New Community Growth Strategy: Investment Recommendations

EXECUTIVE SUMMARY

New greenfield growth communities generate economic benefit for the city. Positioning Calgary as open for business can attract private investment to Calgary that may otherwise go to other markets. Development activity creates jobs, yields new taxpayers and utility customers which contributes to revenue for The City of Calgary to provide new services in new communities. Growth also requires significant investment from The City of Calgary to construct capital infrastructure and initiate new services in new communities. Planning for new community growth is a complex decision that tries to balance building a great city, meeting market demand and providing housing choice for Calgarians and prudently managing The City's financial capacity.

This report responds to Council direction approved through the New Community Growth Strategy (PFC2018-0200) to bring forward strategic growth recommendations that increase the level of City commitment and investment in new communities for the One Calgary (2019-2022) service plan and budget. This commitment was represented as initiating six to twelve new communities during this period. In formulating the strategic growth recommendations, Administration focused on three guiding factors, in this order: alignment to policies in the Municipal Development Plan (MDP) and Calgary Transportation Plan (CTP), facilitating market demand, and prudently managing impacts to The City's financial capacity now and into the future.

This report also outlines the criteria based process Administration undertook, to help assess how the business cases align with the three guiding factors of MDP/CTP alignment, market demand, and financial impacts. As part of determining The City's financial capacity, Administration presented the indicative tax rate and indicative utility rates in 2018 April 25 to Council, highlighting the portion of the indicative tax rate that represented an initial increase in the level of City commitment and investment in new communities for One Calgary (2019-2022) budget cycle. Administration returned to Council on 2018 June 18 to further discuss the indicative utility rates.

In this report, Administration has recommended a portfolio of new communities in which to invest at this time that, as a group, best demonstrate an ability to deliver on the guiding factors.

The recommendations in this report support new investment in the following seven communities; Glacier Ridge Area Structure Plan (Ronmor/Wenzel), Belvedere Area Structure Plan (West Belvedere, Tristar/Truman/Lansdowne/Minto/Others), Rangeview Area Structure Plan (Brookfield/Genstar/Section23/Others), Providence Area Structure Plan (Dream/Qualico), and Haskayne Area Structure Plan (Brookfield/Marquis), and one community activity center, Glacier Ridge Area Structure Plan (Capexco Inc., Symons Valley Ranch).

This report identifies the capital and direct incremental operating impacts of the recommendation within the approved indicative rates and One Calgary (2019-2022) budget. It also identifies the capital investments that will be required in 2023 and beyond to complete these communities through future budget cycles. The selected portfolio builds on the continued commitment for ongoing operating and capital investment in the 27 actively developing communities.

New Community Growth Strategy: Investment Recommendations

The market, economic and financial impacts of these decisions will be monitored, as Council has directed a report to be brought back for this work in Q4 2019. Administration expects the next opportunity for determining City investment in new community areas should be with the mid-cycle review for One Calgary in November 2020; as such, the next time business cases would be accepted and considered would be in the Fall of 2019.

This report also outlines the next steps required to align with One Calgary service plans and budgets, to ensure the required investments are included in the One Calgary budget decisions, which will allow for the removal of associated Growth Management Overlays.

ADMINISTRATION RECOMMENDATION:

That the Priorities and Finance Committee:

1. Recommends that Council, for the eight new community and community activity center areas identified in Attachment 1 (PFC2018-0678):
   (a) approve these areas for growth, contingent on Council's
      i. approval, in 2018 November as part of One Calgary 2019-2022 four year service plan and budget, of the specific capital and direct incremental operating budgets necessary to support these areas, based on Council approved indicative property tax and utility rate ranges; and
      ii. removal of Growth Management Overlays for each area; and
   (b) confirm Council's intention to provide, through 2023 and future years' capital and operating budgets, the necessary public infrastructure and services to serve and support these areas.
2. Recommends that Council, for the eight new community and community activity centre areas identified in Attachment 1 (PFC2018-0678), direct Administration to:
   (a) include the estimated capital and direct incremental operating investments identified in Attachment 1 (PFC2018-0678), including any changes to the estimates, in 2018 November as part of One Calgary 2019-2022 four year service plan and budget, subject to the required operating and capital funding being in place;
   (b) prepare bylaws for proposed Area Structure Plan amendments to remove Growth Management Overlays, and bring these amendments to Council as soon as feasible following Council's approval of One Calgary 2019-2022 four year service plan and budget; and
   (c) continue to refine the 2023 and future years' capital and operating budget estimates identified in Attachment 1 (PFC2018-0678), and when needed bring incremental additional budget requests to Council for the necessary public infrastructure and services to serve and support these areas.
3. Directs that this Report proceed to the 2018 July 30 meeting of Council.
4. Recommends that Council direct Administration to bring the next recommendations for new community growth and development approvals by no later than 2020 March, and in coordination with the One Calgary 2019-2022 four year service plan and budget mid-cycle adjustment process.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 June 18, as part of the Utilities Indicative Rates and Funding New Growth report (C2018-0787), Council adopted the following recommendations:

New Community Growth Strategy: Investment Recommendations

2. Approve the 2019-2022 range of indicative rate increases for Water, Wastewater and Stormwater services as shown in Table 3 of *that* report;
3. Direct Administration, in consultation with stakeholders, to incorporate the proportionate share of the cost of off-site utility infrastructure attributable to new growth that provides servicing to communities approved by Council in the new Community Growth Strategy report (PFC2018-0678) into the off-site levy rates, through a proposed amendment to the water, sanitary sewer and storm sewer levy rates in Bylaw 2M2016, and report back to the Priorities and Finance Committee by no later than 2018 Q4.

On 2018 April 25, Council approved the 2019-2022 indicative tax rates as part of the One Calgary: Setting Indicatives Rates for 2019-2022 report (C2018-0489) and referred indicative utility rates for Water, Wastewater and Stormwater services including new growth to the 2018 June 18 Strategic Meeting of Council.

On 2018 March 19, Council approved several directions specifically related to the New Community Growth Strategy work:

1. 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.

   For context, Option 1(b) in the report states "**Increase funding allocation** for new community growth. Use current growth strategy decision making inputs (strategic alignment, meeting demand forecasts, and City financial capacity) to make recommendations. Identify for Council what investments best prepare The City for growth over the next ten years with an added perspective to stimulate economic growth and attract additional private investment. This could result in three to four ASPs or six to twelve new communities starting in the next budget cycle.
   - *Operating Costs:* Funded through City budgets, allocated from standard funding sources (property taxes and user fees). Increased allocation and funding sources to be identified through future reporting, ahead of the 2018 November One Calgary budget.
   - *Capital Costs:* Funded through City budgets, allocated from standard funding sources (off-site levies, grants and Pay as You Go). Increased allocation and funding sources to be identified through future reporting, ahead of the November presentation of One Calgary."

