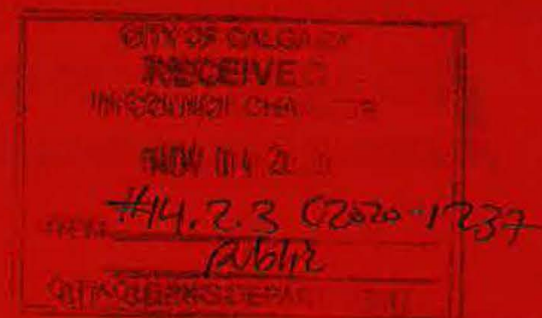


C2020 -1237

Off-site Levy Update
2020 November 02
ISC: Confidential



Recommendations

That Council direct Administration to:

1. Transfer the confirmed \$56.3 million earned investment income to the associated Off-site Levy accounts from Corporate Programs as outlined in Attachment 1; and
2. Effective 2020 January allocate any future investment income earned on the Community Services portion of the Centre City Levy to the Centre City Community and Recreation infrastructure Centre City levy accounts; and
3. Keep the report and recommendations confidential pursuant to Sections 24, 25 and 27 of the FOIP Act until no later than 2020 November 9.

Key Messages

- In 2020 July, through off-site levy bylaw review work, industry members asked why Community Services levy balances did not earn interest.
- A full analysis of the levy accounts for Community Services, Transportation and Utilities investment income allocations was conducted.
- Investment income was earned but not allocated to either the Off-site Levy or Centre City Levy programs for Community Services from 2006-2019.
- This issue also existed in Water Resources, primarily for a portion of the Stormwater (historically Drainage) Off-site Levy balances for a pre-2011 to 2019 timeframe.
- The total amount of investment income that was earned and not allocated to the levy accounts is \$56.3 million.

Key Messages

- Prior to being formally introduced into the Off-site Levy bylaw, the Community Services levy was voluntary, and the terms and conditions did not specify an attribution of income.
- Recommendation 1 is to allocate the earned investment income to the associated levy accounts from a corporate funding source.
- Recommendation 2 ensures that the Community Services accounts for the Centre City Levy have formal direction on where to direct investment income.
- The internal working group that was formed in response to this issue includes representatives from Community Services, Planning & Development, Utilities & Environmental Protection, Finance, and Law.

Where did this Investment income go?

- Investment income that was earned and not deposited to off-site levy accounts was directed to general revenues.
- If there was an operating budget surplus in a given year, it would have been deposited into the Fiscal Stability Reserve (FSR).
- The City has been transparent in reporting which off-site levy balances earn interest as part of the Annual Reserves and Long Term Liabilities Report dating back to 2011.
- In the case of Community Services this investment income would have likely meant that less debt would have been taken out to build the four rec centres in 2012.

Why is this important for Council?

- Off-site levies are a corporate program, in which many departments have a stake.
- The City's priority is to diligently manage our Off-site Levy accounts, which help pay for Calgary's growth related infrastructure.
- The recommendation has material financial impacts at a time when there is significant financial pressure on The Corporation.

Off-site Levy (OSL)

- Community Services (CS) charges were formally added to the Off-site levy bylaw at the end of 2019 (City Charter bylaw 2H2019). Prior to this, CS charges were adopted by Council Resolution and were considered voluntary in nature.
- Off-site levy funds are collected for the following CS infrastructure: Recreation Centres, Libraries, CFD Emergency Response Stations and Calgary Police District Offices.

Centre City Levy (CCL)

- CS charges were adopted by Council Resolution in 2007 and are considered voluntary in nature.
- CCL funds are collected for the following Community and Recreation infrastructure: Recreation Centres, Libraries, and CFD and CPS Stations as well as for park redevelopment.

Investment income not allocated to Community Services levy accounts

	2006-2019* (000's)
Community and Recreation Levy (Off-site Levies)	\$47,566
Community and Recreation infrastructure charge (Centre City Levy)	\$690
Total	\$48,256

**Note: Center City Levy collection began in 2007*

- The overall total of CS investment income from 2006-2019 is **\$48.3M**.
- CS Off-site levy investment income analysis began in 2006 as this is when the Community Services levy charge was expanded beyond only Recreation Centres and the levy rate increased significantly from \$2,000/ha to \$40,082/ha.

