

NORTHPOINT RESIDENTIAL FUNDING AND FINANCING PROPOSAL

EXECUTIVE SUMMARY

A capital budget increase of \$18.6 million is required in 2014 in order to advance the sanitary and storm infrastructure as per the Northpoint Residential Funding and Financing Proposal. Walton Development and Management (Alberta) LP (Walton) proposes to advance the construction of the subject infrastructure. The City will repay the full costs of the infrastructure to Walton in 2018. This City repayment will be funded by a long term debenture in 2018. Advancing the sanitary and storm trunk infrastructure to service the communities of Skyview Ranch, Redstone, Cityscape and Cornerstone, ahead of the City's proposed timeline of 2016, will advance a serviced land supply of 167 hectares (lands with full servicing for Utility, Transportation and Fire).

The Growth Management citywide serviced land supply target of 2-5 years for full servicing would be met without the subject infrastructure being advanced. The proposed advancement allows Walton (and others serviced by this infrastructure) to proceed on their preferred timelines. The advancement also insulates The City from any unexpected increase in demand by providing a land supply cushion in 2015 by increasing the land supply in that year. In 2016 and beyond, the projected land supply matches the land supply based on The City's current timing for the infrastructure.

Approval of the capital budget increase and related borrowing bylaws is required to proceed with the front ending agreements. Walton has indicated they will commence construction in 2014 after third reading of the borrowing bylaws and execution of the Construction Finance Agreement.

ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee:

1. Forward this Report (PFC2014-0511) to the 2014 June 23 meeting of Council as an item of urgent business;
2. Direct Administration to prepare:
 - a. Borrowing Bylaw 9B2014 for the interim debt required to a maximum amount of \$18.6 million in self-supported debt for the 2014 June 23 meeting and;
 - b. Borrowing Bylaw 10B2014 for the long term debt required to a maximum amount of \$18.6 million in self-supported debt for the 2014 June 23 meeting of Council.
3. Recommend that Council:
 - a. Approve capital budget appropriations for 2014 in program 895-329 Wastewater Trunks Lift Station (\$9.1 million) and 897-356 Stormwater Infrastructure for New Development (\$9.5 million) financed by self supported debt to be repaid in 2018.
 - b. Approve exceeding the Drainage debt servicing limit of 40 percent of revenues from 2015 to 2018, to a maximum of 48 percent for the sole purpose of entering into a Construction Finance Agreement associated with the Northpoint Residential Funding and Financing Proposal.
 - c. Give first, second and third reading to the proposed Bylaw 9B2014 for interim debt.
 - d. Give first reading to the proposed Bylaw 10B2014 for long term debt.

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PREVIOUS COUNCIL DIRECTION

Council has supported development in the northeast area of Calgary through the adoption and approval of the following documents:

- The NE Regional Policy Plan was passed by resolution of Council on 2006 April 24.
- The Northeast Community 'A' Area Structure Plan was adopted by Council in 2007 July 22, under Bylaw 19P2007.

On 2014 March 10, Council adopted PFC 2014-0175 Framework for Growth and Change: Investing in Growth, accepting this report for information. This report identified the timing of investment of growth infrastructure required to service the existing communities of Skyview Ranch and Redstone, and the future Cornerstone ASP to be within Action Plan 2015 -2018 Investment Plan.

On 2014 May 20, in PFC2014-0389 on the Investing in Growth: Alternate Financing Proposals, the Priorities and Finance Committee recommended that Council approve the Northpoint Funding and Financing proposal.

BACKGROUND

In December 2013, Council reviewed the Framework for Growth and Change Sequenced List for Developing Areas that ranked Redstone and Skyview Ranch as the top two communities on the list among developing areas. Walton (the Developer) has submitted a funding and financing proposal to extend the storm and sanitary trunks to complete the outline plan of Northpoint, including the communities Redstone (Qualico Communities), Skyview (La Caille), Cityscape (Mattamy Homes) and Skyview Ranch (Walton); the mechanism proposed is a traditional construction and financing agreement (CFA). The proposed infrastructure will complete the leading infrastructure for these areas, which were ranked numbers 1 and 2 on the Sequenced List for Developing Areas for the Framework for Growth and Change, and allow for the next highly ranked growth area, Cornerstone (Northeast ASP Cell A) to also develop with no additional City-funded capital water or transportation costs.