2. Direct Administration to work collaboratively with industry on potential new capital and operating options including those outside current policy constraints to:
   - Help share risk;
   - Leverage private investment;
   - Reduce City costs; and
   - Other mutually beneficial outcomes.

And report back to Council through the Priorities and Finance Committee, as part of the next two-year cycle;

3. Develop and share criteria by which business cases will be evaluated to be shared with Council at Administration's discretion no later than April 2018.
4. 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.
5. Direct Administration to bring a report to Council, through the Priorities and Finance Committee, no later than Q3 2018, 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.

On 2018 January 31, Council deferred the South Shepard reports, CPC2017-270 and PFC2017-0445, to be brought to the Priorities and Finance Committee in 2018 Q2, as part of the analysis of all business cases related to Growth Management Overlay recommendations.

On 2017 July 31, as part of PFC2017-0480 Strategic Growth and Outline Plan Applications in Developing Areas report, Council adopted the following recommendation:

3. Direct Administration to continue working with Industry on developing a process for strategic growth analysis and decisions, and bring an update report to the Priorities and Finance Committee no later than 2018 Q1.

Also on 2017 July 31, as part of PFC2017-0480 Strategic Growth and Outline Plan Applications in Developing Areas report, Council approved an amendment to the Municipal Development Plan (MDP) in Volume 2: Part 1, 4.3.1(d). This amendment changed the policy to allow for the submission of combined Land Use and Outline Plan applications prior to removal of an Overlay.

On 2016 January 11, as part of C2016-0023 Off-site Levy Bylaw report, Council directed Administration to "implement the key deliverables of the 2016 work plan to address issues that arose through this process". Issues that are addressed in this report include the funding and financing of capital and operating costs, and increasing clarity in the Overlay process.

From 2012 to the present, Council approved the use of Growth Management Overlays (Overlays) in individual Area Structure Plans (ASPs) to manage growth related issues, including unfunded capital and operating costs and strategic alignment with Council priorities.

On 2014 February 10, as part of report PUD2014-0053 and in conjunction with report CPC2013-119, Council amended the MDP and added the New Community Planning Guidebook. In the MDP Volume 2; Part 1, 4.3.1(b), it states that: "A portion (or all) of an Overlay should be removed (through an amendment to the ASP) when issues regarding the coordination of the funding and financing of municipal infrastructure and services with the rate of growth have been resolved."

BACKGROUND

In 2016 October, Administration extended an invitation to the land development industry (Industry) to submit business cases in support of development in areas of the city that have a Growth Management Overlay (Overlay) in place on the Area Structure Plan. Twelve business cases have subsequently been received and reviewed. Proponents were asked to include information outlining how their lands and development plans advance the objectives of the MDP and CTP, meet market demand, and contribute to economic development in Calgary through property tax generation, private capital investment and job creation.

As subsequently directed by Council on 2018 March 19, Administration undertook a review of the business cases received, to recommend a portfolio of six to twelve communities for investment in the One Calgary (2019-2022) budget. Initiating development in six to twelve communities represents an increase in new community investment. Previously, Administration has typically invested in three to four new communities per budget cycle.

A community, for the purposes of this report, is defined generally by the community boundaries approved within ASPs. A business case may include multiple communities, as is the case with some of the larger business cases. A business case may also involve more than one developer or land owner.

Currently there are 27 actively developing communities with land use approval in Calgary. Some communities are just beginning development and other communities will finish single residential development in the next three to five years. With the level of investment identified in the 2018 indicative rates (C2018-0489) for these actively developing communities and to be approved in the One Calgary budget, The City projects there to be sufficient single residential supply to meet expected demand for the duration of The City's next business plan and budget cycle, which spans the years 2019-2022. The map in Attachment 1 includes the 27 actively developing communities with land use. Capital investment in the One Calgary (2019-2022) budget is required to support continued growth in the actively developing communities. Approximately $184.0 million in capital investment is required for capital infrastructure in these communities in One Calgary (2019-2022), of which approximately $73.5 million, or about 40 per cent, would be funded by The City through property taxes via the Council-approved approved indicative rates for 2019-2022. Significant capital and operating investments will be required in future years beyond 2022 to provide all City of Calgary services in the actively developing communities.

Within the existing Area Structure Plans, proponents submitted 16 communities for investment (Attachment 1) through business case submissions. For all business case areas, land use and outline plan applications have been submitted and are currently at various stages of review with the Corporate Planning Applications Group (CPAG).

<u>Indicative Rates</u>
To ensure a funding source for the recommended portfolio of new communities, as well as to ensure that the current actively developing communities can secure necessary funding to continue to build out, Administration developed an indicative tax rate range that could accommodate the City's portion of capital and direct incremental operating funding for the new community portfolio, as well as an indicative tax rate for the City's portion of capital and direct incremental operating costs for the actively developing communities. This was included in the indicative tax rate presentation to the 2018 April 25 Strategic Meeting of Council. An indicative utility rate range including funding for the City's portion of capital for new growth areas was presented to the 2018 June 18 Strategic Meeting of Council.

New Community Growth Strategy: Investment Recommendations

At the 2018 April 25 Strategic Meeting of Council, Council approved an indicative tax rate increase range of 0.45 per cent to 0.75 per cent base impact in 2019 for new communities and an indicative tax rate of 1.4 per cent base impact in 2019 and 0.4 per cent per year in 2020-2022 for actively developing communities. This range sets a parameter around one aspect of The City's financial capacity.

The indicative tax rate range presented to Council provided the flexibility to Administration to recommend a number of different communities for the investment portfolio, once the business case evaluation was completed. The indicative tax rate range for new communities represented a range that managed the financial cost to The City in the 2019-2022 One Calgary budget for the City's portion of capital and the direct incremental costs for the first few years of a new community and considered The City's debt capacity projection. Within the range of 6-12 communities, the indicative tax rate range anticipated a moderate Council approval scenario, and did not provide for the high end of the range, where some combinations of 12 communities or all the new communities submitted through the business case process would be approved by Council for investment in the One Calgary budget (2019 – 2022).

At the 2018 June 18 Strategic Meeting of Council, Council approved Water, Wastewater and Stormwater indicative utility rate ranges that incorporate The City's proportionate cost share of the new utility infrastructure required to support the new community growth recommendations. Further, Council directed Administration to propose an amendment to the Off-Site Levy bylaw to incorporate the developers' proportionate cost share of the new utility infrastructure required to support the new community growth recommendations.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Administration considers three factors to guide recommendations on when and where the city should grow in new community areas. The three factors are:

1. **Alignment with the MDP/CTP**
   Enabling a growth pattern that aligns with the Municipal Development Plan and the Calgary Transportation Plan.

2. **Market demand**
   Enabling a growth pattern that aligns with market demand, provides choice, inspires competition, and allows developers to interpret and pursue investment opportunities.

