5. Existing Financing/Funding Tools & Mechanisms

A number of existing financing and funding tools were reviewed with stakeholders. It should be noted that a funding tool identifies the source of the funding for the infrastructure (who pays), while a financing mechanism describes the timing of the payment (how it is paid). The existing tools discussed below will be used when considering City-funded costs within the growth management prioritization process. For the purposes of categorizing the tools , those in the financing category are the ones which require City financing. Funding tools do not require City financing.

Appendix 4 provides an overview of how currently used funding tools impact users and Calgarians.

a) ***Existing Financing Tools & Mechanisms***

The review with Stakeholders identified two sources of financing – Construction Financing Agreements and Self-Supported Debt.

i) ***Construction Financing Agreements***

Construction Financing Agreements have been typically used as a financing mechanism for transportation and water services infrastructure. This mechanism is appropriate for use in developing and industrial areas.

Payback periods for Construction Financing Agreements are based on assumptions of build out rates for a developing area. The City is at risk if the buildout rate is slower than anticipated. Currently, Construction Financing Agreements are not being considered for infrastructure which is outside of the current approved capital budget.

Future work on this financing tool could address the following questions:

- Are there others barriers to using this tool, beyond the barrier of financing infrastructure which is outside of the current capital budget?
- Are there processes that should be improved to support the use of this tool?

ii) ***Self-Supported Debt***

Self-supported debt is debt that is funded through operational revenues, typically user fees, rather than through property taxes. Water Resources currently use this type of debt to fund a portion of the capital program. The actual and projected increases in this type of debt and the impact on The City's debt limits was the impetus for re-establishing the Water and Sanitary Sewer acreage assessments in the most recent Standard Development Agreement.

b) ***Existing Funding Tools & Mechanisms***

A number of funding tools were identified and discussed with stakeholders. A brief overview of these tools is provided below along with a description of their use and identification of any future work which could be undertaken.

i) ***Community & Recreation Levy***

A Community and Recreation Levy is currently used to fund the following infrastructure in developing and industrial areas:

Large Bus Units;

Emergency Response Stations / Equipment;
Recreation Facilities; and
Libraries.
This Community and Recreation Levy is based on a negotiated agreement with the development and homebuilding industries and is included in the Standard Development Agreement for 2011-2015.

Future work could include identification of other tools to fund this type of infrastructure.

ii) Community Investment Reserve

The Community Investment Reserve is a dedicated City source of capital funding for community infrastructure projects around Calgary. This is funded through a dedicated portion of the property tax beginning in 2010, along with GST savings. Funds are dedicated to specific projects for specific timeframes.

No further work is anticipated for this funding source.

iii) Community Revitalization Levy

The Community Revitalization Levy is currently used to fund infrastructure in the East Village area. This type of levy is generally used to fund development of blighted areas which would not develop without additional financial support.

The Community Revitalization Levy allows a municipality to fund improvements in a defined area based on the increase in assessed value of properties. Under this arrangement, the assessed value of properties is determined for a specific year and then is held at that level for 20 years. Any increase taxes in the defined area as a result of an increase in the assessment value over the base year (including municipal and provincial portions of the assessment) are then used to fund improvements for the defined area. Use of this mechanism requires provincial approval. This funding tool would not generally be used in greenfield developments in developing and industrial areas.

No further work is anticipated for this funding source.

iv) Conditions of Approval (Centre City)

For the Centre City area (developed area) a condition of approval is applied at the development permit stage to fund the following infrastructure:

- Large Buses;
- Fire Stations;
- Recreation Facilities;
- Libraries;
- Pedestrian Overpasses;
- Bikeways / Sidewalks;
- Local Park Upgrading;
- Regional Park & Pathway Upgrading; and
- 13 Avenue Greenway.

Future work could include the development of clear guidelines for the use of this tool and the applicability to other developed areas.

v) Conditions of Approval (Developer Construction Obligations, Endeavours to Assist, Oversize)

The MGA provides for the provision of infrastructure through conditions of approval for subdivision, and development permits. The current legislation allows for conditions of approval regarding roads; pedestrian walkway systems; public utilities (system or works); and public transportation. As part of the conditions of approval, endeavours to assist and oversize funding tools are used to allow the first developer in an area to be compensated for building infrastructure on behalf of other properties or developments.

