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New Community Growth Strategy

PFC2018-0200

CITY OF CALGARY
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Priorities and Finance Committee

2018 February 22

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Presentation Outline

1. Introduction
   - Key Questions
   - 2018 January 31 Strategic Session – what we heard
2. Background
3. Opportunities and Challenges
4. Options for Funding
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Introduction

Key Questions

- Do we need to encourage more new community development?
- If so, how should it be funded?

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Introduction

What we heard at the 31 January Strategic Session of Council

- Operating costs and service level inquiries
  - *All operating cost assumptions are updated in Attachment 4*
- Property tax (revenue) assumption inquiries
  - *Different scenarios to test assumptions have been modeled*
- Does initiating more new communities lead to more demand? Does adding growth makes services more efficient? Is Calgary losing market share to the region?
  - *This possibility (and outcomes) are addressed in the report*
- Has established area development been addressed?
  - *A recommendation is included to bring an Established Areas Growth Strategy forward in 2018 Q3*

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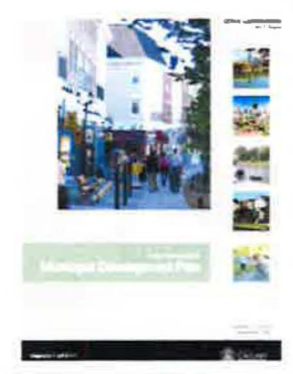
Background – Growth Policy Evolution

	Pre 2012	2012	2013	2014	2015	2016	2017	2018
	MDP/CTP are approved Next new communities signaled by Area Structure Plans (ASPs) completed Approximately two new invested ASPs per budget cycle	Growth Management Overlay(GMO) introduced in three ASPs Ensured Council approved funding for infrastructure in place prior to land use approval	Developer Funded ASPs introduced Framework for Growth and Change	Two developer funded ASPs approved	Four developer funded ASPs approved	New Off-Site Levy bylaw approved Industry/City work plan direction to look at GMO funding & financing processes Two new ASPs initiated Investment Strategy	Outline Plan and Land Use Applications accepted prior to GMO removal in all ASPs	
Inflationary Property Tax Increase	**+5.1% residential + 8.9% non-res**	**+13% residential + 7.1% non-res**	**+4.8%**	**+4.5%**	**+3.5%**	**+2.9% residential +3.0% non-res (0.0% w/ one-time rebates)**		
Assessment Base Growth	**+1.7%**	**+1.7%**	**+1.4%**	**+3.2%**	**+1.5%**	**+1.7%**		

Background – How Decisions are Made Today

Administration makes growth planning recommendations to Council considering three inputs:



