

Draft Framework for an Alternate Funding & Financing System

A DISCUSSION PAPER

Urban Development Institute - Calgary
2013 JULY 30





URBAN DEVELOPMENT INSTITUTE - CALGARY

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August 6, 2013

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Corporate Growth Management Project
Planning, Development & Assessment Department #8039
The City of Calgary

Dear Chris,

On behalf of UDI – Calgary and our Financing and Funding Steering Committee, please accept this “Discussion Paper on the Draft Framework for an Alternate Financing & Funding System.”

This discussion paper offers the development industry’s perspective on what the key components of an alternate funding and financing system could include, as well as on how implementation of the system could unfold.

Please note that this is by no means a firm or defined proposal. Rather, the discussion paper is simply a means to start the conversation with Administration about an alternate approach to funding and financing leading infrastructure.

We realize that much more in-depth discussion and analysis will need to take place between UDI – Calgary and The City of Calgary over the next month or two in order to better refine and evaluate an alternate funding and financing system to the point where both The City and The Industry are in agreement.

One aspect that will be extremely important for us to validate is the financial viability of an alternate system as there has not yet been an opportunity to test key components of the alternate system proposed. Testing on a specific project will certainly need to take place in order for the proposed alternate system to be accepted by all stakeholders.

We look forward to working collaboratively with you and City decision-makers in the very near future to discuss and refine the key components as presented in this discussion paper.

Sincerely,

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Section One

Overview



1.1 Overview and Background

1.1.1 Purpose of This Discussion Paper

Calgary City Council has asked UDI and the Administration for an alternate mechanism to fund and finance leading infrastructure in developing communities. The intent of this discussion paper is to offer The City of Calgary's Growth Management team an overview of the Development Industry's thoughts on potential principles and implementation practices for an alternate Funding and Financing System (FFS) within the Growth Management Framework. It is hoped that once the collaborative working sessions between UDI and Administration resume, this discussion paper will assist in moving our conversation forward and serve as a foundation for beginning to validate the 'nuts and bolts' of how the system could work from both a transitional and a future implementation perspective. Through the collaborative working sessions, UDI looks forward to working with Administration and evaluating an alternate FFS in order to prepare recommendations for Council as per Council direction.

This discussion paper is not intended to bind UDI or The City to any possible future arrangement prior to completion of a detailed and collaborative proposal for an alternate FFS.

1.1.2 Objective and Timing

The objective of this discussion paper is to build consensus with the Administration on the various elements of an alternate FFS. From a timing perspective, UDI hopes to begin implementation of an alternate FFS in early 2014. Figure 1 (Funding & Financing and Growth Management Chronology) summarizes the proposed objectives and timeline.

FIGURE 1: FUNDING & FINANCING AND GROWTH MANAGEMENT CHRONOLOGY

| TIMELINE | |
|----------------|---|
| 2013 Q1 | <ul style="list-style-type: none"> • UDI forms Steering Committee to explore possibility of an alternate Funding & Financing System (FSS) within the Growth Management Framework • UDI meets with Chris Jacyk & Darren Martin to declare an interest in exploring alternate options |
| Q2 | <ul style="list-style-type: none"> • UDI presents the concept of an alternate system to PUD on April 10, 2013 • Two meetings between UDI and City Funding & Financing Committee occur before being suspended • May 13: Council adopts motion to have Administration evaluate and report on implementing an alternate FSS and report back in December • UDI continues to refine their proposal for a developer-funded system |
| Q3 | <ul style="list-style-type: none"> • Meetings between UDI and City Administration resume • September 6: SPC-PUD Meeting on Growth Management (Update on Growth Management with an Integration of Prioritized List, Land Supply and Funding & Financing to enable a Preliminary Sequenced List for Future Budget Considerations • September 23: Growth Management Prioritization List to Council |
| Q4 | <ul style="list-style-type: none"> • October 21: Civic Election • November: Budget Refinements for 2014 • December 4: An alternate FFS Evaluation Recommendation and Implementation Guideline Report from Administration to SPC-PUD |
| 2014 | <ul style="list-style-type: none"> • Possible implementation of an alternate FFS to new infrastructure projects |

1.1.3 Previous Council Direction

Council wishes to investigate alternate funding and financing systems. UDI supports this objective.

At the 2013 April 10 meeting of SPC on Planning and Urban Development (PUD), Committee directed Administration to continue to work with stakeholders to:

- a) *“Continue to improve the currently available financing and funding tools and to pursue other tools to finance and fund growth-related infrastructure, and report back to Council through the SPC on Planning and Urban Development in conjunction with the annual reporting for the Framework for Growth and Change with any recommended changes to financing and funding tools; and*
- b) *Begin evaluation of a new system similar to Permanent Area Contribution (PAC) 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.”*

Council gave additional direction to Administration at the 2013 May 13 Strategic Session, whereby:

“As a refinement to the motion of the SPC on Planning and Urban Development on 2013 April 10 and of Council on 2013 April 22, 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.”

1.1.4 Growth Management and Funding & Financing Background

An increase in City debt due to growth-related capital costs was raised as an issue in February 2011. Council then provided direction to the Administration to develop a framework for growth and change.

Funding and financing principles, a key element of the growth management framework, were approved by Council in 2012 October at which time it was acknowledged that the two major stakeholders in funding infrastructure are The City and Developers.

1.2 Proposed Principles & System Overview

1.2.1 Overarching Principles

The adopted Municipal Development Plan (MDP) and Framework for Growth and Change provide policy direction and the basis for an alternate approach to funding and financing infrastructure.

The following 5 principles form the foundational elements of the alternate FFS. They address the most important aspects of an alternate system from both The City and the Development Industry perspective: **risk**, **debt** and **control**.

1

The responsibility for financing leading infrastructure would shift from The City to the Developer.

2

The responsibility for assuming leading infrastructure debt-related risk would shift from The City to the Developer.

3

The City would maintain control of growth management and land use.

4

The costs of funding leading infrastructure would be paid for by those receiving benefit from the infrastructure.

5

Infrastructure would be staged to match the specific need and avoid premature over-expenditure.

