New Community Growth Strategy 2018 – Further Review and Analysis Directed through PFC2018-0678

EXECUTIVE SUMMARY

The New Community Growth Strategy: Investment Recommendations report (PFC2018-0678) was brought forward to the Priorities and Finance Committee on 2018 June 28. For Administration's recommended portfolio of seven communities and one community activity centre, the Priorities and Finance Committee recommended that Council approve associated capital and operating costs and funding sources (including indicative property tax and utility rates) and that these elements be brought back as part of the One Calgary 2019-2022 service plan and budget.

As well, the Priorities and Finance Committee directed Administration to work with the proponents of all business cases to refine the operating and capital timing and costs and budget impacts noted in PFC2018-0678, and to further consult on unresolved issues.

Finally, the Priorities and Finance Committee directed Administration to, upon the completion of the costs refinement, determine if any additional communities that met the Municipal Development Plan and Calgary Transportation Plan (MDP/CTP) Alignment and Market Demand factors could be added to the recommended portfolio. These additional communities were to be accommodated within the approved indicative tax rate and utility rate ranges approved by Council earlier in 2018.

This supplementary report to PFC 2018-0678 addresses this direction by reporting back on status of the cost refinement, the engagement conducted to address unresolved issues, and by making a recommendation to Council on the addition of three new communities in East Stoney and Southeast Keystone Area Structure Plans to a revised recommended portfolio.

ADMINISTRATION RECOMMENDATION:

Administration recommends that Council:

1. For the eleven communities identified in Attachment 4 (C2018-0900):

   (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; and
   (c) confirm its intention to provide, through 2023 and future years' capital and operating budgets, the necessary public infrastructure and services to serve and support these communities.

2. For the eleven communities identified in Attachment 4 (C2018-0900), direct Administration to:

   (a) Include the estimated capital and direct incremental operating investments, 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) Continue to refine the 2023 and future years' capital and operating budget estimates, and when needed, bring incremental additional budget requests to Council for the necessary public infrastructure and services to serve and support these communities;

(c) Prepare bylaws and advertise for proposed Area Structure Plan amendments to remove Growth Management Overlays for East Stoney and Southeast Keystone business case areas, for a public hearing of Council, and bring these amendments directly to the 2018 September 10 Combined Meeting of Council for a public hearing;

(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.

3. 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.

4. File Recommendations 2, 3 and 6 of PFC2018-0678.

PREVIOUS COUNCIL DIRECTION / POLICY

On 2018 July 23, as part of the Request for Reconsideration – South Shepard Reports (C2018-0929), Council adopted the following recommendations:

3. Defer the South Shepard CPC2017-270 and CPC2017-276 to the 2018 September 10 Combined meeting of Council; and
4. Direct Administration to incorporate the decisions with respect to the New Community Growth Strategy: Investment Recommendation (report PFC2018-0678) in the reporting back on 2018 September 10 for CPC2017-270 and CPC2017-276.

On 2018 June 28, as part of New Community Growth Strategy: Investment Recommendations (PFC2018-0678), the Priorities and Finance Committee:

1. Directed Administration to:
   a) continue to refine the operating and capital budget impacts for all business cases, including the list of unresolved issues in consultation with the applicants;
   b) upon completion of the refinement, determine if any communities in addition to those identified in Attachment 1 (PFC2018-0678), that meet the strategic alignment and market demand criteria, can be accommodated within the approved indicative tax rate range. If so, bring forward recommendations to approve these communities for growth directly to 2018 July 30 Combined Meeting of Council with comprehensive rationale for all business cases; and
   c) prepare bylaws and advertise for proposed Area Structure Plan amendments to remove Growth Management Overlays for communities identified in Attachment 1 (PFC2018-0678), and bring these amendments to the 2018 July 30 Public Hearing and Meeting of Council for a public hearing.

2. Recommends that Council, for the communities identified in Attachment 1 (PFC2018-0678):
   (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; and
   (c) 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 communities.

3. Recommends that Council, for the communities 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; and
   (b) 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 communities.

