

Progress on the Development of Financial Tools and Strategies

The following funding tools have been identified as priorities for investigation. These have been chosen because they have the most potential to be effective sustainable sources of funding.

1. Property Taxes

There are various ways to think about how property tax can be used to invest to support and enable growth in developing areas. This includes property tax uplift, a property tax allocation in the current budget and an increase to property taxes specifically for the purpose of investing in established areas.

Property Tax Uplift Pilot

As directed by Council (PFC2020-0381), work has begun on the development of a property tax uplift pilot project in the North Hill Communities. Property tax uplift is not a new property tax. It involves identifying an increase in municipal tax generated by an increase in assessment value, arising from redevelopment. The resulting tax revenue can then be invested back into the community through the City budget.

A property tax uplift methodology is under development and is first being tested in a single community using a demonstration model. The pilot methodology calculates property tax uplift based on new residential unit construction and new built commercial space. The community model will be extended to all North Hill Communities then tested and analyzed through 2021 and 2022 in order to estimate the value of tax uplift related to actual growth within that same period. Once the model is built, an assessment of other areas of the city can be done to determine how property tax uplift may change from area to area depending on the type and rate of development. The evaluation of this pilot may result in recommended policies and investment plans for the use of the resulting tax uplift revenue.

To achieve \$1 million in new property tax revenue, \$209 million of assessment growth from residential redevelopment is required, or \$63 million of assessment growth from non-residential redevelopment. A preliminary analysis of what can be expected for results from implementing a property tax uplift tool is shown in the following tables. Table 1 illustrates the tax calculations for varying amounts of assessed value growth using the 2020 municipal residential tax rate. It is provided for illustration only and is not the results from actual redevelopment projects.

Table 1:
2020 Residential Tax Rate: 0.0047795

Assessed Value Growth	Tax Amount
\$100,000,000	\$477,950
\$120,000,000	\$573,540
\$140,000,000	\$669,130
\$160,000,000	\$764,720
\$180,000,000	\$860,310
\$200,000,000	\$955,900
\$209,226,907	\$1,000,000
\$220,000,000	\$1,051,490
\$240,000,000	\$1,147,080
\$260,000,000	\$1,242,670
\$280,000,000	\$1,338,260
\$300,000,000	\$1,433,850

Table 2 calculates the tax for varying amounts of assessed value growth using the 2020 municipal non-residential tax rate:

Table 2:
2020 Non-Residential Tax Rate: 0.0158278

Assessed Value Growth	Tax Amount
\$20,000,000	\$316,556
\$40,000,000	\$633,112
\$60,000,000	\$949,668
\$63,179,974	\$1,000,000
\$80,000,000	\$1,266,224
\$100,000,000	\$1,582,780
\$120,000,000	\$1,899,336
\$140,000,000	\$2,215,892
\$160,000,000	\$2,532,448
\$180,000,000	\$2,849,004
\$200,000,000	\$3,165,560

Property Tax Allocation

This involves reprioritizing a portion of property tax revenue towards infrastructure and growth-related investment through the City budget. This work is evaluating the contribution redevelopment makes towards The City’s financial resiliency. As a result, there is likely to be more definition around the annual value received from growth-related tax revenue from various types of redevelopment. This work supports Council in applying a strategic approach to budget decisions in support of growth, in balance with other budget priorities.

Property tax allocation would be done through The City's four-year budget and could occur in different ways. One option is an allocation from existing property taxes. This would require reprioritization and reallocation of existing funding. A dedicated tax rate increase could also occur, which would be similar to the approach Council took with new communities and actively developing communities in 2018. While this has occurred, a targeted tax rate increase was a departure from past tax policy. Lastly, a dedication of assessment growth could be used. This would be a change to our approach in determining tax allocations and required tax revenue. As overall capital funding availability decreases, there continue to be competing priorities for this funding source including on-going maintenance and asset renewal.

