

An aerial photograph of Calgary, Alberta, Canada. The top half shows the city skyline with various skyscrapers and the Calgary Tower on the right. The middle section shows a river winding through a green, tree-lined area. The bottom section shows a large green park area with many trees and a few buildings.

Calgary Municipal Land Corporation

West Village Community Revitalization Levy Background Report

April 2016



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West Village-Community Revitalization Levy Background Report

EXECUTIVE SUMMARY

CMLC has conducted an analysis of the potential Community Revitalization Levy (CRL) estimates for the West Village area. CMLC engaged Coriolis Consulting to prepare the background CRL analysis for demand projections and the CRL revenue projections.

The boundary for the CRL is the West Village Area Redevelopment Plan (ARP); Downtown West neighbourhood; and a portion of Sunalta.

Four key assumptions were considered as part of the analysis as they have a significant impact on the outcome of the CRL projections. The assumptions covered are as follows:

- Timelines for remediation;
- Start of construction timing in West Village;
- Tax rates; and
- Inflation.

Although the difficult economic times have curbed overall demand for new housing, conservative estimates for multi-residential and commercial demand were developed for West Village and the surrounding study areas. Commercial demand is minimal due to the surplus of space available in Calgary (approximately 15 million square feet). This represents approximately 14 years of annual absorption at historical rates.

Year 2020 was used as a baseline to calculate the CRL projections and assumes the first developments are completed in 2021. The resulting projected CRL revenues range from \$345 million to \$435 million. It should be noted these revenues can fluctuate depending on economic and market conditions.

BASE YEAR 2020		
AREA	Without commercial anchor	With a commercial anchor
	<u>\$ Mil</u>	<u>\$ Mil</u>
West Village	250	340
Downtown West	73	73
Sunalta	22	22
Cumulative CRL	345	435

Based on the projections for CRL revenues in the range of \$345 million to \$435 million, and initial preliminary cost estimates of draws against the CRL for infrastructure and remediation/risk management, the CRL will not be sufficient to fully fund these requirements at this time. However if economic and market conditions improve considerably, or if the other alternative scenarios are considered from section 2.3 of this report, the CRL may be sufficient to fund the proposed required expenditures.



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CHAPTER 1 – INTRODUCTION

1.1 Background

CMLC has been working on analyzing the future redevelopment potential for West Village over the past four years. CMLC was originally asked by Council in April 2012 to explore strategic opportunities related to future redevelopment projects beyond the Rivers District. Through a series of strategic planning meetings with both the CMLC Board of Directors and City Council as Shareholder, West Village was confirmed as a key future redevelopment area for the City of Calgary that could benefit from CMLC's expertise. A summary of some of the key milestones associated with the strategic planning process from 2012 to 2015 are as follows:

- April 23, 2012 – CMLC's Shareholder, Calgary City Council, approved a Notice of Motion (NM2012-22) requesting CMLC to examine opportunities for next steps in the business plan including West Village.
- September 7, 2012 – CMLC's Board attended a Strategic Planning Retreat and discussed in addition to the future strategic focus of CMLC, options for various potential redevelopment projects that could benefit from the expertise brought to the table by CMLC.
- December 14, 2012 – A Special Shareholder meeting was held and a key component of this meeting was to identify specific redevelopment areas from Council's perspective that could benefit from CMLC's expertise. A short list was created and included West Village.
- February 22, 2013 – CMLC's Shareholder approved CMLC's 2013 Business Plan and budget which included specific direction to perform due diligence and develop preliminary plans for further shareholder consideration for West Village amongst other potential projects.
- March 24, 2014 – CMLC's Shareholder directs CMLC to undertake further due diligence for long term strategic opportunities for West Village.
- February 11, 2015 – CMLC's Shareholder provides specific direction for CMLC to continue analysis of redevelopment options for West Village "including but not limited to environmental and legal investigations related to the future redevelopment potential of the site".
- In the November 9, 2015 Mayors report M2015-0856 requested that CMLC undertake the Community Revitalization Levy (CRL) calculations for the West Village project.