1.2.2 Options

There are many national and international alternatives for funding and financing infrastructure. While some of these systems and options offer possibilities for Calgary, the Municipal Government Act (MGA) provides clear guidance and limitations for funding and financing options in Alberta.

At present, Calgary and Edmonton operate under quite different funding and financing systems. Calgary's system is primarily based on acreage assessments and offers a more uniform charge across all areas. Edmonton's system is primarily based on a Permanent Area Contribution (PAC) model. This model is focused on catchments and requires more front-end financing to be provided by private sector landowners and developers.

1.2.3 Hybrid System

The alternate FFS described in this discussion paper combines the most effective elements of both the Permanent Area Contribution (PAC) system used in Edmonton and the Average Cost Acreage Assessment system used in Calgary, thus forming a 'hybrid' system. Through this approach, it is anticipated that UDI and The City can leverage the strengths of both systems while minimizing the weaknesses.

Figure 2 (Current 2013 Infrastructure Funding Comparison Between Calgary and Edmonton) on the following page compares the existing Calgary and Edmonton Systems.

Figure 3 (Alternate Funding and Financing Options for Leading Infrastructure) summarizes the key elements of our proposed hybrid system.

The options presented in Figure 3 are based on the current Standard Development Agreement (SDA) between The City and the Industry. This would not preclude UDI from continuing discussions with The City about acreage assessments and the MGA.

**FIGURE 2: CURRENT 2013 INFRASTRUCTURE FUNDING COMPARISON
BETWEEN CALGARY AND EDMONTON**

| INFRASTRUCTURE | CITY OF CALGARY TREATMENT OF CAPITAL COSTS | CITY OF CALGARY TREATMENT OF OPERATING COSTS | CITY OF EDMONTON TREATMENT OF CAPITAL COSTS | CITY OF EDMONTON TREATMENT OF OPERATING COSTS |
|---|--|--|--|--|
| LEADING | | | | |
| A. WASTEWATER a. Collection • Trunks > 600mm • Pumping facilities | Acreage Assessments | • Utility Charges ⁽²⁾ | • PAC (Permanent Area Contribution) for oversized pipes • Major infrastructure funded by Epcor • No Acreage Assessments | • Utility Changes (Epcor) |
| (b) Treatment | Acreage Assessments | • Utility Charges | • PAC • Major infrastructure funded by Epcor • No Acreage Assessments | • Utility Changes (Epcor) |
| B. STORMWATER • Trunks > 900mm • Outfalls servicing more than one pond | Acreage Assessments | • Utility Charges | • PAC • No Acreage Assessments | |
| C. WATER a. Distribution • Reservoirs • Feeder mains • Pumping facilities • Metering / Flow control stations | Acreage Assessments | • Utility Charges | • PAC for oversized pipes • Major infrastructure funded by Epcor • No Acreage Assessments | • Utility Changes (Epcor) |
| b. Treatment | Acreage Assessments | • Utility Charges | • Major infrastructure funded by Epcor • No Acreage Assessments | • Utility Changes (Epcor) |
| D. TRANSPORTATION • Expressways • Interchanges (including Provincial projects) • Bridges/Tunnels • Pedestrian overpasses • BRT lanes • Residential traffic signals | Acreage Assessments | • Property taxes | • ARA (Arterial Road Assessment) for arterial roads • Major infrastructure funded through property taxes • Traffic signals funded by Developer | • Property taxes |
| E. FIRE • 1 station per 25,000 pop • (EMS IS PROVINCIALLY FUNDED) | Acreage Assessments | • Property taxes | • Property taxes | • Property taxes |
| LAGGING | | | | |
| F. POLICE STATIONS • 1 station per 100,000 pop | Acreage Assessments | • Property taxes • Traffic fine revenue | • Property taxes | • Property taxes |
| G. TRANSIT BUSES • 6 buses per 20,000 pop | Acreage Assessments | • Property taxes • User fees | • Property taxes | • Property taxes • User fees • Developer funding for peak hour service in new neighbourhoods for first 2 years |
| H. LIBRARIES • 1 library per 50,000 pop | Acreage Assessments | • Property taxes • User fees | • Property taxes | • User fees • Property taxes |
| I. RECREATION FACILITIES • 1 rec centre per 55,000 pop | Acreage Assessments | • Property taxes • User fees | • Property taxes | • User fees • Property taxes |
| OTHER FEES | | | | |
| J. INSPECTION FEE | Acreage Assessments | N/A | N/A | N/A |
| K. SUBDIVISION SIGNAGE FEE | Acreage Assessments | N/A | N/A | N/A |
| L. DEVELOPER FUNDED INFRASTRUCTURE STABILIZATION FEE a. Utility Oversize | Acreage Assessments | N/A | N/A | N/A |
| b. Major Road Standard Oversize | Acreage Assessments | N/A | N/A | N/A |
| c. Community & District Parks | Acreage Assessments | N/A | N/A | N/A |

