

Corporate Planning & Financial Services Report to
Infrastructure and Planning Committee
2023 December 13

ISC: UNRESTRICTED
IP2023-0981

Citywide Growth Strategy – New Community Incremental Operating Cost Model Inputs and Assumptions

PURPOSE

The purpose of this report is to provide Council with more detailed information on the inputs and assumptions used in the New Community Incremental Operating Cost Model (“the Model”) and to receive feedback from Council to further refine the process.

PREVIOUS COUNCIL DIRECTION

As per IP2022-0545, Council directed Administration to (a) re-engage with proposed new community Growth Application proponents to review Administration’s analysis and offer feedback and suggestions and (b) provide Council with more detailed reporting on the inputs and assumptions used in the revenue and operating cost projections in the new community Growth Applications. The direction under (a) has been addressed through IP2023-0559, with this report specifically responding to the direction under (b).

Background and Previous Council Direction is included as Attachment 1.

RECOMMENDATION:

That the Infrastructure and Planning Committee recommend that Council receive this report for the Corporate Record.

CITY MANAGER/GENERAL MANAGER COMMENTS

General Manager Carla Male concurs with this report. The New Community Incremental Operating Cost Model assists Administration and Council in making well-informed decisions on how to grow efficiently, equitably, cost-effectively and in a way that considers the financial sustainability of The City.

HIGHLIGHTS

- New communities continue to play an important role in Calgary’s growth. The Model helps to evaluate new Growth Applications so these communities can support greater housing supply, choice and affordability for Calgarians, while considering The City’s financial sustainability. Information from the Model also helps balance the need for new Growth Applications with existing financial commitments to complete actively developing communities, together with all other City and Council priorities requiring financial resources.
- The Model is a data-driven analysis based on sound inputs and assumptions that are informed by rigorous financial analysis and feedback. It is subject to ongoing refinement through annual reviews to ensure growth investments are balanced with financial sustainability for both The City and Calgarians.
- Administration uses the Model in the new community Growth Application process (IP2023-0559) to project incremental revenue and tax-supported operating costs associated with an application, over the initial 15 years of buildout. This helps to transparently identify broader Service Plan and Budgeting impacts and enhances The City’s ability to equitably provide essential services in all communities.

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- Internal subject matter experts across Administration were consulted to identify and quantify the incremental revenues and tax-supported operating costs resulting from new community growth, while development industry members and members of Council were engaged to further refine the Model.
- Increasingly refined versions of the Model have been used to deliver investment recommendations on new community growth to Council since 2018.

DISCUSSION

Introduction

On 2022 September 20, Council gave direction for the development of a redesigned system for evaluating (and ultimately investing in) new community Growth Applications (C2022-1057), that would replace the business case evaluation process and the Growth Management Overlay statutory mechanism. This redesigned system introduced several new features, while maintaining the foundation of the previous system, responding to market demands and considering financial impacts.

A continuously open, fee-supported application approach was introduced where new community Growth Applications are evaluated according to a set of criteria, which include several financial impact criteria and related funding implications. Council's role in making the final decision to fund or not fund the operating and capital investments required for new growth, and ultimately to approve a Growth Application or not, is maintained in the Service Plans and Budgets process, where all priorities for Council can be evaluated in conjunction with resourcing considerations.

As part of this same direction, Administration was to provide Council with more detailed reporting on the inputs and assumptions used in the revenue and operating cost projections in the new community Growth Applications, which this report responds to.

Approach to Determining the Model's Inputs and Assumptions

Administration engaged with development industry members and collaborated with tax-supported City business units in developing and revising the Model. The updates to the Model aim to better reflect incremental operating revenue and cost impacts of new growth to The City of Calgary, as well as advance a more comprehensive understanding of new community financial impacts. This helps Council make more informed decisions on new community growth.

In 2023, the Model saw targeted modifications and improvements to the 2022 version. Updates were made to the estimation processes for transit revenues and costs, property tax revenue, the inclusion of franchise fee revenues and overall review and refinement of all other inputs and assumptions used. Subject matter experts confirmed cost estimates, drivers and descriptions.

When determining the scope of Service Lines to be included in the Model (Attachment 3), only those Service Lines that are mainly tax-supported are included in the 2023 Model. Service Line operating costs have been incorporated either as a standalone cost item or embedded within the indirect cost of other Service Lines (for example Human Resources Support and Financial Support). Certain Enabling Services and Corporate Programs were excluded (for example Corporate Costs & Debt Servicing, Corporate Governance and Executive Leadership).

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Using the Model to Evaluate Growth Applications

Administration uses this Model in its assessment of some of the Financial Impact Criteria, which forms part of the broader Growth Application Evaluation Criteria (IP2023-0559). Information about the development, such as the expected number and types of dwelling units, expected pace of buildout, expected lane kilometers of roads and expected Municipal and Environmental Reserve hectares will be obtained from applicants via the standard Development Template. This information, along with other inputs and assumptions determined by Administration (Attachment 2) is then used to estimate the incremental tax-supported operating costs, as well as property tax and franchise fee revenue potential of the Growth Application.

Should significant operating deficits be identified, conversations with the applicant(s) would occur to determine if these cost gaps can be closed without increasing The City's overall financial and service level risks. The ability to reduce or eliminate cost gaps would ultimately inform Administration's recommendation to Council on a Growth Application.