To undertake that work, CMLC engaged Coriolis Consulting to prepare the background CRL analysis related to the demand projections for the area and the CRL revenue projections. CMLC supplied the key assumptions to Coriolis for inclusion in their work.

This report extracts summary information from work completed by Coriolis to March 11, 2016 and is based on current economic and market conditions known to that point in time. Any significant changes to economic or market conditions beyond this date (both positive and negative) could have a material impact upon the projections provided within this report.



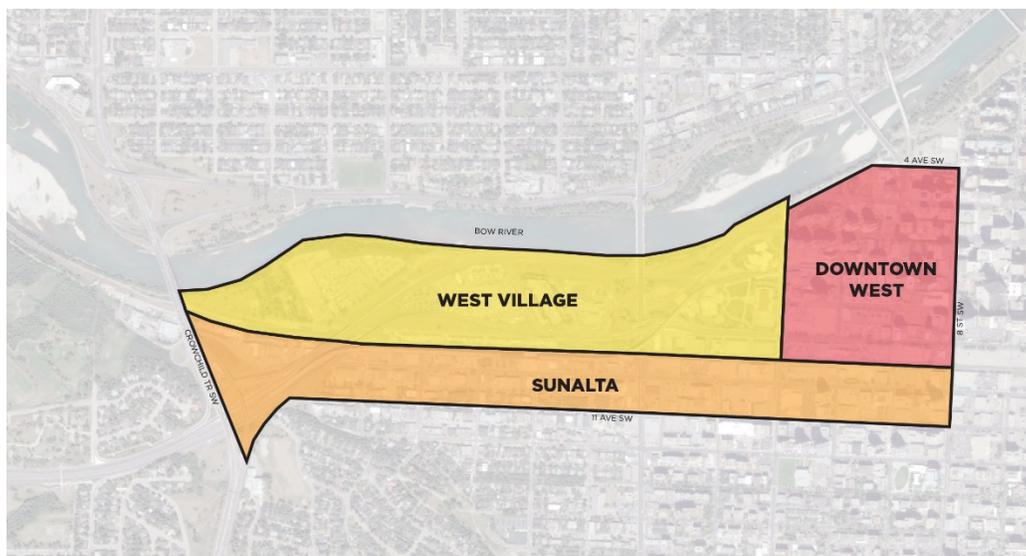
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1.2 Study Areas

The first step in the process to start calculating a potential future CRL is to identify the boundary that a CRL area would encompass. Many iterations are often necessary in the initial planning stages of a CRL to determine what the appropriate boundary will eventually be.

It is noted that according to the province it is up to the municipality to determine the proposed CRL boundary and a CRL boundary area is not required to align to any specific area redevelopment plan. The municipality determines that an area could benefit from a CRL and evaluates the financial viability of implementing a Community Revitalization Levy to ensure adequate resources can be obtained through the program and ultimately meet the objectives which have been proposed in order to revitalize the area. For reference, multiple configurations of the Rivers District were considered prior to the current Rivers District CRL area being put forward for approval.

Previous CRL studies for this area undertaken by The City in 2010 have focused only on the area aligned with the West Village Area Redevelopment Plan (ARP) boundary. As a result of CMLC’s conceptual planning and consideration of redevelopment projects planned for these areas, CMLC has identified two additional adjacent areas that should be considered for inclusion in a future West Village CRL boundary area. The consideration of the following study areas is similar to the initial process followed for the Rivers District.



1.2.1 West Village

The West Village study area is consistent with the West Village Area Redevelopment Plan (ARP) boundary. It is bounded to the north by the Bow River, to the east by 11th Street, to the south by the CPR railway tracks and to the west by the intersection of the Bow River and Crowchild Trail.