**FIGURE 3: ALTERNATE FUNDING & FINANCING OPTIONS
FOR LEADING INFRASTRUCTURE**

| INFRASTRUCTURE | POSSIBLE TREATMENT OF CAPITAL COSTS UNDER HYBRID SYSTEM |
|---|--|
| LEADING | |
| A. WASTEWATER | |
| a. Collection | |
| • Trunks > 600mm | • PAC type system. Amount to be determined on a project by project or area by area basis. |
| • Pumping facilities | • No AA's (Acreage Assessments) for future projects. |
| | • A portion of the existing AA's to continue to allow for continued funding of past expenditures such as the Nose Creek Trunk upgrades. |
| | - Calculated as the proportionate share of historic expenditures (15.8%) ⁽¹⁾ of the current AA's for Wastewater Collection. |
| | - As this split is calculated based on 2011 data, it should be updated using current information when available. |
| b. Treatment | • Continue with AA's |
| B. STORMWATER | |
| • Trunks > 900mm | • PAC type system within the city. Amount to be determined on a project by project or area by area basis. |
| • Outfalls servicing more than one pond | • AA's to continue if infrastructure is required to service lands outside of the city or to allow for continued funding of past expenditures such as the Shepard Wetland Complex. |
| C. WATER | |
| a. Distribution | |
| • Reservoirs | • PAC type system for infrastructure required in the immediate vicinity of the plan area. Amount to be determined on a project by project or area by area basis. |
| • Feeder mains | • AA's for system wide requirements or upgrades resulting from city-wide development. |
| • Pumping facilities | • A portion of the existing AA's to continue to allow for continued funding of past expenditures such as reservoir or pump station expansions). |
| • Metering / Flow Control stations | - Calculated as the proportionate share of historic expenditures (18.0%) ⁽²⁾ of current AA's for Water Distribution. |
| | - As this split is calculated based on 2011 data, it should be updated using current information when available. |
| b. Treatment | • Continue with AA's |
| D. TRANSPORTATION | |
| • Expressways | • PAC type system for infrastructure required in the immediate vicinity of the plan area (projects on the developing areas infrastructure needs list). Amount to be determined on a project by project or area by area basis. |
| • Interchanges (incl. Provincial projects) | • Opportunity for PAC type system for Provincial infrastructure. |
| • Bridges/Tunnels | • A portion of the existing AA's to continue for projects on the developed areas infrastructure needs list. |
| • Pedestrian Overpasses | - Calculated as the proportionate share of all transportation infrastructure projects located within the developed areas of the City that benefits the developing areas (27.6%) ⁽³⁾ of the current AA's for Transportation. |
| • BRT lanes | - As this split is calculated based on 2011 data, it should be updated using current information when available. |
| • Residential traffic signals | |
| E. FIRE | |
| • 1 station per 25,000 pop | • PAC type system for a new facility if required in the area. Amount to be determined on a project by project or area by area basis. |
| • (EMS IS PROVINCIALLY FUNDED) | • Continue with AA's if area served by a station outside the plan area (e.g. Seton). |
| LAGGING | |
| F. POLICE STATIONS | |
| • 1 station per 100,000 pop | • AA's to continue |
| G. TRANSIT BUSES | |
| • 6 buses per 20,000 pop | • AA's to continue |
| H. LIBRARIES | |
| • 1 library per 50,000 pop | • AA's to continue |
| I. RECREATION FACILITIES | |
| • 1 recreation centre per 55,000 pop | • AA's to continue |
| OTHER FEES | |
| J. INSPECTION FEE | • AA's to continue |
| K. SUBDIVISION SIGNAGE FEE | • AA's to continue |
| L. DEVELOPER FUNDED INFRASTRUCTURE STABILIZATION FEE | • AA's to continue |
| a. Utility Oversize | |
| b. Major Road Standard Oversize | • AA's to continue |
| c. Community & District Parks | • AA's to continue |

NOTES:

- From 2011 Development Agreement levy negotiations
- Total cost of historic expenditures for wastewater collection = \$148,147,920
- Total cost of future expenditures for wastewater collection = \$790,250,942
- 15.8% of the levy is attributable to historic expenditures
- 84.2% of the levy is attributable to future expenditures

- From 2011 Development Agreement levy negotiations
- Total cost of historic expenditures for water distribution = \$172,317,567
- Total cost of future expenditures for water distribution = \$785,011,718
- 18.0% of the levy is attributable to historic expenditures
- 82.0% of the levy is attributable to future expenditures

- From 2011 Development Agreement levy negotiations
- Total cost of all transportation infrastructure = \$6,811,032,100

- Total cost of all transportation infrastructure located in developing areas = \$2,516,722,100 (37%)
- The share of cost of developing areas transportation infrastructure attributable to growth in developing areas = 76%
- Obligation of developing areas toward developing areas infrastructure = \$1,912,708,796
- Total cost of all transportation infrastructure located in inner city (developed) areas = \$4,294,310,000 (63%)
- The share of the cost of inner city transportation infrastructure attributable to growth in developing areas = 17%
- Obligation of developing areas toward developing areas infrastructure = \$730,032,700
- The share of the transportation levy attributable to growth in developed areas = 27.6%



1.2.4 Alignment

The alternate Funding & Financing System Framework (FFS) seeks to align with other components of the Growth Management Framework and fits within the guidelines of the MGA.

1.2.5 Benefits

THE CITY OF CALGARY

- City controls growth through land use approvals and growth management
- Developers carry financial and timing risk associated with leading infrastructure
- City debt levels can be reduced
- City capital can be deployed for other strategic purposes such as redevelopment/intensification
- City continues to approve all technical designs and standards for infrastructure

THE DEVELOPMENT INDUSTRY

- Opportunity to maintain sectoral supply
- Current outline plans continue to be processed
- Better ability to demonstrate that developing communities are not subsidized by established communities

CALGARIANS

- Growth is managed in response to Calgarians' demand in both developing and established areas; financing need not constrain choice
- Opportunity for more innovative communities and enhanced affordability due to free market competition
- Opportunity for more housing and sectoral choice and diversity

2

Section Two

Implementation Practices



2.1 Implementation Practices

2.1.1 Proposed Implementation Practices

The following implementation practices outline how UDI proposes to implement the overarching principles. These practices have been provided to 'start the conversation' and UDI hopes that collaborative working sessions will assist in seeking agreement with The City on how best to move forward with both implementation and transition.

- A. LEADING INFRASTRUCTURE** is defined as any new infrastructure that must be in place to accommodate development, and includes: water, wastewater, stormwater drainage, transportation network improvements (interchanges, major structures, pedestrian overpasses, BRT only lanes, traffic signals) and fire stations. The provision of leading infrastructure may be staged.
- B. LAGGING INFRASTRUCTURE** is defined as that infrastructure which does not need to be in place to accommodate initial development, and includes: buses, police stations, libraries, and recreation facilities. Lagging infrastructure would remain funded by The City through grants, acreage assessments, user fees and/or property taxes.
- C. OPERATING COSTS** of leading infrastructure (water, wastewater, stormwater drainage, transportation network and fire stations) would remain funded by The City through user fees and property taxes.
- D. TRANSITIONAL FUNDING MEASURES AND STAGED CONSTRUCTION** of leading infrastructure may be introduced by The Developer in order for The City or The Developer to limit borrowing and match the need until the permanent leading infrastructure is required.

