

**Planning & Development Report to
Priorities and Finance Committee
2019 March 05**

**ISC: UNRESTRICTED
PFC2019-0146**

**Consideration of the Nose Creek Communities in an Economic Development
Context**

EXECUTIVE SUMMARY

This report arises from the 2018 July 30 New Community Growth Strategy discussion at Council where, in preparation for the One Calgary (2019-2022) service plan and budget cycle, Council approved 14 communities through the New Community Growth Strategy 2018. At the same meeting, Council also approved a Motion Arising directing Administration to work with Calgary Economic Development (CED) on five items related to the business case for the two communities in the Nose Creek Area Structure Plan (ASP) that were not approved as part of the New Community Growth Strategy 2018. The Motion Arising included direction to broaden the scope to consider the context of Calgary's competitiveness in attracting commercial investment generally, and also in relation to the larger Calgary economic region.

In responding to the Motion Arising, an ad-hoc committee was assembled to include the Nose Creek business case proponent, QuadReal Property Group (QuadReal), staff of CED, and members of CED's Real Estate Sector Advisory Committee (RESAC). Administration also engaged the mover of the motion, Councillor Gondek, and Council's representative to CED, Councillor Davison.

To protect proprietary or commercially sensitive information pertaining to the QuadReal business case, it was agreed that a high-level overview of the business case be considered by the ad-hoc committee members in order to understand the general premise of the proposed development, and consider potential synergies with CED's goals and work.

The ad-hoc committee put forward the following suggested actions for The City to consider. These include:

1. Focus on drivers that enable economic growth and instill investor confidence/ attract investment;
2. Consider the tax pressures on Calgary's non-residential customers and seek opportunities to address the tax shift issue;
3. Engage Industry on the upcoming review of the Off-site Levy Bylaw;
4. Work collaboratively to shift the story of Calgary and identify reasons for optimism, including the value proposition of a vibrant city offering advantages on amenities and housing affordability; and
5. Leverage the unique opportunities of the Northeast and North Central parts of the city.

There will be an opportunity for further improvements and facilitating increased awareness through initiatives that are already underway or will commence shortly. These include the ongoing efforts of CED to attract talent, businesses and economic growth, the forthcoming Industrial Growth Strategy, the Off-site Levy Bylaw Review, and the growth business case review process planned for the One Calgary mid-cycle budget adjustment in 2020.

In the meantime, QuadReal is working on updates to the Nose Creek business case in preparation for Council's consideration during the 2020 mid-cycle adjustment. These updates are expected to include a revised market assessment, engagement with the Province on

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provincial transportation infrastructure considerations, and required studies to inform discussion on the benefits and costs of the proposed development.

At this time, Administration does not recommend removal of the Growth Management Overlay for the Nose Creek business case area.

ADMINISTRATION RECOMMENDATION:

Administration recommends that the Priorities and Finance Committee recommend that Council receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Direction from the Council on 2019 February 4:

Council adopted the following recommendation of the Priorities and Finance Committee, dated 2019 January 22:

That the Administration Recommendation contained in Report PFC2019-0018 be adopted:

That the Priorities and Finance Committee recommends that Council approve Administration's request to defer the report on the consideration of the Nose Creek business case in an economic development context, and direct Administration to return to the Priorities and Finance Committee with a report in 2019 March.

Direction from Council on 2018 July 30:

That with respect to Report C2018-0900, the following motion arising be adopted, in part:
That Council:

Direct Administration to work with Council's representative on Calgary Economic Development (CED) to identify appropriate members of CED staff and the CED Commercial Real Estate Committee to serve as an ad hoc working group that will review the Nose Creek business case to:

1. Establish viability as contemporary mixed-use, campus-style development sites;
2. Identify opportunity to draw targeted and prospective investors according to CED's ongoing economic diversification work;
3. Evaluate ability to retain urban uses within the City's boundaries to stabilize the commercial tax base;
4. Evaluate ability to prevent neighbouring municipalities from poaching investment opportunities from Calgary; and
5. Provide sound rationale (if any exist) for removal of the growth management overlay (GMO). Report back through PFC in 2019 January.

Direction from Council on 2018 July 30 regarding further growth consideration timelines:

That with respect to Report C2018-0900, the following be adopted:

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That Council:

4. 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.

