

## **FRAMEWORK FOR GROWTH AND CHANGE: EVALUATION OF A NEW FINANCING AND FUNDING SYSTEM**

---

### **EXECUTIVE SUMMARY**

This report presents Administration's evaluation of a preliminary Urban Development Institute (UDI) proposal for a new Financing and Funding system for infrastructure in Developing Areas. UDI's framework for a new system has some merits that are worth continuing to investigate. However, legal and administrative concerns have been identified that suggest the potential implementation of this new system is not advisable until the negotiated rates within the current Standard Development Agreement (SDA) end on 2015 December 31. Administration will continue to work with UDI to provide the necessary information to identify and resolve issues with their proposal as they arise.

### **ADMINISTRATION RECOMMENDATION(S)**

That the SPC on Planning and Urban Development recommends that Council receive this report for information.

### **RECOMMENDATION OF THE SPC ON PLANNING AND URBAN DEVELOPMENT, DATED 2013 DECEMBER 04:**

That the Administration Recommendation contained in Report PUD2013-0771 be approved.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

On 2013 April 22, Council adopted Report PUD2013-0357 directing Administration to "[b]egin evaluation of a new system similar to a Permanent Area Contribution for developer funding of leading infrastructure in the context of the Growth Management Framework and report back on the progress to the SPC on Planning and Urban Development not later than the 2013 July meeting."

On 2013 May 13, Council adopted a Motion Arising with respect to report VR2013-0051 directing Administration "to review and assess a proposal from the Urban Development Institute (UDI) on an alternate Funding and Financing system which incorporates a Permanent Area Contribution type Industry funding of leading infrastructure, and provide recommendations on any necessary modifications and an implementation timeline of this or any alternate funding and financing system with a focus on minimizing debt and risk to The City, for no later than the 2013 December 04 Meeting of the SPC on Planning and Urban Development."

### **BACKGROUND**

Council approved a new Municipal Development Plan (MDP) in 2009 in which Part 5 of the MDP established the Framework for Growth and Change. To support efficient infrastructure investment, Council requires a decision framework to determine when to commence planning, financing, and servicing in order to optimize processes and timing for development in new and existing growth areas. A key component of the Framework for Growth and Change is the Financing and Funding system for infrastructure in growth areas.

## **FRAMEWORK FOR GROWTH AND CHANGE: EVALUATION OF A NEW FINANCING AND FUNDING SYSTEM**

---

For development in new suburban areas, The City currently requires developers to build on-site infrastructure and pay acreage assessments for the following infrastructure:

- Water, sanitary infrastructure including treatment plants;
- Storm Sewers; and
- Roads

The City has also negotiated within the SDA the Community and Recreation Levy (CRL) which are acreage assessments for the following infrastructure:

- Emergency Response stations
- Police stations;
- Recreation Centres;
- Libraries;
- Large Transit busses.

With the exception of Storm Sewers, all acreage assessments are calculated on a city-wide basis with respect to the benefit accruing to new growth areas.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Through the Financing component of the Corporate Growth Management Project, Administration has been discussing with a sub-committee of the Urban Development Institute (UDI) the potential for implementing an alternative system for funding infrastructure. The goal has been to explore whether the current acreage assessment system that The City currently uses for offsite infrastructure could be replaced by a system modelled on the Permanent Area Contribution (PAC) system that The City of Edmonton uses for some of its offsite infrastructure.

On 2013 August 06, UDI presented Administration with a framework for a proposal (Attachment 1) that is described as a hybrid between the current acreage assessment and a PAC-type system. This means that there is essentially a change in the definition of onsite (local) infrastructure, which developers would install and collect back from other developers through oversize provisions, and offsite (regional) infrastructure that would still be subject to acreage assessments.

The proposal as currently presented is not complete, but rather a framework for developing a more complete proposal. As such, Administration cannot fully comment or make recommendations on changes. Since early September, Administration has been meeting weekly with UDI to provide an understanding of the issues, barriers and risks that would need to be addressed within the proposal, as well as supplying additional information to UDI as needed. A key barrier is a lack of clarity with regards to UDI's ultimate goal and application of their proposal, whether it is meant to be applied to all or selected developments, whether it is purely an alternate funding and finance replacement for levies, a reprioritization process based solely on funding, a means of adding serviced land supply beyond Council targets, or some combination of these outcomes.

