Administrative Methodology Document

This document is laid out in 3 parts. Part 1 are updated principles and application guidelines. Previous versions were found in the Off-site Levy Bylaw appendix. Part 2 is the methodology for reviewing the Bylaw and setting a new Off-site Levy rates. Part 3 is the management plan for how the relationship between the City and Industry is to be maintained.

Part 1 – Off-site Levy Principles, Objectives and Assessment and Collection of Off-site Levies

In accordance with the Municipal Government Act, the City of Lethbridge has created Off-Site Levies for water, sanitary sewer, storm sewer and roads by enacting an Off-Site Levy Bylaw. This document will lay out how the Levies are determined, including incremental improvements made to the process over each cycle of Off-Site Levy review.

The intention of the City in developing this document was to ensure understanding of the methodology for any developer practicing within the City. If there is any inconsistency between the principles and application guidelines in this document and the Bylaw, then these principles and guidelines are of no force or effect to the extent of the inconsistency.

The purpose of the Off-site Levy Bylaw is to create Levies to provide funds for the construction of Off-site infrastructure required for growth.

The Off-site Levy has been created in close consultation with the Land Development Industry, also referred to as the Industry in this document. The Industry includes land developers, consultants, contractors and home builders. During the review the Industry is primarily represented by Building Industry & Land Development Association Lethbridge Region (BILD) however the Lethbridge Construction Association (LCA) along with any land developers, consultants and contractors known to the City were invited to join the review and could stay informed on the publicly available Get Involved Lethbridge website.

The City values the relationship with Industry. The current approach to Off-site Levies was implemented in 2004 after 18 months of consultation with Industry. Since that time every update of the Bylaw has included discussions with Industry that have clarified the provisions of the Off-site Levy and made improvements that reduce risk and optimize the cost.

Along with Industry, the following principles and objectives were developed:

PRINCIPLES

The following principles provide guidance for interpretation of the Bylaw and form the basis of the provisions.

1. Development in new growth areas and undeveloped parcels will provide the capital that will fund the infrastructure required for growth through the use of Off-site Levies. Those who benefit from the infrastructure, which is defined as all those within the development region, should share proportionally, on a per hectare basis, in its costs. These projects provide service extensions to specific new neighborhoods or create capacity for entire sectors of the city.
2. Provision or the providing of Off-site Infrastructure will not create an advantage or penalty due to the time or location of development. Thus Off-site Levies should remain somewhat constant over time, excepting inflation, unless additional costs are added.
3. Infrastructure will be provided to maintain cost effective and orderly growth. Decisions regarding what is considered cost effective and orderly growth are not made through the Off-site Levies but are determined

through the planning process by City Council. Thus, Development that is not contiguous with existing development that requires the extension of services across undeveloped land, will not be funded by the Off-site fund without additional justification, negotiation and approval by City Council. This may include funding by the developer.

4. The calculation of the Levy is clear and reasonable and is completed in compliance with the provisions of the Municipal Government Act. Full and open disclosure of all off-site Levy costs and payments will be made annually.
5. Some projects are of a magnitude and scale that they provide community wide benefit. Examples of this type of infrastructure have historically includes the water treatment plant, waste water treatment plant, arterial roadway expansions beyond four lanes and road bridge crossings of the river valley.

BENEFIT AND DEVELOPMENT REGION

The selection of the Development Region is based on the idea that the ultimate beneficiary of development is the lot owner. The benefit received is access to water, sewer, storm and road infrastructure. Regardless of where in the community a lot is located the benefit is the same and approximately proportional to the area developed.

This approach is consistent with principle 2: "Provision or the providing of Off-site Infrastructure will not create an advantage or penalty due to the time or location of development."

Administratively a single development region is more transparent to all parties, less complicated and requires less effort to manage. The Offsite Levy Rates for each component are set using multiple assumptions used to forecast the Offsite Levy Cash Flow. There are uncertainties in the assumptions and the differences between actual development and the forecasts are larger than the predicted differences between the Levy rates forecast for individual city sectors.

OBJECTIVES

1. To recover the cost of infrastructure required for growth by:
   a. Using financing strategies that maintain the capacity of the Offsite Levies to fund infrastructure required for growth.
   b. Facilitating development by reducing risk on early Developers and ensuring future Developers share the costs of the facilities from which they benefit.
   c. Promoting cost effective development through the use of competitive procurement processes, design of consolidated infrastructure serving multiple areas and the ability of the City to borrow at better rates than land developers.
2. To promote orderly development by:
   a. Supporting City planning through growth strategies, Infrastructure Master Plans, Master Servicing plans, Area Structure Plans, and Council approved levels of service.
   b. Providing Off-site infrastructure, once the outline plan is approved and when Developers require it.
   c. Providing infrastructure for continuous development.
3. To create a transparent process by:
   a. Complying with the Municipal Government Act and relevant regulations
   b. Providing opportunity for Industry input into the Levy and its Administration as specified in the Management Plan.

c. Providing an Annual Report on Levies and account status.

d. Using Project Management Methodologies, Partnering Facilitation, Value Analysis and stakeholder consultation to ensure good value in the utilization of the Levy funds, in line with the COL procurement policies and processes. Partnering is a facilitated process of team building, first developed by the Army Corp. of Engineers and brought to Alberta in the 1980s by Alberta Transportation. Partnering used in the City of Lethbridge has resulted in good value and award winning projects.

