

Calgary Municipal Land Corporation Project Development and Financing

RECOMMENDATIONS:

That Priorities and Finance Committee recommend that Council;

1. Give first reading to Bylaw 9B2021, being a bylaw authorizing The City to incur indebtedness for financing the development of Phase 1 of the Arts Commons Transformation project (the "Project");
2. Give first reading to Bylaw 56M2021, being a bylaw authorizing a loan in the amount of up to \$135 million to the Calgary Municipal Land Corporation;
3. Direct Administration to amend and restate the existing Development Management Agreement among The City, Arts Commons, and the Calgary Municipal Land Corporation, assigning the Calgary Municipal Land Corporation as development manager for design and construction of the Project, Arts Commons as the project sponsor and operator, and The City as a primary funder and interested party; the agreement to contemplate the potential inclusion of a residential tower or other viable uses on the site subject to feasibility, and to delineate the funding requirements for the respective share of the Project capital costs among funders in a form and with terms acceptable to the General Manager Community Services, Chief Financial Officer and the City Solicitor and General Counsel; and
4. Direct Administration to amend, or amend and restate the existing credit agreement with the Calgary Municipal Land Corporation and any appropriate security for repayment of the indebtedness from Calgary Municipal Land Corporation. The form and terms of such amendments shall be in accordance with The City's Credit Documentation - Loans and Loan Guarantees policy and subject to approval of Loan Bylaw 56M2021;
5. Give first reading to Bylaw 58M2021, being a bylaw to amend 12M2019 by amending the interest rate charged on municipal loans made to Calgary Municipal Land Corporation; and,
6. Direct that Attachment 2 and Attachment 6 of Report PFC2021-1101 remain confidential pursuant to Sections 24(1) and 25(1) of the Freedom of Information and Protection of Privacy Act (Alberta) to be reviewed upon execution of finalized agreements.

And that the Priorities and Finance Committee:

7. Direct that this report be forwarded as urgent business to the 2021 July 26 Combined Meeting of Council.

HIGHLIGHTS

- The recent appropriation of the \$77 million of funding from the anticipated increase to the Canada Community Building Fund, along with \$3 million from the Budget Savings Account now provides the balance of funding that was needed to secure the remaining funding approvals and proceed with construction following completion of detailed design.
- The Community Revitalization Levy and the Municipal Sustainability Initiative funding will be used to fund the remaining two-thirds of the Project costs and represents The City's and the Government of Alberta's contributions to the Project.

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- As a result of the timing difference between the Community Revitalization Levy and Project costs, The City is requesting authority to borrow for up to \$135 million with principal and interest to be repaid with future Community Revitalization Levy.
- The proposed Bylaw 9B2021 authorizes The City to incur indebtedness of up to \$135 million and in combination with \$105 million from other City approved sources will fund the design and construction of Phase 1 of the Arts Commons Transformation project.
- The proposed Bylaw 56M2021 authorizes The City to lend up to \$135 million to the Calgary Municipal Land Corporation for the Project.
- **What does this mean to Calgarians?** Arts Commons is a central community gathering place that serves Calgarians through our diverse artistic, education and community engagement programs. The Arts Commons Transformation project will enhance the financial resiliency and sustainability of Arts Commons and the resident companies, while contributing to the economic recovery of Calgary.
- There is direct alignment with the Greater Downtown Plan in exploring a residential tower on the site. If a residential tower is found to be feasible, it would animate the area, and bring revenue through the sale of land or air rights.
- The developer will make an application to The City for a subdivision approval for the land set aside for the theatre, and Administration will bring a disposition report to Council for the potential sale of land or air rights as and when necessary.
- The City will prepare a Method of Disposition Report to SPC on Utilities and Corporate Services to establish terms and conditions for the use of specified parcels on Olympic Plaza for the theatre and the authority to enter into an agreement with Arts Commons for the lease and operation of the new facility prior to occupancy.
- **Why does this matter?** The Arts Commons Transformation project will support the further development of the Arts Commons ecosystem by expanding the venues to attract a diverse community of artists, audiences and resident companies.
- Administration is also seeking Council's approval to amend Bylaw 12M2019 to reflect the revisions to the interest rate calculation as described in detail below, for the internal loan to the Calgary Municipal Land Corporation for the BMO Centre Expansion project.