**Direction from Council on 2018 November 14 regarding report C2019-1158, One Calgary
2019-2022 Service Plans and Budgets:**

That with respect to Report C2018-1158, Council direct Administration to:

3. Come back in Q1 2019 with further options on shift from non-residential assessment base to the residential assessment base as previously directed by Council, including but not limited to:
 - a. creation of a small-business assessment class;
 - b. continuing shift from non-residential to residential;
 - c. one-time money to manage the transition;
 - d. advocacy with Federal and Provincial Governments; and
 - e. an examination of reserves and other funding sources which may be available.

Direction from Council approving the Nose Creek Area Structure Plan on 2015 December 7:

That the Calgary Planning Commission Recommendations contained in Report CPC2015-218 be adopted, as follows:

That Council:

1. ADOPT the proposed Nose Creek Area Structure Plan, in accordance with Administration's recommendation; and
2. Give three readings to the proposed Bylaw 46P2015.

BACKGROUND

As part of the New Community Growth Strategy 2018, QuadReal submitted a business case for two communities in the Nose Creek ASP. Proposed communities were assessed based on three guiding factors for making comprehensive, city wide growth recommendations to Council: (1) Municipal Development Plan/Calgary Transportation Plan Alignment; (2) Market Forces; and, (3) Financial Impact.

A review of the business case was completed by Administration and provided to the Priorities and Finance Committee on 2018 June 28 (PFC2018-0678) and then to Council (C2018-0900) on 2018 July 30. The Nose Creek business case was not recommended by Administration to proceed at that time due to outstanding planning considerations and outstanding local and provincial infrastructure and services including transportation connectivity, utility infrastructure, and fire/emergency response coverage. To be initiated, it was calculated that the business case would also require City financial resources equal to an additional, one-time +0.41 per cent impact on the tax base for 2019-2022, and future investment in subsequent budgets for both capital and operating expenditures.

With a dedicated property tax rate increase of 0.75 per cent in 2019, Council approved 14 new communities for the New Community Growth Strategy, 2018 and provided a clear direction for

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growth in new areas that will start in 2019-2022 and continue for several decades as these new communities complete development. The City's investments are expected to eventually lead to \$27 billion in private investment once full built out is completed over 20 to 30 years.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Calgary's non-residential sector attracts diverse businesses that significantly contribute to the job market and to the diversity of the city's economy. Through engagement on this Motion, Administration and the ad-hoc committee worked to outline some of the barriers and opportunities to retaining the non-residential tax base and to attracting new investment in support of economic growth.

The process for responding to this Motion Arising included:

1. Initial engagement of Calgary Economic Development staff; identifying members for the ad-hoc committee from CED's Real Estate Sector Advisory Committee; and engaging QuadReal around their business case proposal.
2. Engagement of Councillor Gondek (as the mover of the Motion Arising) and Councillor Davison (as the Council representative on CED's Board of Directors) to discuss the motion and ensure alignment on the scope of work and the deliverable.
3. Working sessions with the ad-hoc committee on 2018 December 10 and 2019 January 23 to collect input on motion items related to identifying opportunities to stabilize Calgary's commercial tax base and remain competitive in attracting investment.
4. Defining key messages and next steps, in collaboration with CED staff and with input from the Directors Integrated Growth Committee and the General Managers Strategic Growth Committee.

The process resulted in good feedback from QuadReal, CED and the ad-hoc committee. This feedback informed the following responses to the five points included in the Motion Arising. Key findings from the engagement are summarized below.

1. Establish viability as contemporary mixed-use, campus-style development sites

QuadReal's Nose Creek business case proposes the development of two communities located within the Nose Creek ASP. The proposed business case envisions a 248 hectare development as a self-contained master-planned community inclusive of residential and non-residential development. Approximately 96 hectares of the area are envisioned as light industrial development which would be centered on an office park and mixed-use spaces. The proponent highlights the inclusion of industrial employee-intensive, commercial, and other uses, to reflect a "Live-Work-Thrive" community. For more information, please see Attachment 1, submitted by QuadReal, which outlines their vision for the area.

QuadReal informed Administration that while there are no updates to the business case at this time, they are currently working to update their business case and intend to include any new information on the items that were noted to be unresolved, hold further discussions with the Province, and submit for consideration in advance of the mid-cycle budget adjustment in 2020. Currently QuadReal is moving forward with planning considerations and have submitted an Outline Plan/Land Use application that is being reviewed through the Corporate Planning

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Applications Group (CPAG) process for completeness. For these reasons, further analysis by Administration of the Nose Creek business case was not conducted. Administration looks forward to reviewing QuadReal's updated submission in 2020.