2. Redirect Capital Budget Savings

Council has directed Administration to look at potential cost savings from growth related capital projects in greenfield areas to allocate budget savings to fund established area capital investments. Council directed Administration to review cost savings from right sizing infrastructure and redirecting current budget from new community savings to established area investments (PFC2020-0963). Previously, Council directed Administration to consider if capital budget savings are achieved once a project is delivered to use those savings to fund Main Streets and established area investments (C2018-1158).

3. Funding Local-Sized Water and Sanitary Pipe Upgrades

Local-sized pipe upgrades are currently the responsibility of the developer as a condition of development. This is sometimes referred to as the "first-in" problem where a developer triggers a utility upgrade and is required to fund the cost of the upgrade. Whereas subsequent development projects can access the same upgraded infrastructure without the same cost.

As part of the off-site levy bylaw review, exploration of an off-site levy for local-sized water and sanitary pipes in the established area has begun. Engagement with internal and external stakeholders on this topic is on-going and initial feedback has indicated there are some potential concerns with this approach, as introducing additional costs in an economic downturn impacts private investment and project viability. Work has begun on evaluating options for a levy, which may include a scalable density-based charge. Another option is to not introduce an off-site levy as a funding tool for this infrastructure and seek a City funding source. Recommendations will be forthcoming as part of the reporting to Council on the progress of the off-site levy bylaw review.

4. Bonus Density

As part of the development of a comprehensive set of financial tools to support investment in the established area, Phase 2 of the EAGCS will include a review of The City's bonus density programs. Bonus density is an incentive-based tool that permits an increase in density beyond a threshold in exchange for public amenities that contribute to the livability of the area of a development. It is currently one of the main financial tools used to support redevelopment in the established area of Calgary. Community representatives, Industry and Administration are eager to undertake a review, with the intent to confirm, amend, or replace bonus density as a tool to support local public realm improvements in redeveloping areas of Calgary.

A desire to look comprehensively at the use of bonus density in Calgary predates the Established Area Growth and Change Strategy (EAGCS). When the Established Area Strategy was created in 2016 as part of the Industry/City Work Plan to address challenges to redevelopment, a review of existing bonusing programs was highlighted as important work. Within Phase 2 of the EAGCS, this work has been identified as part of the comprehensive consideration of financial tools and strategies to support investment in the public realm. Community and Business Area representatives, Industry and Administration are eager to undertake a review, with the intent to confirm, amend, or replace bonus density as a tool to support local public realm improvements in redeveloping areas of Calgary. This attachment outlines the progress and status of discussions to date on bonus density within the EAGCS.

Bonus density is a voluntary system that permits developers to increase the maximum allowable development on a property when additional public amenities are provided to support the increase in density. It is currently one of the main financial tools used to leverage industry's contribution to public realm investment in redeveloping areas of Calgary and is the only tool available for developers and the City to work together to protect privately-owned heritage resources. Bonus density programs have been in place in downtown Calgary since the 1970s, and in a growing number of established areas of the city beginning in 2006. These established areas programs have developed largely independently of each other, with individual Local Area Plans (LAPs) defining unique bonus density frameworks.

The contribution of bonus density to the public realm has been variable according to the local area and priority projects identified in those areas. These programs have supported public realm improvements including park spaces, public plazas, public art, and pedestrian areas. In some areas, bonusing exchanges have facilitated the protection of community heritage assets.

Elements of Bonusing for Discussion in Phase 2

Since inception, there have been both adjustments and major overhauls made to the existing bonusing programs in Calgary with the intent to improve the system. Despite this work, in recent years, community representatives, Industry and Administration have identified both a value, but also a number of concerns with the function and performance of existing bonus density programs. Concern has also been identified with the additional consideration of new bonus density programs in modernized LAP policies.

Some of the aspects of bonusing programs that will be discussed include:

- **Market conditions:** to be successful in helping realize public realm investment, bonus density programs likely need to be applied in areas where increased density is highly valued in an active market. In these market conditions, the cost of bonus density is offset by the market demand of the increase in density. In situations where these market conditions do not exist, bonus density programs are not likely to represent a valuable exchange for developers.
- **Unpredictable source of funding:** given the volatility of the redevelopment market, the bonus density tool has been an unpredictable source of funding. In addition, Community Investment Funds, which accumulate the funds that developers contribute through these programs, can take time to accumulate sufficient balances to undertake and deliver local improvement projects.

