Planning & Development Report to Priorities and Finance Committee 2018 October 02

ISC: UNRESTRICTED
PFC2018-0973

Off-site Levy Bylaw Amendment Arising from New Community Growth Strategy 2018

EXECUTIVE SUMMARY

Through the New Community Growth Strategy 2018, Council approved 14 new communities and directed that the required capital investments to initiate these communities be brought forward as part of the One Calgary (2019-2022) service plan and budget. A number of these required investments are eligible to be funded through the Off-site Levy Bylaw, but are currently not included in the bylaw.

As directed by Council on 2018 June 18 and 2018 July 30, this report brings forward amendments to the Off-site Levy Bylaw to incorporate the developers' proportionate share of the cost of off-site transportation and utility infrastructure attributable to the 14 new communities approved by Council on 2018 July 30. The new infrastructure includes the 80 Avenue NE/Stoney Trail overpass for the East Stoney Area Structure Plan (ASP) and approximately $151 million in utility infrastructure. These amendments are necessary to ensure a funding source exists for a substantial part of the infrastructure required to support the new communities approved through the New Community Growth Strategy 2018.

These amendments are not intended to replace the planned review of the off-site levies, which has already commenced within Administration in preparation for a new Off-site Levy Bylaw, expected in 2021. No changes are proposed for the Water Treatment Plant levies or the Community Services Charges; as well, no changes are proposed to the levies paid in the Established Area. The proposed amendments do not change or alter the base methodology used in 2016 to calculate the off-site levy rates.

As the annual escalation rate increases for Transportation and Community Services are linked to the Non Residential Consumer Price Index, the official 2019 rates will not be known until 2018 December. At that time, it will be possible to state definitively what the 2019 rates will be. This report provides estimates for 2019 Transportation Levy rates and for the overall 2019 levy rates. For this reason, the proposed Off-site Levy Bylaw (Attachment 1) is to come into force 2018 December 31 in order to become effective with the 2019 rates on 2019 January 1.

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ADMINISTRATION RECOMMENDATION:

That Priorities and Finance Committee recommend:

1. That this report (PFC2018-0973) be directed to the November 12 Combined Meeting of Council to the Public Hearing portion of the Agenda;
2. That Council hold a public hearing on the proposed bylaw amendment set out in Attachment 1; and
3. That Council approve the proposed bylaw amendment to the Off-site Levy Bylaw 2M2016 in Attachment 1.

RECOMMENDATION OF THE PRIORITIES AND FINANCE COMMITTEE, DATED 2018 OCTOBER 02:

That Council hold a Public Hearing, and;

1. That Council hold a public hearing on the proposed bylaw **41M2018** amendment set out in Attachment 1; and
2. That Council approve the proposed bylaw amendment to the Off-site Levy Bylaw 2M2016 in Attachment 1.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 July 30, as part of the New Community Growth Strategy 2018 report (C2018-0900), Council adopted the following recommendation:

3. For the fourteen communities identified in Attachment 4 of C2018-0900, as amended, direct Administration to:

   (a) approve, as part of One Calgary 2019-2022 four year service plan and budget, a property tax rate increase of up to 0.75% in 2019 to fund the capital and direct incremental operating budgets necessary to support development of these communities;

   (b) approve, as part of One Calgary 2019-2022 four year service plan and budget, a water utility rate increase of up to 0.5% per year to fund the specific capital budget necessary to support development of these communities;

   (d) Direct Administration, in consultation with stakeholders, to incorporate the proportionate share of the cost of off-site transportation infrastructure and any additional off-site utilities infrastructure attributable to new growth that provides servicing to new communities into the off-site levy rates, through a proposed amendment to the Off-site Levy Bylaw 2M2016, and report back to the Priorities and Finance Committee by no later than 2018 Q4.

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

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

On 2016 January 11, Council adopted Bylaw 2M2016 to establish off-site levies pursuant to Section 648 of the Municipal Government Act and adopted by resolution, the Community Services Charges.

BACKGROUND

Section 648 of the Municipal Government Act authorizes municipalities to establish off-site levies that can be imposed at the time of subdivision or development permit approval. According to this legislation, an off-site levy may be used to fund all or part of the capital cost of new or expanded water, sanitary and storm infrastructure, new or expanded roads and transportation infrastructure, and land required for or in connection with these infrastructure projects. In Calgary, developers fund the capital cost of the local infrastructure within new communities and construct all of the on-site infrastructure such as parks, roads and underground utilities. Off-site levies are paid by developers to help fund capital costs of infrastructure that is considered off-site from these communities.
The Off-site Levy Bylaw allocates the cost of capital infrastructure in greenfield areas based on the allocation of benefit. The City and developers each contribute a proportionate share of funding to new infrastructure for the greenfield area based on allocation of benefit.

