

10 Home and Business Essentials: Improved Off-site Levies Program and Bylaw

PURPOSE

The purpose of this report is to update the Off-site Levies Bylaw to:

- 1) Ensure The City can provide 10 essential services to Calgarians and businesses in developing communities.
- 2) Maintain a crucial element of Calgary's financial sustainability to meet the demands of a growing city and the quality-of-life expectations that come with it.
- 3) Introduce an improved methodology that allows for more frequent updates.
- 4) Align cost estimates to today's current operating environment, which has changed significantly since Council approved the 2016 Bylaw.

PREVIOUS COUNCIL DIRECTION

- A comprehensive list of previous Council direction is provided in Attachment 1.
- On 2021 January 18 (PFC2021-0035), Council directed Administration to use the following principles as a strategic foundation for a new Off-site Levies Bylaw (Attachment 2):
 - Sustainable and resilient
 - Shared cost, shared benefit, shared risk
 - Competitive
 - Collaborative and consultative
 - Transparent and accountable
 - Aligned and compliant
- On 2020 November 2 (PFC2020-1140) Council directed Administration to examine potential corporate funding and financing sources to reduce the impact of off-site levies shortfalls on Water Utility rates and report back with the current Off-site Levies Bylaw review.
- On 2020 May 25 (PFC2020-0381) Council directed Administration to explore a new Established Area off-site levy for local-sized water and sanitary pipes, through consultation with interested parties, and for Council's consideration, as part of the current Off-site Levies Bylaw review.

RECOMMENDATION:

That the Infrastructure and Planning Committee recommends:

1. That this item be forwarded to the 2024 January 16 Public Hearing Meeting of Council

That the Infrastructure and Planning Committee recommends that Council:

2. Give three readings to the proposed Off-site Levies Bylaw (Attachment 3).

RECOMMENDATION OF THE INFRASTRUCTURE AND PLANNING COMMITTEE, 2023 DECEMBER 13:

That Council give three readings to **Proposed Bylaw 1H2024** (Attachment 3).

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Excerpt from the Minutes of the Regular Meeting of the Infrastructure and Planning Committee, 2023 December 13:

“The following documents were distributed with respect to Report IP2023-1264:

- A letter from Brian Hahn;
- A document entitled "Calgarians for Sensible Growth Submission on Off-Site Levies”;
- A presentation entitled "The Off-Site Levies Program is Neither Effective nor Sustainable"; and
- A presentation entitled "City Recreation Facilities in Industrial Area".”

CHIEF ADMINISTRATIVE OFFICER/GENERAL MANAGER COMMENTS

Acting General Manager Debra Hamilton and Chief Operating Officer Stuart Dalglish strongly support this report's recommendations.

Calgarians and businesses count on 10 home and business essentials to support basic needs as well as contribute to the quality of life expected in our city. For new community areas, this requires substantial improvement to the existing off-site levies' abilities to fund and sustain the infrastructure that enables these essentials. Approving the recommendations will help advance infrastructure expediently and in response to growth; support equitable and sustainable cost sharing among developers; and, provide competitive cost attribution of infrastructure essentials to future homeowners and businesses.

HIGHLIGHTS

- Calgary is growing; new people choose to make Calgary their home every year. This means we are building the equivalent of a small city every few years. Off-site levies are instrumental in helping to accommodate new Calgarians in a financially responsible way.
- The off-site levies help to fund 10 essential services needed by every home and business. From running water to timely fire response, from flushing toilets to reliable transit, levies provide excellent value to both Calgarians and developers. They are the most effective funding mechanism available to build essential infrastructure.
- Growth pays for its share of growth. Property taxes and utility rates fund the remaining growth costs.
- The proposed levy rate of \$609,059 per hectare, or \$22,600 “per home” represents an 8 per cent increase above the 2024 January 1 rate under the current bylaw.
- The proposed levy rate is competitive with other large Canadian municipalities and is unlikely to impact the sale price of a home. The levy cost per housing unit has remained steady at approximately 4 per cent compared to the median sale price of a Greenfield home.
- Consulting with the development industry, Administration has done its due diligence to ensure that the proposed levy bylaw is transparent, accurate, compliant with the Municipal Government Act and meets all the criteria set out in the council-approved *Principles for a New Off-Site Levy*.