4. Recommends that Council hold a public hearing on 2018 July 30 meeting of Council to amend the applicable Area Structure Plans by removing the growth management overlays for the communities identified in Attachment 1 (PFC2018-0678).

5. Directs that this Report proceed to the 2018 July 30 Combined Meeting of Council.

6. 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 2023-2026 four year service plan and budget process.

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

Previous Council direction on the entire New Community Growth Strategy can be found in PFC2018-0678.

BACKGROUND

At the 2018 June 28 Priorities and Finance Committee (PFC) meeting, PFC accepted Administration's recommendation for investment in the recommended portfolio of new communities for One Calgary 2019-2022 four year service plan and budget, and moved forward the necessary financial recommendations to Council for the 2018 July 30 Combined meeting of Council. Included in the recommended portfolio were 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).

PFC also directed that the Growth Management Overlay removal amendments to Area Structure Plans associated with seven communities and one community activity centre recommended in PFC2018-0678 be prepared and brought forward to Council on 2018 July 30, as identified in PFC2018-0678 recommendation 1(c). The Growth Management Overlay removals arising from PFC2018-0678 are on the same agenda as this report (2018 July 30) and are the subject of the supplementary report, New Community Growth Strategy 2018 – growth management overlay removals pursuant to PFC2018-0678 (C2018-0858).

This supplementary report (C2018-0900) specifically addresses Recommendations 1(a) and 1(b) from 2018 June 28, PFC2018-0678.

At the PFC meeting, proponents were given the opportunity to present to Council on the merits of their business case. Through these presentations, several proponents communicated that there were instances where they disagreed with the infrastructure cost and/or timing assumptions used by Administration (and published through the third attachment of the PFC2018-0678 report). Differences were identified for business cases inside and outside of the recommended portfolio.

PFC subsequently directed Administration to consult with all business case proponents between the 2018 June 28 PFC date and the 2018 July 30 Council date to determine if these differences could be resolved, and if so, if they would result in cost savings or changes in timing of investment.

Finally, PFC directed Administration to, upon the completion of the costs refinement, determine if any additional communities that met the MDP/CTP Alignment and Market Demand factors could be added to the recommended portfolio. These additional communities were to be accommodated within the approved indicative tax rate and indicative utility rate ranges approved by Council earlier in 2018, and using potential cost savings that were identified through the operating and capital cost reviews of all business cases.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Operating and capital budget impact refinement [2018 June 28 PFC2018-0678 direction 1(a)]
In working to resolve questions of infrastructure and servicing costs and timing, Administration contacted and offered meetings to all business case proponents, and used the third attachment from PFC2018-0678 as a foundation for the discussion, which outlined each business case proposal, alignment to MDP/CTP, market factors and financial impact. Fifteen meetings were held and yielded good discussion and alignment in many areas. As the New Community Growth Strategy has been progressing for over a year, most discrepancies were not newly identified, however, some discrepancies remained and were identified by the proponents in presentations to the Priorities and Finance Committee on 2018 June 28. This additional engagement attempted to resolve and better understand both Administration's and the business case proponent's understanding of infrastructure and servicing costs and timing.

For most of these issues, proponents and Administration have either reached an understanding, or agreed to continue to seek understanding through the associated outline plan and land use review processes. For some issues, proponents and Administration have agreed to disagree. Please see Attachment 1: Refinement of Operating and Capital Impacts for All Business Cases for an in depth description of identified issues and current resolution status. To complement this, a revised and updated version of the business case summaries (which was the third attachment in PFC2018-0678) has been included as Attachment 2: Updated Business Case Summaries. The changes in Attachment 2, collected through the consultation, are underlined for easy identification.

Generally speaking, the issues fell into one of two categories:

- **Cost change** where the proponent suggested Administration's cost estimate was too high, where the cost should not be attributed to the business case, or where Administration determined, upon further review of the scope, that the cost should increase.
- **Cost reallocation** where the proponent suggested the infrastructure should be required in 2023+ as opposed to 2019-2022.