The City's current Off-site Levy Bylaw 2M2016 was approved on 2016 January 11 and came into force 2016 February 1. This Off-site Levy Bylaw, including the methodology and assumptions, were the result of extensive consultation between The City and stakeholders. A full discussion of the principles, process, and methodology used to create the 2016 Off-site Levy Bylaw can be found in Attachment 1-Schedule C of report C2016-0023 (link: 2016 Levy Report). Updates to the Background Report from C2016-0023, necessary to reflect the proposed changes from this update, can be found in Attachment 1-2018 October Background Report Addendum of this report.

In the 2016 Bylaw it was identified that amendments to the bylaw may be required from time to time to keep calculations current or reflect unanticipated events. The impact of the approvals from the New Community Growth Strategy 2018, and the subsequent Council direction, are considered such an event. For potential changes beyond this, Administration and industry representatives have shared an understanding that this review would focus on incorporating the infrastructure required by the New Community Growth Strategy 2018, and not revisit the base methodology.

In 2018, Council, Industry, and Administration were actively involved in the New Community Growth Strategy 2018, which culminated with Council approvals that will result in the initiation of 14 new communities through investments in the One Calgary (2019-2022) service plan and budget. Council approved 14 new communities under the following assumptions:

- a base property tax rate increase of 0.75 per cent in 2019, that was approved on 2018 July 30,
- an annual water utility rate increase of up to 0.5 per cent, to be approved in 2018 November; and
- inclusion of levy-eligible infrastructure for the New Community Growth Strategy 2018 into the Off-site Levy Bylaw.

Through this process, it was identified that most of the required utility infrastructure, and one transportation infrastructure item, were not included in the current Off-site Levy Bylaw. For this infrastructure to be funded through the off-site levies, it must be added into the levy calculations. The estimated total cost of the infrastructure to be added to the levy is listed in Table 1.

Table 1: Capital Infrastructure to be added to the Off-site Levy to Support the New Community Growth Strategy 2018

Levy Component	Description	Estimated Cost
Transportation	80 AV NE & Stoney Trail Flyover	$8,500,000
Water Distribution (Water Levy)	New linear infrastructure	$98,268,000
Wastewater Collection (Sanitary Sewer Levy)	New linear infrastructure	$29,080,000
Drainage System (Storm Sewer Levy)	New linear infrastructure	$13,550,000
Drainage System (Storm Sewer Levy)	Change to the cost of 144 AV NE Storm Trunk 4	$10,400,000
Total		**$159,798,000**

INVESTIGATION: ALTERNATIVES AND ANALYSIS

To incorporate the necessary infrastructure into the Off-site Levy Bylaw, while seeking to maintain the base methodology, Administration first reviewed the guiding principles from the

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2016 Off-site Levy Bylaw process, including but not limited to Certainty, Financial Sustainability, Fairness and Equity, and Efficiency. Amending only the sections of the bylaw related to the transportation levy, water levy, sanitary sewer levy, and storm sewer levy to include infrastructure required for the approved new communities is aligned to the 2016 principles and approach. This proposed amendment to the Off-site Levy Bylaw adheres to the principles of Benefit Allocation, Accountability, Transparency and Efficiency that were foundational to the off-site levy objectives and recommendations in 2016.

Administration considered a number of scenarios in determining how to best incorporate the required infrastructure in a way that supported the underlying principles in establishing the 2016 Bylaw, and respected the base methodology. Through this review, amendments to the bylaw are isolated to only the elements that need to be changed to provide for the funding of the additional items listed in Table 1 above. Other matters which would typically be reviewed as part of a comprehensive review will be considered as part of the next Off-site Levy Bylaw review that has commenced within Administration.

Updates to the Transportation Levy

As part of the New Community Growth Strategy 2018 evaluation, one identified levy-eligible transportation project was not already included in the Off-site Levy Bylaw. The 80 Avenue NE/Stoney Trail flyover, an $8.5 million, levy-eligible project required for the East Stoney business case, is necessary to provide emergency access, transit and active transportation mode access to support development. The need for this project was specifically identified through the New Community Growth Strategy 2018 evaluation process, which is why it was not included in the 2016 Off-site Levy Bylaw.

The annual escalation factor for the 2019 Transportation Levy rate is currently unknown and will not be known until mid-December 2018. As a result, Administration has estimated the 2019 Transportation Levy rate. With the addition of the new infrastructure, the projected 2019 Transportation Levy rate is $135,720 per hectare, this is an increase of $185 per hectare compared to the 2019 rates projected in the current Off-site Levy Bylaw. A more detailed description of all the proposed change for Transportation is included in Attachment 2.