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- Given that The City adopted the current bylaw in 2016, an update is required to ensure that The City can build essential infrastructure to unlock development of homes and businesses to meet the needs of Calgary's growing population, while maintaining service levels and reasonable tax rates for all Calgarians.

DISCUSSION

Council approved the Off-site Levies Bylaw in 2016. Council now has an opportunity to adopt an improved bylaw with rates that reflect updated costs of delivering essential services.

Off-site levies help to fund 10 essentials needed by every home and business:

1. Clean and safe drinking water.
2. Toilets that flush and sinks and bathtubs that drain.
3. Stormwater drainage of rain and snow melt to reduce the risk of flooding.
4. Pathways and bikeways that provide healthy transportation and recreation options.
5. Buses to connect people to their daily needs.
6. Streets on which to travel and on which to operate buses and emergency vehicles.
7. Fire and emergency response stations to provide protection during emergencies.
8. Police stations to increase safety and security.
9. Libraries where people may gather and access resources.
10. Recreation facilities to exercise and play.

These essentials matter to Calgarians and support quality of life (Attachment 4).

The levy system can be considered a cost-sharing approach between the development industry and The City to fund the initial infrastructure required for the 10 essentials:

- The development industry pays The City the share of infrastructure that serves new community growth areas.
- The City budgets for and builds the infrastructure. The City then funds, primarily through property tax and utility rates, the portion of the infrastructure that serves other areas, such as established areas. The City also covers the ongoing operating, maintenance, lifecycle, and replacement costs.

This approach represents an effective and efficient means for sharing costs among developers, building infrastructure expediently in response to growth, meeting quality of life expectations, and ultimately meeting city building goals of providing housing and businesses.

The levy system is a tried and tested approach, as off-site levies have existed in various forms for decades. In other municipalities, it is widespread practice for developers to front-end infrastructure and then receive payback from other developers. Administration considered alternative funding options available for funding off-site growth essentials, looked at practices in other municipalities, and reconfirmed that levies are the most effective system available. Attachment 5 provides more information on levies.

Charging new developments for their share of the 10 essentials, rather than relying solely on taxes and other City funding sources or rather than relying on developers to front-end infrastructure, represents an equitable approach as development is directly benefitting from the infrastructure.

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Under the current bylaw, The City faces a growing funding gap to build and sustain the essential services that Calgarians depend on due to rising costs. The proposed increase in the levy rates helps to address this gap. If The City does not adjust the levy rates through this proposed bylaw, The City will face significant challenges in:

1. Unlocking new development to enable housing supply;
2. Delivering the services that matter to Calgarians and that they rely on; and
3. Maintaining quality of life across the city without significant citywide property tax increases.

The 2016 Off-site Levies Bylaw has been in operation for eight years and requires updating. The levy rate on 2024 January 1 under the current bylaw will be \$564,006 per hectare (this reflects the usual annual inflationary increase). If The City were to continue operating under the current bylaw, The City will continue to collect insufficient funds given that costs have not been updated since 2016.

Administration calculated the proposed levy rate by totaling the infrastructure costs of the 10 essential services associated with growth, determining how much growth benefits from these essentials as a percentage, and then dividing by the unlevied land area.

The proposed levy rate of \$609,059 per hectare represents an 8 per cent increase over the 2024 January 1 rate. The rate per hectare compares favourably with other Canadian municipalities. Rates per hectare range as high as \$3,322,000 in other cities (Attachment 6).

Research indicates that the rate increase is unlikely to directly impact the sale price of a home because in a competitive market, home prices are set by the market. The total cost to development under the new bylaw, if adopted, will be just under \$22,600 per housing unit on average, which represents an increase of approximately \$1,700 per housing unit from the current bylaw. Administration calculated the average cost per housing unit by dividing the proposed levy rate of 609,059 per hectare by 27 units per hectare, which is the average number of homes per hectare in outline plan approvals 2018-2022. The rate averaged per housing unit compares favourably with other Canadian municipalities. Rates per housing unit range as high as \$122,900 in other cities.

The median home sale price in the Greenfield Area in Calgary in 2023 was \$542,000; therefore, the ratio of the levy cost relative to the home sale price is about 4.2 per cent. This ratio has remained stable over time as housing prices have increased.