2.1.2 Potential Application of a Hybrid System

The map on the following page (Figure 4) illustrates growth areas in Calgary where there is potential to apply the hybrid funding and financing system. It also illustrates areas where it may be logical to continue to use the current acreage assessment system until the community is completed.

East 1/2 of Cell C and Cell D to be included in the same ASP

ASP to Start in Q4 2013

Legend

- Growth areas logically to be completed using current City Acreage Assessment System
- Growth areas to which a new hybrid PAC System could apply
- Future Growth Areas with No Existing Policy
- Industrial Areas with Policy Plans in Place
- Industrial Areas Needing an ASP
- City Limits
- Transportation/Utility Corridor
- Areas with Policy Plans in Place
- Candidate Nodes

ASP to start in Q4, 2013

City Base May, 2012

2.2 Leading Infrastructure

Throughout the discussions between The City of Calgary and key stakeholders, including UDI, it was agreed that the infrastructure currently funded through acreage assessments and financed by The City can be broken down into two categories: leading and lagging infrastructure. Leading infrastructure is defined as new infrastructure that must be in place to accommodate development. For the purposes of Growth Management leading infrastructure includes Water, Wastewater, Stormwater Drainage, and Transportation Infrastructure as well as Fire Stations.

The inherent challenge with the current system of acreage assessments is that The City collects monies to fund infrastructure investment as subdivision proceeds, but is required to finance the cost until such time as enough money has been collected to offset the investment. This alternate FFS is intended to take the financing responsibility away from The City and to allow benefiting developers to both fund and finance leading infrastructure. (See Figure 5.)

FIGURE 5: SUMMARY TABLE - ALTERNATE FUNDING & FINANCING SYSTEM COSTS

| INFRASTRUCTURE | CURRENT CALGARY 2013 (AA/ha) | ALTERNATE FFS (AA/ha) | NET CHANGE (AA/ha) |
|--|------------------------------------|--|-----------------------|
| LEADING INFRASTRUCTURE (Infrastructure which must be in place when it is needed, not necessarily during initial phases of development) | | | |
| WASTEWATER a. Collection b. Treatment | \$17,726 \$29,151 | \$2,800 (15.8%)* ¹ \$29,151 | (\$14,926) |
| STORMWATER | \$331 - \$54,483 | \$331 - \$54,483* ² | |
| WATER a. Distribution b. Treatment | \$19,144 \$6,715 | \$3,445 (18%)* ¹ \$6,715 | (\$15,699) |
| TRANSPORTATION | \$126,392 | \$34,884 (27.6%)* ¹ | (\$91,508) |
| FIRE | \$21,610 | \$21,610* ³ (if no fire hall needed) | * ³ |
| LAGGING INFRASTRUCTURE | | | |
| POLICE | \$8,375 | \$8,375 | |
| TRANSIT | \$5,631 | \$5,631 | |
| LIBRARIES | \$6,198 | \$6,198 | |
| RECREATION FACILITIES | \$36,854 | \$36,854 | |
| OTHER FEES | | | |
| INSPECTION FEES | \$2,419 | \$2,419 | |
| SUBDIVISION SIGNAGE FEES | \$676 | \$676 | |
| DEVELOPER FUNDED INFRASTRUCTURE STABILIZATION FEE a. Utility Oversize b. Major Road Oversize c. Community and District Parks | \$5,000 \$11,800 \$5,500 | \$5,000 \$11,800 \$5,500 | |
| TOTAL | \$303,522 - \$357,674 | \$181,389 - \$235,541 | (\$122,133) |

SOURCE: 2013 Acreage Assessments as per Special Development Agreement

(*Developers will be paying more or less than this number for their area.)

NOTES:

1. These percentage numbers represent payment for downstream infrastructure provided by The City, included as part of the 2011 SDA negotiations with The City.
2. The stormwater value needs to be confirmed once historic and future expenditures are clarified.
3. Fire - Pay AA's if no fire hall required or build fire hall with recoveries from future developers if fire hall is required.



2.2.1 Water

The water infrastructure network consists of local watermains, regional water feeder mains, reservoirs, pumping facilities, and treatment facilities. All local watermains are designed, constructed and funded directly by developers as an obligation under the Standard Development Agreement. The remainder of the infrastructure, generally regional in scope and scale, is funded through acreage assessments and designed, constructed and financed by The City of Calgary. These projects are considered to be related to either the distribution of water or its treatment. Under this funding and financing alternative, each type (distribution and treatment) of water related infrastructure is addressed differently, based on the ability to define a clear benefiting area.

The system would require The City of Calgary to assist the Developers involved in the front ending of infrastructure to obtain satisfactory recoveries from other benefiting developers under an “endeavor or assist” program, similar to what is already provided for boundary recoveries between developers.

A. DISTRIBUTION

Distribution is intended to be addressed through an alternate system that does not require The City of Calgary to finance the required infrastructure. This would apply to all new water infrastructure projects that are required to service development areas. All distribution infrastructure projects have a defined benefiting area. All developers within this benefiting area will contribute to the cost of funding and financing the infrastructure. The funding and financing of a benefiting area can be accomplished through a hybrid of the Edmonton based Permanent Area Contribution (PAC) system or a more simple cost sharing arrangement between affected developers.

This arrangement could remove \$785M of water distribution infrastructure from The City's obligations.

B. TREATMENT

Water treatment is provided via two water treatment plants: one in Bearspaw and one at the Glenmore Reservoir. While these generally service pressure zones north and south of the Bow River, the water network in Calgary is integrated to such an extent that water taken from a tap in any part of the city could have come from either facility. For this reason, water treatment should be addressed as a city-wide system. As such this funding and financing proposal suggests that funding for this infrastructure continues through acreage assessments.

C. HISTORIC EXPENDITURES

It is acknowledged that The City of Calgary has invested significantly in infrastructure projects in the past that have a benefit that extends into the near future. These projects have been budgeted under the current acreage assessment system with an expectation that future revenues from these assessment would pay off the debt incurred from the investment.