Next Steps

Administration will continuously refine and improve the Model through annual reviews informed by feedback and practical application thereof, as we continue to work towards a more fulsome incremental operating cost model to link growth investment and financial impacts more effectively and efficiently. Throughout this process Administration is committed to transparency, collaboration, open communication and supporting integration with the broader Service Plans and Budgets process.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|---|---|
| <input type="checkbox"/> Public engagement was undertaken | <input checked="" type="checkbox"/> Dialogue with interested parties was undertaken |
| <input checked="" type="checkbox"/> Public/interested parties were informed | <input type="checkbox"/> Public communication or engagement was not required |

In 2022-2023, Administration engaged interested parties through the New Community Working Group, both throughout the process of setting the Growth Application Evaluation Criteria (IP2023-0559) and directly on the Model's inputs and assumptions (Attachment 2), in addition to circulating the inputs and assumptions to development industry members for comment.

Feedback received focused on the need for more details and transparency around the process of determining the inputs and assumptions used in the Model, as well as details on the actual inputs and assumptions themselves. The desire to include a more fulsome incremental revenue analysis was considered and incorporated. Additionally, there was a desire to clearly define the terms and scope of the Model.

Administration made every effort to address feedback received through ongoing engagement with development industry members. Feedback will also be considered for future refinement of the Model.

Engagement will continue periodically through the New Community Working Group and other relevant channels to foster ongoing collaboration and transparency as improvements and further refinements are considered.

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IMPLICATIONS

Social

Although there are no direct social implications associated with this report, the new community Growth Application process helps to ensure that Council's Service Plans and Budgets can efficiently and equitably deliver services for Calgarians in new communities and city-wide.

Environmental

Although there are no direct environmental implications associated with this report, the new community Growth Application process plays a significant role in meeting the objectives of the Calgary Climate Strategy – Pathways 2050. The location, form and design of new communities, including their mobility options, have significant impacts on energy use, emissions and the overall footprint of the city. Strategically enabling development in the right place at the right time can help to achieve less carbon intensive growth.

Economic

The evaluation of Growth Applications using the Model supports efficient decision-making around new community growth and promotes fiscal responsibility. It leverages public operating and capital infrastructure investments, while supporting private investment, jobs and housing choice. It also aims to balance enabling citywide growth, with The City's long-term financial sustainability.

Service and Financial Implications

No anticipated financial impact

Although the recommendations in this report have no direct financial impacts, the Model is used to estimate and quantify the anticipated financial impact of Growth Applications to be considered during Service Plans and Budgets decisions.

RISK

The risks associated with this report are:

1. **Limited scope of the Model:** The Model only considers the initial 15 years of new community buildout and does not consider the total costs incurred by The City over the lifetime of a community, some of which are older than Calgary as a Corporation. Approval of new communities creates a commitment to services and infrastructure indefinitely into the future. As operating demands such as road maintenance, utility services upkeep, and public transit service increase exponentially over time, the long-term impacts to City operating and capital budgets increase. While the Model helps to avoid shorter term city-wide increases in property taxes or decreased service levels in order to support new community services, longer term impacts are more uncertain. Fluctuations in property values and tax revenues in these areas can increase uncertainty for The City's budgets as well. The Model currently supports the assessment of 2 out of 21 Growth Application Evaluation Criteria (IP2023-0559) used to evaluate whether a Growth Application represents the 'right place at the right time' for growth. The City manages and mitigates these risks through strategically monitoring the impacts of

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growth and related growth trends in The City’s annual Growth Monitoring Report. In addition, through embedding The City’s Long Range Financial Plan (LRFP) into the Growth Application Evaluation Criteria (IP2023-0559), it ensures new community growth adheres to the strategies and tactics as set out in the LRFP, which is the foundation to The City’s Performance Management System, sustainable financial planning and Service Plans and Budgets process.

2. **Managing expectations:** A recommendation to consider operating investments needed to enable a Growth Application in the Service Plans and Budgets process may be interpreted by applicants as pre-supposed approval. If those investments are not funded, there may be disappointment and misunderstanding. Administration aims to manage this risk through continued engagement and ongoing communication, including through anticipated Infrastructure and Planning Committee and Council recommendations resulting from the larger new community Growth Application process.
3. **Refinement of the Model over time:** As the Model will be refined and improved through annual reviews, it poses the risk that the scope may change over time and that Growth Applications may be assessed differently through the iterative improvements. This is a natural result of the evolutionary approach and aligns with the new community Growth Application process (IP2023-0559). Administration aims to manage this risk through continued engagement and ongoing communication, including conversations with applicants around the outcomes identified in the Model prior to making final recommendations on a new community Growth Application.

ATTACHMENTS

1. Background and Previous Council Direction
2. Detailed Inputs and Assumptions
3. Service Line Scoping
4. Presentation-New Community Incremental Operating Cost Model Inputs and Assumptions

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Carla Male	Corporate Planning and Financial Services	Approve
Les Tochor	Corporate Planning and Financial Services	Approve
Debra Hamilton	Planning and Development Services	Consult
Josh White	City & Regional Planning	Consult

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