NAIOP Calgary Government Affairs Newsletter

September 2021

Issues: - Top Priorities

The NAIOP GAC committee continues to meet monthly through 2021. We have had some changes to the GAC in 2021.

Here are the latest GAC committee membership changes.

Jim Gordon (formerly Melcor) has left the committee
Grace Lui (Triovest) has joined the committee
Jamie Cooper (Remington) has joined the committee
Daniel Eggert (Melcor) has joined the committee

<u>Latest Priorities for Advocacy: (in priority order)</u>

1. Civic Election
2. Pandemic issues + CERS (Canada Emergency Rent Subsidy)
3. LAP's (Local Area Plans)
4. OSL (Offsite Levies Bylaw)
5. Industrial Strategy
6. Downtown Strategy
7. EAGCS (Established Areas Growth and Change Strategy) + CIT (Comprehensive Investment Tools) for established areas.
8. Greenline

Issues: - Other

The list of other issues that we work on from time to time has been updated to reflect our latest advocacy efforts.

Each one of these issues are on-going and some do not have a firm ‘end date’. Each of these files will evolve and have the potential to affect our members in material ways so we must keep an eye on what policies are being considered.

Please note the list is NOT in priority order

Other advocacy issues

1. MGA & City Charters (as they relate to OSL’s)
2. CMRB (Calgary Metropolitan Region Board)
3. Alberta Ecotrust (Building retrofits)
4. Property Taxes (on-going issue for new Council)
5. BAC - Business Advisory Committee (cut red tape)
6. Provincial Red Tape Reduction (Bill 48)
7. Storm Water Management
8. RECA

Quick read - Current items of interest

- As at Oct 5th two polls for Global and CBC show Gondek in the lead for Mayor. A Oct 12th poll from Common Sense Calgary show Farkas and Gondek tied. The Leger poll on Oct 14 has Gondek in the lead by 3%.
- As at Oct 12th there will likely be 10 or 11 Council seats change hands.
- The City is looking for a volunteer (company) to test the pilot Industrial Direct Control District.
- The City (CPAG team) is looking for volunteers to speak to issues the team has identified…
  - Parking Demand & Analysis
  - TIAs
  - Environmental Studies
  - Utility Reports & Design
  - Geotechnical
  - Proformas for Development Projects
- The Province finally approved the changes to the AVPA (Airport Vicinity Protection Area). New boundaries are endorsed by the City.
- The City's approvals dept has a lack of inspectors which will likely get worse before it gets better as many are close to retirement.
- The City's final integrated organization chart is now available (see appendix)
- The City assessment team is looking at ways to deal with tax collection for BIA's as they migrate to new software that can't handle the current method :)
- Enmax says they have a service that will look at a potential development (before the developer commits) to ascertain if an upgrade is required (e.g: new transformer)

Quick read - Current items of interest ..cont'd

- Currently the planning dept has its own workplan that is separate from the City/Industry workplan. The City is finally looking to integrate the two.
- Planning dept is questioning the current direction provided by the MDP and Council as this direction has seen some sustained push back from the public (e.g: The Guidebook for Local Area Plans). Planning is questioning ..
  - "loss" of single detached dwellings
  - Appropriate and necessary scale
  - Parking/traffic
  - Public realm
  - Climate issues
  - Inclusion
- Upgrades to the development map continue. See https://developmentmap.calgary.ca/?redirect=/developmentmap
- Enmax has decided that all new construction should provide a 200 amp service.
- The downtown plan has earmarked $45M for office to residential conversion. The City has received 13 applications to take advantage of these funds.
- The CMRB finally passed its regional growth plan on May 31st. RVC, Foothills and Wheatland Counties voted against it. They said it was too 'urban focused'. The plan includes preferred place-types and growth areas. The plan states new development will "only happen in prescribed areas rather than an ad hoc way, with the exception of local employment areas and small subdivisions."

Civic Election

This current civic election may be one of the most defining for Calgary and for at least a decade to come.

The Mayor and at least 9 Councillors will be newly elected. Even returning Councillors (Magliocca, GCC, DCU, Chu and Demong) are not guaranteed to get re-elected.

As a result the Council will set a direction for the City that none of us can predict. This is both exciting and frightening. Our industry is one that is heavily influenced by policy and regulation and as such a new Council may provide for help and a collaborative development environment or it may be nothing but a barrier to City building and create many problems for our members.

At this writing it looks like a two horse race for Mayor between Jyoti Gondek and Jeromy Farkas. These two have experience as Ward Councillors in Wards 3 & 11 respectively and both have a strong vision/mandate for the City that could not be more different. NAIOP encourages you to vote for a Mayor and Council that will have the development and commercial real estate industry as a key partner in progressive City Building.

Learn more about Jyoti - https://www.jyotigondek.ca/meet-jyoti.html

Learn more about Jeromy - https://www.jeromy.ca/

Pandemic issues

As the pandemic continues on and Alberta is firmly gripped in the fourth wave, how is this affecting our membership?

The answer is .. it depends
Not only is it sector (industrial, retail, commercial, residential) dependent but also company dependent as some companies were well positioned before COVID and some have a very diversified portfolio which helps them be very resilient.

There are many federal relief programs that attempt to help businesses weather a continued downturn.The one that is key to our members is CERS ((Canada Emergency Commercial Rent Subsidy. NAIOP has partnered with RealPac and BOMA representing Calgary, Edmonton and Toronto. Collectively we have lobbied with the Feds to see extension and improvements to the program.

Our group has identified 7 issues we feel need addressing and we have pushed this agenda right up to the Finance Ministers office. (See appendix for our letter on the 7 issues)

Further, the group has written a letter to the Prime Minister reinforcing the need for the continuation and enhancements to CERS. (see appendix for the letter)

LAP’s (local area plans)

One of the cornerstones of the next generation planning process is the implementation of LAP’s. LAP’s are designed to replace outdated council approved local plans (ARP’s) and aggregate a number of logically connected local plans into one new LAP. When the final tally is made 42 new LAP’s will replace over 200 current (very dated) local plans.

Administration has chosen a preferred path to ‘rolling out’ new LAP’s with the North Hill LAP (NHLAP) used as the pilot LAP. To say that it has been a rocky road to get the plan approved would be a massive understatement. Administration, the development industry and the local community associations spent many many hours agreeing on the best redevelopment outcomes for North Hill. The NHLAP has now been approved by the CMRB and has passed third reading at Council, which frankly surprised many of the people that had worked hard to bring the plan forward.

So … what are the barriers to moving quickly through the LAP process?

The conventional wisdom says there are 2 major ones.

- The Guidebook for LAPs’
- Fear by the CA’s (community associations) that the LAP will be statutory and future changes to the plan will be prohibitive.

Many readers of this newsletter will know the backlash to the Guidebook (GB) that came from a very organized group of citizens and a couple of Councillors. When the dust settled the GB as a statutory or non-statutory planning document was defeated and administration was told to shelve the GB and only look at it for ‘best practices’ when designing a LAP. This was a major defeat for administration who needed a statutory GB that would provide consistency in planning across all LAP’s.

Next LAP’s will be Heritage and Westbrook. Inglewood was supposed to be included but administration has put it aside for now.

OSL’s (Off Site Levies)

The OSL process has traditionally taken approx 1 year from the time that the working groups were formed to the implementation of a new Bylaw, While there is no term given to a Bylaw there was a mutual understanding between the City and Development community that 5 years provided a reasonable amount of time between having the OSL Bylaw refreshed. The development community liked the 5 year term as it provided certainty regarding levy costs for enough time to bring on a new development without changes to one of the largest costs on the proforma.
In 2016 (the last OSL Bylaw update) the City and Industry decided that the 5 year term was still viable. The methodology for calculating greenfield OSL’s remained intact for the most part. The exception was a change to the methodology for sanitary plants and a new levy that was introduced for established areas (EA) sanitary plants. Traditionally EA’s were not charged levies as the wisdom was that all the required infrastructure was already in place. The City realised that EA’s were starting to cause required upgrades to sanitary plants due to the level of EA development. The City worked with Industry to introduce a levy tied specifically to this issue. The greenfield OSL’s and the EA ‘toilet tax’ were implemented in January 2016.

Fast forward to this round of levy negotiations. At this writing the latest timetable presented by administration shows an implementation date of the new levies in June of 2022. This translates to 2 ½ years of work to produce the required Bylaws.
On August 18th the City presented the ‘round 2’ process to industry which stated the following…
- a 5 year term is too long due to the volatility of the industry and the market. They feel a 2 year term is preferred.
- There will be no changes to the methodology for sanitary plants and the centre city levies.
- All other levies will be subject to a change in calculation methodology to recognise that the current absorption model simply doesn’t function well in this market.

OSL’s (Off Site Levies) …. cont’d

The City also presented a proposal on July 30th to add another EA levy that Council had directed administration to ‘explore’,, this time being one for reactive (‘developer sized’) pipes (see appendix for the City’s proposal). The concept of another levy was not well received by industry but for many members paying a small levy on each project to save the proforma crippling costs of being ‘first-in’ to an area that requires major infrastructure upgrades, was a reasonable compromise for both the City and Industry. NAIOP has provided the City with conditional support of the concept subject to a long list of questions (see appendix for our letter and list of questions).

It should be noted that BILD Calgary Region was not in support of the EA pipes levy. This is the first time that BILD and NAIOP have diverged on levy issues. BILD feels that this levy is unnecessary as they believe that the City should be paying for these pipes.
That said, The situation today is that developers pay the full cost of the reactive pipes if their development triggers a needed upgrade.

NAIOP feels that the introduction of a levy to solve this issue will help members and encourage more EA development. As stated we are still in the exploration phase with many questions to be answered before we would provide a full endorsement.

With regard to new methodologies for calculating OSL’s the City has decided that they wish to reduce the timelines for predicting future infrastructure and they wish to use a ‘capacity’ model for deciding how much development the infrastructure will accommodate. On paper this makes sense. Our first meeting to address this new direction was held on Sept 8th (see appendix for the City presentation). The City intends to address one large issue at each future meeting with the final meeting putting all the pieces together with which to calculate the new levy rates.
The question for industry is how much input to the process will be allowed by administration or is the process simply ‘consult and inform’.

Industrial Growth Strategy

As mentioned in the last newsletter the industrial growth strategy is the third component of a City wide comprehensive growth strategy that includes developing communities (greenfield), established areas and industrial areas.
The City is targeting the completion of the comprehensive growth strategy in time for the next 4 year budget (2023 - 2026).

At this writing both the established areas strategy and the industrial strategy are works in progress (developing communities strategy is complete). In fact the industrial strategy is progressing quickly due to the small group of stakeholders that are required to finalize a strategy that will be presented to Council. As everyone knows established areas are complicated due to the many community associations that must be engaged.

At this writing the work on the Industrial strategy has seen the completion of a design for a direct control district that will be piloted in the near future using an industry volunteer. Beyond that major milestone the work continues on developer costs and the scope and cost of OSL's (Offsite levies). The other major, and frankly, on-going issue is the property tax gap between the City and the surrounding counties that has been a catalyst for many developers to set up outside of Calgary while still enjoying many of the attributes of being close to the City (E.G: transportation network, ring road, labour pool and proximity to the airport)

One of the key initiatives that has moved this project forward quickly was the City's hiring of Cushman Wakefield that produced a comprehensive report on the state of Industrial growth in Calgary. Their report was very useful in verifying many statistics and key data that both the City and Industry had brought to the table.
See report
https://www.calgary.ca/content/dam/www/pda/pd/publishingimages/calgaryindustrialsector/IAGS-Consulting-Report%20-%20FINAL.pdf

Downtown Strategy

By now members are aware that the City has decided to invest in the downtown with the first Council approved commitment of $200M.