2. Identify opportunity to draw targeted and prospective investors according to CED's ongoing economic diversification work;

The ad-hoc committee provided input at a meeting on 2018 December 10, at a workshop on 2019 January 23, and via electronic communication to help identify opportunities to attract targeted and prospective investors to Calgary. These opportunities include:

- a. Continue to communicate and raise awareness of the Opportunity Calgary Investment Fund (OCIF).
 - o Administration of the Fund is managed by CED.
- b. Use innovation to spur diversification. Ensure that entrepreneurial and other opportunities are fostered throughout the city's non-residential sector.
 - o Continues to be considered by CED in their economic development work and through the forthcoming Industrial Growth Strategy, as well as the City Planning and Policy Work Plan 2019.
- c. Leverage Calgary's position as an Inland Port and The City's Goods Movement Strategy to attract businesses.
 - o Continues to be promoted by CED in their economic development work, through Transportation's work on the Goods Movement Strategy and will be considered in the forthcoming Industrial Growth Strategy.
- d. Align with the forthcoming Industrial Growth Strategy.
 - o The scoping for the Industrial Growth Strategy is commencing in 2019 in alignment with the new community and established areas strategies. Administration has engaged Industry representatives and CED on this work through the Industrial Strategy Working Group.
- e. Enhance communication and address any misinformation around Calgary's economy, quality of life, opportunities and culture. Leverage recent communication updates on [Calgary's Industrial Sector](#), by keeping content current and sharing it broadly.
 - o The benefits of Calgary's Industrial Sector are to be shared more broadly both by Industry and Administration.

Many of the ideas generated by the ad-hoc committee align with CED's work on economic diversification as outlined in Calgary's Economic Strategy, titled *Calgary in the New Economy*. In that strategy, four focus areas and their key initiatives and indicators are identified. The four focus areas include attracting talent; fostering innovation; supporting Calgary in place-making through urbanization and connectivity in the core; and, fostering a business-friendly environment. More information around alignment of CED's work on economic diversification and opportunities to draw targeted and prospective investors is provided by CED and outlined in Attachment 2.

3. Evaluate ability to retain urban uses within the City's boundaries to stabilize the commercial tax base;

The ad-hoc committee, CED and Administration identified that the tax pressures on non-residential properties, and the non-residential property tax gap between Calgary and its

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municipal neighbours needs further consideration to support economic growth and competitiveness. In a presentation delivered by the Altus Group at the 2019 January 23 workshop, it was noted that a number of market and non-market factors have led to increases in Calgary's non-residential tax rates. These factors include phasing out of the business tax and tax shift from downtown office properties. Altus stated that Calgary's ratio of non-residential to residential tax is above a 4:1 ratio, and within the Municipal Government Act requirements of a maximum ratio of 5:1.

During the One Calgary (2019-2020) budget considerations, Council directed Administration to consider options on shifting from non-residential assessment base to the residential assessment base. This work is underway and includes consideration of creating a small-business assessment class, continuing to shift from non-residential to residential, one-time incentives, advocacy with other orders of government and consideration of reserve funding sources.

Some members also communicated a desire to re-examine off-site levies (as they relate to non-residential development) during the next review. Similar to the successful engagement process that was undertaken in 2015, Administration will engage Industry and other interested stakeholders in the Off-site Levy Bylaw Review process that is expected by 2021.

Despite some of the financial concerns noted above, it was identified and agreed that Calgary's industrial lands have served as consistent areas of economic growth as industrial activity has remained fairly constant since 2014, showing the resiliency of the sector even amid softening energy markets. Industrial development, and subcomponents like logistics and warehousing, were mutually agreed to as areas of importance to Calgary's economic diversification efforts.

CED has included feedback from the ad-hoc committee on opportunities and barriers around retaining urban uses within the city to help stabilize the non-residential tax base. This feedback is outlined in Attachment 2.

4. Evaluate ability to prevent neighbouring municipalities from poaching investment opportunities from Calgary; and

Taking into account the local, national, and continental competitive environment, the ad-hoc committee identified barriers and opportunities for attracting and retaining non-residential investment, as well as broad policy considerations for The City to enhance competitiveness with municipal neighbours while being mindful of broader benefits that regional investment may leverage.

Concern was expressed that Calgary has higher costs for land, taxes, and off-site levies than municipal neighbours. This may dissuade businesses from locating within the city boundaries.