In light of these ongoing discussions with Administration, UDI has requested some time to reconsider their framework proposal. Also, in a letter dated 2013 October 17 to Council and

## **FRAMEWORK FOR GROWTH AND CHANGE: EVALUATION OF A NEW FINANCING AND FUNDING SYSTEM**

---

senior management, UDI requested a round table discussion on the costs of growth. In subsequent communication with Administration, UDI has indicated that they believe that further refinement of their proposal should be placed on the “back burner” until this round table discussion has occurred.

A number of issues including the clear identification of the division of infrastructure responsibilities and methodologies for calculating benefitting areas will need to be addressed. However, at this stage it is clear that there are two significant legal issues that have been identified:

- Under this system, there is greater uncertainty and risk around the PAC-funded infrastructure in that if implemented through conditions of approval rather than through an offsite levy, these could be challenged and subject to the discretion of the Subdivision Development Appeal Board (SDAB), allowing the SDAB to become a more predominant and unpredictable factor in the financing of municipal infrastructure
- Implementing this system, even for one area as a pilot, would require recalculating the current city-wide acreage assessments, along with the required stakeholder consultation. For this reason, it is not recommended that this system be considered for implementation until the negotiated rates within the current Standard Development Agreement end on 2015 December 31.

A well-crafted system has the potential to reduce both debt and risk to The City. However, Administration is concerned that if not carefully crafted, this type of funding system could inhibit the implementation of the growth management framework and the City’s ability to provide services to growth areas, and lead to less efficient development, including higher long term operating and maintenance costs. Another concern that has been identified is the potential that this proposal could unduly advantage larger developers at the expense of smaller ones and lead to less certainty for some developers in terms of the timing of development.

Administration is continuing to work with UDI to discuss and address all issues in order to assist them in preparing a complete proposal.

### **Stakeholder Engagement, Research and Communication**

Administration has held ongoing discussions with a limited number of members of UDI. More extensive engagement of the full membership of UDI as well as with impacted stakeholders outside of UDI will be required once a complete proposal is available.

### **Strategic Alignment**

In order to align with other policy documents, including the MDP, Calgary Transportation Plan, Calgary Metropolitan Plan, and the 2020 Sustainability Direction, this proposal will need to address The City’s ability to manage growth according to the Framework for Growth and Change when developers are building more of the infrastructure. It will also need to address the City’s ability to provide services to the PAC areas as well as the necessary operating and maintenance budget allocation.

## FRAMEWORK FOR GROWTH AND CHANGE: EVALUATION OF A NEW FINANCING AND FUNDING SYSTEM

---

### Social, Environmental, Economic (External)

#### Social

The evaluation of an alternative funding system will consider the potential impacts on the funding of complete communities including social infrastructure.

#### Environmental

The evaluation of an alternative funding system will consider the impact on The City's ability to meet environmental objectives.

#### Economic (External)

The evaluation of an alternative funding system will consider the impact on the health and competitiveness of the development industry.

### Financial Capacity

#### Current and Future Operating Budget:

There are no immediate operating budget implications to this report. The system proposed may have operating cost implications for future budgets.

#### Current and Future Capital Budget:

There are no immediate operating budget implications to this report. The system proposed may have operating cost implications for future budgets.

### Risk Assessment

The following risks have been identified at this time:

- A PAC-type system that is not well defined could lead to The City losing control over development decisions and allow developers to circumvent the Growth Management Framework.
- The PAC system could cause the operating and maintenance budget requirements to increase.
- The proposed system could have high administration costs, particularly if multiple areas are developing concurrently.
- The proposed system could inequitably disadvantage smaller developers and lead to a less competitive development industry.
- Changes in land ownership could bring uncertainty in completing PAC areas.
- Lack of adequate controls could lead to smaller, less efficient development areas that lead to higher operating and maintenance costs for The City.

**FRAMEWORK FOR GROWTH AND CHANGE: EVALUATION OF A NEW FINANCING AND FUNDING SYSTEM**

---

- The PAC system may be less transparent due to greater complexity than the current system.
- Implementing the PAC system may lead to legal challenges by developers who have not been involved in drafting the proposal.
- Implementing this system prior to the expiration of the development would require recalculation of the city-wide levies or increase the risk of legal challenges.
- A PAC-type system could result in the SDAB playing a pivotal and unpredictable role in the funding of municipal infrastructure if not implemented through offsite levies.

**REASON(S) FOR RECOMMENDATION(S):**

This report responds to Council's direction for an evaluation of a UDI proposal for a Financing and Funding system.

**ATTACHMENT(S)**

1. Draft Framework for An Alternate Funding & Financing System
2. UDI Engagement Meeting Summary