

UPDATE ON KEYSTONE FUNDING AND FINANCING PROPOSALS

EXECUTIVE SUMMARY

Two funding and financing proposals have been submitted by developer groups in the Keystone Hills Area Structure Plan. The two proposals are known as East Keystone and West Keystone, and Administration continues to evaluate the proposals in the context of Council's approved principles for financing and funding and the Sequenced List from the Framework for Growth and Change.

This report fulfills Council's 2014 June 09 direction to bring a status report on the proposals to the 2014 July 15 Priorities and Finance Committee (PFC). The proposals are modified Construction Finance Agreements (CFA), with considerations for operating costs included.

Administration has reviewed the proposals on the five parameters included in Council direction of 2014 June 09. However, with the Council approval of the Northpoint funding and financing proposal on 2014 June 23, any additional funding and financing proposals predicated on a CFA will further exceed the drainage debt servicing limit for Water Resources, and impact both the Utilities and Corporate debt limits. The amount of Capital Costs involved would depend on the outcome of what infrastructure is needed to serve an agreed amount of land. Currently, that amount could be anywhere between \$30M to \$100M for both East Keystone and West Keystone Stage 1.

This report provides responses to the five parameters, although due to the complexities of gathering and analyzing this information, complete answers are not yet available.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee (PFC) recommend that Council receive this report for information.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2014 JULY 15:

That Council:

1. Receive this report for information;
2. **Direct Administration to investigate the viability of landowner "gifting" proposals in Keystone West, with the intent of having no cost to The City now or in the future, including any potential impacts on off-site levies; and to report back to the Priorities & Finance Committee as part of the reporting back on construction financing agreement and borrowing terms; and**
3. **Direct Administration to proceed with negotiating construction financing agreements for East and West Keystone for an area not to exceed 1400 units in total; and report back through the Priorities & Finance Committee by 2014 October 28 at the latest, on the status of the agreement including dollar amounts, impacted budget programs, repayment terms, and impact on the debt.**

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Opposition to Recommendations:

Opposed: D. Farrell

PREVIOUS COUNCIL DIRECTION / POLICY

Council has approved the policies for development in the Keystone Hills area through the adoption and approval of the following reports:

On 2012 July 16, the Keystone Hills Area Structure Plan (ASP) was adopted by Council, under bylaw 15P2012.

On 2012 October 15, Council adopted PUD2012-0690, including approving Principles and Guidelines for Financing and Funding.

On 2014 June 09, PFC2014-0389 was approved by Council with the following amended recommendations:

“Adopt, Moved by Councillor Stevenson, Seconded by Councillor Magliocca, that the Priorities and Finance Committee Recommendations contained in Report PFC2014-0389 be adopted, as follows:

That Council:

1. Approve the Northpoint Funding and Financing Proposal detailed in Attachment 1
2. Approve, in principle, the East Keystone Stage 1 Funding and Financing Proposal detailed in Attachment 2 and advance the request to remove the Growth Management Overlay to Council; such request to include Administration and lead landowner(s) agreement with respect to:
 - a) incremental operating costs
 - b) growth Management Overlay removal area
 - c) fire response times
 - d) off-site transportation infrastructure upgrades
 - e) implications to long term debt servicing;
and to report back to the Priorities and Finance Committee with a Status Report, no later than 2014 July 15; and
3. Refer Councillor Stevenson’s proposed Recommendation 3 to Report PFC2014-0389, as follows, to the Administration to analyze the new proposal and develop Recommendations for Council, returning to the Priorities and Finance Committee, no later than 2014 July 15:
“Approve the West Keystone Hills Stage 1 Financing and Funding Proposal – a low cost/high benefit land supply opportunity (Mar 31/14), as amended (May9/14) and further, to return to Council to remove the Growth Management overlay for West Keystone Hills, Stage 1.”

BACKGROUND

Following the direction received in PFC2014-0389, amended proposals for both East and West Keystone have been submitted to Administration. Both developer groups have met numerous

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times with Administration as they have pursued funding and financing proposals that would meet the Council approved Principles and Guidelines for Financing and Funding.

Comprehensive review of the proposals is still underway. The process of evaluation is a dynamic and iterative process since the proposals are continually evolving in response to issues as they arise during the investigation and analysis stage.