This funding and financing alternative respects these historic expenditures and suggests that an acreage assessment continue to be levied until the related debt is paid back. It is expected that this would be a new levy based on the current debt associated with historic expenditures.

D. STAGED CONSTRUCTION

It is expected that many water related infrastructure projects could have a staged construction, and that each stage could result in an incremental increase in service area or capacity. As part of this funding and financing alternative, we expect that The City of Calgary should permit certain infrastructure to be phased in as required, rather than being all provided at once. This should minimize the financial strain on the developers funding the infrastructure and would also minimize lifecycle costs by requiring the minimum amount of infrastructure for a given need.

2.2.2 Wastewater

The wastewater system consists of local sanitary sewer mains, regional sanitary sewer trunks (greater than 600mm in diameter), lift stations, and treatment facilities.

All local sanitary sewer mains are designed, constructed and funded directly by developers as an obligation under the Development Agreement. The remainder of the infrastructure, generally regional in scope and scale, is funded through acreage assessments and designed, constructed and financed by The City of Calgary. These projects are considered to be related to either the collection of wastewater, or its treatment.

Similar to what is proposed for water infrastructure, each type (collection and treatment) of wastewater related infrastructure is addressed differently, based on the ability to define a clear benefitting area.

A. COLLECTION

Collection is intended to be addressed through a developer funded system that does not require The City of Calgary to finance the required infrastructure. Again, this would apply to all new wastewater infrastructure projects that are required to service development areas. All infrastructure projects related to collection have a defined benefitting area. All developers within this area will contribute to the cost of funding and financing the infrastructure. This shared contribution can be accomplished through a hybrid of the Edmonton based Permanent Area Contribution (PAC) system or a more simple cost sharing arrangement between affected developers.

This hybrid system would require The City of Calgary to assist the developers who are involved in the front ending of infrastructure to obtain satisfactory recoveries from other benefitting developers under an “endeavor to assist” program, similar to what is already provided for boundary recoveries between developers.

This arrangement could remove \$790M of wastewater collection infrastructure from The City’s obligations.

B. TREATMENT

Similar to water treatment, wastewater treatment is a city-wide benefit. Currently, Calgary’s three wastewater treatment facilities (located at Bonnybrook, Fish Creek and Pine Creek) are interconnected to allow redundancy during high flow or maintenance periods. This funding and financing alternative suggests that this infrastructure continues to be funded through acreage assessments.

C. HISTORIC EXPENDITURES

It is acknowledged that The City of Calgary has invested significantly in infrastructure projects in the past that have a benefit that extends into the near future. These projects have been budgeted under the current acreage assessment system with an expectation that future revenues from these assessment would pay off the debt incurred from the investment.

This funding and financing alternative respects these historic expenditures and suggests that an acreage assessment continue to be levied until the related debt is paid back. It is expected that this would be a new levy based on the current debt associated with historic expenditures.

D. STAGED CONSTRUCTION

We expect that some wastewater infrastructure projects may also provide an incremental benefit to service capacity if their provision is staged over time and demand rather than provided to their full extent in order to open up the entire catchment area. While this may result in higher overall costs, financing the smaller incremental capacity increases may be less costly in the long run to developers who will fund the improvement directly, as well as The City which will operate the infrastructure into the future.

2.2.3 Storm Water Drainage

Storm water drainage is provided through a combination of local storm sewer mains, storm water treatment wetlands / ponds, and regional storm water trunks (greater than 900mm in diameter). In some cases storm water pumping facilities are also required. Due to the general proximity of all developing areas in Calgary to either the Bow River, Nose Creek (or its tributaries), and Pine Creek, the length and extent of most storm water trunks is relatively limited. For this reason, it is expected that all regional storm water related infrastructure can be funded and financed without assistance from The City of Calgary.

A. HISTORIC EXPENDITURES

It is acknowledged that The City of Calgary has invested significantly in infrastructure projects in the past that have a benefit that extends into the near future. These projects have been budgeted under the current acreage assessment system with an expectation that future revenues from these assessment would pay off the debt incurred from the investment.

This funding and financing alternative respects these historic expenditures and suggests that an acreage assessment continue to be levied until the related debt is paid back. It is expected that this would be a new levy based on the current debt associated with historic expenditures.

This arrangement could remove a significant value of infrastructure from The City's obligations, however; the amount is not currently understood based on the information available.

B. STAGED CONSTRUCTION

Due to the more localized benefit of storm water infrastructure, it is expected that there would be a limited need to stage the construction of any regional system.

2.2.4 Transportation Network Improvements

The transportation network includes local roads that are designed, constructed and funded by developers as part of their obligation under the Standard Development Agreement, as well as expressways, interchanges and major structures such as bridges and tunnels that are funded through the collection of acreage assessments and financed by The City.

While the extension of a new road into a developing community brings an obvious benefit to this area, it is less clear who benefits when expressways, and interchanges are considered. These regional facilities allow access to future services within the developing area to all Calgarians.

Despite this challenge, it is proposed that the funding and financing of transportation infrastructure within the developing areas be addressed through a developer led formula based on the hybrid PAC model or a simple cost sharing arrangement.

This arrangement could remove \$2.5 billion of transportation infrastructure from The City's obligations.

Further discussion is needed to understand how, if any, financial obligations from the greater Calgary community would be appropriate for the use of new developer-funded infrastructure within developing areas. Whether developing areas should contribute towards improvements located in developed areas of the city, is also a necessary point of discussion.

A. STAGED CONSTRUCTION

In order to minimize financing costs over long periods of time, it is suggested that staging of infrastructure would not only benefit the developers who are funding and financing the infrastructure, but also The City through a reduction in the amount of infrastructure that it would be required to maintain. The life cycle for this infrastructure would also see a benefit as the capacity of the infrastructure would be optimized throughout the staging period.

2.2.5 Fire Stations

It is acknowledged that the provision of adequate fire service is required for all developing areas. As such we agree that fire service must be available at the outset of development in these areas. Based on the service range and population triggers for a fire station, it is proposed that the funding and financing of these facilities again be addressed through the hybrid PAC or other cost sharing model between developers where required. The developers would build the station and The City would pay to operate it.