The City's levy program has improved considerably since the current bylaw was approved by Council in 2016. The City has established a dedicated team focused on strategies to fund growth and to ensure The City now has:

- A more detailed infrastructure list.
- More accurate infrastructure costing.
- Increased financial sustainability: Levy revenue expectations respond to the pace of growth and corresponding levy payments.
- Improved attribution of benefits to investment.
- An updatable and repeatable methodology that enables frequent updates.

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The City has built a team of staff to steward the levies and maintain institutional knowledge over time and for the future. This work has therefore gone “beyond the bylaw” to create an enduring program that will sustain the:

- Continued provision of the initial infrastructure required for new communities;
- Ongoing work with the development industry to fund the infrastructure through the levy system; and,
- 10 essential services provided to homeowners and businesses in new community areas.

The updated methodology includes several notable advancements including: enhanced transparency on the costs and required infrastructure; and a clear, fully repeatable, and publicly available methodology as detailed in the Off-site Levies Bylaw Background Report (Attachment 7). The proposed levy rate calculations have been thoroughly tested and vetted in response to feedback from interested parties. Administration has systematically validated and checked the assumptions of the new methodology and the sensitivity of the inputs.

The proposed levies meet all the criteria set out in the Council-approved *Principles for a New Off-Site Levy*:

- **Sustainable and resilient:** The City has structured the proposed bylaw to support long-term sustainability of levies and associated infrastructure and services for Calgarians by reflecting future anticipated infrastructure needs in a new methodology that will deliver steady rates over time.
- **Shared cost, shared benefit, shared risk:** the benefit calculation in the proposed bylaw reflects equitable sharing of the cost, benefit, and risk of off-site infrastructure by ensuring that the cost and risk to both The City and development is proportional to their respective degree of benefit.
- **Competitive:** the proposed bylaw rate is highly competitive compared to other similar sized municipalities in Canada and offers excellent value in delivering complete communities to help attract development and investment (Attachment 6). To make the rate more competitive, The City excluded 95 transportation projects from the levy rate calculation, limited the scope of collections on transit buses, excluded City front-ended costs on completed transportation and recreation projects, and made eight methodology adjustments.
- **Collaborative and consultative:** Administration developed the proposed bylaw in extensive consultation with interested parties over a period of three years.
- **Transparent and accountable:** the calculation for the proposed levy is publicly available and fully replicable to ensure transparency. The City ensures accountability of the program by its annual reporting process, which provides monitoring, oversight, and stewardship of levy collections and spending.
- **Aligned and compliant:** the proposed bylaw is aligned to the Municipal Development Plan, the Calgary Transportation Plan, RouteAhead, and aligned to be compliant with the Municipal Government Act and City of Calgary Charter.

Administration has collaborated across the corporation to ensure that legal, planning, financial and technical elements of this work are well-informed. If Council adopts the new levy bylaw, Administration will implement it on 2024 March 1.

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Administration responded to Council's 2020 November 2 direction by developing a new levy calculation approach that addresses current levy shortfalls. The new methodology is no longer reliant on growth forecasts and is more resilient and responsive to changes over time.

Administration responded to Council's 2020 May 25 direction to explore a new Established Area off-site levy by examining the desire for, and feasibility of a new Established Area off-site levy for local-sized water and sanitary pipes, through consultation with interested parties. Administration decided to further evaluate the concept by rolling out a City-funded pilot of the framework over 2024-2027. The City is not planning to establish a formal levy during this period and will not collect Established Area linear water and wastewater levies before the pilot concludes.

EXTERNAL ENGAGEMENT AND COMMUNICATION

- | | |
|---|---|
| <input checked="" 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 |

Administration has undertaken more than three years of intensive and robust consultation with members of industry, industry representation groups, other interested parties and the public on the calculations and rates (Attachment 8). As per the Council-approved *Principles for a New Off-Site Levy*, The City developed the levies (process, methodology and calculation) through a consultative approach with interested parties. Administration engaged members of the development and building industry, as well as the Building Industry and Land Development Association (BILD), the National Association for Industrial and Office Parks (NAIOP), Calgary Inner City Builders Association (CICBA), and the public over the course of more than 100 meetings.