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1.2.2 Downtown West

The Downtown West area is adjacent to West Village and is an area that is currently being reviewed for a Downtown West ARP. Given the potential synergies and connectivity between West Village and Downtown West, CMLC has considered Downtown West as an additional study area for potential inclusion in a larger West Village CRL boundary. A Downtown West study area (which is consistent with the area being studied for an ARP) is bounded to the north by the Bow River and 4th Avenue SW, to the east by 9th Street SW, to the south by the CPR railway tracks and to the west by 11th Street SW.

1.2.3 Sunalta

CMLC has studied the potential future linkages between West Village and Sunalta and determined that a number of potential improved pedestrian and vehicular connections could provide future opportunity to link these two areas together. The focus of the study area is limited to two blocks south of the railway tracks as many of the commercial properties in the area are listed for sale and therefore provide a strong opportunity for redevelopment. A Sunalta study area is bounded to the north by the CPR railways tracks, to the east by 9th Street SW, to the south by 11th Avenue SW and to the west by Crowchild Trail.



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1.3 Key Assumptions

In addition to identifying the study area that a CRL boundary could encompass, in order to prepare the CRL projections, a number of key assumptions had to be made. There are four key assumptions outlined in this section of the report that have a significant impact on the outcome of the CRL projections. The assumptions covered are as follows:

- Timelines for remediation;
- Start of construction timing in West Village;
- Tax rates; and
- Inflation.

1.3.1 Timelines for remediation

The estimate of the potential timelines for remediation are outlined in CMLC's "Environmental Background" report provided in conjunction with this Council report. The most efficient and effective means to remediate a contaminated site is to align the remediation effort with a specific detailed redevelopment plan. Prior to beginning any remediation and eventual redevelopment effort, there is a significant amount of time that needs to be spent with the regulator (i.e. Alberta Environment and Parks "AEP") to sufficiently assess the site, review and decide on appropriate remediation technologies and prepare a detailed plan and documentation for approval of a "Remedial Action Plan" for review and approval by AEP.

The estimate of time required to prepare the above information is estimated to be approximately 3 years as noted in the CMLC "Environmental Background" report attached to this Council report. If there is alignment between the Province and The City of political support and agreement between senior management of both entities to expedite this project, the above timeline may be able to be reduced.

1.3.2 Start of construction in West Village

The timing for the start of construction is a key assumption and takes into account many variables in determining this start date. The remediation requirements above must be considered along with the time it will take to plan and execute basic land assembly and configuration as well as infrastructure work. In a scenario where CalgaryNEXT becomes a part of West Village, a considerable amount of planning work must be undertaken to revise the area redevelopment plan to integrate a facility of this magnitude into the community. In a scenario where CalgaryNEXT does not become a part of West Village the ARP prepared in 2010 should still be reviewed for alignment with current redevelopment goals and further detailed planning still needs to take place.

Assuming we were given a green light in April to move forward with redevelopment in West Village as soon as possible the following steps would need to commence and they may take at least 6-7 years depending upon momentum and overall support for moving the project forward:

- Undertake conceptual/master planning for the area and a detailed transportation study that takes into account the significant environmentally impacted areas (8 months to complete).



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- Parallel to this process work with Alberta Environment and Parks to develop a strategy for a Remedial Action Plan (RAP) and draft Risk Management Plan (RMP) that reflects what will be outlined in the final master plan for the community (1-2 years)
- Once a final master plan is completed the ultimate RMP could take at least 1-2 years to get drafted and approved as this is site specific and is a very complex and detail oriented process that involves significant engagement with the regulator
- Based on the final masterplan vision, apply for an Outline Plan through the City of Calgary that will identify new road right of way, titled parcels, and municipal and environmental reserve, and land use districts. The associated ARP amendments will be made at this time as needed (8-16 months)
- Based on the final master plan the planning and design of the infrastructure upgrades required will commence (1 year minimum)
- Public engagement will also be undertaken in a parallel process
- We also would need to be developing a retail strategy and a branding and marketing strategy to sell this area as a master planned community. Some of this work could be done in parallel to the work above but the actual marketing and attraction of developer partners could take a year or more.
- Once parcels are available we can assume the infrastructure and remediation work would start and the first parcels could be sold on relatively “clean” land that has minimal issues and design and construction could start immediately on those parcels while other parcels .