The proposed timing of servicing growth areas is intended to yield a supply of serviced land (defined as land with all leading infrastructure, including water, sanitary, storm, fire and transportation) required to meet the specified citywide and north-south land supply target. The citywide land supply target is a minimum of two years and maximum of five years serviced land. The north-south land supply target is a minimum of two years in each half of the city. Growth Management serviced land supply citywide targets are projected to be met up until 2016, with the scheduled construction of the sanitary and storm trunks required to service the continued development of Redstone and Skyview Ranch, as well as the addition of serviced land in the Cornerstone area, from 2016 onwards. The advancement of this infrastructure is not required to meet citywide serviced land supply targets. The advancement insulates the City from any unexpected increase in demand by providing a land supply cushion in 2015 that would have normally been seen in 2016 when this area and the new Cornerstone ASP were required to maintain serviced land supply.

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Advancing the sanitary and storm trunk infrastructure, ahead of the City's proposed timeline of 2016, will advance a serviced land supply of 167 hectares, but not add additional serviced land supply within the 10 year planning horizon. Growth over the last two to three years has exceeded previous forecasts. Calgary's population projection, updated for 2014, is estimated at 25,000 people per year. Two years ago population projections were 16,620 people per year. The most recent population projection, used in Suburban Residential Growth 2014-2018, is 15 percent higher than last year's five-year economic outlook and 70 percent higher than the 2012 five-year economic outlook. If population increases faster in the north compared to the forecasted demand, the extra cushion of serviced land supply in 2015 will help The City stay above the minimum land supply targets.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The purpose of this report is to obtain Council approval for the required capital budget in 2014 and to direct administration to prepare the related borrowing bylaws. These approvals will allow Walton to proceed with the implementation of the front ended infrastructure required to support the full build out of the northeast residential lands, including the communities of Skyview Ranch, Redstone, Cityscape and Cornerstone.

The Construction Finance Agreement will set out the terms for the financing and advancement of the sanitary and storm infrastructure included in the Northpoint Residential Funding and Financing Proposal. Discussions between Walton and Administration are underway on the terms of the agreement. The terms of the Construction Finance Agreement with Walton will include the responsibilities of the developer, including the construction of the infrastructure by Walton in 2014, and the responsibilities of The City, including repayment of the cost of the infrastructure in 2018 by Water Resources to Walton.

Since servicing of these lands is required to meet land supply targets within the next five years, Administration does not require flexible repayment terms. If these lands were not required to meet the serviced land supply targets within the next five years, Administration would seek triggered repayment to minimize the City's risk associated with longer build out times and fluctuations in the market.

Walton has recently tendered the construction of the sanitary and storm trunks and has come to an agreement with Administration on the cost of the infrastructure to be included in the Construction Finance Agreement.

Stakeholder Engagement, Research and Communication

There has been ongoing communication between Water Resources and Walton on the content of the Construction Finance Agreement. In particular, both parties have been working closely together in obtaining greater cost certainty of the infrastructure as the work has been tendered for construction.

Strategic Alignment

The Framework for Growth and Change was developed with input from many external stakeholders and internal business units. The Framework ensures that infrastructure investment plans across Business Units are aligned to maintain a supply of land serviced by the leading

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infrastructure necessary for development. The targets embedded in the Framework provide a balance between maintaining a sufficient supply of serviced land and overbuilding infrastructure. The principles, criteria, and weightings were approved by Council and led to the order of growth areas identified in the Sequenced List for Developing Areas. It is therefore important that decisions on CFAs reflect the ranking of growth areas to keep business unit investments aligned to support growth while remaining financially responsible. Not doing so creates the risk of decisions that do not align with the Municipal Development Plan and Calgary Transportation Plan and could undermine the interests of The City by not considering broad corporate priorities related to coordinating infrastructure timing and financial investments.

In October 2012, Council approved Principles and Guidelines for Financing and Funding (PUD2012-0690). As noted in PFC2014-0389 Investing in Growth: Alternate Financing Proposals, the Northpoint Residential Funding and Financing proposal meets these Council approved Principles and Guidelines and benefits the top three areas on the Sequenced List for Developing Areas.

Social, Environmental, Economic (External)

No impacts have been identified with this report.