East Keystone Applicant Submissions:

- 2013 November 15, Titled “East Keystone Financing and Funding Proposal”. Landowner: Brookfield Residential, Genstar Development Company, Melcor Developments, Pacific Investments Ltd. and Walton Development & Management
- 2014 March 10, Titled “East Keystone Hills Demonstration Case Modified Construction Financing Agreement”. Landowners: Brookfield Residential, Genstar Development Company
- 2014 April 14, Titled “East Keystone Hills Demonstration Case Modified Construction Finance Agreement”. Landowner: Brookfield Residential, Genstar Development Company
- 2014 May 12, Titled “East Keystone Hills Demonstration Case Modified Construction Finance Agreement”. Landowner: Brookfield Residential
- 2014 June 27, Occupancy Plan until 2023 for lands owned by Brookfield in both east and west Keystone.
- 2014 June 27, Proposal received to address fire coverage. Brookfield Residential.

West Keystone Stage 1 Applicant Submissions:

- 2013 December 3, Titled “West Keystone Hills Financing and Funding Proposal”.
- 2014 March 13, Titled “West Keystone Hills – Stage 1, Addendum to the Financing and Funding Proposal”.
- 2014 March 31, Titled “West Keystone Hills, Stage 1 Financing and Funding Proposal – Low Cost/High Benefit Land Supply Opportunity”.
- 2014 April 4, Titled “Addendum to West Keystone Hills, Stage 1 – Financing and Funding Proposal – Low Cost/High Benefit Land Supply Opportunity”.
- 2014 April 15, Titled “West Keystone Hills Stage 1 Financing and Funding Proposal – Low Cost/High Benefit Land Supply Opportunity”.
- 2014 May 28, Letter requesting a Fire Risk Analysis.
- 2014 June 11, Phasing Plan Provided with a Transportation Cap.
- 2014 June 23, Phasing Plan for all of West Keystone Stage 1 provided.

Two significant events have occurred since the 2014 May 20 PFC report that bear mention:

- Water Resources has amended their Water Infrastructure Investment Plan (WIIP) for 2015-2024 to include West Keystone in 2024. Revisions were made based on the latest land supply forecast in the 2014-2018 Suburban Residential Growth Report.
- A Global Transportation Impact Assessment (TIA) for the area, which includes the East and West Keystone proposals, has been reviewed by Transportation. The City of Calgary is planning to construct ramps at Stoney Trail and 14 Street NW in 2014 or 2015. Once in place, this infrastructure will allow for a build out of approximately 1200-1400 units in all of Keystone ASP Area. Future construction of the full Stoney Trail/14th Street Interchange will

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be required to allow additional growth, estimated to be approximately 3200-3400 units, in all of the Keystone ASP Area.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

East and West Keystone '5 Parameter' Status

The following summary is the current status for both East and West Keystone with respect to the Council directed parameters.

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East Keystone:

- a. Incremental Operating Costs:
Evaluation is Ongoing – Details of how to determine the community start-up fee/property tax top-up are being determined between Law, Assessment, and the Applicant.
- b. Growth Management Overlay Removal Area:
Evaluation is Ongoing – The Growth Management Overlay removal area is still being determined and is dependent on Fire Department's risk assessment and the transportation solution, based on linking land use approval to servicing capability. Meetings are ongoing with the Applicant and Administration.
- c. Fire Response Time:
Evaluation is Ongoing – Fire has indicated the areas south of 144th Avenue as well as a small portion north of 144th Avenue should have sufficient emergency response coverage, otherwise the need for a new fire station to cover the remaining portions of the Keystone Hills ASP area would be required. Further information was received from the Applicant on 2014 June 27. Using this information, Fire will complete its risk assessment to determine the permissible growth management overlay removal area from Fire's perspective.
- d. Offsite Transportation Upgrades:
Evaluation is Ongoing – Administration is currently working with and evaluating a number of proposals for land use and build out timing in East and West Keystone and related transportation infrastructure. Administration continues to work with the various parties to fully and fairly evaluate each scenario. The corresponding growth overlay removal is dependent on these solutions. The Applicant may opt to front end the transportation infrastructure costs. Transportation issues are co-dependent on the West Keystone Stage 1 Funding and Financing Proposal.
- e. Implications to Debt Servicing:
Limitation – Preliminary financial analysis indicate that the front ending costs included in a CFA will impact the corporate debt servicing levels, the Utilities debt limit, and require Council's approval for a further temporary increase to the drainage debt servicing limit. Further discussions and agreement with the Applicants will be required to finalize the infrastructure requirements and repayment terms which will enable The City to finalize the financial analysis and determine the full impact and whether or not the corporate debt limits will be close to capacity or exceeded.