1.3.3 Tax rates

As of March 11, 2016 the property tax rates (both municipal and provincial) have not yet been officially set for 2016. As there is a certain degree of uncertainty with respect to the rates given the new provincial government budget not yet being tabled, we have assumed the starting tax rates to be consistent with those in 2015 for both the municipal and provincial portions. The 2015 rates are held constant throughout the CRL projections and a separate annual inflation amount is factored in separately and is discussed below.

1.3.4 Inflation

We have assumed an annual inflation rate of 2% that covers increases in annual tax rates, the effect of revenue neutral on property taxes, and increases in assessment values over time. Given the current economic conditions, the potential for a decrease in assessment values is possible in the near term, however as we have seen over many years, the economy in Calgary is cyclical and strong recoveries generally follow periods of decline. Therefore although the 2% annual inflation rate may seem conservative, it is established in that manner to allow for potential negative assessment growth in the short term that will recover over the longer term.



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CHAPTER 2 – COMMUNITY REVITALIZATION LEVY CALCULATIONS

2.1 Demand Projections

Preparing the demand projections for a 20 year forecasted CRL in West Village has been a challenging process given the turbulent economic times facing Calgary. All demand projections are based on the best available market and economic conditions available as of March 11, 2016.

The demand projections are not considered in isolation of the overall demand for properties within The City of Calgary. The forecast of demand projections specific to West Village start with a review of the Economic Outlook prepared by Corporate Economics at the City of Calgary. The most recent available publication of this outlook was produced in the fall of 2015; the spring 2016 version is not yet available. An overview of the city wide demand forecasts starts with consideration of the total projected population grown for The City of Calgary and then distributes that growth along the historical patterns of new real estate offerings throughout the city for single family, townhouse and multi-family. As West Village is an urban setting the focus is therefore on multi-residential offerings and the share of the downtown apartment market that West Village is projected to attract.

Ultimately the demand forecasts, along with current economic and market conditions, drive the CRL model for West Village. Based on Calgary's historic market dynamics, absorption of product is limited within a 20 year cycle, thus, the CRL has limitations. A substantial amount of redevelopment potential will remain beyond the 20 year CRL timeline that is being considered.

It is therefore important to carefully consider what 20 year period will provide the best projections for a CRL as implementing it too early will undoubtedly lead to the exclusion of any potential for significant commercial development in West Village being captured in a CRL due to the current surplus of commercial space in downtown. As non-residential properties pay a much higher tax rate than residential properties, it is important to consider when potential commercial properties can be captured in the CRL area. However if a significant amount of commercial property is not anticipated to be captured in the area in any scenario, other considerations such a market demand and draws from other competing projects must be carefully anticipated. The Rivers District has just over 10 years left in the CRL and a significant amount of redevelopment is still planned for this area – as The City has a vested interest in both the current and potential future CRL area in West Village a delicate balance must be maintained in the advancement of West Village as a redevelopment area.

2.1.1 Multi-residential demand

Multi-residential demand is focused on the downtown condo market for new units. Historically this market has absorbed approximately 1,100 units on an annual basis and West Village will receive a share of that. In competition for these sales currently are the redevelopment occurring in East Village, Downtown West, East Victoria Park and the Beltline. Additionally, projects like Currie Barracks and Westbrook are expanding the definition of urban living and are thus, taking downtown buyers out of the downtown core. It is currently estimated that 20-25% of the demand for new units in downtown will be absorbed in West Village and the demand forecasts and resulting CRL projections are based on these estimates.