3. **The City of Calgary's financial capacity**
   Enabling a growth pattern that is financially sustainable and minimizes identified financial impacts, including but not limited to capital costs, operating costs, and debt management. Enabling a growth pattern that helps generate a return on investment, both for The City and the larger economy.

These factors guided the approach to indicative rates and the evaluation criteria, and ultimately the evaluation of the business cases.

<u>Evaluation Criteria</u>

To guide Administration's evaluation of the business cases to make a recommendation, Administration developed criteria consistent with the three guiding factors for making strategic growth recommendations to Council. Criteria and considerations were developed under each of the three factors as shown in Attachment 2. Strategic alignment criteria were developed by consulting the MDP/CTP goals and citizen priorities and Council directives for the One Calgary 2019-2022 service plan and budget (C2018-0115 and C2018-0201). Criteria supporting market demand were developed based on existing City monitoring and feedback from stakeholders in the development process. Criteria supporting The City's financial capacity and evaluating broader economic impacts were developed based on financial information, capital and direct incremental operating assumptions from The City's service lines, and Industry. The criteria align with the goals of the MDP/CTP. The criteria were developed cross corporately within Administration and reviewed with BILD Calgary Region and a BILD Calgary Region sub-committee of developers. Feedback from all stakeholders was incorporated into the criteria. The criteria were structured around the following goals:

1. A prosperous economy;
2. Shaping a more compact urban form;
3. Creating great communities;
4. Urban design;
5. Connecting the city; and
6. Greening the city.

The purpose of the criteria was to understand how each business case supports and achieves Council approved policies, goals and objectives with respect to new community investment, as well as how business cases complement one another. Once the evaluation criteria were developed and finalized, the criteria were shared with Council and business case proponents on 2018 April 30. Business case proponents were then provided a week to submit business case updates addressing the criteria. Administration received updates for all business cases in response to the criteria by 2018 May 8.

Business Case Evaluation

Once business case updates were submitted, an evaluation and decision-making process was initiated that involved all departments and aligned with Administration's strategic growth governance structure. An evaluative summary of each business case against the three guiding factors was developed and is included as Attachment 3.

MDP/CTP Alignment – Evaluation Part A

Administration evaluated the business cases based on how they support the goals of the MDP and CTP. Using the criteria communicated to Council on 2018 April 30, which include strategic growth goals, the business cases achieve the following:

A prosperous economy –

1. All business cases support construction jobs and permanent jobs, generally the larger the business case the more construction jobs created since there is more capital investment. Communities with a larger amount of non-residential development support more permanent jobs. (e.g., Nose Creek, Providence, Keystone Hills and Belvedere)
2. Many the cases leverage existing non-residential development (e.g., Rangeview, West Belvedere) in activity centres that has the potential to provide immediate access to daily needs and will help the non-residential development succeed.

3. Four of the business cases support efficient use of existing emergency response coverage by significantly aligning with Calgary Fire Department's Service Level Response Time Target policy.
4. The Rangeview business case leverages the recent City investment in the 212 Avenue SE/Deerfoot interchange, the Seton Fire Hall and the recreation centre and library.
5. The Providence business case leverages the southwest ring road investment by the Province, and provides an important planning and development interface opportunity with the Tsuut'ina Nation.
6. The Symons Valley Ranch business case supports the agricultural industry by proposing the creation of an agricultural research hub.

Shaping a more compact urban form –

7. All but two communities demonstrate some degree of contiguity with existing development. The Nose Creek ASP (QuadReal) and Belvedere ASP (OpenGate) communities are not contiguous with existing urban development in the city.
8. The recommended communities (Attachment 1) support and leverage existing and proposed Major Activity Centres and Community Activity Centres allowing the centres to become more successful, vibrant places, and providing close proximity services for new populations. Examples are the Ronmor/Wenzel and Symons Valley Ranch business cases in Glacier Ridge, and the Rangeview business case.

Creating great communities –

9. A balance of different community sizes, a mix of land uses and non-residential development is provided between all business cases.
10. In the Rangeview business case, the developer Section23 is to provide private agricultural space to allow fresh produce to be grown within the community.
11. Belvedere – (OpenGate) proposes a LEED-ND community

Urban Design –

12. There are examples of proposed innovative urban design concepts (e.g., Belvedere – OpenGate, Providence, Rangeview) and mixed-use development (e.g., Belvedere – OpenGate, Providence, Symons Valley Ranch).

Connecting the city –

13. In terms of integration with transit priorities, the Rangeview business case leverages the existing Southeast Bus Rapid Transit and future Green Line projects. The West Belvedere business leverages the planning completed for the 17 Avenue SE Urban Corridor Study.
14. All business cases propose complete streets within their communities.

Greening the city –

15. The West Nose Creek corridor will be protected in the Ronmor/Wenzel business case and other business cases will preserve and enhance the Environmental Reserve lands within each.
16. A higher percentage of lane product is provided in the recommended communities, which will provide more planting space for street trees, increasing the canopy within the city.

After evaluating the business cases against the six goals above, it is Administration's position that the Nose Creek ASP (QuadReal) and Belvedere ASP (OpenGate) communities are not contiguous with existing urban development and would be best suited for investment beyond the One Calgary budget (2019-2022). Of the remaining areas, six communities in the business cases better support the MDP/CTP goals, at this time. These communities include Glacier Ridge ASP (Ronmor/Wenzel), Glacier Ridge ASP (Capexco Inc., Symons Valley Ranch), Belvedere ASP (West Belvedere, Tristar/Truman/Lansdowne/Minto/Others), Rangeview ASP (Brookfield/Genstar/ Section23/Others), and Providence Area Structure Plan (Dream/Qualico). The other communities are not as connected to the primary transit network, nor as contiguous with existing development. Communities not selected do not provide or support Community Activity Centres or Major Activity Centres to the same degree as the six mentioned above.

Market Factors – Evaluation Part B

Current City forecasting projects citywide housing starts (all types) to average over 6,900 in 2019-2022, and projects that 74 per cent of these units (just over 5,000 per year) will locate in suburban areas. Of these 5,000, about 3,500 are expected to be single or semi-detached units. Given that expected serviced capacity at the end of 2018 is 14,700 units, and with projected continued investment in the actively developing communities in the One Calgary budget (potentially adding over 16,000 units), and forecasted demand of approximately 14,000 units, Administration anticipates there would be capacity for over 17,500 single residential units by the end of the next four years, or 2022.

Once the MDP/CTP evaluation was complete, the evaluation of market factors took place. Through this evaluation process, it was identified that the recommended areas did not provide market capacity for the Northwest sector of the city. Therefore, Administration considered the Haskayne Area Structure Plan (Brookfield/Marquis) as a candidate to include in the recommended portfolio of new communities (Attachment 1).