There are a couple of worthwhile reads regarding the plan. Start with the roadmap for a quick graphical look at how the $200M is spent and the expected impact.

https://www.calgary.ca/pda/pd/downtown-strategy/calgary-greater-downtown-plan.html?redirect=/greaterdowntownplan

https://www.calgary.ca/pda/pd/downtown-calgary/state-of-downtown-report.html

https://www.calgary.ca/content/dam/www/pda/pd/documents/downtown-strategy/downtown-strategy-roadmap-to-reinvention.pdf

The first step in the plan is to allocate $45M for conversion of office to residential. At this writing the City has received 13 applications of interest from developers. As members are aware conversions of this type are complicated and cost prohibitive. It remains to be seen if $45M is enough to incentivise enough development to truly start moving the residential needle.

A small controversy popped up in mid September when Council approved (12-1) earmarking $7.5M to help get the Barron Building complete. Many members thought that this money came from the GDT plans $45M office conversion pool. It did not. This money was allocated from a CIty reserve fund and will not flow to the developer until they apply for an occupancy permit. Council felt that getting the building completed would be a catalyst for further residential development in the area and the continued evolution of Stephens Ave west past 5th St.

Established Areas Growth & Change Strategy (EAGCS)

The work on the EAGCS continues with an expected report (recommendation) to Council at the end of the first quarter 2022.

As stated in the last newsletter there are 4 working groups ..

- Advisory committee
  - Provides oversight for all established growth and change strategy.
- Utility group
  - Looks at all issues surrounding EA infrastructure as it relates to water resources.
- CIT - (Comprehensive Investment Tools) group
  - This group (as stated) will look at all areas of funding mechanisms related to EA's
- Public Environment group
  - This group is on hold for approx 9 more months

NAIOP has representation on all the committees. We believe that the EAGCS strategy direction will ultimately come down to how EA's are funded. Therefore the CIT group has the biggest impact on the final recommendations.

In the last newsletter we detailed the different funding options that have a possibility of providing funding for EA's. To be clear we are talking about funding for public realm upgrades and some infrastructure upgrades that will be identified through the budget and LAP processes.
At this writing we are still considering:
- Bonus Density (developer funded)|
- Property Tax uplift (city funded)
- Property Tax allocation (city funded)
- Developer pipes levy (developer funded)
- Redirect capital budget savings (city funded)
- Community amenity contribution (developer funded)
- Grants, Sponsorships & User fees (community funded)

Established Areas Growth & Change Strategy (EAGCS) … cont’d

At this writing this is the status of each funding option.

- **Bonus Density :** The city likes it and the industry doesn’t. There are an array of concerns and problems with the current BD program. For industry to consider the perpetuation of this type of funding would require a complete re-think.
- **Property Tax uplift:** The City is starting to waiver on this choice for funding as the current City budget already captures expected P.T uplift and distributes it city wide. There is little appetite to allow P.T uplift from a specific community to retain that uplift. Further, as the City is already budgeting for an uplift this program would require cuts in the budget to avoid ‘double dipping’
- **Property Tax allocation:** This is simple and requires Council to carve out some of the existing P.T revenue and direct to funding for E.A’s. Again this means cuts to other services.
- **Developer pipes levy:** See the discussion in the OSL report above.
-
- **Redirect capital budget savings:** The problem with this source is it will not provide a stable and sustainable funding source. Capital budget savings cannot be guaranteed.
- **Grants, Sponsorships & User fees:** This is another funding source that cannot be guaranteed. However, it gives a chance for the community to be a player in the funding and therefore be more engaged with the funding uses.

Green Line

While the Green Line has gone away from daily public debate it is still a key advocacy area for NAIOP.
We continue to meet with members of the Green Line team every month.
Our most recent meeting included the new CEO of the Green Line LRT project, Darshpreet Bhatti, who was hired on August 16th. He has extensive experience in large public transit projects, most recently in Ontario where he oversaw the Region of Waterloo Rapid Transit (LRT/BRT) Project.

Darshpreet was very forthcoming with our group and provided the following insights that he will use to direct and move the project forward,
- The alignment will not change.
- The first order of business is to ensure we have the right people in place to get this project completed.
- I must understand the needs of stakeholders like your group..
- I also want to meet key property owners along the route alignment.
- Deadlines must be met. We need to get all the documents in place to send out an RFP by the end of 2022. In the interim we need to get the utility relocates started now (fall 2021).
- Project-Co that will be set up to manage the implementation does NOT do any planning. That is reserved for City administration and stakeholders.
- It is critical that planning drives private sector development.
- We cannot implement 19 stations at once. Stations will be prioritized based on value added development that can be realized.
- At the end of the day we will need to be creative with the delivery of this project.

Thanks!

Contact us:

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Attachments

Canadian Commercial Real Estate (CRE) Industry

Notes and Action Items from April meeting with Finance and July meeting with National Revenue on the Canada Emergency Rent Subsidy and CRE's seven recommendations from industry

1. Allow businesses who cannot pay 100% of rent as a condition of receiving their CERS grant to, at the landlord's option, only pay the amount they received in rent subsidy, while retaining the ability to collect the balance.

What we heard from Finance:

- We don't want to interfere too much in the market ("market dynamics").
- the program is a subsidy not a benefit to tenants.
- Relates also to response on 2.

Suggested Amendments:

- Although they need the subsidies, tenants are not entering the program because they cannot pay 100% of the rent. They do not want to be dishonest and attest to CRA that they will do so within the prescribed periods.
- We agree the tenant needs to pay 100% of rent, but some tenants don't have the ability to pay right away. We can increase participation in the program by allowing tenants at the Landlord's option to defer rent potentially beyond the expiry of the program (provided they attest that they will ultimately pay 100% of the rent). Suggested wording attached.
- These solutions will not interfere in the commercial real estate market dynamics.

What we heard from National Revenue:

- This would have to be changed by legislation.
- Concern around anti-avoidance.
- We understand the practical concern that many businesses can't pay 100% of rent and would therefore be ineligible for the program. Since the pandemic is now ongoing for 15 months, many of these businesses may fail. Still, we believe this as well is a subsidy not a benefit.
- Would we consider in a future legislative session.
- This is a political decision for the Ministry of Finance.

2. Allow landlords the ability to, at their discretion, defer or abate rent after the effective date of the program without impacting tenants' CERS benefits received (i.e., calculate CERS benefits on rents in place at later of the effective date of the program or renewal of a lease at its natural expiry should it occur after the effective date of the CERS program)

What we heard from Finance:

- Businesses are required to pay the landlord within 60 days after receiving the subsidy payment, however, application can be made for CERS for up to 6 months after the relevant period. This gives an effective 8 months of "deferral" allowance provided tenants pay the rent within 60 days of ultimate receipt.
- Finance doesn't want to interfere too much in the market ("market dynamics"), if market rents fall, so be it.
- Businesses who defer rent can receive the subsidy on the percent of remaining (unforgiven) rent, Finance acknowledges that the CERS benefits received are less.

Suggested Amendments:

- Tenants need the ability to defer rent because of the ongoing nature of the pandemic, without having subsidy amounts negatively impacted.
- Let Landlords partner with Tenants without impacting Landlord's ability to collect up to 100% of the rent or reducing CERS subsidies received by tenant – **better incents Landlord to partner with tenant by offering an abatement or deferment.**

What we heard from National Revenue:

- This would have to be changed by legislation.
- Concern around anti-avoidance.
- We understand the practical concern that many businesses can't pay 100% of rent, and would therefore be ineligible for the program.
- Would we consider in a future legislative session.
- The issue of businesses failing due to the length of the pandemic and ineligibility because of being unable to pay 100% of their rent, is a political one.
    - Salem offered to bring this up with the Ministry of Finance

3. Grant support for new businesses that do not have qualifying period sales comparisons

What we heard from Finance:

- There is a balance between providing support and fiscal responsibility
- It is too difficult to establish benchmarks or sales-based tests without actual sales comparable data.
- Tenants in this situation could use the (full name) LEEFF program.

Suggested Amendments:

- The program response should provide a 65% subsidy level for new tenants (definition of 'new' to be defined)
- Better "balance" or equity would be achieved if owners of new businesses that either just opened or never opened get equivalent subsidies to tenants with records of dramatically reduced sales, rather than getting excluded solely because they are new businesses.

- The LEEFF program only adds to tenants' debt at a time when their balance sheets/leverage are already stretched. Additionally, the intent of LEEFF is to provide bridge financing to large Canadian employers to help these enterprises to preserve their employment, operations and investment activities until they can access more traditional market financing.

What we heard from National Revenue:

- This would have to be changed by legislation
- The legislation currently requires a prior sales period
- Would we consider this in a future legislative session

4. Increase the allowable expenses limit for multi-location entities from $300,000 in eligible expenses to $1.8 million in eligible expenses

What we heard from Finance:

- There is a balance between support and fiscal responsibility
- Lockdown support is unlimited irrespective of whether a location qualifies for base subsidy.
- Average rent paid in this program is below $5,000 – it is smaller tenants applying

Suggested Amendments:

- The length of the crisis has stressed balance sheets/leverage on not just small but also medium sized businesses as well.

- The average benefit paid in CERS is only low because medium sized businesses are being effectively excluded and CECRA average awards were higher because only tenants with 70% or greater sales drops were eligible. Allowing higher limits would be a win for medium sized businesses, and the government. And industry can help to bring forward potential supporters from around the country here.

- We would like the government to clarify that unqualified lockdown support on all locations at 25% benefit is provided (our interpretation of present rules is that locations must receive some base subsidy to get lockdown support). Clarifying this would be a win for multi-location businesses and the government. Industry is prepared to bring forward potential supporters from around the country on this.

What we heard from National Revenue:

- This would have to be changed by legislation
- We would like to see more data/examples on the impact of this
- Currently, average numbers are lower than the limit

5. Allow lockdown support to businesses with more than one location, irrespective of the number of locations of the tenant

What we heard from Finance:

- The government agrees and believes this is the case now.

Suggested Amendments:

- It appears we agree on this concept and is covered in response to point 4. We would like to work with government and CRA to clarify. Clarifying this rule would be a win for Canadian franchise and medium sized businesses, and the government. Industry is prepared to bring forward potential supporters from around the country on this.

What we heard from National Revenue:

- Clarification: Lockdown support is tied to each location (based on if the entity is qualified for base support). If the tenant qualifies at the entity level, everyone qualifies
- We can put this in writing, if requested
- Thank you for this clarification. We see this as resolved now

6. Tenants should be obligated to supply landlords with confirmation of benefits received from CERS

What we heard from Finance:

- In consultation with the CRA, the government is willing to work through privacy concerns here.

Suggested Amendments:

- We would consider future applications including the contact of one representative of the landlord. This would allow for notification of the tenant receiving the subsidy (with the amount and date subsidy payment made), in order to increase compliance.