Strategic Growth Policy

Market Factors

Financial Capacity

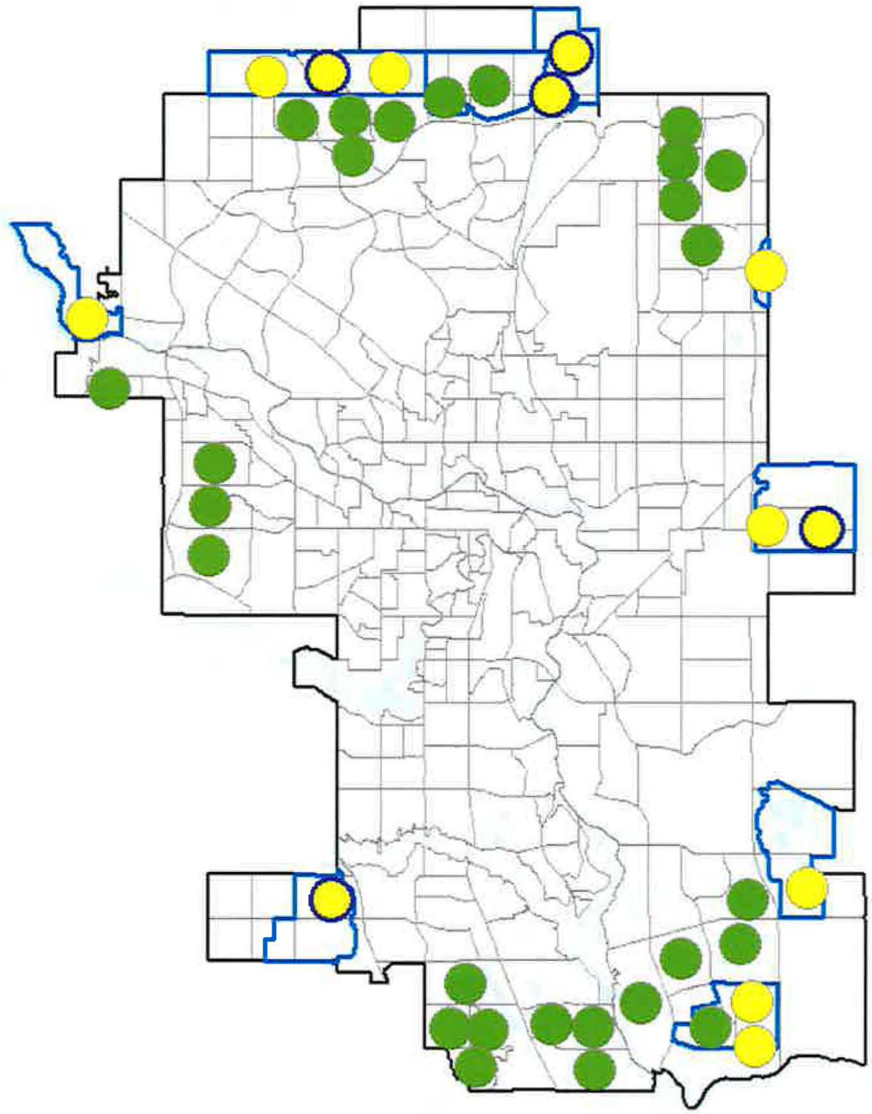
Background – New Community Growth

- ***27 Actively Developing Communities with Land Use***
  - ***Mix of funded and unfunded needs***

- ***Future Investment Areas***
  - ***Unfunded***
  - ***9 Area Structure Plans***
  - ***14-16 future new communities (in 12 business cases)***

Future new community with significant non-residential component

Area Structure Plan boundary



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Background – New Community Capacity

As of early 2018, there are 27 actively developing communities with land use approved:

- 8 communities have recently been initiated, or are expected within 1 year (e.g., Belmont, Carrington, Cornerstone)
- 10 communities will complete single residential build out within 3 years (e.g., Auburn Bay, Nolan Hill)

	New Community Current Supply (vacant, serviced lots)	New Community Demand (2018-2022 forecast)	Difference between supply and forecasted demand
Single Residential	14,500	16,700	(2,200)
Multi Residential	31,150	8,050	23,100
Total	45,650	24,750	20,900

Budget decisions in 2018 will bring on new supply in 2019-2022

Background – City Cost Obligations

- Total estimated capital and operating cost obligations in Calgary's current and future new communities (2017 dollars)
- Capital costs identified through business plans and budgets, developer business cases and business unit assumptions
- Operating costs identified through modeling of business unit assumptions

	Capital	Operating		
	Estimated capital (one-time)	Total estimated remaining annual operating cost	2019-2022	2023+
27 Developing Communities	$700M	$72M	$28M	$44M
14-16 Future Communities	$950M	$66M	$10M	$56M
Total	**$1,650M**	**$138M**	**$38M**	**$100M**

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Opportunities and Challenges

Do we need to encourage more new community development?

Opportunities

- Responding to developers interested in investing
- Economic development and job creation
- Retaining private capital investment
- Facilitating a more competitive development industry
- Increasing regional competitiveness
- Building modern, more sustainable new communities

Challenges

- Lower growth in the assessment base
- Lower anticipated inflationary property tax increases
- Debt constraints and reduced City capital availability
- Municipal Development Plan alignment
- Consideration for Established Areas
- Will investments be met with population growth?

Opportunities and Challenges

Industry Perspective

- The City should be willing to take on shared risk in order to partner with developers
- Growth should follow market needs/trends and Developer/City financial capacity

City Perspective

- City should continue to grow based on the 3 inputs (strategic growth, market factors and financial capacity)
- New growth needs to be fully funded, either through tax increases, debt, or other sources

With lower property tax funding due to assessment base growth and inflationary increases, the system is no longer able to “work itself out”.

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Options for Funding

1. **(a) Maintain new community funding allocation in line with past budgets**

   Use growth strategy inputs (strategic alignment, market factors, and City financial capacity) to make recommendations

   Recommend investments that best prepare The City for growth

   Historically, this has resulted in 2 ASPs per budget cycle (4-6 new communities)

   - **Operating Costs:** Funded through City budgets, allocated from standard funding sources (property taxes and user fees)
   - **Capital Costs:** Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go)

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Options for Funding

2. BILD Calgary Region Proposal

A developer could proceed outside of City budgets and priorities using the following tools. These communities would be in addition to any City initiated communities.

- **Operating Costs:** Funded through City budgets, allocated from standard funding sources (property taxes and user fees). Developer makes payment that offsets a portion of operating costs by paying a calculated amount at initiation of a community and finishes when The City introduces the service, or at a relative efficiency point to be determined.