Initiating new communities through 2019-2022 in the recommended portfolio complements the existing serviced capacity and expected additional capacity in actively developing communities. On top of this estimated capacity the recommended eight areas would provide additional capacity, estimated at about 16,500 single residential units. This provides sufficient single and semi-detached residential capacity in 2019-2022 and, conservatively, these units are likely to start to become available towards the end of the One Calgary period and would help support the market for the 2023-2026 period. It should increase competition in the market, which should support affordability and drive innovation in the Calgary market.

This additional capacity provided through the recommended communities also provides a contingency if growth is faster than anticipated. Recently, there have been discussions between Administration and Industry about whether City housing demand forecasts are too conservative. Administration considered this when developing the portfolio. If The City's forecast of approximately 3,500 suburban single units is realized, it is expected that 5.2 years of single and semi-detached residential supply would be available by the end of 2022, with potentially more if The City and developers are able to make units available earlier in 2019-2022. In addition to being the current forecast, 3,500 units per year is also the average annual absorption over the past five years.

If a more aggressive forecast of 4,500 single units per year is used (which is equal to the highest pace, of any single year, experienced in the last ten years) then there would be 4.1 years of single and semi-detached residential supply at end 2022. A final contingency is that, as indicated earlier in the report, the Mid Cycle Review in 2020 can be used as an opportunity to consider adding still more capacity should market conditions warrant it.

Finally, at this point, capacity for multi-residential units in suburban areas is considered elevated and is expected to continue to be elevated through at least the 2019-2022 period. As a result, this analysis has focused on the single residential market.

Table 1: Current and Anticipated Single and Semi-Detached Residential Capacity (number of units), 2018 and by budget cycle

For Single/ Semi Detached Residential	**2018**	**2019-2022**	**2023-2026**
Serviced Capacity – Start of Period	14,880	14,694	18,864
Forecasted Demand – Entire Period	(3,282)	(13,901)	(17,120)
Additional Available Capacity from Actively Developing Communities	3,096	16,321	0
Serviced Capacity – Before New Community Growth Strategy	**14,694**	**17,114**	**1,744**
Additional Available Capacity from New Community Growth Strategy	0	1,750	14,829
Total Serviced Capacity – End of Period	**14,694**	**18,864**	**16,573**

Included in Attachment 4 is a detailed summary of capacity and demand for single residential and multi-residential development for 2018, One Calgary (2019-2022) budget cycle and the 2023-2026 budget cycle. The summary illustrates the serviced capacity with or without land use at the end of each cycle separated into the individual sectors within the city. Currently, the east and northwest sectors have no capacity for development and analysis also indicates additional supply would be beneficial in the north and southeast sectors, which are the two fastest growing sectors of the city.

Regarding non-residential development, the city currently has a significant capacity of serviced industrial land in the northeast quadrant of the city (over 600 hectares as of

2017, against expected absorption of 65 hectares per year) and the suburban office market is currently experiencing a high vacancy rate.

During the evaluation, Administration aligned with the MDP policy of maintaining a city-wide three to five year serviced land supply (5.2.3a, MDP) and providing a wide choice of housing type and location (5.2.4a, MDP). Based on the market analysis Administration is supports adding the supply indicated in the recommended communities. This capacity aligns with policy, address both city-wide and sector demand considerations over the next two budget cycles, and provides a contingency should demand accelerate ahead of City forecasts.

Financial Capacity – Evaluation Part C

New greenfield growth areas generate economic benefit for the city. New communities develop through the financing provided by private investment from developers and their investors (e.g. commercial lenders, private investment funds, and pension plans). Positioning Calgary as open for business can attract private investment to Calgary that may otherwise go to other markets. Development investment creates jobs, both temporary construction jobs and long-term jobs in the new communities to serve citizens. New development also yields new taxpayers and utility and service customers which contributes to operating cost coverage to provide new services in these areas. Through the off-site levy bylaw, developers pay levies related to the area of land that is being developed. Off-site levies are a developer contribution to cover the proportionate cost share of capital for infrastructure necessary to serve their developments. Each business case has quantified the number of jobs and economic benefit that is estimated to materialize from the community being built.

All new community growth also requires financial investments by The City. Council has identified three funding sources for new growth investments in 2019-2022: (1) an indicative property tax range of 0.45 per cent to 0.75 per cent; (2) an indicative water utility rate range of 0.0 – 0.5 per cent per year; and (3) off-site levies. If a selected portfolio does not fit within the approved indicative property tax or utility rates, additional increases to the indicative property tax or utility rates would need to be considered.

Administration estimates that the recommended portfolio in Attachment 1 will require a base property tax increase of 0.65 per cent in 2019 and a 0.3 per cent per year increase in the utility rate for the water service line. These rates fit within the indicative tax rates and utility rates approved by Council on 2018 April 25 and 2018 June 18, respectively. Council has directed Administration to bring back amendments to the off-site levies by 2018 Q4 to ensure that the remainder of the required capital investments for utility infrastructure is funded by off-site levies. If amendments to the off-site levy bylaw are not approved to include the capital costs for the recommended communities, additional increases to the indicative property tax or utility rates would need to be considered.

Operating Budget Impact

Table 2 is a summary for 2019-2022 of the estimated direct incremental operating costs and property tax revenue for the recommended communities in Attachment 1. These estimates will be refined through the One Calgary (2019-2022) budgeting process. The projected operating costs are the direct incremental costs associated with a new community and that allow a community to get started with the introduction of direct services in a community and are substantially lower than the costs of a complete community. Over time, additional costs that are regional and city wide in nature need to be covered by all communities in the city, to the extent that property tax covers operating costs. As these new communities build out, a cost model will need to be developed to accurately forecast the full cost attributed to any one community. Costs and revenues are in 2018 dollars and assume no inflation or tax increases.

As was identified in the New Community Growth Strategy report (PFC2018-0200), a new community will generate property tax revenue as it builds out. The total property tax affords all City services, including those directly in the community, regionally, and centralized. To understand what proportion of property tax is for services delivered directly in communities, Administration considered the costs associated with services delivered community by community and those services that are delivered on a regional basis. It has been determined that 30 per cent of tax revenue is attributable to provide service on a regional and centralized basis (e.g., 311 operators and libraries), meaning 70 per cent of revenue is attributable to individual community services (e.g., Calgary Transit).

It should be noted that the calculation of community based costs is different and much lower from the calculation of direct incremental costs. For example, it has been determined that Calgary Transit provides services community by community. Therefore, all Calgary Transit costs are included in the 70 per cent allocation. For direct, incremental costs purposes, however, only the costs of additional transit routes are considered, and not the balance of all costs within Calgary Transit, such as costs to support the bus storage and maintenance facilities and the fare processing centre. This means that the direct incremental costs are much less than the 70 per cent calculation.