Financial Capacity

Current and Future Operating Budget:

There are minimal current or future Operating Budget impacts associated with this report. Operating budget is in place for years commencing in 2016 when the capital was originally budgeted. Incremental maintenance costs in the first 2 years of operations of the proposed infrastructure are expected to be negligible

Current and Future Capital Budget:

While MGA debt limits can accommodate both the additional \$18.6 million of debt and the long term debt servicing beginning in 2018, most current forecasts of MGA debt servicing limits for each year up to 2020 indicate little debt servicing room within the Council mandated 80 percent MGA debt service limit. The estimated room is less than \$75 million (2016) and \$50 million (2018) giving minimal capacity in the next four years.

The Utilities have Council approved financial targets for debt of a maximum of \$2 billion combined for Water and Wastewater and \$300M for Drainage. Debt servicing limits are set at 40 percent of revenues.

The infrastructure subject to the Construction Finance Agreement (CFA) is already incorporated in the Utilities' proposed 2015-2018 budget, with funds in 2016. Under the proposed CFA, the debt associated with the required infrastructure is advanced by two years, but the total Utilities debt remains below the debt limit. The proposed CFA does however consume a portion of the very small remaining capacity for debt, thereby reducing the ability of the Utilities to respond to emergencies and unexpected capital infrastructure needs in 2014 and 2015. Each additional CFA would further erode the remaining capacity for debt, and ultimately push the Utilities debt past the \$2 billion debt limit.

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The proposed Construction Finance Agreement (CFA) has an acceptable impact on Water and Wastewater debt servicing for the years 2014 to 2017, with an increase of 2 percent, from 27 to 29 percent. The new debt servicing level of 29 percent remains within the approved financial targets. There is a fairly significant impact on the debt servicing for Drainage. The \$9.5 million investment pushes the Drainage debt servicing level to 48 percent, above the 40 percent limit set in the Drainage Financial Plan.

Administration has determined that repayment in 2018 will result in a lesser impact on the MGA debt servicing limit during the years prior to 2018, when there is less available debt servicing room. Under MGA accounting rules, debt servicing amounts must be reported for debts incurred; a Construction Finance Agreement (CFA) is a financing vehicle that creates debt for the Corporation. Debt servicing is calculated over the term of the CFA, with the amount increasing up to the total CFA amount in year prior to repayment. Delaying the repayment pushes the debt servicing peak past the critical years prior to 2018. Walton has agreed to this timeline for repayment. In 2018 The City will issue long term debt to repay Walton. Approving the Front Ending Loan from Walton will use up 25 to 40 percent of the debt servicing headroom available to all City functions until it is repaid in 2018.

Risk Assessment

If the required 2014 capital budget is not approved Walton will be unable to proceed with the implementation of the front ended infrastructure in 2014. This will result in a delay of Walton's intended schedule in the completion of servicing for the northeast communities of Skyview Ranch, Redstone, Cityscape and Cornerstone. Some cost savings are anticipated associated with potential cost escalation from current estimates to the costs that would otherwise be borne in 2016. Delaying the development of these communities will challenge the City to effectively manage the impact of an unexpected increase in growth and demand for serviced land.

The continued development of Skyview Ranch, Redstone, Cityscape and the new development of Cornerstone, ahead of the City's proposed timeline of 2016, will be subject to the offsite levy rates of the Standard Development Agreement in effect at the time of tentative plan. If the future levy rates are greater than the current levy rates, there will be a reduction in total levy collections with the advancement of development in these areas, compared to the collections based on the development timing set by The City.

The advancement of the infrastructure provides for the development to take advantage of the existing Standard Development Agreement and pay the existing acreage assessment rates which are at 50 percent for water and wastewater. The next Standard Development Agreement may have a different funding percentage and the difference could represent a loss to The City of potentially \$30 million for water and wastewater acreage assessment levies for the total 167 ha if developed in 2015.

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REASON(S) FOR RECOMMENDATION(S):

This report is intended to provide information and direction on the next steps required to advance the sanitary and storm infrastructure included in the Northpoint Residential Funding and Financing proposal. The recommendation will ensure that budget approvals and related borrowing bylaw are in place in 2014, so that a Construction Finance Agreement can be executed and construction of the utilities can proceed.

ATTACHMENT(S)

1. Letter of support from Walton Development and Management (Alberta) LP, dated 2 June 2014
2. Draft borrowing bylaw 9B2014
3. Draft borrowing bylaw 10B2014