Further work for conditions of approval could include the development of clear guidelines for the use of this tool.

Further work for oversize funding tools could include a review of the current methods of calculating rates and the implementation processes. Further work on oversize could also include a review of the system used in the city of Edmonton, called a Permanent Area Contribution method (see discussion below under Financing/Funding Tools & Mechanisms: Currently Available and Future).

For endeavours to assist, the Revolving Industrial Servicing Fund used in the city of Edmonton has been identified as another approach which could be considered to provide an incentive to encourage industrial development in specific areas (see discussion below under Financing/Funding Tools & Mechanisms: Currently Available and Future).

vi) ***Contribution from Calgary Parking Authority***

Contributions from Calgary Parking Authority are another source of City funding for infrastructure in developed areas. Funds are used to construct parking facilities or to acquire land.

Further work could include a review of opportunities to share parking revenue within Business Revitalization Zones (BRZs).

vii) ***Density Bonusing***

Density bonusing provides funding for infrastructure required to offset impacts of increased density. Implementation of this funding tool requires community support and developer participation.

This funding tool is currently used in Beltline and Downtown areas and is identified as one of the tools to consider to fund public realm improvements identified in the Hillhurst Sunnyside Area Redevelopment Plan with respect to Part 2 Transit Oriented Development.

viii) ***Federal Gas Tax Fund***

The Federal Gas Tax Fund provides funding for Transit and Waste & Recycling and is used for infrastructure in developed, developing and industrial areas. Under the current arrangement, the funds received are restricted to specific infrastructure and purposes.

Further work could include pursuing additional tax sharing from this source or consideration of a municipal fuel tax.

ix) ***Fuel Tax – Revenue Sharing (Provincial Gas & Diesel)***

Funding received from the Provincial Fuel Tax is restricted to fund expressways, upgraded majors, interchanges, bridges and large bus units in developed, developing and industrial areas.

Further work could include pursuing additional tax sharing from this source or consideration of a municipal fuel tax.

x) *Grants*

Grants from other levels of government provide funding for infrastructure projects. This type of funding is generally restricted to specific infrastructure projects and does not provide on-going, predictable, reliable source of funding.

Further work could include an identification of funding tools that provide a reliable source of funding for infrastructure to replace grant funding.

xi) *Land Dedication at time of Subdivision*

This mechanism provides land for parks (ER & MR), schools (MSR), roads and public utilities (PUL). It is appropriate to continue the use of this mechanism in developed, developing and industrial areas.

Further work could include a review of practices in other provinces for providing school sites and reviewing dedication requirements for wetlands, green space, streams and storm water management facilities.

xii) *Legacy Parks Reserve*

A dedicated portion of the dividend from ENMAX, which funds the Legacy Parks Reserve, is used to create new park space and enhance existing parks.

No further work is anticipated for this funding source.

xiii) *Local Improvement Bylaws*

Local Improvement Bylaws are generally used for construction of sidewalks and lanes in small defined areas. The legislation governing this mechanism, including the time limit for using this option, lends itself more so to use in developed areas rather than in developing and industrial areas.

Future work on this financing tool could include a review of the portion of infrastructure funded by the adjacent land owner and The City. For residential properties the ratio is 50/50, for commercial properties the ratio is 75% commercial property owner and 25% City.

xiv) *Municipal Sustainability Initiative (MSI)*

The provincial government currently provides capital funding to The City for municipal infrastructure under this grant program. The current funding arrangement began in 2007 and will expire in 2018. MSI grants averaged approximately 130 million annually between 2007 and 2009. Since 2010 MSI payments have averaged $250 million, and are expected to increase to $300 million for 2013 and 2014 before rising to almost $400 million annually for the remainder of the program.

Further work could include an identification of funding tools that provide a reliable source of funding for infrastructure to replace grant funding.

xv) *Offsite Levies*

The most common funding mechanism used to fund infrastructure in developing and industrial areas is offsite levies. This mechanism provides funding for sanitary sewer; storm sewer; transportation; and water systems. In developing areas, the rates are based on a negotiated agreement with the development and homebuilding industry and are currently included in the Standard Development Agreement for 2011-2015. The offsite levy is also used in Centre City to fund water and sanitary sewer infrastructure (developed area).