The direct incremental impact of development in 2019 and 2020 is expected to be nominal. As the communities develop, operating costs increase with the introduction of new services such as transit and future fire stations.

Table 2: Estimated Operating Budget Impact for Recommended Communities[1]

Operating ($000s)	**One Calgary (2019-2022)** 2019	2020	2021	2022	**Total 2019-2022**
Direct Incremental Operating Cost	0	0	3,499	4,315	7,814
Community-based Revenue Share	0	0	2,568	3,816	6,384
Revenue (Shortfall)	**0**	**0**	**(932)**	**(498)**	**(1,430)**

Revenue and operating costs are dependent on the timing of development, but do not always proceed together. In years where operating expenses exceed revenues, portions of the operating expenses will need to be covered by alternative revenue sources;

[1] All costs are estimates, in 2018 dollars, and do not include inflation or property tax increases. Operating estimates for the approved portfolio will be refined through the One Calgary (2019-2022) budget process.

namely, the approved indicative rates. To cover the operating shortfalls in One Calgary (2019-2022), Administration estimates that a 0.1 per cent and 0.05 per cent portion of the property tax increase will be required to fund operating shortfalls in 2021 and 2022 respectively. The remainder of the indicative rate increase will be used for pay-as-you-go capital (see below).

The portion of operating costs required in One Calgary (2019-2022) cannot be considered in isolation; there will be additional base operating costs into the future as the community completes and sustains into the future. By approving communities now, Council is also directing Administration to continue with the required operating costs for these communities past 2022.

Capital Budget Impact
Administration has considered capital funding sources for infrastructure necessary to serve the recommended communities in Attachment 1 as part of the One Calgary (2019-2022) budget and in budgets beyond 2023. This infrastructure includes Utilities (Water, Wastewater, and Stormwater), Transportation, and Fire. This investment is summarized in Table 3.

Table 3: Estimated Capital Budget Impact for Recommended Communities[2]

Capital ($Ms)	Total Capital Cost	One Calgary (2019-2022) Budget			
		Total Cost	Funding Source Developer Levy	Property Tax	Utility Rate
Total	**$469.7**	$311.7	$242.2	$31.4	$38.2
		2023+ Budgets			
		Total Cost	**Funding Source Developer Levy**	**Property Tax**	**Utility Rate**
		$157.9	$130.1	$27.8	TBD

Total Off-Site Levies Collected $727,921,144

For the recommended communities, Administration estimates that a total capital investment of $470.0 million (in 2018 dollars) is required to develop these communities. Of this $470.0 million, $312.0 million is estimated be funded in the One Calgary (2019-2022) budget. Of the $312.0 million, $242.0 million is attributed to greenfield growth, and can be funded through the off-site levies. The remaining $70.0 million represents the City's share of the investment, and is expected to be funded through property taxes ($31.0 million) and the utility rates ($38.0 million). The City's portion of capital investment to be funded by the property tax is estimated to be pay-as-you-go funding from taxes

[2] All costs are estimates, in 2018 dollars, and do not include inflation or property tax increases. Capital estimates for the approved portfolio will be refined through the One Calgary (2019-2022) budget process.

generated by a base property tax increase in 2019 of 0.65 per cent, including contingency.

The portion of capital investment required in One Calgary (2019-2022) cannot be considered in isolation; the additional $158.0 million in capital investment projected for subsequent budgets is also necessary for the complete development of these communities. By approving communities now, Council is also directing Administration to continue with the required capital investments past 2022, by specifically including these investments in future capital budgets and prioritization processes.

Indicative Tax Rate Impact

On 25 April 2018, Council approved a one-time indicative tax rate increase in 2019 of 0.45-0.75 per cent for new community growth. To fund the recommended communities in Attachment 1 and cover the projected operating shortfalls and the required capital investment in One Calgary (2019-2022), a base increase in property taxes of 0.55 per cent will be required, plus a 20 per cent contingency to mitigate the risk of, among other things, the unknown development timeline and phasing, and possible cost inflation. With the contingency, a total tax increase of 0.65 per cent is estimated to be required. The tax rate increase will be used to cover the operating budget shortfalls in 2021 and 2022, and for pay-as-you-go capital infrastructure investments.

Further operating and capital investments will be required in the 2023+ budgets. The projected indicative rates for these budgets will depend on the timing of development and build out, as these will drive operating costs and capital investment requirements.

Other Financial Considerations

All business cases have some degree of direct incremental operating cost and remaining capital costs to fully build out the community. Administration reviewed the business cases that require no tax funding in 2019-2022 to pay for the City-portion of capital costs, and that were not deemed a priority after the MDP/CTP alignment and market evaluation. These include Glacier Ridge ASP (Qualico), Keystone Hills ASP (Melcor/Pacific/Genstar) and South Shepard ASP (Hopewell/Melcor). There are two additional financial considerations that Administration considered in assessing the financial capacity of The City.

Firstly, identifying the *funding* sources for the recommended communities does not address how they will be *financed*. The timing of the collection of funds does not always align with when the capital is spent (e.g. a capital project may be built before all the off-site levies are collected to pay for it). In the interim, other sources of funding to finance the project must be found. Financing is addressed through the Infrastructure Calgary process of corporate prioritization in the One Calgary budget process. The money for financing is shared across the corporation (i.e. it is not part of the indicative rate amount). This means that the more money allocated to finance capital investments for new communities takes away from the money that can be used to both fund and finance other important capital investments like maintenance, service enhancement, and new projects in other parts of the city. In determining the final recommended new communities in Attachment 1, Administration has attempted to balance the capital

New Community Growth Strategy: Investment Recommendations

allocated to new communities with the capital required for other priorities coming forward in the capital budget for One Calgary 2019-2022.

Secondly, many of the direct incremental operating and capital costs required for new community development is unlikely to occur within the One Calgary (2019-2022) timeframe. Particularly, these costs are likely to significantly impact the next City budget (2023-2026). Administration has put forward a recommendation that considers the future and long-term impacts to The City's financial capacity, as well as minimizing the uncertainty of return on investment for The City.

In light of these considerations, these communities that are low cost in the One Calgary 2019-2022 budget remained excluded from the recommended portfolio of new communities.

Evaluation Summary (Parts A, B, and C)

After evaluation of all business cases against the three factors, Administration recommends the following communities for investment as part of One Calgary (2019-2022):

- Glacier Ridge Area Structure Plan (Ronmor/Wenzel)
- Glacier Ridge Area Structure Plan (Capexco Inc., Symons Valley Ranch)
- Belvedere Area Structure Plan (West Belvedere, Tristar / Truman / Lansdowne / Minto / Others),
- Rangeview Area Structure Plan (Brookfield/Genstar/Section23/Others),
- Providence Area Structure Plan (Dream/Qualico), and
- Haskayne Area Structure Plan (Brookfield/Marquis).