The resulting impact of cost changes (either cost reduction/increase or reallocation) identified through the consultation is as follows:

- **The total change** results in a reduction of $117M in capital costs in 2019-2022. The impact to the previously recommended portfolio of eight communities is a reduction of 0.17 per cent in the required property tax rate for 2019-2022 which can be considered for other business case areas in 2019-2022.

One additional cost assumption impacting all capital infrastructure was changed through the refinement process. As part of PFC2018-0678, capital cost estimates had a contingency amount of 20 per cent applied to all capital costs, this contingency amount has been removed. The decision to remove the contingency amount for capital costs is in line with City standards and complies with the Corporate Project Management Framework. In place of the 20 per cent contingency on capital, Administration applied the Non-Residential Building Price Inflation forecast for the Calgary CMA to mitigate against construction cost increases in the 2019-2022 period (the Non-Residential Building Price Inflation forecast is listed in The City's Spring 2018

Calgary and Region Economic Outlook (2018-2023), page 41 Table 1). No changes were made to the 20 per cent contingency amount applied to operating costs used in the New Community Growth analysis in PFC2018-0678.

Through the refinement process and the changes noted above, the impact on the estimated property tax rate in 2019-2022 to support new community growth in the eight community portfolio recommendation from 2018 June 28 is projected to be a base increase of 0.48 per cent in 2019. This is a reduction from the property tax estimate of 0.65 per cent that was presented on 2018 June 28 (PFC2018-0678). An updated summary of operating and capital budget estimates for 2019 – 2022 and 2023+ for all business cases can be found in Attachment 3.

Additional communities analysis and recommendations [2018 June 28 PFC direction 1(b)]
Once the cost refinement was complete, Administration considered PFC's direction to determine if any additional communities could be accommodated within Council's approved indicative tax rate range of up to 0.75 per cent, in addition to those identified in the first attachment of PFC2018-0678. The available tax room under 0.75 per cent to consider additional communities is 0.27 per cent, with 0.48 per cent being used to support the previously recommended eight communities.

In considering the potential inclusion of additional communities, Administration reviewed its proposed portfolio of eight communities and concluded that the recommendation sufficiently satisfied the New Community Growth factors of strategic alignment (MDP/CTP), market demand, and financial capacity. Following PFC's 2018 June 28 recommendation 1(b), Administration considered the remaining business case submissions of eight communities, identified advantages and disadvantages of each and further identified unique or complementary components that would enhance the original portfolio recommendation. For MDP/CTP Alignment and Market Demand, Administration focused on addressing gaps – instances where the portfolio is improved by including an additional business case. The result of this analysis can be found in Attachment 4: Revised Recommended Portfolio of Communities for One Calgary (2019-2022).

Administration is recommending adding three additional communities to the original portfolio recommendation, bringing the total number of new communities to eleven. The additional recommended areas are: East Stoney (Pacific) business case (one community) and Southeast Keystone Hills (Melcor/Pacific/Genstar) business case (two communities). The inclusion of these three communities requires a projected 0.19 per cent property tax in the base in 2019. These communities added to the originally recommend portfolio total a projected property tax increase of 0.67 per cent, which can be accommodated within the 0.45 – 0.75 per cent indicative tax range approved by Council.

A full rationale for these additions is provided in Attachment 4, and is summarized below:

- **MDP/CTP Alignment**
    - The East Stoney business case proposed an innovative solution to provide emergency response, transit, pedestrian and cycle access across Stoney Trail that improves public and private amenity access for new residents to Saddletowne Circle

- Jobs and housing balance are provided in both; in East Stoney the Calgary International Airport and associated commercial and industrial areas are nearby, in Southeast Keystone the proposed commercial and industry uses balance residential development in the business case as well as in actively developing communities (e.g., Livingston) and established communities (e.g., Coventry Hills)
- More residential support for planned non-residential uses in the Keystone Major Activity Centre
- Unique, affordable residential product is being proposed for East Stoney

- **Market Demand**
    - Introduces new supply to the NE market sector, which was the only market sector with business cases to not be represented in the PFC2018-0678 recommended portfolio of eight communities
    - Introduces non-residential capacity (commercial, industrial) in north central Calgary
    - An updated version of the single residential capacity table from PFC2019-0678 is provided below. Southeast Keystone provides additional supply of 572 single residential units to the North Sector, while East Stoney brings 1,442 additional units to the Northeast Sector. This adds single residential supply on top of what was demonstrated through the eight new communities recommended in PFC2018-0678, which should further mitigate supply concerns, even under higher growth scenarios. This supply is reflected for 2023-2026 as part of Additional Available Capacity from New Community Growth Strategy row.