What we heard from National Revenue:

- This does not require legislative change
- We are balancing privacy concerns, need to be weighed by potential for fraud
- Jessica: We can't publish tax information, so we couldn't say amount, but could say who applied

Discussion

- This detail leaves the government exposed to potential widespread fraud
- Could we require tenants to provide all CERS information to landlord, through regulation?

- Jessica – We'll take this back and consider options

7. **Make all these changes retroactive to the effective date of the program.** This is due to the length of the pandemic and the need to be equitable to tenants who applied earlier under "old" rules compared to higher potential benefits applying for relevant period later (they have up to six months to apply).

National Revenue

No comment. This interacts with the piece of legislation that it affects. It therefore requires budgetary and legislative consideration.

Next Steps

The industry would like to institutionalize this partnership.

The industry committed to monthly meetings to continue to pursue clarifications and legislative solutions for all issues raised. National Revenue committed to participating in these meetings.

The Rt. Hon. Justin Trudeau
Office of the Prime Minister
80 Wellington Street
Ottawa, ON K1A 0A2

October 7th, 2021

RE: Commercial real estate industry comments on the continuation of the CERS program

Dear Prime Minister,

On behalf of Canada's commercial real estate industry, and our respective industry trade associations (REALPAC, BOMA and NAIOP chapters across Canada), I am writing to share concerns and suggestions with respect to the federal government's commercial rent support regime.

As you and your staff are no doubt aware, the COVID-19 pandemic continues to put a heavy burden on Canadian business tenants and other small businesses. While much of Canada is closer to pre-pandemic conditions, tenants, and small businesses in larger commercial properties, are still reeling from the effects of business closures and reduced revenues. For example, CFIB says the average business owes close to $177,000 due to pandemic restrictions and closures; for businesses in the hospitality industry, that amount nearly doubles to $333,174[1]. Additionally, many of Canada's most populous provinces are still seeing high daily case counts, and in the case of Alberta, may still be subject to variable lockdown procedures.

While your government has extended the Canada Emergency Rent Support (CERS) program until late October (albeit at lower subsidy levels), we nevertheless believe that the government should consider further policy interventions to support small businesses and tenants. Specifically, we are respectfully recommending:

1. **Extend the CERS program beyond October 23rd, ideally until spring of 2022.**
   This would allow businesses whose balance sheets have severely eroded over the last 19 months to access more rent support and relief as they continue to climb out of a revenue loss position. It would also assist businesses in regions which are still facing lockdown impacts.
2. **Consider including the exploration of further amendments to the CERS program as part of ministerial mandate letters to the ministers of finance and national revenue.**
   We believe that rent support should still be considered a major pandemic-related business policy issue deserving more attention from the Ministry of Finance. A strong directive from your office to continue to explore options and opportunities to support businesses through this program would be appreciated by the industry (particularly those that had invested in new locations early in 2020 but were never able to open due to the pandemic so did not qualify for CECRA or CERS).
3. **Engage directly with the commercial real estate industry to better understand the impacts of the pandemic on commercial property and tenancies, ideally in concert with the Ministry of Finance.**
   The commercial real estate industry has provided several recommendations to the Ministry of Finance for the strengthening of the CERS program. In our collective view, there are several alterations to the program which we feel would be beneficial should CERS be continued or extended. We look forward to more engagement with policy makers on these items.

The CERS program has been a valuable component of Canada's economic recovery. However, while most businesses are now transacting with more regularity, there is widespread agreement that the impact of the shutdowns will have a long-term effect on businesses. In many circumstances, revenue losses have been so deep that businesses have become significantly more indebted and it may take years for a business to fully recover. We therefore believe the above policy recommendations deserve consideration by your government.

We look forward to working with you and your team as you begin the next term of office and commend you for your many efforts to support Canadians through the pandemic. We welcome any questions or concerns that you may have with respect to the policy recommendations we detail herein.

Respectfully submitted,

Brooks Barnett
Director, Government Relations and Policy
REALPAC
bbarnett@realpac.ca

Memo

July 30, 2021

To: All Established Area Local-sized Levy Working Group members and Established Area Growth and Change Strategy (EAGCS) Utility Working Group (UWG) members

From: Daniel Vincent

Re: Advancing the Established Area Local-sized Levy Exploration Work

Purpose:

This memo articulates Administration's proposed approach to mitigating what is known as the 'first-in' problem that developers face in the Established Area with regards to upgrades to water and wastewater local-sized pipes, triggered by redevelopment. This memo provides information on a proposed approach to funding upgrades in support of the Municipal Development Plan (MDP) targets. Currently, the development that triggers the upgrade pays for the entire upgrade with no mechanism to support cost sharing with future developers in the area. The proposal also responds to Council direction (PFC2020-0381) from 2020 to explore a new Established Area off-site levy for local-sized water and sanitary pipes, through consultation with stakeholders, and for Council's consideration, as part of the current Off-site Levy Bylaw review.

Considerations for development of the proposal:

It is important to acknowledge the complexity of the first-in problem and the long journey and substantial work that has brought us to this proposal today. The proposal (Attachment #1) includes condensed Background and Understanding the Issue sections to help readers better understand the context and origin of the information used. Some sources of information and considerations that were used to develop this proposal included:

- The Off-site Levy principles (endorsed by Council January 2021)
- The Off-site Levy Established Area local-sized levy sub-committee discussions
- Utility Working Group (EAGCS) discussions
    - Capital size threshold review
    - Review of current investments in the Established Area
    - Review of potential funding tools
    - Historical indemnification agreement review (project details and annual spend)
- Review of best practices from other Canadian municipalities
- Existing levy programs in Calgary (e.g. Off-site Levy Bylaw, Centre City Levy Bylaw)
- Review of past pilot cost sharing programs
- Review of asset conditions and lifecycle replacement/maintenance programs

Request of Industry members from the EAGCS Utility Working Group and the Off-site Levy Established Area Local-sized levy subcommittee:

Please read all the attachments in their entirety, as there are a significant number of updates to the information shared previously through consultation. As outlined above, many considerations have been made during the development of the memo.

As a follow-up to this memo, **Administration is requesting that individual Industry stakeholders provide written responses by August 16, 2021, outlining their initial feedback and in-principle support for (or against) the proposal (outlined in Attachment 1 on pages 4-10).** Consultation is being planned to discuss Industry feedback and to take the proposed next steps outlined in the attachments. Industry feedback will be considered as part of the consultation process outlined and required by the Municipal Government Act.

Sincerely,

Daniel Vincent
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AA/BB

Attachments 3

cc: Josh White, Director, Calgary Approvals Coordination and Calgary Growth Strategies
Francois Bouchart, Director, Water Resources
Maggie Choi, Manager, Infrastructure Planning, Water Resources
Patrick McMahon, Manager, Growth Funding and Investment, Calgary Growth Strategies
Matthew Sheldrake, Manager, Growth and Strategic Services, Calgary Growth Strategies
Lesley Kalmakoff, Coordinator, Growth Strategy, Calgary Growth Strategies
EAGCS Advisory Group members

Attachment 1- Comprehensive proposal

Infrastructure definitions:

Public water and sanitary infrastructure is categorized by The City into two size categories which relates to the servicing functions the infrastructure performs, and the population serviced:

Capital sized infrastructure (500mm or larger water pipes, 600mm or larger wastewater pipes) are the larger water feedermains that supply the water distribution system and sanitary trunks that collect from the sanitary transmission system. They do not typically have any direct customer service connections.

Local sized infrastructure (less than 500mm water pipes, less than 600mm wastewater pipes) are the smaller water and sanitary pipes that are directly connected to customers.

There are two types of local sized upgrades that may be triggered by development:

Upgrades refer to an increase in capacity through an increase in pipe size. Pipes are replaced with larger sized pipes.

Extensions refer to new pipe installations in areas that currently do not have any pipes to extend the existing local sized network. Extensions are often required to strengthen the water network "grid" to be able to provide an increase in available fire flow.

Background:

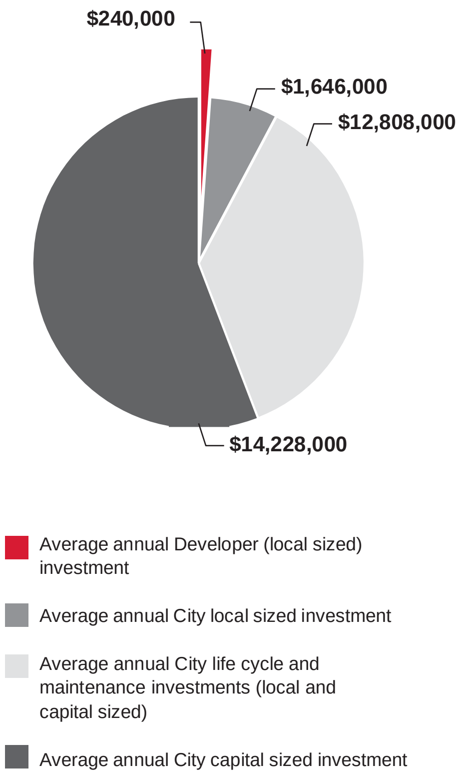
When subdivisions or communities are originally designed, the smaller, local water and sanitary pipe networks are sized based on the land use at the time. The communities in the Established Area within Calgary, were designed to a lower density land use compared to current day, and the associated local sized water and sanitary pipes were sized accordingly. The existing local water and sanitary networks within the Established Area have adequate capacity to support the existing built form and customer usage. However, as redevelopment occurs and land use amendments enable greater development capacity, the capacity needed in these pipes increases. For an example, when single detached homes are replaced with a medium density multi-residential development the fire flow capacity needed to support the new development is significantly higher. Similarly, when single detached homes or lower density residential units are replaced with industrial or commercial developments (e.g. brewery, grocery store, or strip mall) additional capacity in the form of an upgrade to the sanitary local sized pipe may be required.

The source of investment funding for upgrades to water and sanitary infrastructure depends on the size categorization noted above. Currently, the utility rate funds the proportion of capital sized extensions or upgrades for linear water or sanitary pipes required to support growth in the Established Area. The average amount of investment for this infrastructure is approximately $10-15 million per year (average of $14,228,000 per year using historical 2016-2020 actual spend data). In contrast, this type of infrastructure in greenfield communities is funded through the offsite levy.

Currently, local sized water and sanitary infrastructure extensions or upgrades required to support growth in the Established Area is the responsibility of the developer, as these upgrades are triggered by redevelopment. This is consistent with greenfield development, where the developer is responsible for the construction of 100% of the local sized infrastructure to service the new development. Historically, the average developer cost for local sized extensions/ upgrades in the Established Area has ranged from $0 to $650,000 per year with an average annual cost borne by developers of $240,000 annually (using historical 2009-2018 Indemnification Agreement data for the current Established Area[1]). It is important to note that this range and average does not include any costs for upgrades that were not completed when a project was no longer viable and did not move forward.

[1] The current boundary for the Established Area will be updated as part of the Off-site Levy Bylaw review work. A draft boundary has been included in this proposal for consideration in Attachment 3.