Further work could include a review of how levy rates are determined, including a review of the infrastructure required, the per unit charge and the feasibility of considering the geographic location of a development when determining rates.

xvi) ***Private Contributions***

Private contributions provide additional funding from the community for infrastructure. This includes matching contributions from a community towards specific community infrastructure. It also includes donations of land for regional parks and contributions toward upgrading of parks.

No further work is anticipated for this funding source.

xvii) ***Property Tax***

Property taxes provide funding for the capital, operating and lifecycle costs of infrastructure and services. This funding source is currently used for a variety of infrastructure including road, transit, park, emergency services, waste and recycling facilities. It also provides funding for planning and regulation functions. The property tax is used to fund capital through Pay-as-You-Go (PAYGo) capital as well as through tax-supported debt payments and reserves contributions.

No further work is anticipated for this funding source.

xviii) ***Redevelopment Levies***

Current legislation allows for the use of redevelopment levies for the provision of land for park, school buildings and recreation facilities. Implementation of a redevelopment levy requires the levy to be identified in the bylaw adopting an Area Redevelopment Plan.

Further work on this funding tool could include a review of the infrastructure funded by this tool, including engagement of stakeholders to determine the best uses of this tool within developed areas.

xix) ***User Fees***

User fees provide a mechanism for users to pay for the infrastructure and services they use. They currently provide funding for operation and maintenance of infrastructure.

Further work could include a review of whether user fees could be used to fund capital costs of infrastructure as well.

xx) ***Utility Rates***

Utility rates provide a mechanism for users to pay for the infrastructure and services they use. The industry's perspective is that the inability to increase rates causes inequitable distribution of costs to be borne by industry / homebuyers in developing areas.

Further work could include a review of the impacts on utility rates as offsite levy rates are increased / decreased.

6. Currently Available Financing/Funding Tools & Mechanisms

A number of financing and funding tools which are currently available and not used, or are used in other jurisdictions, were identified during the discussions with stakeholders. City Administration will continue working with stakeholders to evaluate this list of tools and identify any legislative change required for their implementation. It recommended that Administration prepare a report to SPC on Planning & Urban Development, no later than the 2013 February meeting, with details of a workplan to work with stakeholders to pursue the implementation of priority tools .

Appendix 4 provides an overview of how currently available and future funding tools impact users and Calgarians.

a) *Currently Available Funding Tools & Mechanisms*

The following sections identify the current tools which are available and could be considered for funding infrastructure. A brief overview of these tools is provided below along with a description of their possible use and an identification of issues associated with their implementation.

i) *Assessment Sub-classes*

Assessment sub-classes are permitted in the MGA for residential properties, and can be created on any basis which a Council considers appropriate. Creation of a sub-class would provide an opportunity for infrastructure to be financed by homebuyers through a tax collected over time rather than being included in a mortgage. The existing legislation would only permit this type of mechanism to be used for residential properties. It could be considered for developed and developing areas.

Further work is required to identify the opportunities and challenges with implementing this funding tool. It is recognized that implementation of this type of tax would require additional education for prospective property buyers to make them aware of these future taxes. As well, inclusion of non-residential properties would require MGA amendments.

ii) *Congestion Charges / Peak Rates*

This type of funding tool would provide a mechanism to charge for increased congestion.

Implementation of this fee to fund additional infrastructure would require further work to address the following issues:

- Need to determine the feasibility of this type of charge; and
- Need to identify pricing alternatives.

iii) *Special Taxes*

Legislation regarding Special Taxes lists the infrastructure which can be funded with this type of tax (waterworks; sewer; boulevard; dust treatment; paving; repair and maintenance of roads, boulevards, sewer facilities and water facilities; ambulance service; provide incentives to health professionals; fire protection area; drainage

- This type of financing mechanism will impact The City's debt limit;
- Need to identify the type of public infrastructure which can attract private sector investment; and
- Need to determine whether there are any legislative limits on the type of infrastructure which can be financed in this manner.

b) ***Future Funding Tools***

A number of funding tools were identified with the stakeholders. A brief overview of these tools is provided below along with a description of their possible use and an identification of issues associated with their implementation.

i) ***Fuel Tax***

A fuel tax could be used to fund capital and operating costs for transportation networks, transit and pathways. Currently, agreements with federal and provincial governments provide for a sharing of fuel tax revenues, but these taxes are limited to only fund specified capital projects.