Table 1: Updated 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	***16,843***
Total Serviced Capacity – End of Period	**14,694**	**18,864**	**18,587**

- In addition to the above, the Southeast Keystone communities also supplies 606 multi-residential units and 165,000 square metres of commercial development, while the East Stoney community brings on 485 multi-residential units and 30,000 square metres of commercial development.

- **Financial Capacity**
  - Stays within the Council approved indicative property tax rate range in 2019-2022 for new communities
  - Offers an innovative, relatively inexpensive solution to provide access in East Stoney
  - Leverages existing and planned transportation, utility and emergency response infrastructure in Keystone Hills

To facilitate funding of the East Stoney community, the recommended overpass at 80th Avenue NE over Stoney Trail to accommodate emergency services, transit, cycling and pedestrian access should be included in the off-site levy bylaw at an estimated cost of $7.0 million. As this is an innovative infrastructure solution to address MDP/CTP alignment and emergency services response, it was not contemplated when the off-site levy bylaw was adopted in 2016. Administration is seeking Council direction to include this infrastructure through a proposed amendment to the Off-site Levy Bylaw (2M2016), similar to previous Council direction to include utilities infrastructure, to support new communities, that is not currently in the Off-Site Levy Bylaw through a proposed amendment.

Having satisfied MDP/CTP alignment, market demand and financial capacity factors, Administration does not recommend including the five remaining communities (outlined in Attachment 5) to the revised recommended portfolio at this time. Should Council wish to consider including additional communities and associated costs, the updated business case summaries (provided as Attachment 2 to this report), the market information included in PFC2018-0678, and the Attachment 3 costs table, provide information for Council to consider other areas.

Consolidated eleven community recommended portfolio, and associated recommendations
Administrations' recommendation to include the three communities included in East Stoney and Southeast Keystone Hills brings the revised recommended portfolio for 2018 New Community Growth to a total of eleven communities. This revised portfolio for investment is outlined in Attachment 4.

With the inclusion of East Stoney in the revised recommended portfolio, the newly identified overpass at 80th Avenue NE, will need to be included in the Off-site Levy Bylaw (2M2016) in order for the proportionate cost share to be recovered from the developers. Administration is recommending that a proposed amendment to the Off-Site Levy Bylaw for transportation infrastructure be brought forward to Council through the Priorities and Finance Committee. This is aligned with the direction that Council approved on 2018 June 18 at a Strategic Meeting of Council, for inclusion of utilities infrastructure in the Off-site Levy Bylaw to support new community growth. The proposed transportation levy amendments would be done in conjunction with the proposed utilities levy amendments. The anticipated timing of the proposed amendment to the Off-site Levy Bylaw, for both utilities and transportation levy rates, is 2018 October 2 to the Priorities and Finance Committee to be directed to the 2018 November 12

Council Public Hearing, subject to the work being able to be undertaken within this timeframe, including appropriate stakeholder consultation.

New Community Growth is funded through developer-paid off-site levies, property tax and utility rates. By supporting the revised recommended portfolio of eleven communities, Council is making financial commitments for the next budget cycle (2019-2022) and future years. Approving these communities to proceed means, for The City, direct incremental annual operating expenditures of over $60 million and City-funded capital commitments of approximately $120 million over the build out of these communities. For the revised recommended portfolio of new community development, developers will contribute approximately $850 million in off-site levies which rely on development agreements that initiate off-site levy payments. The timing of when developers commit to paying off-site levies is unknown and largely dependent on market conditions.