Graph 1: Average annual investment for the Established Area by pipe size and contributor



In addition to the upgrades that are triggered directly in response to specific development applications (reactive upgrades), The City also invests in proactive upgrades which support redevelopment overall and often benefit multiple sites. These upgrades are often done in support of corporate growth initiatives in order to prepare areas for densification in anticipation of future growth while reducing future disruption to the community and businesses. These investments range from $300,000-2,870,000 per year (average of $1,646,000 annually – using historical 2015-2018 actual spend data).

Separate from the growth related investments noted above, The City has targeted annual capital investment programs aimed at addressing maintenance issues and extending the life of assets (e.g. Lining programs), with replacements as a last resort. The City invests between $8,357,000-14,737,000 per year (average of $12,808,000 annually) in life cycle and maintenance programs for the Established Area that extend the life of the infrastructure (using historical 2009-2018 actual spend data). Through these programs, on average, only approximately 1% of the existing water distribution and sanitary collection networks are replaced annually. These investment programs are funded by the utility rate and are excluded from the growth-related costs noted in this memo. While theinfrastructure in Established Area vary in age, the local sized infrastructure is generally in good condition. A high-level analysis of all local sized water infrastructure assets in the Established Area, showed that over 85% had at least 50 years of remaining life. In other words, if redevelopment growth wasnot triggering capacity upgrades, these pipes would not require replacement for the foreseeable future.

The Development Industry and The City both support redevelopment in the Established Area by improving the existing utility systems. To date, The City has had the most significant contribution to linear upgrades required for growth in the Established Area which is ultimately paid for by utility rates. Outlined in Graph 1 is the average annual distribution of investment between the Development Industry and The City.

Throughout 2019, Administration worked with members of Industry and the community through the Established Area Growth and Change Strategy (EAGCS) Utility Working Group. They explored opportunities to develop sustainable utility planning and funding tools that would continue to meet the servicing needs of existing customers, regulatory and safety requirements, while also successfully supporting growth to achieve Calgary's MDP targets.

The Utility Working Group identified a first-in issue which occurs when a new proposed development or redevelopment triggers the need for additional capacity in the local water or sanitary network that necessitates an infrastructure upgrade. Currently, the developer is then required to fund the entire upgrade, to support their proposed development. This first-in issue has two known challenges:

1. **Uncertainty** – The trigger and scope of local sized pipe upgrades is site specific and dependent on the built form of the proposed development and the available capacity in the existing systems. In some cases, confirmation of a triggered upgrade is not verified until a development application is submitted and during review the extent of

the upgrade is clarified, which is late in the development. These unexpected costs identified late in the process result in financial uncertainty for developers. Depending on the order of magnitude for the upgrade, it can result in the abandonment of a project due to lack of financial viability.

2. **Fairness and Equity -** The local pipe upgrades are triggered by and necessary to serve the proposed redevelopment and so they are a developer obligation. However, it is possible that further development in the area may benefit from this upgrade without future developers having to contribute to the costs paid for by the first developer. Currently there is no mechanism for development to recover any of these costs from future developers in the Established Area.

The Utility Working Group identified a levy tool as a potential mechanism to address the two key challenges related to the first-in local sized water and sanitary pipe upgrades issue. On April 29, 2020, Council directed Administration to continue exploration work on a local sized water and sanitary pipe levy as part of the Off-site Levy Bylaw Review work in progress.

Understanding the Issue:

Trying to predict the scale, location and timing of triggered local sized upgrades within the Established Area is inherently difficult. Different factors need to be considered for water versus sanitary infrastructure, and in both cases details are needed on proposed development design (i.e. number of units, land use, building materials, site specific details regarding existing density and built form) and timing to determine impact on the capacity of the systems.

Over the last five years, Water Resources has explored various mechanisms and options to the first-in issue. This includes reviewing what other Canadian municipalities are doing, piloting different funding mechanisms, an in-depth review of past triggered upgrades, a review of existing infrastructure condition/age and reviewing existing mechanisms such as the Centre City Levy to garner learnings that may be adapted on a broader scale. Industry has been part of this work through the Utility Working Group.

Previous pilots included attempts to predict and quantify the future benefit of infrastructure upgrades. These pilots highlighted challenges with predicting a proportion of benefit to future developments, making it difficult to estimate the time horizon for future cost recovery. The proportional benefit for future redevelopment was challenging to predict given uncertainty related to how much of the existing area serviced by the pipe will eventually redevelop, to what extent (land use and built form) and within what time horizon. The pilots also highlighted administration/scalability challenges with site specific analysis and customized cost recovery for each site. Throughout the work pursued by the Utility Working Group, stakeholders agreed that any future tool needed to be easy to administer and predict.

The review of other Canadian municipalities demonstrated there is a relationship between the funding source for the local sized pipe upgrades/extensions and the rate of redevelopment. In cities that experience low levels of redevelopment, such as Red Deer, the utility rate is used to cover the costs. Cities that experience a medium level of redevelopment, including Calgary, Surrey and the Region of Peel, the developer is responsible for the costs of the upgrades. In cities that experience high rates of redevelopment such as Vancouver and Toronto, the developer is still responsible for the costs of the local sized upgrades; however, a levy mechanism is used to share the costs amongst developers.

Based on Water Resources’ learnings to date, to adequately address the first-in issue and advance towards the MDP targets, a two-pronged approach is necessary for local sized pipes. Given the large area included in the Established Area,and the high variability in where redevelopment occurs, the two pronged approach supports the outcome of achieving the overall MDP goal by driving strategic investment into priority areas, while also supporting development in the broader Established Area:

1. A **proactive investment program** targeted at strategic infrastructure upgrades in priority Established Area communities that are likely to be triggered at some point in the future by development. The program will

support a broad level of development in the community (i.e. not just one lot) and align with other infrastructure projects where possible (e.g. Main Street or other public infrastructure projects). This investment program will be developed in alignment with the Established Area Growth and Change Strategy and be supported by the infrastructure analyses being completed for Local Area Plans (LAPs) that are underway.

Over time, this proactive investment program will help attract more development within the Established Area by making it easier to develop and will minimize repeated disruptions to the community.

2. A **reactive investment program** that will enable cost sharing between developers for infrastructure upgrades triggered by a development application in a defined area. This program will build off of the success experienced through the Centre City Levy and will provide more certainty to developers working within the Established Area.

   Based on the historical review of triggered upgrades, these reactive infrastructure upgrades triggered by development, typically have a negligible benefit to existing customers given the age/condition of the existing infrastructure and that the existing capacity is enough for the current use.

It is important to note that as more development occurs within the Established Area, there will be more pressure placed on the capital sized network as well. Capital sized upgrades do require much more extensive planning and delivery considerations given the broader impacts, scope and costs. The City's investment levels in capital sized upgrades has been consistent over the last ten years, and projects are prioritized within the available budget based on risk and the pace of development. As the rate of redevelopment increases, the available budget for the capital sized upgrades will need to increase proportionally to ensure continued support of growth in the Established Area.

It is also important to acknowledge that utility upgrades, lifecycle, capacity and redevelopment is a complex and interwoven network. Accordingly, it is not reasonable to expect detailed and exact assessments of intents and outcomes in this context. Therefore, some broad assumptions have been made to simplify the discussion and to account for the variability of the utility system and redevelopment potential. Capital sized upgrades are easier to predict based on capital modelling which has large catchment areas that each upgrade services. In contrast, Established Area development and the local-sized upgrades triggered have smaller catchment areas so local sized upgrades cannot be accurately modelled. Additionally, Administration cannot predict where development will proceed (both location and timing) so there will always be a need to address reactive local sized upgrades triggered by development.

Administration's Proposal:

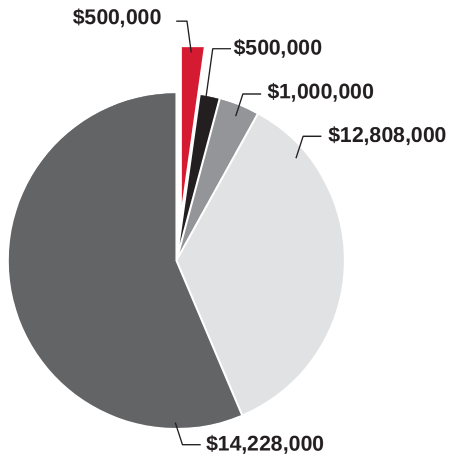
To address the first-in challenge and support The City's MDP targets, Administration is proposing an Established Area Levy to address local sized water and sanitary pipes. This memo provides the full context of the proposed levy to enable a more robust discussion with stakeholders.

The proposal continues to be grounded in the principles approved by Council to guide the Offsite Levy work. In particular, the principle related to shared cost, shared benefit, shared risk related to offsite infrastructure notes that the cost of off-site infrastructure should be allocated to, and shared by, those who benefit. The proposal also aligns with The City's overall vision to achieve MDP targets by enabling more development in the Established Area.

In addition to continuing to invest an average of $10-15M per year in capital sized upgrades for the Established Area, the Water Utility proposes the following two new programs:

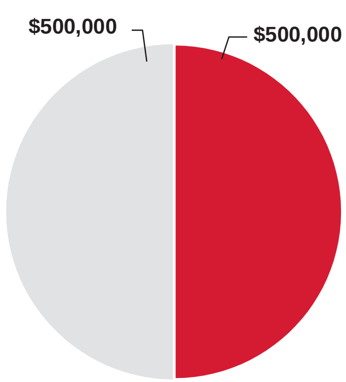
1. An **annual investment program** ranging between $1-4M per year for **proactive** local investment that is funded by The City through utility rates. This annual program proactively and strategically invests in upgrades that support priority Established Area communities, to alleviate growth related capacity pressure and incentivize short term growth. Investments are preferably aligned with other public infrastructure or public realm projects to minimize disruption to the community and increase infrastructure delivery efficiency.

Graph 2: Proposed Established Area annual investment in utility infrastructure by size and contributor (City or Developer)



- Developer contribution to a local sized levy to be used for reactive only investments
- City subsidy to local sized fund to support responsive/reactive developer triggered upgrades
- City funding for proactive local sized investment
- City funding of capital lifecycle and maintenance investment (local and capital sized – subject to budget availability)
- City funding of capital sized investment (subject to budget availability)

Graph 3: Total target reactive fund annual amount



- Developer contribution to a local sized levy to be used for reactive/responsive only investments
- City contribution to local sized fund to support reactive developer triggered upgrades

Infrastructure analyses that Water Resources is undertaking as part of the LAPs will be used to inform the investment program in the future. As LAP analysis is completed, the results will be used to update and inform the investment strategy and estimated total investment amounts required for proactive local pipes. The range of investment will enable The City to be flexible and nimble.

As a result, this initial investment level will be updated where possible when more information is available and projects will be prioritized within available capital budget funding. As proactive upgrades are completed, there will be a direct impact (in the form of reduction) over time to the number of reactive upgrades triggered. This is a long-term investment strategy aimed at advancing The City towards achieving MDP targets by incentivizing development that aligns with City growth strategies.

2. A **dedicated reactive fund** of approximately $1M per year that can be used to share the costs of infrastructure capacity upgrades triggered by development applications. All developments[1] within the Established Area will pay into the levy through a per unit or square footage charge,and any developments[2] that trigger an eligible upgrade will qualify for reimbursement from the fund. The per unit and square footagecharges for this levy will be calculated based on the collections required to meet the target using historical empirical data.