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2.1.2 Office Demand

As of December 2015 real estate market reports are showing a surplus of approximately 15 million square feet of office space in Calgary. Historical absorption figures have shown that approximately 1.1 million square feet of space is absorbed per year. These numbers would suggest that there is approximately 14 years of surplus space available in Calgary assuming that future absorption rates are consistent with historical ones. Given the large amount of surplus space anticipated to be available over the next 14 years, the CRL projections do not include any significant new office space in the West Village.

We have also analyzed a scenario where specific purpose built retail and/or commercial space would be developed however given the high risk profile of such space, we have not included it in our calculations.

2.1.3 Hotel Demand

As several new hotel projects are underway and the current economic conditions are putting pressure on room rates in existing hotels, we have also not included any new hotel development in our demand forecasts.

2.1.4 Retail Demand

Retail demand is also anticipated to be limited in West Village and will be focused on ground floor retail located in each multi-residential building.

A commercial anchor represents a purpose built commercial development of approximately 700,000 square feet within the West Village.

SUMMARY DEMAND PROJECTIONS - 2020 BASE YEAR				
AREA	Residential	Residential	Commercial no anchor	Commercial with anchor
	<u>Units</u>	<u>SQFT</u>	<u>SQFT</u>	<u>SQFT</u>
West Village	5,180	5,180,000	272,000	972,000
Downtown West	1,554	1,554,000	83,000	83,000
Sunalta	518	518,000	27,000	27,000
Cumulative	<u>7,252</u>	<u>7,252,000</u>	<u>382,000</u>	<u>1,082,000</u>



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2.2 CRL Revenue Projections

The CRL projections are calculated using 2020 as the base year which is aggressive but will align with the desired start of CalgaryNEXT. We have considered two scenarios in the projections, the first which assumes no commercial anchor to be built in order to jump start the CRL in West Village. The second scenario contemplates a commitment to build an additional 700 000 square feet of commercial space within the West Village. The graph below indicates these projections:

BASE YEAR 2020		
AREA	Without commercial anchor	With a commercial anchor
	\$ Mil	\$ Mil
West Village	250	340
Downtown West	73	73
Sunalta	22	22
Cumulative CRL	345	435



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2.3 Alternate Scenarios for CRL projections

The CRL projections noted above are consistent with the current economic environment in Calgary and the legislation associated with existing CRL's. Potentially higher CRL may be realized in the following alternate scenarios:

- The current economic situation improves dramatically and thereby increasing the need for additional commercial space within the next 10 years. Additional commercial space within the study area could increase the CRL projections.
- If purpose built commercial development were to be considered in the study area in excess of the demand projections noted above and any projected CRL were to be guaranteed by a proponent of the project, potential additional funding could be committed to the redevelopment efforts. The guarantee would ensure that if the CRL does not materialize, the funding is available for projects committed to. This is reflected in the upper range of the CRL forecast in this report.
- Current legislation limits the timeline of any CRL to a 20 year period. If a longer time period were to be considered the CRL potential would increase and given a longer timeline, the potential for a recovery in the commercial real estate market is also possible in an extended timeline.
- The larger the CRL study area is, the greater the potential exists for a higher CRL projection (assuming that the demand can support a larger area).



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CHAPTER 3 – COSTS, RISKS AND RECOMMENDATION

3.1 Costs of infrastructure intended to be covered by the CRL

Based on the conceptual analysis work completed in 2014 for West Village, the base infrastructure costs could be \$200 million at a minimum. These estimates would be at best a class 5 cost estimate and are intended to provide only a general indication of what potential infrastructure costs could be. However it should be noted that since these costs were estimated based on conceptual plans that did not take into account any potential specific needs of a CalgaryNEXT project being located in the West Village, the actual estimates could vary widely from these numbers.

In addition to the costs associated with infrastructure, the potential exists for a portion of the remediation and/or risk management costs associated with contamination throughout West Village (Canada Creosote Site and other locations) to be funded by the CRL. Based upon the cost estimates provided in the background report on Environmental Analysis, the total costs for remediation/risk management could be in the range of \$85 million to \$140 million.