For ease of keeping track of Council directions regarding the 2018 New Community Growth portfolio recommendations and directions, Administration is recommending that this report provide the direction for follow-up for the revised recommended portfolio in Attachment 4. Therefore, Administration is recommending that the 2018 June 28 PFC recommendations 2, 3 and 6 which pertain to the next steps following this Council meeting be filed, and be substituted with the recommendations included in this report.

Number of Actively Developing Communities starting in 2019

There are currently 27 actively developing residential communities with land use approval. These are residential communities at different stages in their build out, with some just initiating (e.g., Cornerstone) and some nearly complete (e.g., Copperfield). Administration will bring budget recommendations forward as part of One Calgary 2019-2022 four year service plan and budget that will support the required investments in these communities using the 1.4 per cent indicative tax rate approved by Council earlier this year.

For One Calgary 2019-2022 four year service plan and budget, the revised recommended portfolio of eleven community areas will add nine new residential communities to the 27 actively developing, for an expected total of 36. The portfolio communities are expected to be initiated starting in 2019 as infrastructure is delivered and land use approvals are brought forward to Council. Through 2019-2022, up to eight communities in the 27 actively developing are expected to complete single residential build out, therefore, the number of actively developing communities (including the approved new communities) at the end of the next budget cycle is expected to be in the range of 28 to 30. Investment in the Keystone Hills Area Structure Plan brings on one residential community as well as Industrial / Commercial development. The Industrial / Commercial area is not included in the actively developing communities total as it is non-residential development.

Administration will continue to track and refine operating costs and build out rates of these communities. Budget requests will be brought to Council, as required, as the communities continue to develop and require services and the next stages of infrastructure to support complete communities.

Planned review of New Community Growth Strategy 2018

In terms of prioritizing investments for new communities, the process that culminated with reports PFC2018-0678 and C2018-0900 represented a new approach for Council, Administration and industry stakeholders. The business case review driven by proponent submissions, and the iterative, collaborative communication approach used with BILD Calgary Region and others were previously untried.

Administration has received feedback throughout the process, and has already noted and started to incorporate a number of lessons learned. It has been suggested that the approach used would benefit from an independent third party review of methods and process, in order to inform future prioritization processes. Administration is willing to initiate this and request input and feedback from a variety of stakeholders. This is both appropriate and timely, as Administration would like to use key features from the New Community Growth Strategy, as applicable, in future work in established and industrial areas.

Stakeholder Engagement, Research and Communication

Between 2018 June 29 and 2018 July 23, Administration contacted and offered meetings to all business case proponents. Several business cases required multiple meetings, and a number involved Ward Councillors. Based on the subject of known unresolved issues, representatives were present from Water Resources, Transportation Planning, Calgary Fire Department and Calgary Growth Strategies.

Administration and the proponents made every effort to understand each other’s assumptions.

Strategic Alignment

In PFC2018-0678, several reasons were provided for how the recommended portfolio was strategically aligned with existing City policies. This included optimizing existing infrastructure (MDP 2.1.4(a)), and providing additional choice in location and housing product (MDP 2.1.1(a, b)). The addition of communities to the revised portfolio would continue to increase consumer choice in new community areas. This may lead to improved housing affordability and innovation through competition.

Social, Environmental, Economic (External)

Social, environmental and economic (external) considerations for the eight community portfolio are described in PFC2018-0678. The impacts of Administration’s recommended additions to the portfolio are: increased choice of housing type and location, increased opportunity for live and work proximity and supporting a prosperous economy.

<u>Social</u>

The community in East Stoney provides a unique, affordable residential product, and the proposed transportation solution encourages alternative transportation access for daily needs, while supporting emergency response that meets the long term citywide target. The communities in Southeast Keystone help provide a population base for existing and planned amenities in the north central corridor.

Environmental

All three communities will be linked by the Rotary Mattamy Greenway. Additional site specific environmental considerations will be addressed through further development approvals.

Economic (External)

The three additional communities recommended to be added to the revised portfolio are anticipated to further retain or increase private investment in the city by allowing for, and investing in, more development within the city. The additions increase choice and competition in the market.

Financial Capacity

Current and Future Operating Budget:

Operating budget impacts for One Calgary 2019-2022 four year service plan and budget associated with the recommended portfolio are discussed in PFC2018-0678.