This arrangement could reduce The City's obligation to provide infrastructure for fire service, however; the amount of the reduction is difficult to determine and requires further clarification.

A. STAGED CONSTRUCTION

In order to minimize costs as much as possible, we propose that the staffing and equipping of new fire stations be phased in based on population within the immediate area. The operating costs of a fully staffed fire station are significant; we understand that this is as much of a burden to The City's budget as is building the station itself. Further discussion is warranted relative to staging.

2.3 Lagging Infrastructure

We define lagging infrastructure as infrastructure which does not need to be in place to accommodate initial development, and can be provided elsewhere in the city until required from a population perspective.

Currently all lagging infrastructure, namely police stations, libraries, recreation centres and buses, is funded through the collection of voluntary acreage assessments and is financed by The City. These facilities are generally provided based on the timing needs and population of the benefiting communities and often occur well into the development cycle of a community. (See Figure 6.)

FIGURE 6: SUMMARY TABLE – LAGGING INFRASTRUCTURE AND ALTERNATE HYBRID PAC MODEL COSTS

| INFRASTRUCTURE | CURRENT CALGARY 2013 (AA/ha) | ALTERNATE HYBRID PAC (AA/ha) | NET CHANGE (AA/ha) |
|-------------------------------|------------------------------------|------------------------------------|-----------------------|
| LAGGING INFRASTRUCTURE | | | |
| POLICE | \$8,375 | \$8,375 | - |
| TRANSIT | \$5,631 | \$5,631 | - |
| LIBRARIES | \$6,198 | \$6,198 | - |
| RECREATION FACILITIES | \$36,854 | \$36,854 | - |
| TOTAL | \$57,058 | \$57,058 | - |

SOURCE: 2013 Acreage Assessments as per Special Development Agreement

The current system of funding lagging infrastructure through voluntary acreage assessments funds the full cost of providing lagging infrastructure for the new population. This discussion paper retains this provision.

2.4 Operating Costs

Historically operating costs for all infrastructure, including old and new infrastructure, have been funded either through property taxes, utility rates, user fees or a combination of the three. There has been recent discussion that growth within developing areas puts an unnecessary strain on the operating budget of The City due to the provision of additional infrastructure. The City's recent financial modelling as part of the Growth Management Framework identifies that the development of new growth areas provides a significant positive financial contribution over a 50-year period (after considering most capital and operating costs). While the Industry does not argue that new infrastructure has associated operating costs, we do not agree that these additional operating costs should be borne by the future residents of developing areas alone.

Further discussion, including gaining an understanding of the expected costs involved, is required so that all parties clearly understand operating costs. These conversations should consider the staging of infrastructure as a benefit to minimizing operating costs.

2.5 Transitional Funding Measures

Any time a significant change in the manner in which services are provided, funded or financed occurs, questions arise as to how the change is to be implemented. Challenges can include understanding how previous decisions on financing may be affected by the change and when the change comes into effect. This alternate FFS addresses the first challenge by committing to funding historic expenditures using the same principles and assumptions as were made when the financing was committed. Current funding through acreage assessment for expenditures that have already occurred would not be affected.

Dealing with all new infrastructure projects under this alternate system will address the second challenge. No change will be required until development within a developing area is contingent on funding and financing a particular piece of infrastructure. At that time the benefiting area developers will assemble a proposal highlighting the benefiting area, how they intend on funding and financing the work, any required staging, and any details related to a required endeavor to assist. The City will then have the opportunity to review and approve the specific proposal, allowing the developer to begin providing the required infrastructure.

It is expected that each individual funding and financing proposal will be unique, but that all will all follow the general outline contained within this proposal. Refinements are expected to occur over time to address challenges and difficulties that may arise from both The City's and the Development Industry's perspective.

3

Section Three

Glossary, Q&A, Contributors



3.1 Funding & Financing: Glossary of Terms

AREA REDEVELOPMENT PLAN (ARP)

Area redevelopment plans (ARPs) “direct the redevelopment, preservation or rehabilitation of existing lands and buildings, generally within developed communities,” according to the Municipal Government Act (MGA), which also states that ARPs must be consistent with the Municipal Development Plan.

AREA STRUCTURE PLAN (ASP)

According to the Municipal Development Plan (MDP), “ASPs direct the future land use patterns, transportation and utility networks and sequence of development in new communities. The Municipal Government Act (MGA) requires that all ASPs and ARPs are consistent with the MDP.

BENEFITING AREA

A benefiting area refers to the general catchment area or sector which stands to benefit from adjacent development/s.

Under a Permanent Area Contribution (PAC) system, an oversize claim can be made to recover development costs from adjacent benefiting areas.

Within the development area, each developer is required to pay a proportionate share of the infrastructure construction costs, with the rate/area charge being recalculated each year and derived by dividing the estimated construction cost of the cost sharable items within the cost-sharing boundary by the remaining benefiting areas.

CAPITAL BUDGET

A municipality's capital budget concerns projects and procurements that take place over a limited number of years on a one-time basis (e.g. land acquisitions, construction of buildings and infrastructure such as roads, recreation centres and libraries, equipment, vehicles, structures, systems, etc.). Capital budgets are largely funded through government grants (federal and provincial), debt and reserves.

Calgary Council approves the City of Calgary's capital budget as part of its three- (soon to be four) year business planning and budgeting cycle. A ten-year capital plan informs the capital budget decision-making.

CATCHMENT AREA

A catchment area is the larger infrastructure area within which development may occur to the benefit of the entire catchment or benefiting area's infrastructure.

DEVELOPED AREA

According to the City of Calgary Community Guide to the Planning Process, a developed area is "defined by Land Use Bylaw 1P2007. It includes the area of the city that had completed initial residential development when Land Use Bylaw 1P2007 was adopted. This area is subject to different LUB provisions than the Developing Area (e.g. contextual rules)."

DEVELOPING AREA

According to the City of Calgary Community Guide to the Planning Process, a developing area is "defined by Land Use Bylaw 1P2007. It includes the area of the city that had yet to complete initial residential development when Land Use Bylaw 1P2007 was adopted. This area is subject to different LUB provisions than the Developed Area."