The recommendation ensures that sufficient capacity could be delivered through 2019-2022 so that The City can expect to exit the period with an amount of growth capacity that addressed demand and maintained a healthy inventory for growth in 2023 and beyond. The recommendation is expected to provide greater residential supply at the end of One Calgary (2019-2022) than the city is expected to have at the end of 2018. This allows greater ability to support the market should the high end of Corporate Economics' housing start forecast and third party forecasts come to fruition. Administration is particularly aware of accommodating capacity for single and semi-detached residential units, which is currently lower than that of multi-residential and for which demand is expected to be stronger during 2019-2022.

As a group, the recommended communities provide the city with the following:

- Capacity for over 1,300 hectares of land, nearly 17,000 single/semi residential units, and over 8,000 multi-residential units.
- New housing choice is provided by adding capacity for new residential supply in the East and Northwest market sector. The East sector area, which is the closest to the downtown of any new community area, has not had available residential capacity for twenty years.
- Additional supply is provided in the North and Southeast sectors, supporting the two fastest growing sectors in the city. These two sectors accounted for 60 per cent of new community units over the past five years, and there are a number of

actively developing communities that will be completing single residential supply in the next three to five years.

- Emergency service coverage support would be provided for existing communities west of Stoney Trail, with the addition of a new temporary fire station in Belvedere,
- Financial efficiency by leveraging previous investments, for example; Rangeview leverages the transportation and fire station investments, recreation centre, library, Green Line and South Hospital
- Introducing new competition is achieved via the introduction of new developers in the north, southeast and south sectors.
- Proponents in the recommended areas have demonstrated their willingness to construct as evidenced through the submission of outline plan and land use applications. Their investments in the costs associated with these applications reinforces their commitments to build in the near term.

These recommended communities support a flexible and dynamic housing market by allowing additional private investment opportunities, while in alignment with the MDP/CTP. Increased competition and choice will be provided to citizens which can lead to increased affordability and innovation.

Thus, based on Council's approved indicative tax and utility rate ranges, Administration recommends that Council approve, in principle, the investment in the direct incremental operating and capital budgets in One Calgary 2019-2022 necessary to support the communities recommended in Attachment 1. If the indicative tax and utility rates for new community growth changed through One Calgary service plans and budgets in 2018 November, Administration may recommend a different number of communities, relative to the associated capital and direct incremental operating cost investments.

<u>2018 New Community Growth Decisions – Next steps for period 2018 July to 2019 January</u>
There are a number of anticipated next steps following the decision making on this report, both for The City and also for business case proponents.

Figure 2 - Next steps for period 2018 July to 2019 January

Work Commence	Task	Work Completed
2018 July	1. Incorporate the necessary utility infrastructure to service the recommended communities into the Water Distribution & Wastewater Collection, and Drainage System portions of the Off-site Levy Bylaw.	2018 November
	2. Incorporate the selected communities for investment into the One Calgary (2019-2022) operating and capital budgets.	2018 November
2018 August	3. Meet with all the business case proponents not selected to determine their next steps.	2018 August – 2018 December
	4. Meet with selected business case proponents and prepare Area Structure Plan amendments to remove associated Growth Management Overlays.	As feasible, after 2018 November One Calgary budget decisions

2020 New Community Growth Mid-Cycle Adjustment

Administration intends to repeat the business case evaluation process to determine the next communities for investment as part of the One Calgary mid-cycle budget review in 2020. The communities not selected for investment now, will have the opportunity to be considered for the next round of new community growth decision-making in 2020. The intent is to move to a regular, repeatable evaluation of business cases every two years in coordination with the beginning and mid-point of each budget cycle. Administration's intent is to issue a call for business cases in the fall of 2019, to allow time to incorporate the evaluation into the mid-cycle review development process. Additionally, the New Community Growth Strategy monitoring report already directed by Council (expected 2019 Q4) will assist in assessing the success of the current evaluation process, communicating any process changes, identifying current market factors and commenting on expected levels of investment.

Some of the benefits of this process are:

1. Allows for ongoing and predictable decision-making timing for Council and the development industry.
2. Aligns with the budget cycle timing to incorporate adjustments.
3. Allows opportunity for additional investment to create capacity in the event market demand exceeds projections.
4. Allows for the off-site levy bylaw to remain current by including infrastructure necessary to serve areas identified through the process.

Recommendation 3 within this report outlines when Administration would return to the Priorities and Finance Committee in coordination with the One Calgary 2019-2022 mid-cycle budget adjustment process. In 2020 March, Administration will be able to apply the recommendations of the New Community Growth Strategy monitoring report as well as the recommendations from the Established Areas Growth Strategy into its investment framework.

Stakeholder Engagement, Research and Communication

Administration stayed in close contact with BILD Calgary Region while developing the process, criteria, and facilitating the necessary engagement to support this report. Weekly meetings were held with BILD Calgary, and BILD Calgary also retained a sub-committee of developers to provide input. BILD Calgary Region has provided a letter of support that recognizes the development of the framework and criteria for the new community growth strategy, the letter is included in Attachment 5.

The evaluation criteria (Attachment 3) were first developed cross corporately within Administration, and then shared with BILD Calgary to receive their input. After incorporating many aspects from the feedback, the criteria were reviewed with BILD Calgary's sub-committee. Administration then brought forward the criteria to the cross corporate growth decision-making teams, including the Directors Integrated Growth Committee (DIGC) and the General Managers Strategic Growth Committee (GMSGC).

The evaluation of the business cases and the selection of the recommended communities was completed cross corporately within Administration; these recommendations were then affirmed by DIGC and GMSGC.

New Community Growth Strategy: Investment Recommendations

Since business cases were first submitted in 2017, Administration has kept the proponents up to date through regular communication, including meetings, memos, and at least one joint meeting with the proponent(s) and the Ward Councillor.

Strategic Alignment

The recommendations of this report leverage previous capital investments already made in the existing 27 actively developing communities by The City and developers. This optimizes the use of existing infrastructure and services in accordance with MDP policy 2.1.4a. The portfolio as a whole also aligns with MDP policies 2.1.1a and 2.1.1b by providing additional choice and housing product in different sectors. Housing affordability was considered as part of the recommendation formation and thus increased competition has been provided in existing sectors. The recommendation also strengthens and supports planned and existing services within the actively developing and developed areas of the city by providing additional employment, residential and commercial uses that support new communities as well as the needs of adjacent communities (MDP 2.2.1a.v).

In addition to alignment with the MDP and CTP, this portfolio aligns with the directives of One Calgary under A City of Safe and Inspiring Neighbourhoods, whereby the cost of growth is minimized for The City while maximizing housing choice and affordability balancing social, environmental and economic outcomes. Also included in the portfolio are communities that support A Healthy and Green City by promoting, healthy lifestyles and interaction amongst residents to reduce and prevent social isolation.