Update to the Utilities Levies

The original 2016 Off-Site Levy Bylaw for Water Resources relied on the Water Infrastructure Investment Plan 2015-2024 (the “WIIP”). When the WIIP was originally developed in 2014, most of the 14 new communities approved in 2018 July were not contemplated for development in this 10-year timeframe, meaning much of the water, sanitary and storm linear infrastructure necessary to service these new communities is not included within the existing Off-site Levy Bylaw calculation. To secure a funding source for this infrastructure, a total of $151,298,000 of infrastructure must be added to the levy bylaw calculation. A more detailed description of all the proposed changes to the off-site levy calculations is included in Attachment 2.

Given that the inclusion of new utilities investments can be expected to lead to changes in the pattern of growth among the watershed catchments, Administration also made a change to the growth assumptions within the catchments. The change in growth distribution only affects the Storm Sewer Levy.

The proposed 2019 rates, including the 3.3 per cent escalation in accordance with the existing Off-site Levy Bylaw, are shown in Table 2 below.

Table 2: 2019 Utilities Levy Update

Levy		Proposed 2019 Levy (per hectare)	Difference from 2M2016 Bylaw (per hectare)
Water levy		$44,845	+$9,213
Sanitary sewer levy		$51,781	+$2,785
Storm sewer levy	Bow River	$8,615	+$917
	Elbow River	$0	$0
	Fish Creek	$22,221	+$22,221
	Nose Creek	$17,425	+$4,941
	Pine Creek	$19,569	+$1,037
	Shepard	$45,565	($1,508)

The difference per hectare represents the increase/decrease over the 2019 rates under the current Off-site Levy Bylaw. The Elbow River watershed catchment has no additional infrastructure added nor a change in growth pattern. The Shepard watershed catchment has no additional infrastructure added and has additional growth attributed to this catchment to reflect the impact of the 14 new communities, for this reason the cost per hectare decreases. The Fish Creek watershed catchment has both additional infrastructure and additional growth attributed.

Summary

In summary, the projected 2019 rates represent between a 2.2 per cent to 7.8 per cent increase from the 2016 Off-site Levy Bylaw projected 2019 rates depending on the storm sewer catchment. Table 3 below displays the overall levy rates by storm sewer catchment area. A detailed description of off-site levy rate changes is included in Attachment 2.

Table 3 – 2019 Projected Overall Change in Levies by Storm Sewer Catchment

Catchment Area	Projected 2019 Levy (per hectare)	% Change from existing 2019 projected rates
Bow River	$462,012	2.9%
Elbow River	$453,397	2.8%
Fish Creek	$475,619	7.8%
Nose Creek	$470,822	3.8%
Pine Creek	$472,966	2.9%
Shepard	$498,962	2.2%

Next Steps

This proposed amendment to Off-site Levy Bylaw has been brought forward at this time to align with the One Calgary (2019-2022) service plan and budget decisions. As such, this report and bylaw amendment are expected to be heard at the 2018 November 12 Public Hearing of Council, where members of the public will be welcome to speak to Council on this matter. Approval of the amended Off-Site Levy Bylaw prior to budget decisions would provide confirmation that the infrastructure for the 14 new communities has a funding source prior to Council approval of the One Calgary (2019-2022) service plan and budget.

The rates in the proposed bylaw in Attachment 1, reflect 2018 rates. The proposed Off-site Levy Bylaw is to come into force 2018 December 31 to prepare the updated rates for the escalation factor for the 2019 Transportation Levy rate. Until then, in this report, Administration has provided an estimate for the overall 2019 off-site levies.

Administration will communicate off-site levy changes to stakeholders on calgary.ca and will coordinate with BILD Calgary Region and NAIOP to communicate to their members and ensure industry members are aware of the new levy rates well in advance of implementation.

Stakeholder Engagement, Research and Communication

Administration worked with BILD Calgary Region using a small representative working group of stakeholders. Administration met with the working group on four occasions. Early in the consultation, the working group communicated that key objectives would be to minimize the increase in levy amounts overall and to minimize the volatility of the increase among the storm sewer catchments. These objectives, overall, intended to minimize the impact of any increase in levies, both for developers with projects approved through the New Community Growth Strategy 2018, and developers with projects in other areas of the city. A letter of support has been provided by BILD Calgary Region and is included in Attachment 3.

Many industrial land owners and developers are within the Greenfield Area of the Off-site Levy Bylaw. In order to incorporate feedback from these affected stakeholders, a representative from the Calgary branch of NAIOP was added to the aforementioned working group. As well, a presentation was made to, and feedback collected from, the Industrial Strategy working group, an industrial development specific working group first initiated through the Industry/City Work Plan.

A presentation was also made to the Developer Advisory Committee of the Industry/City Work Plan, which includes a broad array of industry representation.