Over the past ten years, Calgary's growth pattern has seen approximately 90% to Greenfield and 10% to Established Areas, while the long-term target, as identified in the MDP, is 50% Greenfield and 50% Established Area. In the interest of achieving MDP targets Administration recognizes that it will be beneficial for the Development Industry for The City to subsidize this fund to support strategic growth and encourage redevelopment. Administration proposes an annual subsidy of 50% or $500,000 per year to reduce the developer contribution total target amount to $500,000/year (as shown in Graph 3).

It is recommended that each program start with these amounts to allow Administration and Industry time to test these new tools and methodologies in real time against the rate of growth in the Established Area. This will allow for an update to the methodology (including inputs) to ensure the programs are the right size and that the methodology reduces the 'first in' barrier. Administration proposes initiating the review and update to this local-sized levy tool and methodology two years after the program is implemented.

1 Exception – Master Planned Communities and net zero redevelopments (e.g. Single detached home to a single detached home willnot be levied while a single detached home split into 2 homes would be levied for the net increase)

2 Exception – Master Planned Communities and net zero redevelopments (e.g. Single detached home to a single detached home will not be levied while a single detached home split into 2 homes would be levied for the net increase)

Eligibility:

The premise of the structure for this levy, including eligibility to pay into and use the levy fund, is that those who could benefit from reactive local sized investments pay into the fund. All redevelopment in the Established Area from single detached homes to multi-unit developments will contribute on a sliding scale based on density with a few noted exceptions (below). Mixed-use buildings and those with industrial and commercial uses will also contribute to the fund in alignment with the treatment plant methodology, where the impact to the system (and who pays) is calculated based on the net change in people (net increase). For example, if a large single detached lot is replaced by two single detached infill homes, the net difference in people (equivalent of one single family detached home) will be levied during the redevelopment process.

An exception to both contributing to and benefiting from the levy fund will be any master planned communities including but not limited to: University District, Currie Barracks, East Village, Garrison Green, Garrison Woods, Douglasdale/Glen (Quarry Park) etc. Master planned communities will be excluded from contributing to, and receiving benefit from, the proposed levy because they construct all required infrastructure needed to support the redevelopment as part of their Development Agreement, similar to a subdivision in a greenfield development. The Centre City Levy area is also excluded because the Centre City Levy collects funds for the same infrastructure (local sized water and sanitary pipes).

Proposed draft eligible infrastructure types and exceptions:

To be eligible to use the reactive fund to pay for growth-related upgrades in the Established Area, the developer must contribute to the fund. Additionally, for infrastructure to be eligible it must be a requirement of The City and be included as part of the development permit as a condition for approval. These upgrades are triggered to service the site being redeveloped but may in future provide benefit to other development in the same area.

Eligible infrastructure includes:

- **upgrades to increase the diameter of a local sized water pipe to meet required fire flow needs for a site,**
- **new extensions to the water system for looping and to increase the available fire flow (including new cross ties), and**
- **upgrades in diameter to a sanitary main (wastewater).**

Infrastructure that is triggered by a site being redeveloped but that has limitedor no benefit to future development is not eligible for levy funding, such as a pipe extension needed solely for a service connection.

Ineligible infrastructure includes:

- **water and/or sanitary main extensions needed solely to service un-serviced lot(s),**
- **water upgrades needed to support fire flows beyond 20,000L/min,and**
- **any privately owned water or sanitary pipes.**

It is important to note that the maximum fire flow that The City system will provide is up to 20,000L/min. This means that there will still be instances where a local sized upgrade alone will be insufficient to provide the required fire flow for certain built forms and changes to the built form may still be required.

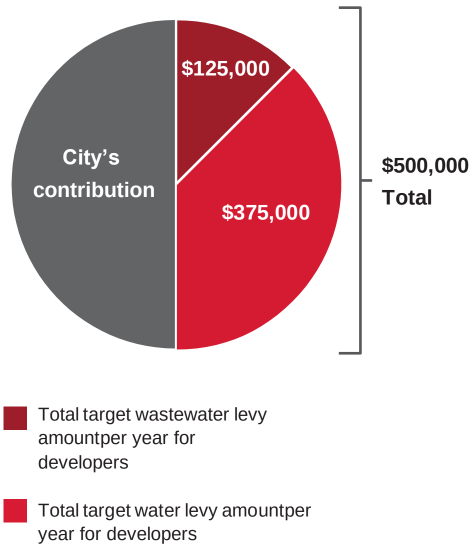
Construction and timing for repayment:

In alignment with the current practice, the developer who triggers the upgrade will be responsible for building and front ending the cost of the upgrade.

This will allow developers to continue to have control over the timing of construction for the infrastructure needed to service their development. Each developer that triggers an upgrade and is eligible for reimbursement from the reactive fund will enter into a construction agreement with The City at the development permit stage. The agreement will outline the obligations for the construction of the infrastructure and timing and amounts eligible for repayment from the reactive fund.

Please note that timing for repayment will depend on availability of funding from levies received and the annual subsidyfrom The City. This is further explored below in the “Implementation of new levy fund” section.

Graph 4: Developer target annual contribution amount to levy fund



Proposed draft structure for the levy:

The proposed levy will apply to all residential and ICI (Industrial, Commercial, and Institutional) redevelopments with a proportional allocation based on current historical data. Additionally, the levy is expected to support both water and wastewater independently.

To create an annual fund that totals $1M to support local sized reactive pipes a calculation has been completed that considers both The City subsidy contribution and the developer contribution. In addition to this split of funding sources, there is a requirement to split the funding by infrastructure type (water and wastewater). Administration proposes a split of 25% for wastewater and 75% water. This will equate to an approximate total funding of $250,000 per year for wastewater and $750,000 per year for water. The rationale for these percentages is that historically wastewater upgrades while higher dollar amounts (e.g. $1-2M) are triggered less frequently while water upgrades (fire flow for example) are triggered more frequently and tend to have a low to medium dollar investment amount ($30-750K).

Of the total $1M/year Established Area local sized fund the developer portion ($500,000) will be collected through levies. As described above, the levy will be based on a split so that wastewater receives 25% of the funds, or $125,000/year and water receives 75% of the funds, or $375,000/year. Please see Graph 4 for a visual representation of the proposed levy contribution broken down by infrastructure type (water and wastewater).

To set the rates, a calculated average of growth by unit type from 2017-2020 inside the current Established Area Boundary was used. This uses residential, industrial, commercial, and mixed-use (industrial/commercial & residential) redevelopment to determine the split of each unit’s share. Additionally, the unit factors established in 2016 as part of the Off-site Levy Bylaw exploration work were used to set a sliding scale (Table 2 below) that weights a higher per unit cost to lower density projects and a lower per unit cost to higher density projects. This approach allocates proportional benefit to those receiving it while also promoting higher density redevelopment.

As a result of the above split and based on a sliding scale of density that matches the existing Treatment Plant Off-site Levy methodology, a sample rate calculation by residential unit and industrial or commercial space is shown in Tables 2 and 3.

Table 2: Draft residential levy rates by unit type

		Single Detached	Semi-Detached/ Duplex	Multi-Residential Grade Oriented	Multi-Residential Non Grade-Oriented (2 bedrooms or more)	Multi-Residential Non Grade-Oriented (1 Bedroom or Less)	
	$/Person	**2.9**	**2.6**	**1.8**	**1.5**	**1.2**	Unit factor
Wastewater	$58.00	**$168.21**	**$150.81**	**$104.41**	**$87.01**	**$69.60**	Wastewater cost by unit type
Water	$174.01	**$504.63**	**$452.43**	**$313.22**	**$261.02**	**$208.81**	Water cost by unit type
		$672.84	**$603.24**	**$417.63**	**$348.03**	**$278.41**	Total Local Sized Pipe Off-site Levy per unit type

Table 3: Draft industrial and commercial levy rates by type*

Commercial	$0.32/square meter
Industrial	$0.32/square meter

*Further refinement required

In addition to the proposed rates above, we have created a few examples to demonstrate how different types of developments will contribute to and benefit from the levy. Please see **Attachment 2**: “Examples of the levy rate applied” for more information.

Implementation of the new levy fund:

There are many considerations to include in creating a new levy to ensure it is efficient and that the transition into the new bylaw is smooth. At this time, Administration has included a few considerations which are noted below but we want to acknowledge that we are aware not every consideration has been included in this memo and further refinement will be required. It is our intent that through consultation and discussion with stakeholders we may include additional considerations in our recommendation to Council, if appropriate, to ensure that this is a robust levy program.

Seed funding – Administration’s proposal is to recommend that Council consider and approve a seed fund of $2M for the first two years of the levy, to be created upon approval of the bylaw so it can be used by developers who trigger upgrades right away. Please note that in the event that seed funding is exhausted and there are not enough levies collected to reimburse a developer for an upgrade, the developer will be required to wait in a first come first served order (with a proposed annual cap outlined below in more detail under “Repayment Mechanism”) until sufficient funding becomes available in subsequent year(s).

Density considerations - As you will note in Table 2 above, this methodology uses the same unit factors as the Off-site Levy treatment plant methodology that proportionately distributes costs against those receiving benefit based on intensification. This benefits higher density redevelopments with a lower per unit levy rate. It is also important to note that higher density redevelopments are more likely to trigger an upgrade, and will therefore, be more likely to be eligible for reimbursement from the fund.

Fund balances and shortfalls – Similar to the Centre City Levy, any levy funds collected that are not completely used in the year that they were collected, will carry forward and continue to build a balance year over year. In years where The City’s subsidy portion of $500,000 is not used fully, it will not be carried forward. If the fund is exhausted in a particular year, the subsequent year’s funding may be used to pay for a previous year’s investment on a first come first served basis (subject to a cap per year amount outlined in the “Repayment Mechanism” section below).

Repayment mechanism – Eligible upgrades will receive payment through the reactive fund and will be outlined in each individual construction agreement between The City and the developer with the timing of repayment subject to fund availability. Each agreement will be reimbursed in the order of construction agreement signing except for larger outlier projects that will effectively exhaust the fund. To promote fairness, Administration recommends introducing a maximum amount that can be withdrawn from the fund per year, per project (e.g. $300,000/year/project) which means that any large outlier upgrades (e.g. a $1M sanitary upgrade) will be prioritized to be paid back over a number of years (subject to fund balance availability). This mechanism is being proposed to provide certainty of repayment to developers while also trying to ensure funds remain available for all eligible projects.

