Administration is recommending that North Hill Communities LAP be used as a pilot to evaluate tax uplift as a potential longer-term funding source.

The methodology for this pilot study will be defined by 2020 December 31 for application to the changes in assessment from July 2020 to July 2021 (and supplemental assessments through the end of 2021). The approach is to identify uplift resulting from redevelopment as of December 31, 2021 and 2022. Next, Administration will determine if the property tax uplift is positive AND if there are budget savings from 2021 and 2022 up to that amount will be directed into the Established Area Investment Fund for future public realm investment in 2023 and beyond. For the pilot only, the qualifying property tax uplift amount that is generated within the North Hill communities will be reinvested in these same communities. When the pilot is evaluated and considered for expansion, this geographic based approach will be reviewed.

This pilot will be monitored and reported on with the annual Growth Monitoring report. This funding strategy may be considered for expansion and implementation for the 2023-2026 budget cycle based on the results of this pilot and in consideration of other service needs and priorities funded by property tax. Calgary Growth Strategies will work closely with Finance to ensure that the financial risks to The City's budget are appropriately managed.

What's Next: EAGCS Phase 2 and Longer-Term, Funding Plan for Public Realm Infrastructure

In Phase 2 of the EAGCS, Administration will work closely with stakeholders to explore and develop longer-term and more sustainable funding sources that support ongoing Established Area Investment Fund replenishment against its planned spending.

The options that will be considered to provide ongoing replenishment of the Fund or other funding strategies include:

a. Property tax uplift allocation - North Hill Communities LAP pilot study results: Analysis of property tax uplift in relation to redevelopment (growth) using the North Hill Communities LAP as a pilot in 2021 and 2022.
b. Density bonusing strategies
c. Dedicated property tax support in future budget cycles
d. Corporate budget savings allocation
e. Parking revenue
f. Local improvement tax
g. Grants
h. Sponsorship / Donation
i. Community Amenity Contributions
j. Off-site levies
k. Others, to be determined