- **Capital Costs:** Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go). Introduce Construction Finance Agreements, levies paid with assets instead of cash, payback through levy system, and enforcing repayment among benefitting developers.

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Options for Funding

3. Cost Coverage Method

Based on a funding envelope approved by Council, costs are managed in the following ways:

- **Operating Costs:** City portion funded through City budgets, allocated from standard funding sources (property taxes and user fees). Through an agreement with a developer, The City identifies required operating costs. This amount becomes fully funded via (a) recognition of tax revenue generated, (b) an Economic Benefit Credit above this, and (c) developer contribution for the remainder.
- **Capital Costs:** Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go).

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Options for Funding

4. Enact Special Tax on Benefitting Area for Operating Costs

Use an annually approved special tax (above regular taxes) to collect for operating costs from residents in a new community

- **Operating Costs:** Funded through City budgets, allocated from standard funding sources (property taxes and user fees). For growth areas outside of City budgets, increased operating costs funded through a special tax assessed to residents in benefitting area.
- **Capital Costs:** Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go).

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Options for Funding

1. (b) **Increase new community funding allocation**

Use growth strategy inputs (strategic alignment, market factors, and City financial capacity) to make recommendations

Recommend investments that best prepare The City for growth with an added perspective to stimulate growth and investment

This could result in 3-4 ASPs in the next budget cycle (6-12 new communities)

- **Operating Costs:** Funded through City budgets, allocated from standard funding sources (property taxes and user fees). Increased allocation and sources to be identified.
- **Capital Costs:** Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go). Increased allocation and sources to be identified.

Recommendation and Rationale

Administration is recommending Option 1(b) for the following reasons:

- **Strategic:** maintains focus on policy, market factors, and City fiscal capacity. Growth decisions are made by Council.
- **Prosperous City:** supports job creation and Industry's desire to invest in Calgary
- **Flexibility:** adds capacity should an upswing in demand occur; increases competition and choice for Calgarians
- **Predictability:** establishes a two year review to ensure market and fiscal objectives are being met

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Next Steps: Budget Timing

	2018											2020
	Q1		Q2			Q3			Q4			
	February	March	April	May	June	July	Aug	Sept.	Oct.	Nov.	Dec.	
Growth Strategy	February: Growth strategy report to PFC	March: Fire service in new communities report to PUD		May: Medical response service model report to IGA	June: New community growth planning recommendations on 12 business cases and Council decisions			September: Established Area Growth Strategy report to PFC				Next new community growth recommendations: future investment areas
One Calgary			April: 2019-2022 Indicative rates					September: 2019-2022 Service plans		November: 2019-2022 Service plans / budget decisions		2019-2022 Mid-cycle adjustments

Next Steps: Recommendations for June

Administration will bring forward recommendations for future investment areas considering the three inputs:

- How is the area strategically aligned to MDP/CTP policy?
- What is the expected market demand contrasted against current capacity?
  - *Citywide and sectoral. Balance market accommodation (faster growing areas) and dispersion (areas with no capacity)*
- Can The City afford the capital and operating investments?
  - *Identify required investments in 2019-2022 to complete currently developing communities and future investment areas*
  - *Identify and evaluate funding sources*
  - *Leverage previous or planned City investments*
  - *Getting ready for 2023 and beyond*

Next Steps: Recommendations for June

What can Council and Industry expect in June:

- An assessment of strategic alignment with the MDP/CTP
- An analysis of timing and locations to meet demand
- Understanding of the funding envelope for 2019-2022 for capital and operating for new and future areas
- Insight into implications for future budget cycles

Direction for the Business Case process:

- Provide opportunity to update business cases
- Develop prioritization criteria
- Engage Industry on parameters and data inputs
- Review business cases with a cumulative impact focus

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Administration Recommendations

Administration recommends that the Priorities and Finance Committee recommend that Council:

1. Direct Administration to report back to Council through the Priorities and Finance Committee in 2018 Q2 with strategic growth recommendations that increase the level of City commitment and investment in new communities, beginning with the 2019-2022 budget cycle, as identified in option 1(b) in this report, and prioritize future growth areas outlined in Attachment 1, including financial implications for the 2019-2022 budget cycle, future budget cycles, and how any funding gaps for operating and capital would be funded using the property tax;
2. Direct Administration to bring a monitoring report on the implementation of the New Community Growth Strategy to the Priorities and Finance Committee no later than Q4 2019; and
3. Direct Administration to bring a report to Council, through the Priorities and Finance Committee, no later than 2018 Q3, with findings and recommendations toward the development of an Established Areas Growth Strategy, including funding and timing considerations, that complements the New Community Growth Strategy.


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