DEVELOPED COMMUNITY

A developed community is one that is already established with infrastructure, housing, commercial/retail facilities, and other amenities such as schools, libraries, recreation centres, etc.

DEVELOPING COMMUNITY

A developing community is one being developed on greenfield lands, where all infrastructure, buildings, and amenities need to be installed from scratch over a period of time.

DEVELOPMENT INDUSTRY

The development industry develops or redevelops land, both serviced and unserved, for commercial, industrial or residential usage. Land types available for development comprise greenfield (undeveloped land in a city or rural area), brownfield and greyfield (areas that have been developed for commercial/industrial or residential purposes and then left abandoned or underused).

FUNDING

Funding can be both the approval to spend (in other words, project is approved and funds have been committed to pay for it, and the act of spending monies for services (e.g., funding the cost of a sewer trunk line).

FINANCING

Financing of a project is the method of funding, such as debt, cash, developer contributions, acreage assessments, grants, taxes, etc.

IMPLEMENTATION PRACTICE

The methods by which the proposed alternative Financing and Funding system would be implemented.

LAGGING INFRASTRUCTURE

Lagging infrastructure is infrastructure that does not need to be in place to accommodate initial development, but can be provided later in the development process and elsewhere in the city.

LEADING INFRASTRUCTURE

Infrastructure which must be in place when it is needed, but not necessarily during initial phases of development.

LAND USE PLAN (LUP)

A land use plan (LUP) controls the types of activities that will take place on a given piece of land and also establishes the rules regarding the usage (e.g. height, landscaping, etc.). A LUP is developed through a process of land evaluation and assessment, and involves studies of the environmental effects of the land use and the impacts of proposed uses on the affected community. The approving authority cannot allow a use that is not listed for a district, although it can relax some of the rules.

OPERATING AND LIFECYCLE COSTS

Those costs The City would incur for the operation, repair and renewal of city infrastructure. For the purposes of the Growth Management Framework, these costs are included in the cost model spreadsheets for each proposed development.

MUNICIPAL DEVELOPMENT PLAN (MDP)

The Municipal Development Plan (MDP) establishes overall land use and transportation policies for the whole municipality. It is usually visionary in nature, taking a strategic and long-term perspective on development.

The degree of detail can vary from municipality to municipality, from very general to very specific statements of intent. Calgary's MDP has general statements about providing safe and healthy communities with a variety of housing choices, employment opportunities, local retail and services, and mobility options. Specific objectives may include the stipulation that area structure plans (ASPs) for greenfield communities achieve a minimum intensity threshold of people and jobs per gross developable hectare. (Source: Richard Parker. A Guide to Planning Tools in Calgary)

NET COSTS

Those costs that The City would incur within a development area, less the incremental revenues collected as a result of the development (as compared to the revenues The City would have collected had the development not occurred). An evaluation of Incremental revenues will include a consideration of whether the proposed development will result in a change in city-wide or specific revenues (such as property taxes, utility charges or user fees).

For the purposes of determining provisions for developer funding of net operating and lifecycle costs, the timing of infrastructure will be based on The City's timing for construction or installation of the infrastructure.

OPERATING BUDGET

A municipal operating budget concerns expenses incurred year after year which do not have future value. The City of Calgary's operating budget is primarily paid to staff who deliver City services. It also covers the costs of delivering services (e.g. the operation and maintenance of facilities, infrastructure, equipment, systems, vehicles, etc.).

Property taxes from businesses and residences and user fees fund the municipal operating budget. The City's operating budget is developed in three- (soon to be four-) year cycles and is debated and approved by City Council each November.

OUTLINE PLAN (OP)

According to The City of Calgary, “outline plans are prepared as an initial stage in major subdivision applications, usually in outlying areas. They are usually processed together with land use redesignations to ensure a “workable” distribution of land uses, open space, road networks, etc. Once approved by the Subdivision Authority (Calgary Planning Commission), they form the basic concept for the subsequent tentative plans. There is no appeal route for outline plans as they are not statutory documents.”

OVERARCHING PRINCIPLE

The five foundational components created by UDI that together, make up the basis for the proposed alternative (hybrid) Financing and Funding System.

PERMANENT AREA CONTRIBUTION (PAC)

A Permanent Area Contribution (PAC) system is a cost-sharing system for funding leading infrastructure installation in development areas.

Developers in the designated area pay their PAC contributions through developer agreements and “endeavours to assist,” approved and enforced by the local municipality. PAC contributions are determined by dividing the cost of infrastructure construction by the size of the benefiting area (\$/ha).

The City of Edmonton’s PAC system applies to inter-developer financing and cost-sharing of sewer systems installed in private development areas, and includes both on-site and off-site cost sharing.

PLANNED TO BE SERVICED LAND

Land that is budgeted for servicing within the City of Calgary’s 10-year plan.

SERVICED LAND

The MDP defines serviced land as land which has city water, sewer and sanitary infrastructure already in place.

3.2 City Questions to UDI

3.2.1 General

3.2.1.1 *With a new system, do we get there all of a sudden, or is it phased?*

There must be a transition between the existing and new system in order to avoid disruption to City financial requirements in the approved budget.

3.2.1.2 *How will the financing tool affect the housing in the market?*

A new financing tool has a direct effect on who funds the infrastructure. It transfers more of the funding and financing or leading infrastructure directly to the developers rather than having The City as the banker or funder and the developers providing the financing over time.

How will funding & financing play a role in growth management?

Funding and financing will play the same role as it does now in the growth management framework. It is one of the pillars that require consideration and must be approved before The City opens the “gate” at the LU/OP stage.

How will it affect complete communities?

Complete communities are largely a planning matter. All approved neighbourhoods/communities are assumed to be or contribute to complete communities. This issue will be considered with all others as part of the growth management decision of Council.

3.2.1.3 *Will a new system affect housing affordability?*

An alternative funding and financing system will ensure the purchasers in the community pay for the interest and capital costs for infrastructure. There will be a transparency of low and high cost catchment areas. Some areas will be more expensive - some areas will be less expensive. On average, housing affordability should be the same. Over time, land values will adjust to reflect the costs of servicing and the anticipated market value of the final product.