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The City heard feedback and suggestions on the financial calculation used to determine the proposed levy rate, concerns about the levy rate being too high or too low, and concerns about the availability of the essentials to serve Calgarians into the future. Administration has also heard concerns related to affordability of the levies. Administration acknowledges this and will continue to make this a priority area. Most interested parties have indicated that they are supportive of the majority of the proposed bylaw. Although some continue to advocate on behalf of their members for slightly lower rates, Administration is confident in the work undertaken and the level of engagement completed.

Administration integrated suggestions and edits to the calculation wherever possible, if the suggestions were defensible, accurate, and consistent with both Provincial legislation and the Council-directed levy principles. The City maintained clear lines of communication between Administration and the development industry, updated on timelines and process continuously, and were responsive to ideas and suggestions throughout.

IMPLICATIONS

Social

The collection of off-site levies helps to ensure funding availability for recreation facilities, libraries, fire and police stations, clean drinking water, buses, and pathways. This infrastructure helps to deliver City services, enables housing supply, and creates safe and vibrant communities. These essentials directly support the Quality of Life indicators and the Social Wellbeing Policy. Research shows that adding net new homes improves housing affordability for Calgarians. Adding more homes, independent of their price point, means fewer people are competing against each other to find a home that fits their needs and budgets. Municipalities can affect the cost of housing by enabling supply.

Environmental

The collection of off-site levies helps to ensure available funding for wastewater pipes and treatment to responsibly manage Calgary's wastewater before The City returns it to the Bow River. Levies also help to ensure available funding for transit bus service, pathways, and bikeways to promote a variety of transportation modes and reduce greenhouse gases associated with transportation in line with the Calgary Climate Strategy. Levies reduce climate-related risk by helping to fund stormwater management systems to move rain and snowmelt away from homes and businesses to reduce flooding. They also enable development of fire and emergency response stations to respond to climate-related emergencies.

Economic

The levy is an efficient way to invest in infrastructure to increase the housing supply as a competitive factor to attract people and businesses to Calgary. The City launched the 2016 Levy Bylaw update as part of the Economic Resilience Strategy. The levy supports the key result areas of continuing to provide service delivery to Calgarians, and investing in infrastructure that creates employment and prepares for future growth.

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The collection of off-site levies helps to reduce The City's reliance on property taxes and utility rates for funding growth infrastructure. A levy rate that is too low necessitates greater reliance on other sources of capital, which has equity implications. Residents and businesses across the city would either pay higher property taxes or must accept reduced service levels to help cover the cost of new development. This could potentially impact the cost of living for Calgary households or impact programs that serve equity-deserving populations.

Service and Financial Implications

Other:

There are no direct capital or operating costs to implement this recommendation.

RISK

A significant risk of not approving the recommendation is that under the current bylaw, the levy rate is not adequately accounting for inflationary increases in infrastructure costs, or the new infrastructure required in new communities. Continued under-collection of levies results both in delays in building infrastructure, which creates under-serviced communities and slows the development of new homes and businesses, and The City contributing more than its share for building required infrastructure, which contributes to decreased service levels across the city and higher municipal taxes and utility rates. If Council does not approve the recommendations as presented, and the rate remains lower than recommended, continued under-collection is certain and will negatively impact i) Council's priorities of economic, social and climate resilience, and ii) Council's guiding principles of strengthening relationships with Calgarians, delivering the right services, building strong communities, investing in infrastructure, and financing our future. Without an increase in the levy rates, communities will go without the necessary infrastructure to deliver City services. Alternatively, citywide service cuts or increases to taxes and/or utility rates will be required to fill the gap left by under-collection.

ATTACHMENTS

1. Background and Previous Council Direction
2. Principles for a New Off-Site Levy (PFC2021-0035 Attachment 2)
- 3. Proposed Bylaw 1H2024**
4. 10 Home and Business Essentials
5. Off-site Levies Explained
6. Intermunicipal Benchmarking Study
7. 2024 Off-site Levies Bylaw Background Report
8. Off-site Levies Bylaw Communications and Engagement
9. Letters of Support
10. Presentation
- 11. Supplementary Slide**
- 12. Public Submissions Received at Committee**

**Planning & Development Services Report to
Infrastructure and Planning Committee
2023 December 13**

**ISC: UNRESTRICTED
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Improved Off-site Levies Program and Bylaw**

Department Circulation

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