Conclusion:

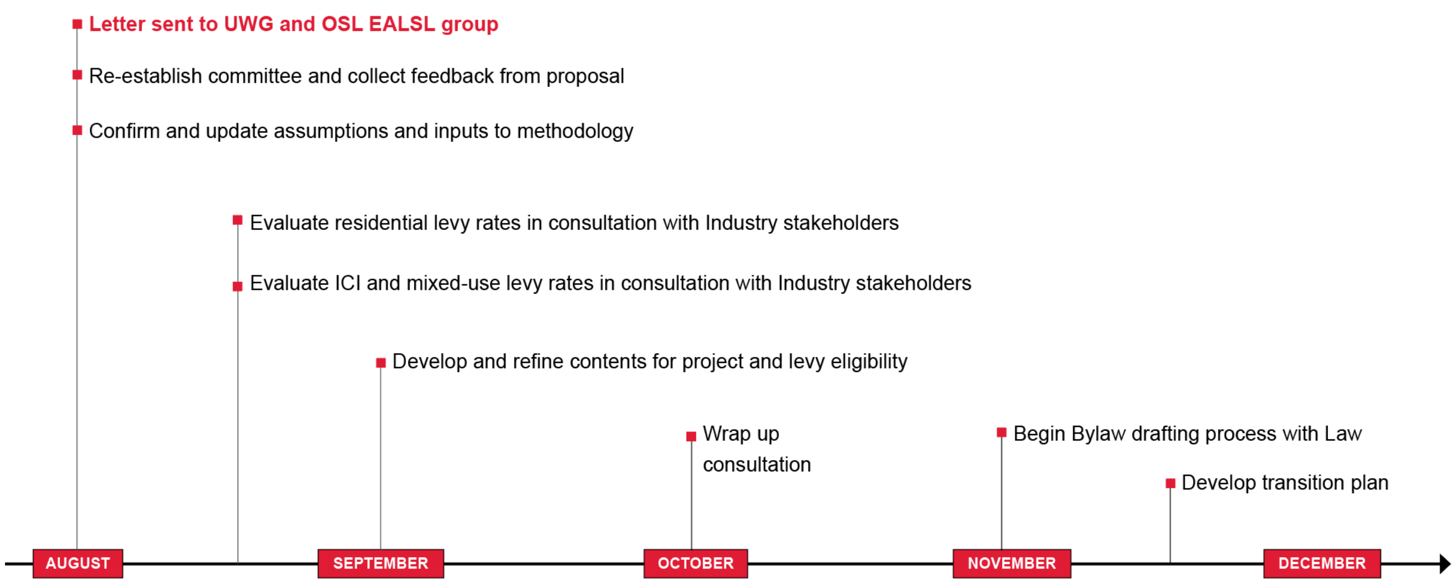
Considerable work has been completed to understand this issue facing Industry and to propose a balanced tool that will immediately address the 'first-in' issue while supporting MDP targets. Incorporation of feedback from many discussions both at the EAGCS Utility Working Group and the Established Area local-sized levy working group, and consideration for the future uptake of this reactive fund was included while developing this funding tool proposal. Striking a balance between all inputs is critical and as a result the levy rate amounts and the reactive levy fund total proposed, should be sufficient to test this new funding tool. In the event that the entire $2M seed funding and subsequent levies raised whileredevelopment occurs in the first 2 years is insufficient to support repayment of upgrades to developers, Administrationis committed to revisiting and reviewing the levy rates and fund amounts through a consultation process with Industry and other stakeholders.

As part of the consultation work mentioned above to collect feedback on exploration of a levy, Administration would like to acknowledge that there is differing opinions within Industry on how best to address this challenge. Significant effort both from Industry representatives and Administration has been spent attempting to align all parties to a solution that will work for most impacted stakeholders however, alignment has not been realized. In the spirit of problem solving, Administration has created this proposal which outlines a clear and direct path forward for this exploration work. There is still refinement and consideration for updates to the approach required to set up this new investment tool however, Administration is confident that this proposal best represents a solution which will adequately mitigate the 'first-in' challenge in the Established Area fairly and equitably for the Development Industry.

Next steps:

With this proposed approach Administration welcomes feedback on this potential model and methodology. If there is interest from Industry in pursuing this new levy fund, the following consultation plan is proposed:

Proposed draft Work Plan – 2021



There is a significant amount of work required to ensure completion by the end of 2021. Administration is confident that with Industry's support this work can be accomplished within the proposed timeframe.

In the interest of being transparent and supportive of redevelopment in the Established Area, Administration believes that this proposal clearly articulates a path forward. We request that you provide a formal written response indicating whether or not you support, in principle, the proposal above and exploration of a local-sized levy (as directed by Council PFC2020-0381). Through a consultation process, your feedback will be collected, considered and incorporated where appropriate, before providing a recommendation to Council. Please provide a response on or before August 16, 2021.

While a response is requested and feedback from Industry stakeholders through consultation is appreciated, Administration is required to return to Council with a final recommendation and report on a completed exploration of a local sized levy as part of the current Off-site Levy Bylaw review. Understanding that this piece of work is closely linked with the EAGCS Phase 2 work due back to Council in February 2022, Administration is targeting completion of this exploration by the end of 2021. In this spirit, if there is opposition to exploration of a levy it will be noted and shared with Council as stakeholder feedback.

Please feel free to reach out to me directly if you have any questions. Thank you all for your continued effort in resolving this Development Industry first-in issue with us.

Sincerely,

Daniel Vincent

Off-site Levy Program Manager

Water Resources, UEP

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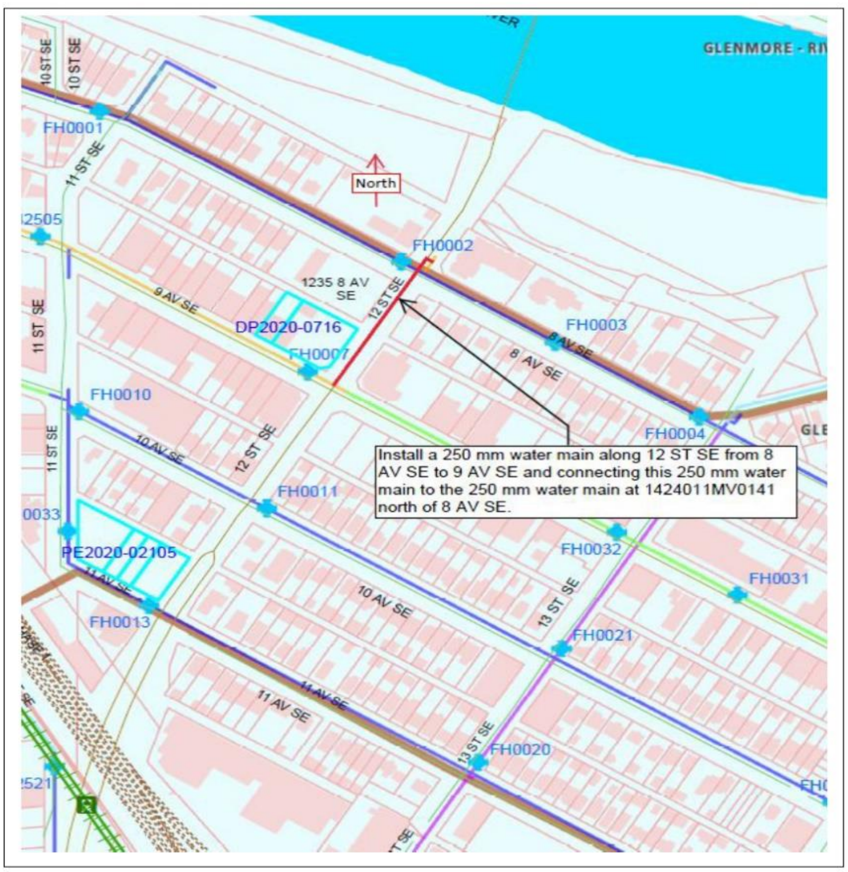
Attachment 2: Examples of levy rates applied to redevelopments in the Established Area

Example 1 (mixed-use; water upgrade)

A proposed new development of 149 residential units and 563m² of commercial development requires additional fire flow and has triggered a $320,000 water extension (new 250mm cross tie). This is a brand new pipe being installed along 12 St SE where there current is no existing pipe. Installing this connection between the two parallel watermains along 8 Av and 9 Av SE will increase the available fire flow. No upgrades/extensions are needed to the sanitary system. If all residential units are two bedroom or more, the per unit cost will be $261/unit ($38,889) and commercial floor space charge of $0.32 (~$180) resulting in a total cost of $39,069 for the water servicing. The sanitary portion of the levy will be $87/unit ($12,963). Therefore, the total cost to the developer is $52,032 or ~16% of the total upgrade cost.

There are no lifecycle considerations for this triggered extension since it is a new pipe.



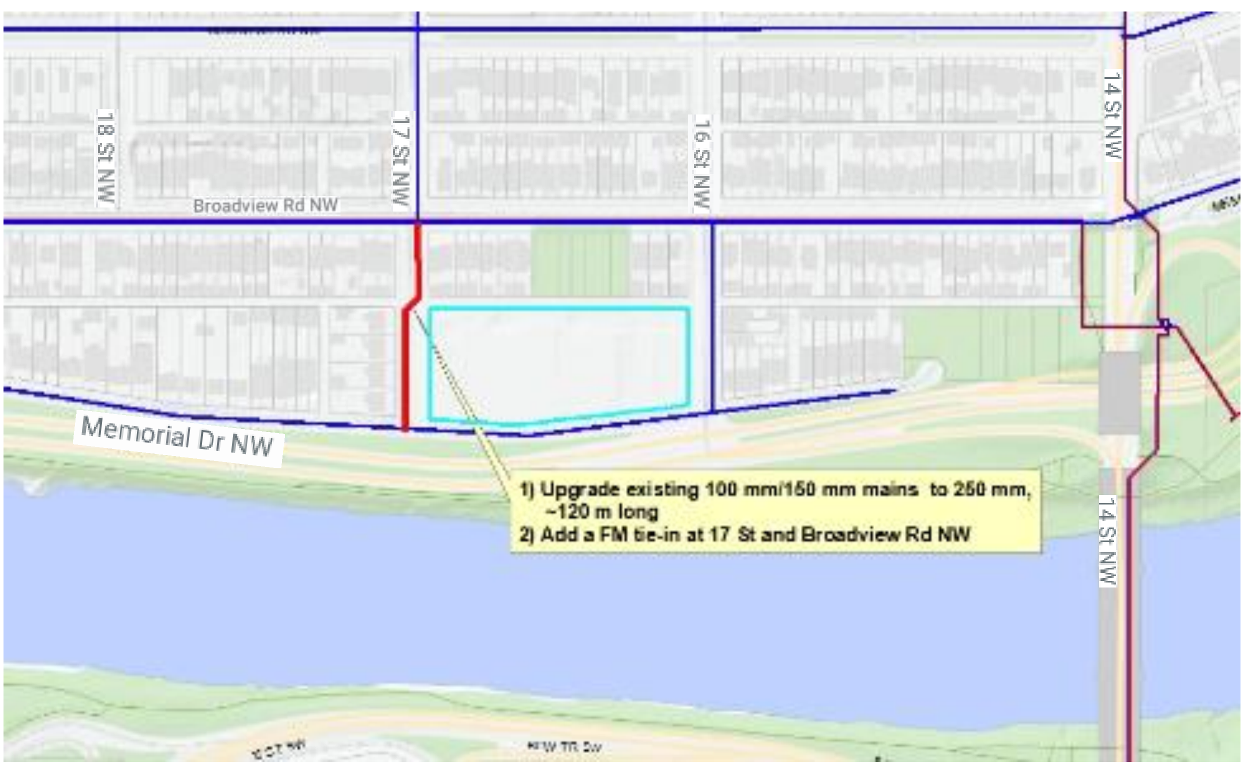
Example 2 – Fourplex, no upgrades triggered

A fourplex /multi-residential grade-oriented redevelopment that does not require an upgrade to water or sanitary will contribute to $1253 to the water portion and $418 to the sanitary portion, totalling a $1671 levy contribution.