It was agreed that there is a need for a comprehensive assessment that considers not only the costs of taxes and land prices, but also the benefits of levels of service and community amenities. This type of assessment would get closer to outlining a value proposition for Calgary's non-residential areas. It was also acknowledged by the ad-hoc committee that Calgary has several advantages relative to its regional and continental competitors. These advantages include:

- a. Calgary offers greater amenities and services, such as transit and access to recreation facilities. These considerations can serve as advantages in attracting businesses and

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investment near desirable neighbourhoods that offer mobility links in support of a live-work lifestyle.

- b. Calgary's Northeast and North Central areas, which include much of the city's industrial lands, and have also been highlighted as contributing:
 - Building permit activity of 21 per cent of the city's total volume and 25 per cent of value in 2018;
 - Higher employment growth (+8.1 per cent growth since 2009 relative to the city amount of +5.9 per cent);
 - Higher household occupancy rates (3.01 people per unit versus the city average of 2.67); and
 - An attractive landing point for recent immigrants (11 per cent of the population in the NE versus 7 per cent city-wide).
- c. Calgary does not have a machinery and equipment tax, which many other competing jurisdictions (such as Rocky View County) apply on processing and manufacturing industries.

CED has included feedback from the ad-hoc committee to address regional competitiveness considerations. This feedback is outlined in Attachment 2. As part of the work on a comprehensive growth strategy, the forthcoming Industrial Growth Strategy will consider various factors concerning Calgary's competitiveness for non-residential investment and development. Scoping for that work is commencing in 2019, with strategy development anticipated in 2020, in preparation for investment recommendations for the next four year budget cycle (2023-2026).

5. Provide sound rationale (if any exist) for removal of the growth management overlay (GMO)

In 2018, Administration developed a process centered on three guiding factors for making comprehensive, city wide growth recommendations to Council. All three are important for facilitating a sustainable growth decision making process:



A Growth Management Overlay (Overlay) applied to an area in an Area Structure Plan indicates that the area does not satisfy one or more strategic growth factors noted above, and has unresolved funding questions for infrastructure and services. There is an Overlay on the whole of the Nose Creek ASP as unresolved/unfunded infrastructure and service needs exist in the area, including a necessary provincial interchange. Growth funding decisions that impact Overlays will be made every two years, with the next opportunity at the mid-cycle adjustment in 2020.

This decision framework provides the necessary information and evaluation criteria required to recommend an investment program that will enable strategic growth. Through the 2018 review of the Nose Creek business case, Administration identified unresolved considerations and ultimately was not able to recommend the business case as part of the New Community Growth Strategy 2018. The proponent has been advised to address these considerations through a re-

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submitted business case at the mid cycle adjustment. These considerations include, but are not limited to:

- a) Clarifying and resolving significant funding considerations for road and highway infrastructure including:
 - Highway 566/ QEII interchange upgrade (provincial responsibility that remains unfunded).
 - 160 Avenue/ CrossIron Drive / Highway QEII interchange, including rail and creek crossing;
- b) Required sanitary extension (City-sized and levy eligible infrastructure) should align with the approved Nose Creek Area Structure Plan;
- c) Fire/Emergency Response Coverage;
- d) Questions around record-high office space vacancy for downtown and suburban supply;
- e) A healthy serviced industrial land supply in the Northeast;
- f) Concerns of non-contiguous development as land parcels around the proposed business case and within city limits are undeveloped and unserved; and
- g) Need for an up-to-date market assessment.

Through a revised business case, QuadReal will respond to the first item of the Motion and aim to establish the viability of their proposal as a contemporary mixed-use, campus-style development. In response to the second item of the Motion, CED will continue to work with QuadReal, and all other interested businesses, to identify opportunities to draw targeted and prospective investors in support of Calgary's economic diversification. Through CED's ongoing economic growth work, as well as Administration's focus, efforts are underway to increase Calgary's competitiveness and to stabilize the commercial tax base. These considerations will address the third and fourth items of the Motion, and will further unfold through growth and budget decisions, continuous process improvements, the Off-site Levy Bylaw review and the forthcoming Industrial Growth Strategy.

The Industrial Growth Strategy (scoping in 2019, and strategy development in 2020) will round out a comprehensive city-wide growth strategy that consists of the New Community Growth Strategy (approved by Council on 2018 July 30), and the Established Area Growth and Change Strategy (currently under development and expected for 2020). This city-wide growth strategy will provide clear processes to determine development opportunities throughout all areas of the city, allowing greater certainty for private investment decisions.

In the meantime, the proponent is continuing to receive feedback from The City through the Outline Plan/Land Use application review process.