Further work would be required to address the following issues:

- Legislative changes are required to implement further sharing of fuel taxes or to implement a municipal fuel tax; and
- Need to identify opportunities to use fuel taxes to fund operating costs.

ii) ***Goods and Services Tax (GST)***

Funds collected from GST could be directed to general revenues to fund capital or operating costs.

Further work would be required to address the following issues:

- Legislative changes are required to implement further sharing of federal GST or to implement a municipal GST; and
- Need to review the appropriateness of using this type of tax to fund capital, operating and lifecycle costs.

iii) ***Hotel Tax***

Funds from a hotel tax could be used to fund benefits to the tourism industry. These funds could also be considered to fund infrastructure for Civic Partners.

Further work would be required to address the legislative changes required to implement a municipal hotel tax.

iv) ***Income Tax Sharing***

Sharing of income tax with federal and provincial governments could be directed to general revenues to fund a variety of capital and operating costs, including the social benefits of growth. This could include capital and operating costs for emergency services, recreation, libraries and social services.

Further work would be required to address the following issues:

- Support is required from federal and provincial governments to implement this tax; and
- Legislative changes are required.

ditch; supply of water for residents of a hamlet; recreational services). Currently, this tax is used in Calgary for the maintenance of boulevards and common areas.

Implementation of this tax to fund additional infrastructure would require further work to address the following issues:

- No legislative process is in place to petition against a special tax (could result in controversy if residents object to construction of infrastructure); and
- A special tax bylaw is to be approved annually and this requires on-going updates to include all new parcels that have been created (results in increased administrative effort to update and maintain the special tax bylaw).

7. Future Financing/Funding Tools & Mechanisms

a) *Future Financing Tools*

Three future financing tools were identified with stakeholders. A brief overview of these tools is provided below along with a description of their possible use and an identification of issues associated with their implementation.

i) *Borrowing from Alberta Capital Finance Authority*

Municipalities borrow money at a reduced interest rate from the Alberta Capital Finance Authority (ACFA) due to the higher credit rating of the province. Allowing developers to borrow from the ACFA could reduce borrowing costs for infrastructure.

Further work would be required to address the following issues:

- Any funds borrowed for municipal infrastructure impact The City's debt limit; and
- Provincial government support and legislative changes are necessary before this type of financing arrangement could be implemented.

ii) *Developer or Municipal Issued Bonds*

This type of financing arrangement is used in the United States to provide funding for a variety of infrastructure projects. Currently legislation in the United States allows for the issuance of tax-free bonds to fund infrastructure.

Issuance of a bond is in effect similar to a Construction Financing Agreement, however with this instrument, there is a guarantee on the amount of development which must be in place prior to the issuance of the bond.

Further work would be required to address the following issues:

- Changes to federal and provincial legislation are necessary for these bonds to be tax-exempt; and
- Security requirements to back the loan/bond need to be addressed (e.g. developers do not own the underground pipes).

iii) *Public-Private Partnerships (P3)*

This type of financing arrangement provides an opportunity for the private sector to invest in public infrastructure and could be used for a variety of infrastructure projects.

Further work would be required to address the following issues:

*ix) **Property Insurance Tax***

Funds from a property insurance tax could be directed to general revenues to fund fire and police for their role in the protection of property.

Further work would be required to address the legislative changes required to implement this type of tax.

*x) **Property Transfer Tax***

Funds from a property transfer tax could be directed to general revenues to fund growth related infrastructure such as transit, fire, police, recreation and libraries.

Further work would be required to address the legislative changes required to implement this type of tax.

*xi) **Revolving Industrial Servicing Fund***

This mechanism could be used to fund infrastructure in industrial areas. It is currently used in the city of Edmonton to provide incentives for industrial development in specified areas. This mechanism is a form of an endeavour to assist and results in a municipality taking on the timing risk as the municipality pays the first-in developer and the municipality has to wait for development to occur on adjacent properties to recover its payments.

Further work would be required to address the following issues:

- City would be required to identify funds to implement this mechanism;
- City would take on timing risk if development was delayed;
- An implementation plan needs to be developed; and
- Industry and City costs need to be identified for administration of this mechanism.