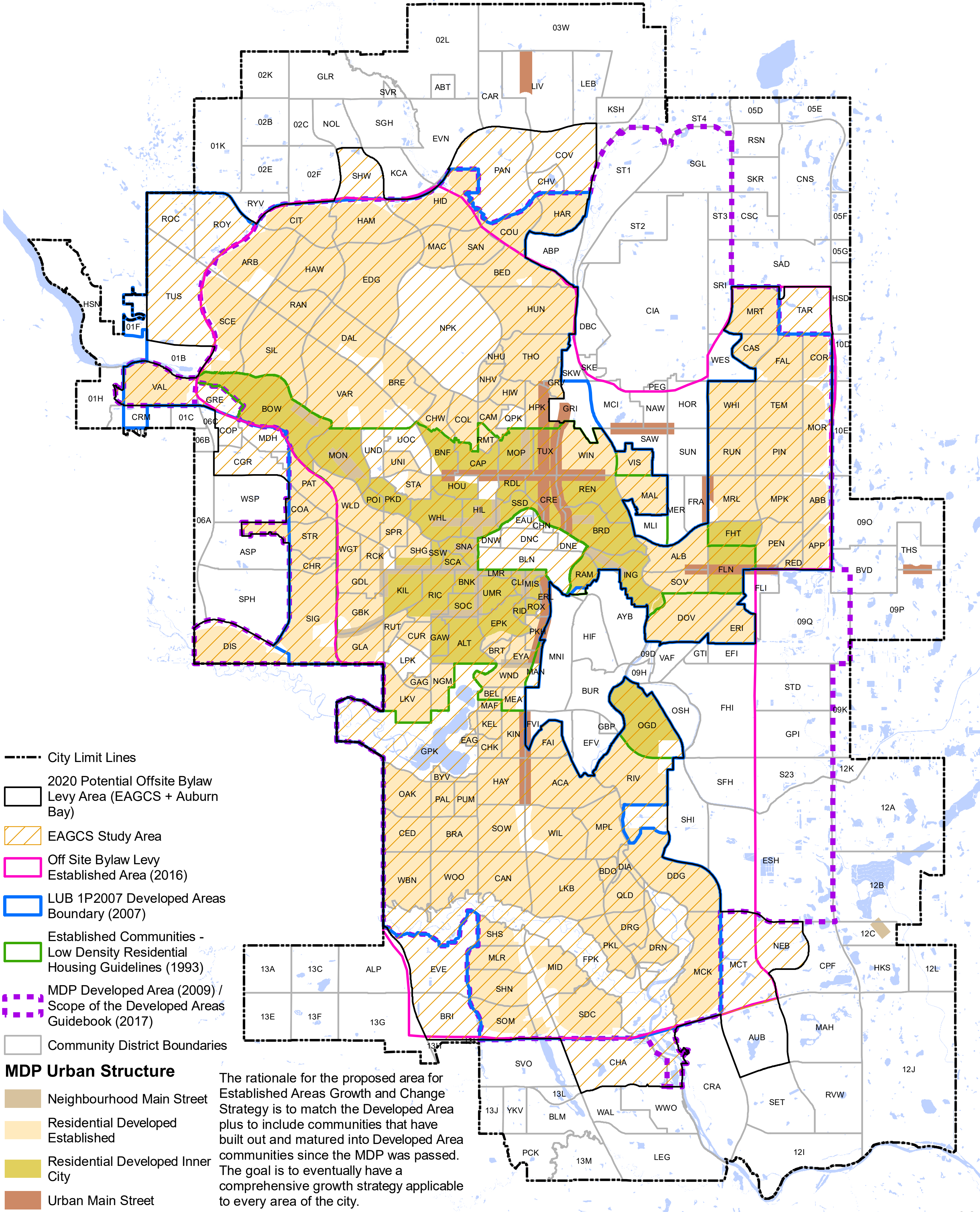
Example 3 – townhouse/rowhouse; water upgrade

A proposed new development of 84 residential units requires additional fire flow and has triggered a water upgrade for a length of 115m upsized to 250mm and a new tie in to the feedermain at 17 St and Broadview Rd NW. The total cost of the upgrade and tie-in are estimated to be $365,000. No upgrades/extensions are needed to the sanitary system. If all residential units are multi-residential grade oriented, the per unit cost for the water portion is $313/unit ($26,292) and $104/unit ($8,736) for the sanitary portion. Therefore, the total cost to the developer is $35,028 or ~10% of the total upgrade cost.

From a lifecycle/maintenance perspective, Water Resources assesses pipes based on many factors including the age of the pipe, pipe material, soil conditions, and history of main breaks. Through this assessment, the pipe segment needing to be upgraded is currently in an acceptable condition with an anticipated remaining life span of over 20 years. This was based on a review of the cast iron pipe that was installed originally in 1955 and 1963, with no history of main breaks and is located in an area with soil sample tests showing high resistivity (less corrosive). Therefore, the need for an upgrade is solely being triggered by the fire flow requirements of the proposed development.



Collection of Boundaries and Corridors Related to the Developed Areas of Calgary



The rationale for the proposed area for Established Areas Growth and Change Strategy is to match the Developed Area plus to include communities that have built out and matured into Developed Area communities since the MDP was passed. The goal is to eventually have a comprehensive growth strategy applicable to every area of the city.

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
CALGARY CHAPTER

Sept 15, 2021

Daniel Vincent
Off-site Levy Program Manager
Water Resources - UEP
625-25 Av SE, Calgary AB
Mail Code: 437
403-862-1582

RE: Proposal for an Established Areas 'developer sized' pipes levy

Dear Daniel,

NAIOP Calgary received your memo and attachments to Industry dated July 30, 2021 containing a proposal for a levy to be charged to established area developers for 'developer sized' pipes. The primary reason for the levy is to solve the City and Industry recognized 'first-in' problem that negatively affects EA development .
Please accept our response below.

From our perspective the proposal is very similar to the one that was discussed with the EA working group in October of last year. To be clear our understanding of the details is as follows:

- The City will seed the levy fund with a $2M cash infusion
- Based on historic data the fund requires approximately $1M annually to satisfy the projected 'draw' on the fund.
- The $1M annually will be a combination of $500K from developer levies and $500K subsidy from the City.
- Based on historic data the $500K in developer levies will be split into $125K for sanitary and $375K for water. The same split for the City contribution.
- The levy is specifically for Reactive (developer triggered) pipes, both upgrades and extensions. Proactive (City triggered) pipes, which are also considered local sized pipes, are funded by the City as part of the capital budget.
- There was some discussion that the levy will function in a similar manner to the developers' oversized fund long utilized in Greenfield development. Based on further discussions with Water Resources the developer will enter into a CFA (construction finance agreement) with the City who will in turn provide written details of the repayment from the levy fund. The CFA will be

triggered when the City demands infrastructure upgrades to satisfy the developers DP/BP. The developer will front end the full cost. Our understanding is that this method (same a Greenfield) allows development to proceed at the developers pace rather than the development slowed to the pace of the City's ability to provide the necessary upgrade services.

- The methodology for the levy fund draws on the work completed for the off-site levy treatment plant fund that was implemented in 2016 in established areas. In fact the unit factors, to ensure fair benefit, are the same. This methodology benefits higher density developments which are preferred by the City.
- Eligibility for fund withdrawal is broad with limited exceptions (unserviced lots, oversized fire flow & private pipes)
- There is another class of ineligible developments, being master planned communities in established areas that are treated like Greenfield developments and any Community Revitalization Levy supported projects of any kind. (e.g: University District, East Village, Garrison Woods, New Central Library, Event Centre etc)

NAIOP reaction to the Proposal:

- The levy solves the 'first-in' problem which will encourage development.
- The levy is a good mitigation plan against prohibitive 'first-in' costs.
- The City is sharing fund replenishment which is positive.
- At proposed rates the levy is not unreasonable.
- The levy amounts based on unit type are fair with developments having higher density benefitting more.
- While all EA developers must pay the levy whether they benefit or not directly follows the same principles used in the Off-site levies.
- The $300K annual draw (cap) for a single development seems fair.
- The pilot will last 2 years at which time a full evaluation will be performed to ensure the levy is functioning as proposed.

NAIOP preferred direction:

- NAIOP is aware that the City is concerned that the future Reactive pipes requirement will grow which is why the levy is being implemented now to ensure there is a process going forward to deal with this requirement.
  That said, the $1M annual fund appears to represent less than 3.5% of the City's annual capital utility budget with the City subsidy to the fund being $1.7% ($500K). As this is a trivial amount for the City of Calgary given its current resources, why is the levy being considered now rather than encouraging immediate EA development which helps meet the MDP goals set by Council and only looking at a levy when City resources are unable to meet demand?
- Notwithstanding the comment above, Until the volume of Reactive pipes requirements is such that the draw on the levy requires staging, why does the City require a CFA instead of paying the developer to do the work directly from the fund (as it will have been seeded with $2M)?
- The City is aware of Industry's position that, because the City charges a fee to its water utility users, over time the City gets all or substantially all of the financial benefit of capital investment in water utility infrastructure. NAIOP would like to see this benefit allocation issue resolved but does not support <u>delaying</u> an EA pipes levy program until this issue is resolved. NAIOP's support

of an EA pipes levy should not be construed necessarily as confirmation of the quantum of benefit apportioned to the developer of the cost of “reactive pipes”. NAIOP sees an EA pipes levy as an interim (and perhaps a long-term) solution to the “first-in” problem.

NAIOP questions/concerns:

Daniel, as per our discussion at today’s (Sept 15) meeting we have attached a summary of questions that have come from our members that we would appreciate you and your team reviewing and responding to at the next meeting. If you have any questions of clarification please contact me at your convenience.

Sincerely, on behalf of, NAIOP

Guy Huntingford
Director Strategic Initiatives - NAIOP Calgary

cc:
Robert Homersham - Chair of the Board - NAIOP Calgary
Chris Ollenberger - QuantumPlace developments
Jamie Cooper - Remington Developments

NAIOP
COMMERCIAL REAL ESTATE DEVELOPMENT ASSOCIATION
CALGARY CHAPTER

Date: September 15, 2021

FAQ's / Questions regarding proposed Established Areas Reactive Pipes Levy

FAQ's:

- Who asked that a levy be explored?
  Council requested that the administration look at implementing a levy to deal with developers incurring large infrastructure costs to satisfy an EA DP.

- Is NAIOP supportive of the levy?
  Yes, in principle the levy, as presented by administration, should help encourage established areas development.

- Has NAIOP provided the City with an endorsement of the levy?
  No, as stated NAIOP agrees with the levy in principle but has a number of questions that need to be addressed before the organization can provide an endorsement.

- What other stakeholders are being engaged by the City for a reaction to the proposed levy?
  The City would like to get input from NAIOP, BILD, CICBA and other members of industry who do not belong to any association as well as members of the public as part of the OSL process. There is also consultation with a number of City departments and management.

- If a levy was to be proposed to Council when would that occur?
  It is our understanding that a EA pipes levy proposal to Council would be part of the OSL report to Council (Q3 2022). However, there is a possibility that the EA pipes levy could be brought forward sooner if the stakeholders were satisfied with the proposal.

NAIOP questions regarding the proposed levy:

- Industry is concerned that this levy is part of a plan to implement levies for all types of infrastructure (as per Greenfield) likely using Charter powers. For example will stormwater infrastructure eventually be added to this levy program? Should we expect that other infrastructure needs will be added to this structure in the future? What is the City's response to this concern?