Off-site Levy (OSL)

- Water and Wastewater
 - Collected levies for pipes and treatment plants since 2011.
- Stormwater
 - Collected levies in multiple geographic areas since 2004.
 - Prior to 2004 collected acreage assessments on unique pieces of infrastructure

Centre City Levy (CCL)

- Since 2007, \$1.0M in investment income has been allocated appropriately based on Water Resources Centre City Levy balances.

Investment income not allocated to Utility levy accounts

	Pre- 2011	2011- 2015	2016- 2019
	(000's)	(000's)	(000's)
Water Infrastructure Types	-	\$5	\$1
Wastewater Infrastructure Types	-	\$9	\$2
Stormwater Infrastructure Types	\$4,789	\$2,365	\$865
Total by timeframe	\$4,789	\$2,379	\$868

- The overall investment income not allocated to Utility levy accounts is **\$8.036M**
- Under Bylaw 2M2016 investment income has been allocated appropriately as the 2016 offsite levy bylaw ensured investment income earned remained within the levy accounts.
- The amounts in the table above for the 2016-2019 timeframe relate to compounding interest on historical investment income not allocated.

Reputational Risk – Although investment income was not formally approved to be attributed to the Community Services levies, if The City were to be perceived as earning investment income from funds collected from developers and using those funds outside of the intended purpose for which off-site levy funds were collected, this would likely have a negative impact on The City's reputation.

Financial Risk – If the transfer of funds as outlined in the recommendation is to be approved by Council it reduces The City's financial flexibility.

Off-site Levy Bylaw and Audit implementation – These findings may result in impacts to the work on the Off-site Levy Bylaw review and Audit implementation. It is important to ensure that stakeholders understand and are satisfied with the actions taken in response to their questions from 2020 July.

Improvement Initiatives Underway

- Prior to being formally introduced into the Off-site Levy bylaw in 2019, the Community Services levy was voluntary, and the terms and conditions did not specify an attribution of income.
- Recommendation 1 is to allocate the earned investment income to the associated levy accounts from a corporate funding source.
- Recommendation 2 ensures that the Community Services accounts for the Centre City Levy have formal direction on where to direct investment income.
- Administration is currently improving the off-site levy system, governance and addressing the audit recommendations, including internal controls, reporting and process documentation.
- A joint governance committee, with agreed terms of reference, was established in 2020 June with Industry and Administration members to provide greater transparency to the off-site levies.
- The Growth Funding & Investment team in PD is leading a centralized function to consistently administer off-site levies with a cross-corporate team.

Communication

- Once Council direction is confirmed at the 2020 November 02 Combined Meeting of Council, Administration will be informing and engaging BILD and The Commercial Real Estate Development Association (NAIOP), no later than 2020 November 09, at which time this report will be publicly released.
- Communication to appropriate Business Units to occur.
- Audit Committee will be informed if the impact to the financial statements is considered significant.
- External Auditor has been engaged.

Recommendations

That Council direct Administration to:

1. Transfer the confirmed \$56.3 million earned investment income to the associated Off-site Levy accounts from Corporate Programs as outlined in Attachment 1; and
2. Effective 2020 January allocate any future investment income earned on the Community Services portion of the Centre City Levy to the Centre City Community and Recreation infrastructure Centre City levy accounts; and
3. Keep the report and recommendations confidential pursuant to Sections 24, 25 and 27 of the FOIP Act until no later than 2020 November 9.

That Council:

1. Adopt confidential recommendations 1 and 2 as contained in Confidential Report C2020-1237; and
2. Direct that the Closed Meeting discussions, Report, Recommendations, and Attachment remain confidential pursuant to Sections 24 (Advice from officials), 25 (Disclosure harmful to economic and other interest of a public body), and 27 (Privileged information) of the Freedom of Information and Protection of Privacy Act, to be reviewed 2020-11-09.