Due to the lack of a commercial anchor building there will be need to borrow funds in order to start the environmental and infrastructure upgrade work. This will result in the increase on the cost of borrowing in order to finance the work.

3.2 Risks associated with CRL Revenue Projections

Prior to providing the recommendation related to the CRL it is important to note some of the significant risks associated with these CRL projections as they compare to those made for the Rivers District.

- These projections are not structured to commence immediately given the timelines to address the contamination issues in West Village, the preliminary stage that CalgaryNEXT is at in their planning and analysis, and the significant amount of basic redevelopment planning and approvals required to ready the area for redevelopment by private developers. The projections for CRL made for the Rivers District only envisioned a 1-2 year time lag prior to start – we have at a minimum 6-7 years which increases the risk associated with material changes to the assumptions during that time.
- The current economic conditions, while anticipated to turn around as they have in the past bring an added element of risk due to the uncertainty associated with factors contributing to this downturn.
- The Rivers District CRL calculations were completed when the configuration of the land parcels was determined and therefore a block by block analysis of the redevelopment potential was analyzed. As the ultimate land configuration for West Village is not yet known, a block by block analysis is not possible and only a global estimate for all of West Village is provided. The CRL projections for West Village can be further refined in the future once the land configuration and timing for availability of parcels based upon remediation needs is determined.



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- The CalgaryNEXT project is not anticipated to be a property tax paying project similar to the New Central Library and National Music Centre in the Rivers District. Therefore there will be property tax foregone from the land utilized for this project.

3.3 Recommendation

Based on the projections for CRL revenues in the range of \$345 million to \$435 million, and initial preliminary cost estimates of draws against the CRL for infrastructure and remediation/risk management, the CRL will not be sufficient to fully fund these requirements at this time. However if economic and market conditions improve considerably, or if the other alternative scenarios are considered from section 2.3 of this report, the CRL may be sufficient to fund the proposed required expenditures.



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CHAPTER 4 – OTHER POTENTIAL FUNDING SOURCES

In addition to explore the revenue potential for the CRL, we also examined other potential funding sources available in Canada for brownfield or otherwise contaminated development sites. The following are the potential funding sources that could be further explored in the future.

4.1 Federation of Canadian Municipalities (FCM)

The Green Municipal Fund offers funding under the following parameters:

- 50% (up to) \$175,000 for brownfield planning work or feasibility studies
- 50% (up to) \$350,000 for a Pilot Project
- Up to \$5 million low interest loan will be given to cover capital projects (up to 15% of the loan will be given in a grant).

A feasibility study assesses the technical and financial feasibility, as well as the environmental, social, and economic impacts of a potential municipal environmental project. A municipal environmental project responds to a municipal need and contributes to cleaner air, water, or soil, or reduces greenhouse gas emissions. Typically, a feasibility study examines the requirements and outcomes of a specific project using verifiable evaluation processes, leading to a recommended course of action. Feasibility studies are important prerequisites for all Green Municipal Fund pilot project and capital project applications.

The Pilot Project grant (formerly called a field test) allows for an evaluation of a new technology or solution under its expected operating conditions. It assesses technical and financial feasibility using a verifiable monitoring and evaluation process, and it examines the environmental, social and economic performance of a potential full-scale implementation. Typically, a pilot project minimizes capital costs and is geared for permanent installation should the pilot succeed.

A capital project involves the retrofitting, construction, replacement, expansion, or purchase and installation of fixed assets or infrastructure that will improve environmental performance in municipal, energy, transportation, waste, or water, or some combination of these sectors. Brownfield sector capital projects involve soil remediation or removal.

Applications for funding under the above parameters could be considered for the West Village project.

4.2 Government of Canada and Province of Alberta

At the present time there are no applicable funding sources available at either level of government specifically targeted at the remediation of a contaminated site such as West Village. However program requirements for Build Canada and Municipal Sustainability Initiative include provisions where funding could be allocated towards some of the work to be undertaken in the West Village area.