*xii) **Sharing of Revenue from Gaming, Alcohol and Tobacco Taxes***

This type of tax could provide funding to general revenues to fund a variety of capital and operating costs, including the social benefits of growth such as police, fire, recreation, libraries and social services.

Further work would be required to address the legislative changes required to implement this type of tax.

*xiii) **Toll Roads***

This type of funding tool would provide an opportunity to fund the transportation network, transit and pathways.

Further work would be required to address the legislative changes required to implement this type of tax, since it is not currently permitted under Section 16 of the Traffic Safety Act.

*xiv) **Vehicle Insurance Tax***

This type of tax could provide funding to general revenues for a variety of capital and operating costs, including those required for mobility (such as transportation network, transit, fire, police and pathways).

Further work would be required to address the legislative changes required to implement this type of tax.

v) ***Land Value Capture Tax***

This type of tax could provide funding to general revenues to fund a variety of capital and operating costs. This tool captures a portion of the increase in land value resulting from zoning of the land to a higher use. It is used in Vancouver, BC to fund affordable housing and is used in some municipalities in the United States to fund infrastructure in redevelopment areas.

Further work would be required to address the legislative changes required to implement this type of tax.

vi) ***Other Funding Mechanisms***

There are a number of existing taxation tools to fund capital and operating costs of infrastructure. Further work could be undertaken to identify new taxation tools to ensure capital, operating and lifecycle funding is provided for complete communities. This further work could identify funding approaches that are flexible and adaptable which will accommodate innovation by the development industry and meet the evolving needs of the local community.

vii) ***Permanent Area Contributions***

This mechanism provides an approach for the first developer in an area to oversize infrastructure to service a larger area and recover costs from subsequent developments that benefit from the oversized infrastructure. It could provide funding for roads, utilities and major infrastructure in a specific catchment area. This type of mechanism would rely on The City to administer it. This mechanism is currently used in the city of Edmonton.

Further work would be required to address the following issues:

- Catchment areas for various infrastructure need to be determined;
- Associated infrastructure needs to be identified;
- An implementation plan needs to be developed; and
- Industry and City costs need to be identified for administration of this mechanism.

viii) ***Private Utilities***

The industry identified the possible use of private utilities to fund water and sewer systems. This type of approach would have a number of issues which would have to be addressed including, but not limited to, the following:

- Multiple utility providers would create a fragmented system which would require coordinated oversight to ensure appropriate approvals for connections to different utility systems and for scheduling required maintenance and upgrades;
- A water utility provider would require its own water or diversion license;
- A storm sewer service provider would require its own storm outfall;
- A sanitary system provider would require its own treatment facility and may require its own discharge outfall for sanitary effluent; and
- A utility operator requires an operating license from Alberta Environment.

APPENDIX 1: Principles for Financing and Funding

Administration is recommending principles and guidelines for Financing and Funding agreements and other mechanisms that are intended to supplement existing Council approved principles for funding growth related infrastructure in new and established areas. The recommended principles and guidelines are presented below, followed by the existing Council approved principles.

Recommended Principles for Financing and Funding

Agreements should not have a net cost to The City beyond what The City would assume if the infrastructure is built according The City's schedule.

Agreements should not re-prioritize The City's capital budget.

Agreements should include provisions for developer funding of the net operating and lifecycle costs until The City would normally provide the infrastructure.

Agreements proposed by developers that adhere to these principles will be considered for use by Administration.

All Agreements will be made public once approved and in force, subject to Freedom of Information and Protection of Privacy Act (FOIP Act) and Municipal Government Act (MGA) requirements.

Recommended Guidelines for Possible Scenarios

Recognizing that different types of proposals may come forward, Administration is recommending the following guidelines for potential proposals under different scenarios.

1) City Payback for Infrastructure Within Current Capital Budgets

- Payback of the City's portion of costs should be linked to the trigger(s) that are quantified and negotiated at the time of agreement, with provisions for developer funding of the net operating and lifecycle costs until the trigger(s) are reached.