DISCUSSION

Arts Commons Transformation Financing

On 2019 September 30, Council endorsed Phase I of the Arts Commons Transformation project, which included a preliminary functional program estimate of \$240 million. This estimate became the basis upon which the remaining Project development activities could occur, including accessing funding from other orders of government.

Following the Government of Canada's recent announcement of its intent to double the federal Gas Tax Fund for one year, as the newly renamed Canada Community-Building Fund, and if approved by Parliament, is expected to provide an additional \$77 million in federal funding for The City. In anticipation of receiving this funding, on 2021 April 26, Council approved the allocation of the \$77 million from the Canada Community Building Fund subject to receipt of the 2021 increase and \$3 million from the Budget Savings Account to fund one-third of the Project.

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The remaining two-thirds will be funded through the Municipal Sustainability Initiative and future Community Revitalization Levy. The Calgary Municipal Land Corporation will borrow the funds through The City and from the Province to align with Project cash flow requirements during the construction period, which is anticipated to be between 2024 and 2027. The borrowing will be fully repayable by the Calgary Municipal Land Corporation with Community Revitalization Levy revenues during the extension period.

Calgary Municipal Land Corporation's Board of Directors has approved the appropriation of \$175 million of future Community Revitalization Levy revenues to fund The City's and Government of Alberta's portion of the Project (Attachment 6). This includes the \$135 million capital contribution and \$40 million in financing costs.

The existing credit agreement between The City and the Calgary Municipal Land Corporation will be amended to reflect the additional loans contemplated under this Bylaw, in accordance with The City's Credit Documentation - Loans and Loan Guarantees Policy and Procedures.

BMO Centre Expansion Financing

The City and the Government of Alberta's portion (up to \$333 million) of the BMO Centre Expansion project is funded with the Community Revitalization Levy. Due to the timing difference between the Community Revitalization Levy and project costs, The City requested to provide financing to the Calgary Municipal Land Corporation for up to \$333 million as an internal loan during the construction period, which will be fully repayable with Community Revitalization Levy funds during the extension period (e.g. 2028 to 2047). Interest on the internal loan was set to recover The City's foregone investment income and combined principal repayments, replenish The City's Major Capital Projects Reserve throughout the life of the loan, as set out in Loan Bylaw 12M2019.

The proposed revision to the bylaw includes amending the interest rate calculation to better align the interest rate on the BMO Centre Expansion loan to reflect the structure for the majority of the Calgary Municipal Land Corporation's borrowing. The current interest rate is floating and will create a variable exposure for the debt holder. The proposed amendments will remove the relationship between loan interest costs and investment returns, to ease administration and to improve transparency. Amending the interest rate now aligns this major project borrowing with the newly anticipated borrowing for the Arts Commons Transformation project.

Next Steps

Design development for the Arts Commons Transformation is ongoing, based on the the existing Management Development Agreement between The City, the Calgary Municipal Land Corporation and Arts Commons, and currently funded through the Municipal Sustainability Initiative. A functional program is near completion, and a Request for Proposal for the prime design consultant is planned to be issued in 2021 July.

A residential tower was considered during the design work prior to 2019. More studies are needed to understand the potential programmatic, financial, and schedule impact considerations, including a full risk and benefit analysis.

An amended and restated Development Management Agreement among The City, Calgary Municipal Land Corporation, and Arts Commons to complete the design and complete the construction of the Project is also required, and will be executed once Recommendation 3 has

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been approved, and Bylaw 9B2021 and Bylaw 56M2021 contained in this report have been approved. The Agreement, will become effective only after the Canada Community Building Fund increase has been received by The City, and in accordance with Recommendation 3.

If Bylaw 9B2021, Bylaw 56M2021 and proposed revisions to Bylaw 12M2019 are approved by Council, Administration will amend or amend and restate the existing credit agreement with the Calgary Municipal Land Corporation.

STAKEHOLDER ENGAGEMENT AND COMMUNICATION (EXTERNAL)

- Public Engagement was undertaken
- Public Communication or Engagement was not required
- Public/Stakeholders were informed
- Stakeholder dialogue/relations were undertaken

Public communication and engagement was not required as part of this Council report, however through the Bylaw Approval Process set out in the MGA, and the City of Calgary, Bylaw 9B2021 and Bylaw 56M2021 will be included in a public hearing and receive three readings by Council. The borrowing or lending bylaw must be advertised at least once per week for two consecutive weeks prior to second reading to account for a 15 day petition period prior to second and third reading, for petitions from the public requiring a vote of electors on whether the proposed bylaw should be passed or not. Following three readings by Council the bylaw will be considered valid if no application has been made to the Court of Queen's Bench to have the bylaw declared invalid within 30 days after the bylaw has been passed.