3.2.1.4 *Will a new system encourage the same type of development?*

A new system will not affect the type of development in a community. It is a funding and financing tool. The developer, in alignment with the MDP and ASP, and considering the public interest for housing and uses will propose a mix. Council will decide on the appropriateness of the mix of housing and development with the recommendation of CPAG.

3.2.1.5 *What are the limitations as well as the benefits of a new system?*

The limitations and benefits of a new system will be included as part of an alternate FFS.

3.2.1.6 *What would happen if we had too many new areas approved?*

Council will decide on the number of new areas approved for development. Council will use the growth management framework as a tool for their decision-making. Council will balance the pros and cons of opening new development areas before making their decision.

Council may decide to approve more development areas with a developer funded F+F system than a city funded leading infrastructure system because the additional financial risk will be borne by the developers, and on balance, the advantages of a particular development outweigh the negatives. If this happens, The City could potentially see more innovation due to increased competition and the public could see more choice of community amenities and sectors of The City with more new areas approved.

3.2.1.7 *Are we introducing more infrastructure for The City to maintain?*

The City may have a small amount of additional leading infrastructure to maintain. The amount of new residential roads and pipes should be the same since the actual number of dwelling units in new communities should be the same, regardless of the number of new communities.

3.2.1.8 *While a low probability, in the case of bankruptcy, what happens if The City has to take over half built infrastructure?*

The City should never be at risk of taking over half built infrastructure since it requires bonding to ensure all work is completed. In the unlikely event of a developer going into bankruptcy, the bank will take over the inventory and find a new developer. The City only takes over infrastructure built by developers after a maintenance period by the developer. By that time, following normal City procedures, the infrastructure has been tested and deemed acceptable.

3.2.1.9 *Under a new system, who is responsible for what elements of the infrastructure?
Example – fire hall operating costs. What about the delta on the operating costs?*

The proposed capital and operating cost responsibility for infrastructure under a hybrid system is still needing to be discussed and refined.

3.2.1.10 *What do you see the fire infrastructure to be?*

The industry sees providing fire facilities to the Alberta Building Code standard. When The City wants to provide a higher standard of service, The City would pay for that higher level of service.

3.2.1.11 *What level of control will The City have on where and when the infrastructure goes in? What is the appropriate level of new infrastructure ...? How would we make our decision on when to support a new development?*

The growth management framework provides a broad range of considerations for decisions. City Council, based on the growth management framework and the advice of CPAG, will make decisions at the LU/OP stage on each new development/growth area. The City will control the appropriate level and technical design of all new infrastructure in accordance with City policy.

3.2.1.12 *What if five PAC type proposals come forward at the same time and they all meet The City conditions?*

Each developer and its banker would need to evaluate the financial risk of proceeding considering additional potential competition. All decisions need to go through the growth management filter. The “new gate” has shifted to the OP/LU stage, at which time Council controls the opening of each “gate” on an individual basis based on all the facts.

3.2.2 Water Resources

3.2.2.1 *With a new system, what do we do with the current acreage assessment system? Will The City be left whole at the end of the day? How do we transition? The City expects money to come in and pay for the debts incurred.*

The logical transition plan from the existing acreage assessment system to a new system will have to be carefully worked out. We expect that existing catchment areas which have City funded infrastructure will continue to use the current acreage assessment system. We assume The City will be left whole at the end of the day or The City will not adopt the transition plan. The transition plan should be arranged to enable the money The City expects to come in the approved budget period to do so, and enable a gradual reduction in new City debt and debt servicing as new capital spending for leading infrastructure which would have been brought on line by The City to provide new servicing is taken over by the developers.

3.2.2.2 *Will a new system be holistic to cover all items? Will fire be covered if the new system advances more new communities? Will all higher downstream costs be covered?*

The new hybrid model, which includes PAC components, will look at all leading and lagging infrastructure and indicate how all aspects, including Fire, will be handled. The question of downstream costs needs to be discussed.

3.2.2.3 *Is PAC legal? We understand the Edmonton PAC system is not lawful. Is the current acreage assessment system legal?*

The Edmonton PAC system seems aligned with the MGA. Many existing acreage assessments in Calgary are “voluntary”. They are the result of a special arrangement/agreement between The City and UDI. The alternate FFS is a hybrid model which includes some but not all of Edmonton’s PAC model components.

3.2.2.4 *Will we have more new communities?*

Part of the industry motivation for proposing a new system, which results in less City debt and less financial risk to The City, is to encourage The City to consider the opportunity to open up more communities and respond to the desire of many existing and new Calgarians to have a broad choice of new communities in dispersed sectors of The City. City Council, not the new system, will have to decide to open up more communities based on full consideration of the growth management framework and a balancing of the overall pros and cons of each decision.

3.2.3 Transportation

3.2.3.1 *Will the new system address downstream transportation requirements?*

The new system will have to address downstream transportation requirements.

3.2.3.2 *What are the barriers to implementing a new system?*

The PAC system operates in Edmonton. There are no barriers to implementing a system which includes some PAC based funding if both The City and the industry / UDI have a desire to implement it. As is often the case, “Where there is a will, there is a way.”

3.2.4 Fire

3.2.4.1 *How will a new system handle lagging infrastructure?*

Lagging infrastructure will be considered as part of a new system. If a fire facility is required for a new community, and The City is prepared to pay to operate the new facility, the developer will have to fund the new fire facility in a manner similar to other leading infrastructure. If the new fire facility will provide service to existing communities, The City will be expected to share in the capital costs. These financial considerations will have to be part of specific funding and financing proposals.

DRAFT

3.3 Contributing Developers and Consultants

STEERING COMMITTEE

Apex
Brookfield
Dundee
Genstar
Hopewell
Mattamy
Qualico
United
UDI
NAIOP

SUPPORTING DEVELOPERS

Durum
Melcor
Ronmor
Section 23 (Ollerenshaw)
Trutina
WestCreek
Wenzel

CONSULTING TEAM

APB Consulting
Brown & Associates
CMR Communications
Stantec