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West Keystone Stage 1:

- a. Incremental Operating Costs:
Conditional Resolution – The City will invoice the Developer Group from year to year on based on preliminary estimates of incremental operating costs for new growth areas. Further work to refine these estimates for the West Keystone proposal areas will be completed upon finalization of the required infrastructure by the Developer.
- b. Growth Management Overlay Removal Area:
A Growth Management Overlay removal area has been tentatively determined based on an agreed transportation solution.
- c. Fire Response Time:
Agreement in Principle – Based on a risk assessment from the Fire Department, there is sufficient coverage for emergency response for the area of West Keystone Stage 1 without the use of additional mitigating measures.
- d. Off-site Transportation Upgrades:
Evaluation is Ongoing: Currently working with and evaluating a number of proposals for build out timing in East and West Keystone and related transportation infrastructure. Administration continues to work with the developer groups to fully and fairly evaluate each scenario, and work towards clarity on what is an optimum proposal for build out of development and infrastructure. The Applicant's current proposal is to avoid triggering the 14th Street Interchange; they are willing to work with an imposed cap on development. Transportation issues are co-dependent on the East Keystone Funding and Financing Proposal.
- e. Implications to Debt Servicing:
Limitation - Preliminary financial analysis indicates that the front ending infrastructure costs will impact the corporate debt servicing levels, the Utilities debt limit, and require Council approval for a temporary increase to the drainage debt servicing limit. Further discussions and agreement with the Applicants will be required to finalize the infrastructure requirements and repayment terms which will enable the City to finalize the financial analysis and determine the full impact and whether or not the corporate debt limits will be close to capacity or exceeded. The Developer Group has indicated they would be willing to donate the capital infrastructure for storm (\$1.5M) to help alleviate the impact to the Water Resources' Drainage debt servicing limit.

Finally, Administration continues to work with the developer groups in order to understand impacts to The City's capital budget priorities:

- Where applicable, finalization of the proposal area and proposed repayment terms by the developer groups, and an understanding of timing for infrastructure required to service the proposal area that is not included in proposal.
- Background information is required on cost estimates proposed by developer groups.
- Land supply analysis demonstrating the benefits of development of the Keystone lands, ahead of City's timing. Analysis by Administration and the developer groups needs to include the impact to market absorption in the north half and citywide for the period of development.

Stakeholder Engagement, Research and Communication

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Administration met with the developers and their consultants in multiple working committee meetings. This enabled all the infrastructure owners to discuss the issues openly and to determine solutions or next steps from a corporate perspective.

Essential technical and financial details are currently being evaluated to determine the feasibility of a modified CFA. These assessments require a high level financial analysis to determine the impacts of these investments. Without those details, it is premature for Administration to make a final recommendation.

Strategic Alignment

The outline plans for these proposals are to align with the North Regional Context Study and the Area Structure Plan for Keystone Hills.

The proposal was evaluated against the Council approved Principles and Guidelines for Financing and Funding, and Administration and the developer group are working within those principles in the forefront.

Social, Environmental, Economic (External)

Social

The proposal provides a means to complete existing developing communities and provide the services to initiate new areas of growth.

Environmental

The proposals' impacts on the environment are being considered as part of the regular Outline Plan review.

Economic (External)

Investment in this area, at this time, would add more serviced land in the city and help to increase market choice in the housing market.

Financial Capacity

Current and Future Operating Budget:

As a status update this report has no direct operating budget implications. According to the Principles approved in 2012 October, alternative financing and funding agreements should not result in increased operating costs to The City until the City would have normally built the infrastructure. Administration is currently working to determine the incremental operating costs associated with proposals and the appropriate method of funding in order to satisfy this principle. Finalization of the area in question and the timeline for infrastructure under the proposal is necessary to fully evaluate the operating impacts.

Current and Future Capital Budget:

As a status update this report has no direct capital budget implications. Once the area and infrastructure are finalized, the full implications can be assessed. According to the Principles approved in 2012 October, alternative financing and funding agreements should not reprioritize the capital budget by delaying infrastructure investment that has been prioritized ahead of the infrastructure included in the proposal. The impacts on The City's, Utilities' and Drainage's debt

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and debt service limits will also be assessed to inform Council of the degree to which individual limits may be exceeded and to ensure that there is no unintended reprioritization of the capital budget.

Risk Assessment

The evaluation of and reporting on these proposals has required significant resources from all departments. The resources allocated for modified Construction Financing Agreements has exceeded the level anticipated in the corporate workplan for 2014. There is also currently no cost recovery for reviewing funding and financing proposals. Other growth management work may be at risk of deferral.

REASON(S) FOR RECOMMENDATION(S):

Administration is evaluating two funding and financing proposals in the Keystone Hills Area. Council approved funding and financing principles, The City's financial position and policies, and efficient provision of leading infrastructure are the key issues that must be resolved before Administration can make a recommendation.