Moreover, at various stages of development the Project will undergo a public engagement process, guided by the Engage Policy, Engage Framework and Process that aligns with its individual planning timelines. The Calgary Municipal Land Corporation has completed a review of program needs and Project goals through interviews with Arts Commons and each of its five other resident companies (Alberta Theatre Projects, Calgary Philharmonic Orchestra, One Yellow Rabbit, Downstage, and Theatre Calgary).

A Public Engagement survey closed on 2021 May 31 and received approximately 1,700 responses. A virtual 'Placemakers Event' about the Project reached people from around the globe (250 individuals with approximately 35% of participants outside of Canada). The results of area stakeholder, the arts community, and public at large comments, form the basis of the June 15, 2021 "Report: What we Heard". The themes arising provide valuable guidance and many actionable recommendations on making the space more practical, attractive, and welcoming.

Arts Commons, resident companies of the Arts Commons, Calgary Municipal Land Corporation, Calgary Arts Development Authority, the Convention District, Calgary Economic Development, Downtown Business Improvement Area, and City Business Units will continue to be engaged in the developmental work ahead.

IMPLICATIONS

Social

The Arts Commons Transformation project aligns with the Greater Downtown Strategy, the Greater Downtown Plan and the associated investments. The Project has been identified as a

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catalytic project for downtown vibrancy. The Project will be required to retain an accessibility consultant who is well-versed in The City's Access Design Standards, the Rick Hansen Foundation Accessibility Certification process, Alberta's Barrier-Free Design Guide, and CNIB's Clearing our Path, to produce an Accessibility Report to guide the design

Environmental

The Project will meet or exceed The City's Minimum Sustainability Performance Requirements, and is targeting LEED Gold certification.

Economic

A 2019 Deloitte Economic Contribution Analysis indicated that 3,155 jobs will be created in Calgary, with \$239 million in labour income, and \$386 million added to Calgary's GDP. Upon completion, Arts Commons (Phase 1 & 2) and its resident companies will collectively contribute \$53 million annually to Calgary's GDP, support 683 jobs and \$34 million in labour income.

Service and Financial Implications

The long-term operations and maintenance costs for the new theatre are material recurring expenditures that are forecast to be self-supporting. Refinement of the operations and maintenance cost estimate will occur during the design and delivery of the Project. In the event that operations are not self-supporting, The City would bring a request for millrate support to a future budget cycle.

RISK

The affordability of the Project could be impacted by scope, schedule, cost uncertainty and the timing of contributions, which will evolve through detailed design and construction. The Oversight Committee comprising The City, Arts Commons and the Calgary Municipal Land Corporation will monitor these changes during the development of the Project. The debt financing for up to \$135 million of the Project costs is over an extended design and construction period and could be impacted by interest rates, market conditions and available financing structures. Key stakeholders from all parties will actively monitor these market dynamics and maintain, and update detailed forecasts to ensure compliance with Council approvals.

The Calgary Municipal Land Corporation has estimated that there will be sufficient capacity within the Community Revitalization Levy to support the repayment of the financing for the Project. There is a risk that the remaining Community Revitalization Levy may be insufficient, in its entirety, to fund all capital projects identified within the Rivers District, including the repayment of the financing for the Arts Commons Transformation project, and additional sources of funding may be required in the event of any deficits experienced over the time horizon.

ATTACHMENT(S)

1. Attachment 1 - Previous Council Direction
2. Attachment 2 - Financial Analysis (Confidential)
3. Attachment 3 - Proposed Borrowing Bylaw 9B2021
4. Attachment 4 - Proposed Loan 56M2021
5. Attachment 5 - Proposed Bylaw 58M2021 to amend Loan Bylaw 12M2019

**Chief Financial Officer's Report to
Priorities and Finance Committee
2021 July 20**

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6. Attachment 6 - Resolution in writing of The City of Calgary as the sole shareholder (the "Shareholder") of Calgary Municipal Land Corporation ("CMLC") dated June 15, 2021. (Confidential)

Department Circulation

General Manager	Department	Approve/Consult/Inform
Katie Black	Community Services	Approve
Carla Male	Chief Financial Officer	Approve
Stuart Dalglish	Planning & Development Services	Approve