2) Delayed City Payback for Infrastructure Outside of Current Capital Budgets

- Payback of the City's portion of costs should be linked to the trigger(s) that are quantified and negotiated at the time of agreement, with provisions for developer funding of the net operating and lifecycle costs until the trigger(s) are reached.
- Developer Funding should not be accepted in lieu of City-wide acreage assessments or other City-wide off-site levies.
- Developer Funding should include consideration on the impact and benefits to other Council-approved priorities.
- All City departments will be involved in reviewing and considering impacts of proposed agreements or other mechanisms and such review and consideration will be undertaken in a timely manner in accordance with these principles.

*xv) **Vehicle Registration Tax***

This type of tax could provide funding to general revenues for a variety of capital and operating costs, including those required for mobility (such as transportation network, transit, fire, police and pathways).

Further work would be required to address the legislative changes required to implement this type of tax.

8. Conclusion

Principles for Agreements or Other Mechanisms

Principles and guidelines have been developed for financing and funding arrangements to ensure they do not result in increased costs to The City and do not result in a re-prioritization of The City's capital budgets. These principles address the possible scenarios for City payback associated with developers front-ending infrastructure, and are supplementary to the existing principles approved by Council in 2006 and 2011.

Existing Financing and Funding Tools

There are a number of existing financing and funding tools which are now being used to fund infrastructure in developed, developing and industrial areas. These existing tools will continue to be used in evaluating City funded costs.

Further work on these existing tools could include a review to identify any barriers to the further use of these tools, to identify other tools which could be used to fund infrastructure, and to evaluate the processes used for determining and implementing development charges in developed, developing and industrial areas. This would include a review of charges associated with redevelopment.

Currently Available Financing and Funding Tools

There are a limited number of financing and funding tools which are currently available, but are not currently used. It is recommended that Administration prepare a report to SPC on Planning & Urban Development which will evaluate these tools which are currently available to determine those most applicable and demonstrate their potential impact.

Future Financing and Funding Tools

A variety of financing and funding tools have been used in other municipalities throughout North America. Further work with stakeholders is required to evaluate these future tools and to address the legislative changes required. It is recommended that Administration prepare a report to SPC on Planning & Urban Development which will evaluate the financing and funding tools to determine those most applicable and demonstrate their potential impact.

9. Recommendations

Based on the input from stakeholders during the review of existing and future funding tools Administration recommends that Council:

- Approve the Principles and Guidelines for Financing and Funding; and
- Direct Administration to evaluate the Currently Available and Future Financing and Funding tools to determine those most applicable and demonstrate their potential impact, and prepare a report to SPC on Planning & Urban Development, no later than the 2013 February meeting, with details of a work plan to pursue the implementation of selected tools.

Definitions and key terms

Net costs

- Those costs that The City would incur within a development area, less the incremental revenues collected as a result of the development (as compared to the revenues The City would have collected had the development not occurred). An evaluation of Incremental revenues will include a consideration of whether the proposed development will result in a change in city-wide or specific revenues (such as property taxes, utility charges or user fees).
- For the purposes of determining provisions for developer funding of net operating and lifecycle costs, the timing of infrastructure will be based on The City's timing for construction or installation of the infrastructure.

Triggers

- A simple metric including, but not limited to, a unit count; or population; or developed units which can be easily tracked through the subdivision process and which allows the greatest transparency to both The City and developers as to when additional infrastructure is required. A trigger allows The City to withhold subsequent approvals until such time as the required infrastructure is in place.

Operating and Lifecycle Costs

- Those costs The City would incur for the operation, repair and renewal of City infrastructure. For the purposes of the Growth Management Framework, these estimated costs are included in the cost model spreadsheets for each proposed development. For the purposes of an agreement, additional rigour will be required to delineate the specific costs associated with a financing / funding proposal.

Impacts and Benefits

- Includes, but is not limited to, consideration of the effects of a proposed development on build out rates, City revenues, City costs (capital, operating, and lifecycle), and the Growth Management Implementation Schedule (GMIS).

3) No City Payback for Infrastructure Outside of Current Capital Budgets

- Development proposals for no City payback will be evaluated on a case by case basis and this evaluation will include but not be limited to a consideration of:
  - alignment with Municipal Development Plan (MDP) goals, land supply targets and principles, and other criteria of the Corporate Growth Management Framework;
  - impacts on the prioritization list; and
  - requirements of the Municipal Government Act.