Stakeholder Engagement, Research and Communication

A number of stakeholders have been working together to achieve the goals of the Motion Arising, including representatives from CED, identified members of CED's Real Estate Sector Advisory Committee, QuadReal, Councillor Jeff Davison (Council's CED Board Member), Councillor Jyoti Gondek (initiator of the motion arising), and Administration. See Attachment 3 for a list of members of the ad-hoc committee and others engaged in this work.

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Calgary Economic Development

Administration engaged CED representatives, and met with them regularly to discuss the motion and chart out a work plan. The collaboration considered a high-level overview of the QuadReal business case, and broader economic factors including opportunities for retaining investment within city boundaries to help stabilize the commercial tax base, and strategies to attract and promote economic diversification within Calgary.

Members of CED's Real Estate Sector Advisory Committee were also engaged in this work to provide industry insight on the high-level vision of the business case and its alignment with CED's ongoing work and considerations around broader economic diversification. To help inform discussions at the 2019 January 23 workshop, the representative from Altus on the committee provided a presentation on tax and competitiveness considerations for industrial lands in Calgary in relation to the regional markets.

QuadReal Property Group

QuadReal was engaged shortly following 2018 July to discuss the Council direction. To ensure suitable representation of the Nose Creek business case, there have been numerous meetings and ongoing communication with QuadReal's representatives.

Strategic Alignment

There are multiple areas of work currently underway or commencing in 2019/2020 that are aligned with the topic of economic growth in Calgary's non-residential sector, including:

- Downtown Tax Shift Response (PFC2019-0148);
- Planning and Development's City Planning Policy Priorities 2019;
- The forthcoming Industrial Growth Strategy;
- Off-site Levy Bylaw Review;
- Continuous process improvements for planning application review processes; and
- The next New Community Growth Strategy review of business cases at the One Calgary mid-cycle budget adjustment in 2020.

At a corporate level, this work considered opportunities for attracting and retaining commercial and industrial investment in the city. It is aligned with the One Calgary (2019-2022) Citizen Priority: A Prosperous City that aims to strengthen Calgary's economic growth and competitiveness globally, advance purposeful economic diversification and growth, support civic and business partners, and improve city processes to foster a competitive environment.

It is also aligned with the Municipal Development Plan goal of a Prosperous Economy that strives for Calgary to be a globally competitive city that supports a vibrant, diverse and adaptable economy and maintains a sustainable municipal financial system without compromising the quality of life for current and future Calgarians.

The City Planning and Policy service line priorities 2019 scope of work includes considerations of how to best enable economic prosperity, enhance investor confidence and remove barriers to allow for nimble planning and attract desired investment.

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Social, Environmental, Economic (External)

There are no social, environmental or economic impacts arising from this report. Some of these factors will be considered through future work either on the Industrial Growth Strategy, the Off-site Levy Bylaw Review or the next business case consideration at the 2020 mid-cycle adjustment. Opportunities for land development are also considered regularly through policy planning and application review.

Financial Capacity

There are no financial impacts arising from this report.

Current and Future Operating Budget:

There are no operating impacts associated with this report.

Current and Future Capital Budget:

There are no capital impacts associated with this report.

Risk Assessment

There are no risks specifically associated with this report, however it is recognized that there are broader considerations facing Calgary around economic growth and competitiveness.

There are risks and rewards associated with growth. Growth includes financial and opportunity cost risk associated with municipal investment for capital and operating costs. Growth rewards, particularly of non-residential parcels, offers expansion of the tax base and off-site levies paid, provides opportunities for economic gains, economic resiliency, and job creation.

Administration has committed to delivering a comprehensive city-wide growth strategy designed to enable growth in all areas of the city in a coordinated manner while enhancing the context for the development in Calgary. To ensure a coordinated approach, growth decisions are considered in alignment with The City's budget process. Maintaining this approach allows for informed decision-making on growth.

REASON(S) FOR RECOMMENDATION(S):

Administration recommends that the Priorities and Finance Committee recommend that Council receive this report for information. In terms of next steps, Administration and Calgary Economic Development will continue to broadly support non-residential development through the various channels identified in this report. Administration will also stay in contact with the proponents of the Nose Creek business case to inform them of deadlines and other details with regard to the next evaluation of business cases, expected in 2020.

ATTACHMENT(S)

1. Attach 1 – Submission from QuadReal Property Group - PFC2019-0146
2. Attach 2 – Submission from Calgary Economic Development (CED) - PFC2019-0146
3. Attach 3 – Members of the Ad-hoc Committee and Others Engaged in this Work – PFC2019-0146