Finally, Administration also distributed an information package and held a public open house for interested stakeholders on 2018 September 21. Approximately 35 people attended, with representation from industrial and residential developers, from proponents which advocated for the 14 new communities in the New Community Growth Strategy 2018, and from others who did not specifically advocate for communities in the Strategy.

Strategic Alignment

The recommendations in this report align with Council's recent direction on the New Community Growth Strategy 2018 and Section 5.2.5 of the Municipal Development Plan by considering the municipal capacity to finance growth and infrastructure in consideration of growth and change decisions. The guiding principles of the 2016 Off-site Levy Bylaw were adhered to in the formation of the amendment such as Financial Sustainability and Benefit Allocation. This report aligns with One Calgary Council directive of A City of Safe and Inspiring Neighbourhoods: Growth of the city needs to be managed in a way that achieves the best possible social, environmental and economic outcomes within financial capacities. The cost of growth needs to be manageable for The City, while maximizing housing choice and affordability within these constraints. The report also aligns with the One Calgary Council directive of A Well-Run City by being focused on resilience and continuous improvement.

Social, Environmental, Economic (External)

The off-site levies help deliver important complete community infrastructure and services by contributing to the funding of infrastructure that supports social and environmental wellbeing, and safe and resilient communities. The off-site levies also help support the economic benefits of community growth, such as attracting private investment and creating jobs.

Financial Capacity

Current and Future Operating Budget:
There is no impact to current operating budget as a result of this report. By adding the additional infrastructure into the off-site levy, the approved 0.75 per cent property tax rate and approved indicative utility rate are able to remain as approved in 2018 July, in alignment with Council's approvals through the New Community Growth Strategy 2018.

Current and Future Capital Budget:
There is no impact to the current capital budget as a result of this report. The proposed amendments to the Off-site Levy Bylaw ensures that the new development will contribute its proportionate cost share of the infrastructure on which levies are charged. By adding the additional infrastructure into the off-site levy and securing the funding source, Administration can move forward with efforts to deliver the infrastructure.

Risk Assessment

Funding source for required infrastructure
The property tax and utility rate increases fund The City's share of the required infrastructure, while off-site levies fund the developers' share. If the amendments to the Off-site Levy Bylaw are not approved, an alternative funding source will be required for the developers' share of the infrastructure costs. The only anticipated available source of funding would be through a further increase in the property tax rate or a further increase in utility rates. Without another identified funding source, it would be unknown how required infrastructure in some or all of the 14 communities could proceed.

Market risk and financial impacts

Consistent with the risk identified in the 2016 Off-Site Levy Bylaw report (C2016-0023), there is a continued risk that cash flow shortfalls will materialize if the assumptions about growth

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patterns do not materialize. This means that if growth is lower than forecast, levies paid by developers will also be lower, The City will need to carry these costs for longer until levies paid are sufficient to cover costs. To manage potential shortfalls from a change in growth, greater than expected future utility rate increases may be required for debt servicing.

Another Utilities-specific risk is that growth may not occur in the separate watershed catchments as projected, and therefore levies may not be sufficient to service the principal and interest payments within a particular watershed catchment, even if overall growth is healthy. Any shortfalls would have to be funded from utility rates.

The current calculation methodology for Utilities' levies uses principal and interest payments to calculate the require cost recovery for a period of six years, this is consistent with the current off-site levy bylaw. The phase in of the principal and interest payments matches the timing of delivery of the required infrastructure. Therefore, the full cost is not spread out evenly over 25 years, rather it ramps up in the early years and trails off in the later years as the 25 year amortization period comes to an end. The result is that the off-site levy rate for the same infrastructure will be higher in future years than in this off-site levy period. Industry members have been made aware of this future rate increase and continue to support the current calculation methodology for the proposed off-site levy amendments. Additionally, if more development agreements come in in the next few years and benefit from the existing rate, the off-site infrastructure costs may not be recovered over the fullness of time. Utility rates will have to cover this shortfall.

These risks are partially mitigated by the upcoming full review of the Off-site Levy Bylaw that is to occur for 2021. At that time the opportunity to review the methodology for calculations will be available to determine the best solution, and two years of development will have elapsed, providing information on which to base these decisions.

REASON(S) FOR RECOMMENDATION(S):

The proposed amendments to the Off-site Levy Bylaw will enable Council's direction on the New Community Growth Strategy 2018, will contribute to the financial sustainability of The City as it relates to capital infrastructure in greenfield areas, and ensure that the proportionate share of the cost of growth is borne by developers for this infrastructure.

ATTACHMENT(S)

1. **Attachment 1 – Proposed Bylaw 41M2018**
2. Attachment 2 – Detail of Proposed Changes to the Off-site Levy Calculations
3. Attachment 3 – Letters Received

Approval(s): Dalgleish, Stuart concurs with this report. Author: Small, Shawn
City Clerk's: J. Palaschuk