The operating budget impact of the recommended portfolio, plus Administration's recommended additions in this report, is $4.4 million by 2022. This, coupled with capital requirements to fund the City portion of infrastructure, results in a 0.67 per cent base property tax increase in 2019.

Future operating cost increases will be required in 2023 and beyond. Particularly, the City direct incremental operating costs for roads and parks maintenance are introduced after those services are paid for by developers for the required maintenance period (approximately two years). PFC has recommended that Council 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 communities.

Current and Future Capital Budget:

Capital budget impacts for One Calgary 2019-2022 four year service plan and budget associated with the recommended portfolio are discussed in PFC2018-0678.

The capital budget impact of the recommended portfolio, plus Administration's recommended additions in this report, is $235.8 million, of which $48.2 million is required for 2019-2022 to fund The City's share of capital costs. Off-site levies of $187.6 million will be used to cover the developer's share of capital costs.

Future cost increases will be required in 2023 and beyond; PFC has recommended that Council 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 communities.

Risk Assessment

All of the risks identified in PFC2018-0678 remain relevant. As a result of the PFC direction to recommend that Council endorse the portfolio in the first attachment of PFC2018-0678, and to direct Administration consider additions to the portfolio, some risks are partially mitigated (e.g. market under-supply), while others are enhanced (e.g., debt limits and opportunity costs). The comments below should be considered in addition to what is described in PFC2018-0678.

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.

Each new community addition to the revised portfolio adds capacity for growth, but it is not known how strong the market is to respond with development and associated property taxes, utility rates, and off-site levies. This risk increases as the portfolio grows.

Debt limits and opportunity costs
Many of the capital projects identified in this work will be 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 increase 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.

A rising level of debt also impacts the ability to finance other City projects, including any business cases that come forward as part of the new community evaluation in the mid cycle review in 2020.

Financial allocation
Further, off-site levy eligible projects are located in both the 27 actively developing and the new communities. If off-site levies paid are not maintaining pace with the suite of investments identified for actively developing and new communities, Administration and Council may need to reallocate the available funds and/or delay projects in order to match revenues to costs.

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. Should the PFC recommendation to accept the increased revised recommended portfolio and fund the associated investments be approved by Council, this risk is at least partially mitigated.

Addressing market demand
An under-supply or over-supply scenario raises certain risks for The City. 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.

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.

Committing Council to future budgets

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, and additional costs that are introduced when roads and parks maintenance periods expire, will be needed. As discussed in previous reports on new community growth, City operating commitments tend to accelerate in years four through eight after a new community is initiated.

General risk of adding new communities to the recommended portfolio

- Each business case was developed exclusive of the others, therefore, the absorption assumptions made by the proponent in one community may not consider competition for absorption from other endorsed communities. The more communities that are endorsed, the more competition that will exist for finite market share, raising the possibility of slower individual community absorption pace.
- City capital and operating costs may be initiated, but if expected absorption pace is not realized, unplanned deficits may occur as levy payments or property tax revenue may not be realized.
- 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 projects/investments. A larger portfolio of communities increases this risk. Expectations among Administration and the development industry should be managed.

REASON(S) FOR RECOMMENDATION(S):

Administration recommended the portfolio of new community investment in the first attachment of 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.

Following the PFC direction, and based upon MDP/CTP alignment, market demand, and specifically financial capacity, Administration has recommended a further three communities be added 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. The revised recommended portfolio is outlined in Attachment 4 of this report.

Together, this portfolio of communities generally align with MDP/CTP strategic growth policies, provide a mix of development types to a variety of sectors across the city, and are within the indicative tax and utility rate ranges previously approved by Council.

ATTACHMENT(S)

1. Attachment 1 – Refinement of Operating and Capital Impacts for All Business Cases
2. Attachment 2 – Updated Business Case Summaries
3. Attachment 3 – Capital and Operating Cost Summaries for All Communities
4. Attachment 4 – Revised Recommended Portfolio of Communities for One Calgary (2019-2022)
5. Attachment 5 – Rationale for Communities Outside the Revised Recommended Portfolio