Following the New Community Growth Strategy, Administration will bring forward a scoping report for an Established Areas Growth Strategy in 2018 September. Administration is anticipating that an Industrial Areas Growth Strategy could be initiated in 2019. Both of these strategies will follow the lead established by the New Community Growth Strategy, to create a comprehensive strategic growth and investment decision making framework for development in Calgary.

Social, Environmental, Economic (External)

<u>Social</u>
The recommended portfolio of new communities helps support existing services and facilities in the actively developing or recently completed communities, leading to more complete communities. The portfolio supports and leverages existing and proposed Major Activity Centres and Community Activity Centres allowing the centres to become more successful, vibrant places, and providing close proximity services for new populations. In addition, the portfolio contributes to supporting the primary transit network now and in the future along 17 Avenue SE, the Green Line, Sage Hill BRT hub and 162 Avenue SW.

<u>Environmental</u>
The recommended portfolio provides for a variety of environmental features that will provide a benefit to the citizens of Calgary. The West Nose Creek corridor will be protected in the Ronmor/Wenzel business case and other business cases will preserve and enhance the Environmental Reserve lands within each. In the Rangeview business case, the developer Section23 is to provide private agricultural space to allow fresh produce to be grown within the community. This reduces the energy required to transport goods. The Symons Valley Ranch

business case is also supporting agriculture by proposing to create an agricultural research hub. The recommended portfolio provides a higher per centage of lane product which will provide more planting space for street trees, increasing the canopy within the city, most notably in the Providence business case. Additional site-specific environmental considerations within the new communities will be addressed through further development approvals.

Economic (External)
The recommendations are anticipated to help retain or increase private investment within the city, supporting additional job creation in temporary construction jobs and in other sectors by supporting commercial and retail development. The portfolio introduces development to the East sector for the first time in 20 years and adds additional developers to the North, South and Southeast sectors. With many communities finishing single residential development in the North and Southeast sectors within the next three to five years, adding development to these two sectors will ensure the two fastest growing areas of the city are supported.

Financial Capacity

The recommendation fits within the indicative tax rates and utility rates approved by Council on 2018 April 25 and 2018 June 18, respectively.

Once Council approves new growth communities, the required capital investments will need to be incorporated into the One Calgary Service Plans & Budgets for 2019-2022. Although the indicative rates provide a funding source for these capital investments, any capital requirement beyond the funding available from this funding source will have to be funded through traditional capital funding sources as part of the overall One Calgary budget process. This would have a financial impact on funding sources supporting other services requiring capital investments. Further details on financing and allocation of other funding sources (such as off-site levies) will be incorporated into the overall corporate strategy.

Operating Budget Impact[3]
The estimated operating cost budget impact in One Calgary (2019-2022) is $7.85 million in direct incremental cost, and community-based revenue of $6.5 million. This represents only a portion of the operating costs and is not reflective of the full cost to serve a complete community. These costs were developed with stakeholder input and detailed in the New Community Growth Strategy report (PFC2018-0200).

Additional costs related to growth, which are not directly incremental to the initiation of new community development, should be anticipated. These may include costs that are regional in nature (e.g. 311 operators, libraries) or not directly related to the timing of community build out. These costs will be identified and brought forward through the One Calgary (2019-2022) budget process or subsequent budget reviews.

Capital Budget Impact[4]
The recommended portfolio requires a significant capital investment in One Calgary (2019-2022), and ongoing capital investment in 2023+ to complete these communities. By approving

[3] All costs in 2018 dollars, with no inflation.
[4] All costs in 2018 dollars, with no inflation.

the 2019-2022 capital investment of $312.0 million, Council will also require The City to continue the capital investments past 2023 in the amount of an additional $158.0 million in future years.

To raise the portion of the capital investment, for this portfolio, funded by property taxes in One Calgary (2019-2022), a tax rate increase (applied once in 2019) within the indicative rate range of 0.45-0.75 per cent approved by Council is required in the One Calgary budget.

To raise the portion of the capital investment, for this portfolio, funded by utility rates in One Calgary (2019-0222), a water utility rate increase (applied annually in 2019-2022) within the indicative rate range of 0.0 – 0.5 per cent approved by Council is required in the One Calgary budget.

One Calgary (2019-2022) Indicative Rate Impact
Administration estimates a base property tax increase in 2019 of 0.65 per cent is required to fund the operating budget shortfalls in 2021 and 2022, and for pay-as-you-go capital infrastructure investments in all four years. Administration also estimates an annual increase (2019-2022) of 0.3 per cent is required to fund the water utility capital costs for this recommended portfolio. The cost estimates presented in this report will be refined through the One Calgary (2019-2022) budget process.

Further operating and capital investments will be required in the 2023+ budgets. The projected indicative rates for these budgets will depend on the timing of development and build out, as these will drive operating costs and capital investment requirements.

Other Financial Considerations
Additional community-based costs beyond direct incremental costs will be required. These costs are not attributable to any specific community and include City-wide services such as 311 and community services that serve many communities. Furthermore, significant City staffing resources have been called upon to respond to the New Community Growth Strategy, as this work raises planning, engineering, community service, financial and legal questions. As The City moves to a two year cycle of evaluation and impact analysis, the required dedicated staff resourcing to embed this work into cyclical work plans is anticipated to increase.

These costs are currently addressed through other funding sources, and will be brought forward as part of the One Calgary budget process.

Risk Assessment

Return on investment
Once The City invests in initial infrastructure in an area, there is no enforceable method to guarantee development. Therefore, resultant property taxes and levy payments could occur thereafter creating a shortfall that would be recovered at some point in time, the length of which is a function of market trends and private investment decisions. This creates the potential for a slow return on investment, cash flow shortfall to cover principle and interest charges and potentially operating costs for The City without full offsetting property tax revenue, as well as an opportunity cost risk for any allocated funds. This was highlighted through the recent report on indicative utility rates (C2018-0787) where a temporary shortfall in off-site levy payments was identified when development over the period 2016-2018 did not materialize.

Regarding operating costs, for the purpose of initiating new communities through the New Community Growth Strategy, a direct incremental operating cost model was used to identify those costs that are incurred to get a community started and to evaluate the business cases. This does not address the full cost to serve communities. Administration will continue to evolve the cost methodology to include those costs that are regional and citywide in nature and that are generally recovered through property tax. The risk of not knowing the full costs for complete communities is that costs beyond the direct incremental costs may be much higher than expected and the rate of property tax increases to support the addition of new communities cannot be fully recovered through the tax rate.