- Variations in programs: as bonus density programs tend to be unique to the local area in which they apply, there is diversity in the program structure, contribution rates, density calculations and amenities involved. This can add an additional level of complexity for Administration, Industry and the community.
- Challenges with some amenities: there are technical challenges and complexities involved with some amenities, such as affordable housing and child-care facilities, which has limited their uptake by Industry.
- Low and outdated base densities: bonus density programs are intended to be voluntary. However, there has been criticism that in some areas, due to low base densities and high land costs, the use of bonus density programs is necessary to make larger projects viable. Consideration will be given to the impacts of the Next Generation Planning system on base densities within the established area and the impacts this may have on the opportunities available for bonus density programs.
- Decentralized monitoring and reporting: bonus density projects are generally processed based on the policy direction of the Local Area Plan. A more centralized tracking system of the bonus density granted and public amenities received in exchange is helpful for data-based program reviews, evaluation, and improvement of bonus density programs.

Administration has recently implemented improvements to the internal processing of bonus density applications, to improve consistency and allow for centralized tracking. These improvements are intended to allow bonus density applications to proceed in an efficient and effective manner, until the more robust review can take place. In the downtown area, including the Beltline and Chinatown, amendments to the Area Redevelopment Plans, and specifically the bonus density frameworks, are currently being explored as a means of supporting redevelopment projects, and encouraging below-market rental housing options.

Phase 2 Bonus Density Work Plan

Through the EAGCS Phase 2 work plan, Administration is expecting to have a focused discussion with stakeholders on the future of bonus density as a tool for investment in public realm within the established area. This discussion is anticipated to take place as part of the comprehensive discussion on financial tools and strategies, with the intent of determining the most appropriate combination of tools to support investment in the Established Area. Engagement with City Council is also anticipated during the process, as a means of incorporating all perspectives into the review.

Through this process, existing financial tools (such as bonus density) will be re-examined and new financial tools will be critically explored. Integration with the Guidebook, new Land Use Bylaw and new Multi-community planning process will ensure that our policy direction is technically aligned with the recommended financial and planning tools, and that our policies and procedures allow for the successful application of the tools. Consideration will be given to how bonus density, as well as the other financial tools, compliment and advance the goals and objectives of the Next Generation Planning system. Background research is expected to support the review of bonus density, with consideration of the conditions needed for the success of the tool, and an analysis of historical data to determine the value that the bonus density tool has contributed to the public realm since inception.

The Comprehensive Investment Tools (CIT) working group will support a comprehensive review of financial tools, including bonus density. Administration's recommendations on bonus density will be based on the advice provided by the CIT working group and EAGCS Advisory Group.

Next Steps for Bonus Density

A review of existing bonus density programs continues in Phase 2 of the EAGCS. This is part of the comprehensive consideration of other financial tools and strategies for public realm investment. This comprehensive discussion has started with the foundational information built in Phase 1 that outlines funding sources, investment types, and the financial tools and strategies that are available for use in Calgary. Phase 2 discussions on bonusing have so far provided a common understanding of a bonusing system and how it operates. This prepares the working group to discuss the more technical aspects of bonusing into 2021.

Ultimately, Administration may develop recommendations for other investment tools to complement, or even replace, bonus density programs. With the diversity of stakeholder perspectives, the need to compile reliable data, and the complexity of the analysis required, Administration anticipates the review of bonus density programs will be underway for most of 2021. A collaborative approach is being taken, as a means to arrive at a successful review, with meaningful outcomes that respect the desires of stakeholders. Recommendations to Council on the future use and parameters of bonus density are anticipated to be included in the City-wide Growth Strategy report scheduled for 2022, in advance of the 2023-2026 business plan and budget.