- Industry needs to know if we support this levy will the system put in place to administer the levy have a robust financial structure and direct approval for the system from Council. (Council approves a policy that ensures viability).
  We all know that CFA's have been on again/off again and if they are a key component of the system they cannot simply go away.
  … also on the same line of questioning ...
  Will CFA's be constrained in any particular year(s) due to debt servicing limits set by Council?

- The annual levy amount of $1M is based on development that has moved forward over the last number of years. It is unknown what magnitude of development (cost) was never undertaken due to the 'first-in' problem negatively affecting a development's pro-forma (development stalled or cancelled). If the levy now allows a developer to proceed this could increase the need for a larger levy fund. Does the City have a plan to deal with this possibility?

- Is the City subsidy indefinite or only for a pilot period? We would suggest that given the desire for established area redevelopment/intensification, city benefits resulting from property taxes and transportation modal shifts desired that the investment by the City should continue into the foreseeable future at this time.

- It is understood that redevelopment that does not provide increased density is not required to pay the levy (e.g: SF home replaced by SF home), or is it?. please confirm.
  We would also request that there be clarity that the addition of a secondary suite IS increased density, and that new secondary suites (whether counted as a "unit" or not in the Land Use Bylaw) should also be subject to the levy.

- In dealing with the 'first come first served' aspect of the proposal how does the EAGCS prioritized areas get factored into whether a developer gets preferential treatment? In other words will all EA development be treated equally and allow equal access to the levy fund (even if the development is not in the prioritized area)? Further, will the City's proactive development create preferential treatment for developers in areas where this investment can be leveraged?

- Where does the extra money come from within the utility program to fund the proactive portion? What are its limitations? As the program grows and levies increase (assuming it does) will the City take a combined approach through growth strategies, and Council will be asked to set utility rates to accommodate this program, together with the ask for rate changes to support growth in all areas (including new communities)?

- The City is using the 'treatment plant methodology' to build the proposal. This assumes that the cap (285 EP/ha) that industry required to support the plant levy is in place for this proposed levy?

- As with the treatment plant levy, this proposed levy uses population/unit factor instead of area used in Greenfield. Is this two-pronged approach acceptable to developers, especially those that pay in both Greenfield and EA’s?. The City should demonstrate equivalency in how the rates are set.

- What levers will the City leave open for re-examination in the methodology 2 years after implementation of the program? Has the City given some deliberate thought to how this might happen to protect for future change, or will change be focused on "reviewing the levy rates and fund amounts" only?

- Fire Flows – can this be a city-based, proactive investment, if the concern is to mitigate larger community/city risk (rather than respond to capacity needs)?

- Can the City's subsidy portion be accrued as the calendar or budget year clicks over? What conditions might apply? … and ...Must the fund be topped up exactly 50/50 in order for funds to be distributed (e.g. if the City puts in $500K in a year, and development only collects $300K, is there $800K to distribute in the fund, or $600K?)

- To assist developers, will reporting be provided as part of the larger OSL program, along with reporting as budgeted/projected, actuals and reconciliation each year?

- As levy amounts grow, will a system be put in place to secure levies? Will installments and/or bonding be allowed?

Off-site Levy Bylaw Review

Stakeholder Consultation – Leviable Land Considerations

8 September 2021

Agenda

I. New strategic approach recap
II. Leviable land considerations
III. Next steps

New Strategic Approach Recap

(As presented August 18, 2021)

Project Objectives

1. Customer-focused approach (including simple, easy to explain language)
2. Increased corporate consistency
3. Implement City strategies:
   - MDP and CTP
   - Improved growth process - using growth strategies to identify infrastructure needs
   - Frequency - align to growth strategy & budget cycle
4. Increase financial resilience
5. Enable off-site levy funds to be available at the right time
6. Legally defensible and legislatively compliant

Proposed Approach

New off-site levy:

1. Capacity-based model - funding of 100% of growth-related capital infrastructure cost for investments in greenfield growth area**.**
   - No change to treatment plant levy in greenfield area
2. Infrastructure required to service Council-approved new and actively developing communities.
3. OSL for infrastructure benefiting new community business cases.
4. Other City funding sources to be used for most infrastructure upgrades and downstream impacts in the Established Area.

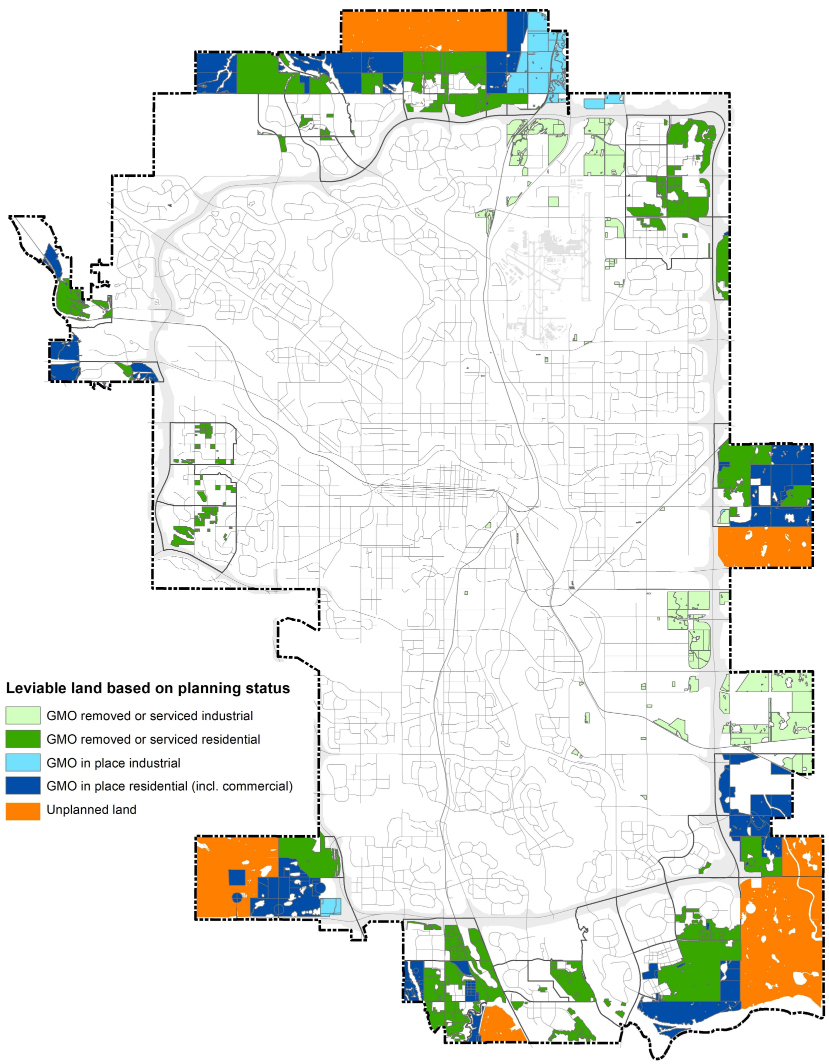
Leviable Land Considerations

Calgary

A New, Responsive Off-site Levy

Vision	How we want to grow	Long-range vision	Municipal Development Plan/ Calgary Transportation Plan
Strategies	Where and when we enable growth	Council-approved growth	City-wide growth strategies
Plans	What capital investments we make to enable growth	Council-approved capital budget	Prioritized growth-related infrastructure investments
Tools	How we pay for investments to enable growth	**Off-Site Levies**	City Funding

What Lands Could Be Considered For The 2022 Off-site Levy Bylaw?

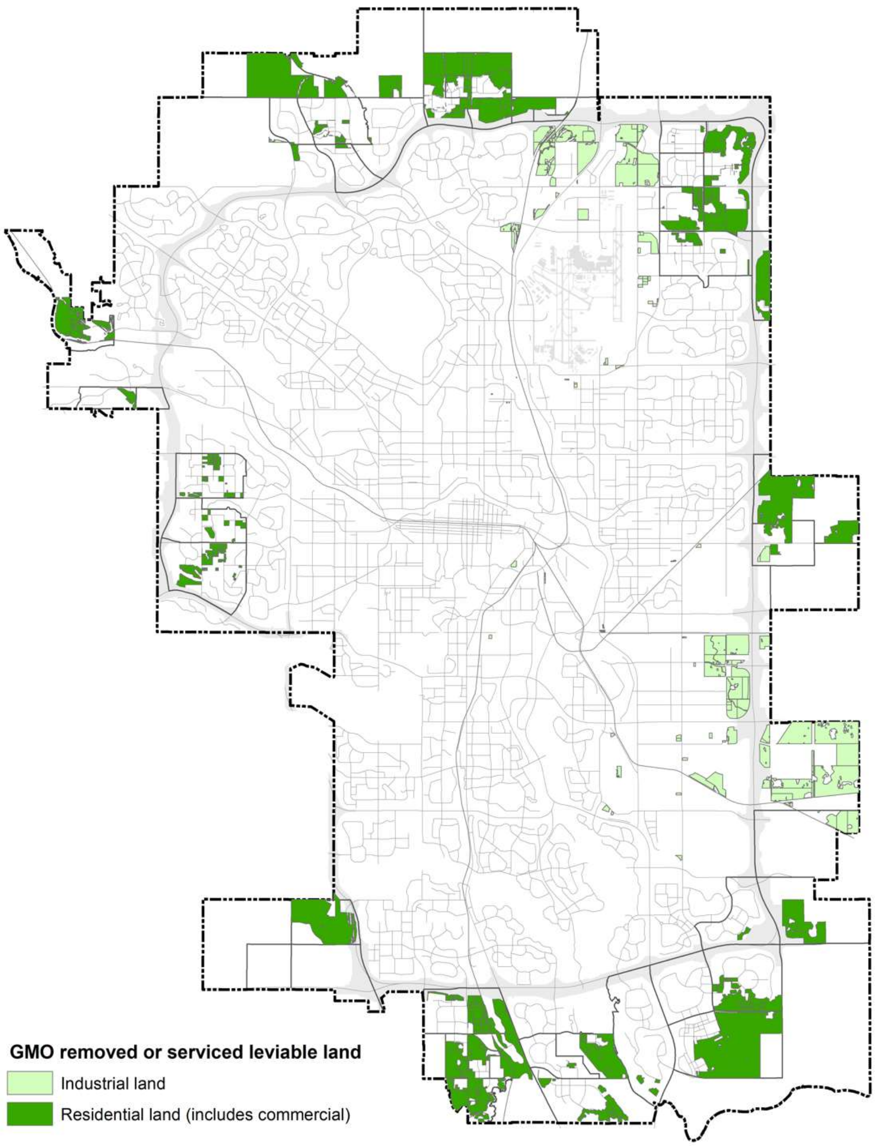


**Map for illustrative purposes*

- Approved Growth (green)
- Planned lands (blue)
- Full City Boundaries (orange)

Certainty

Proposed 2022 OSL Bylaw Leviable Lands



- All remaining leviable lands within approved growth areas:
  - The 27 actively developing communities;
  - The 14 new communities approved in 2018; and
  - Any new communities approved in 2022
- All serviced industrial and employment lands

**Map for illustrative purposes*

Next Steps

Questions?