Debt limits and opportunity costs
The analysis in this report identifies the *funding* sources for the required capital investments. However, collection of the funds does not always align with when the money will be spent. The recommended portfolio in Attachment 1 identifies a total capital investment in 2019-2022 of $470.0 million; but the collection of funding in the form of levies and property taxes is tied to market trends and development agreement volumes and timing, which are unknown. In the interim, other sources of funding to finance the project must be found. Financing is addressed through the Infrastructure Calgary process of corporate prioritization in One Calgary budget processes. The money for financing is shared across the corporation (i.e. it is not part of the indicative rate amount). This means that the more money required to finance capital investments for new communities takes away from the money that can be used to both fund and finance capital investments (maintenance, enhancement, and new projects) in the existing communities. Administration has mitigated these risks by aligning the recommended portfolio with the Council approved indicative tax and utility rates for 2019-2022, and working with Infrastructure Calgary on capital timing.

Further, many capital projects are financed through debt, which will increase The City's total debt and debt financing costs. Construction Financing Agreements (CFA) and other agreements for developers to front-end capital projects also increases The City's total debt: in these situations, The City will ultimately have to repay the amounts front-ended by developers, which is a debt to The City that is added to The City's total debt.

Potential loss of private investment
By not opening areas for new community development, now, the city risks the flight of capital investment to other markets where a return on investment could be realized. Capital flight may have a negative reputational impact to Calgary and could jeopardize attracting future investment to Calgary. To mitigate this, Administration is recommending an increased level of investment to open eight new community areas. Also, Administration will monitor new community growth and bring a monitoring report forward in Q4 2019. Administration is also proposing an accelerated two-year cycle to review new community growth business cases for investment in line with the One Calgary budget cycle processes.

Addressing market demand
Providing for a balanced single residential supply, where the development industry can make labour, capital investment, and resource decisions based on market demand instead of regulatory approval, facilitates private investment and allows for responses to market changes. However, an under-supply or over-supply scenario raises certain risks for The City.

Under-supply and Developer flight
If City investment provides for less supply than market demand, this could result in:
- Lost opportunity for higher property tax revenue and faster or higher levy collections and repayments (where The City finances investment) for The City;
- Higher housing prices for consumers;
- Potential lost opportunity of private investment, job creation, and economic activity in the Calgary economy; and
- Developer flight to other cities with development opportunities.

Administration has identified the following methods to mitigate the risks of under-supply:
- Identifying a recommended portfolio that balances market supply with anticipated market demand;
- Ensuring that the capital financing for the portfolio considers the opportunity cost of capital for other City projects;
- Establishing a method for bi-annual review of new community applications to ensure that the lost opportunity of private investment, job creation, economic activity, and possible developer flight is limited to a two-year duration before reconsideration.

Over-supply and market saturation
If City investment provides for more capacity than market demand, this could result in:
- Communities without complete City services (such as transit, recreation, and libraries) because capital is tied-up in funding and financing infrastructure;
- A market response that delays construction in some communities until over-supply is corrected, slowing down The City's return on investment;
- A delay in a critical mass in communities to trigger private investment in local services, such as grocery stores and other privately provided services and amenities; and
- Lower housing prices for consumers.

Administration has identified the following methods to mitigate the risks of over-supply:
- Identifying a recommended portfolio that balances market supply with anticipated market demand.
- Deferring capital investment decisions to a later date, if possible, to better align City investment with market demand.

To further mitigate the risk of over- or under-supply, Administration will return with a monitoring report in Q4 2019 evaluating the success of increased investment in new communities. If, at that time, there is an identified under- or over-supply in the market, Administration may recommend Council delay or accelerate future capital and operating investments through the mid-year budget review process.

<u>Committing Council to future budgets</u>
By opening and starting many new communities at one time, Council is in principle committing to continued investment in new communities, and a greater degree of uncertainty in future budgets, starting in 2023. To maintain desired levels of service, future Councils will be faced with a significant impact to the operating and capital budgets in the next budget cycle and beyond when additional demand for services such as transit and fire response will be needed. As discussed in previous reports on new community growth, City operating commitments tend to accelerate in years through eight after a new community is initiated.

Developed area/greenfield area population growth split
The increase in the level of City commitment and investment in new communities may contribute to greater population growth in Developing Areas as defined in the MDP, and a shift in market share towards the Developing Areas versus the Developed Area, which may work against the policy and growth objectives in Part 5 of the MDP. However, lower levels of investment in new communities without matching increases in redevelopment may contribute to private capital leaving the city, a loss of construction jobs, and a greater share of population locating outside The City's boundaries within the region.

To mitigate this risk, Administration will bring forward a scoping report in 2018 Q3 to Council that is expected to be the first of several reports addressing necessary inputs and desired goals for an Established Area Growth Strategy that would inspire growth in these areas and complement the New Community Growth Strategy. Furthermore, it is important that this Strategy include a funding focus to ensure that City investments are supporting established areas growth as well.

Timing of Growth Management Overlay removal
The business cases endorsed through this work will require City funding for capital and direct incremental operating costs to begin development. The mechanism to fund these investments is Council approval of The City's four year business plan and budget One Calgary (2019-2022). Growth Management Overlays exist in the Area Structure Plans to highlight where infrastructure and services are currently unfunded.

To mitigate the risk of Overlays being removed and land use being approved without Council approved funding for required investments, this report recommends bringing forward ASP amendments to remove Overlays as soon as possible following approval of the One Calgary budget to preserve Council flexibility for the budget approval purposes, and to link approval of funding to land use approval.

General risk of adding new communities to the recommended communities
Each business case was developed exclusive of the others, therefore, the absorption assumptions in one business case may not consider competition for absorption from other endorsed business case. The more business cases that are endorsed, the more competition that will exist for finite market share, raising the possibility of slower individual business case absorption pace. Also in this case, City operating costs may be initiated, but if expected absorption pace is not realized, operating deficits may occur. Finally, The City's capacity to manage the design, construction, delivery and staffing of capital and operating investments during the 2019-2022 period will become stretched with the addition of more communities and associated investments.

REASON(S) FOR RECOMMENDATION(S):

Administration recommends the portfolio of new community investment (Attachment 1, PFC2018-0678) and that the operating and capital budgets necessary to fund these communities be included in the One Calgary 2019-2022 four year service plan and budget.

New Community Growth Strategy: Investment Recommendations

Once the budget is approved, Administration recommends the removal of growth management overlays through a proposed Area Structure Plan amendment to allow for these areas to proceed to a land use decision.

Together, these communities align with the MDP/CTP strategic growth policies, provide single residential supply to a variety of sectors across the city and is within the indicative tax and utility rate ranges previously approved by Council.

ATTACHMENT(S)

1. Attachment 1 – Recommended Portfolio of Communities for One Calgary (2019-2022)
2. Attachment 2 – Business Case Evaluation Criteria
3. Attachment 3 – Summaries of Business Cases
4. Attachment 4 – New Community Capacity Analysis
5. Attachment 5 – Letter from BILD Calgary Region