4. To create a clear process for establishing the rate, Levies, and credits by:

   a. Creating consistent and predictable Levies and credits.

   b. Creating predictable and stable Levies over time.

   c. Documenting a process for establishing the Levy rate.

   d. Create a logical cost recovery framework.

CALCULATING OFF-SITE LEVIES DUE FROM LAND DEVELOPMENT

Off-site Levies will be assessed on all Developable Land within the development region as laid out in the Off-site Levy Bylaw.

When one of the Off-site Levies become due, all components are due unless it can be shown that a component has already been paid or where there will never be a connection to a component Specifically, the connection of a parcel to the transportation network is not evidence that the Transportation Off-site Levy has already been paid.

No legally defined parcel of land will be assessed Levies on only a portion of its area. Off-site Levies will not be collected on land where:

1. It can be shown or it is reasonable to assume that the land was previously connected to all municipal services including water, sanitary sewer, and storm drainage services, and road access; indicating that the component Off-site Levies were paid under a previous service agreement or

2. There will be a requirement for a future service agreement to manage the installation of public infrastructure under which Off-site Levies can be collected; or another reasonable opportunity to collect Off-site Levies in the future.

3. The land remains completely un-serviced.

CONNECTION OF HOMESTEADS

Where a new service is provided to an existing homestead residence, but it is not appropriate to charge Off-site Levies, then an appropriate connection charge will be assessed to allow the service connection. The connection charge will be evaluated based upon the equivalent value of the Off-site Levy components for services provided, land area used by an equivalent residence on an urban lot, and future opportunities to collect all the Off-site Levies. This occurs only where an existing, formerly un-serviced residence is connected to City services where no planning, subdivision, or zoning changes are contemplated.

CONNECTIONS BEYOND THE CITY BOUNDARY

For services provided beyond the City boundary, a connection charge will be negotiated in lieu of Off-site Levies that is appropriate to the services provided and is representative of the connections impact on the overall system.

PAYMENT TERMS - OFF-SITE LEVIES

The Off-site Levies assessed are collected under the Service Agreement as per the following payment schedule.

1. TIMING

   Off-site Levies will become due upon execution of the Service Agreement. Should the developer choose, 50% of the assessed fees may be paid upon execution of the service agreement and 50% will be paid prior to the first building permit being issued within the development phase.

2. CALCULATION OF OVERSIZE CREDITS FOR UNDERGROUND UTILITIES

   Oversize credits are provided to developers in compensation for the requirement to build larger pipe infrastructure early in the development and smaller base size pipe near the end of an outline plan area.

   Oversize credits shall be equal to the assessed value of the facility installed minus the assessed value of the base size facility.

   Oversize credits will be calculated on a uniform basis in any calendar year using the procedures, tables and formulas established by the City Administration. The Oversize credit table will be shared by City Administration upon request.

   Developers are responsible for extending services to their property line.

   Oversize credits shall be calculated using the following formula:

   Oversize Credit = Value of Facility Constructed - Value of Base Size Facility

   Oversize Credits will be provided for the capital costs of the following types of facilities and pipe installations:

   a. Sanitary Sewer

   b. Storm Sewer

   c. Water

   d. Sanitary Sewer Lift Stations and associated force mains

   The base size pipe diameters for non-industrial developments are:

   a. Water = 250mm

   b. Sanitary = 300mm

   c. Storm = 450mm

   In industrial areas larger base sizes will be used to acknowledge the additional capacity required. The base size pipe diameters for industrial developments are:

   a. Water = 500mm

   b. Sanitary = 600mm

   c. Storm = 1800mm

   The base size for Sanitary Sewer Lift stations is 16L/s.

   The base size for Storm Sewer Lift Stations is 39L/s.

   A Developer may appeal the oversize credit calculation should significant fluctuations in costs occur over a single construction season. City Administration will update the credit calculation tables by polling contractors, consultants and suppliers.

Credits will not be paid for facilities that service a skipped development until the land in which the facilities are located is developed. Oversized credits will be calculated based on the Service Agreement for the intermediary lands.

Facilities and pipes smaller than base size shall not be eligible for oversize credits.

Oversize credits will not be provided for storm water detention facilities.

3. REIMBURSEMENT TO DEVELOPERS COMPLETING OFF-SITE LEVY FUNDED PROJECTS

Sometimes there are advantages to the City, community or Developer in either cost or time for a Land Developer to complete an Off-site Funded Project. Usually, this is connected to the Land Developer's schedule requirements or coordination requirements between the Off-site Project and the adjacent land development.

The Installer of an Off-site funded CIP project will be compensated from the Off-site Levy based on the following criteria:

a. A budget for the work is agreed to by both the City and Developer
b. An engineer's estimate for the work is submitted to the City prior to construction beginning
c. A competitive process is used to select a contractor to do the Off-site work
d. Change and quality control processes are followed
e. Any increases to the total budget or changes to scope are approved by the City Engineer prior to incurring the cost

Off-site credits for Off-site infrastructure will be listed in the Service Agreement. The reimbursement will either be based on actual project costs as submitted by the developer's engineer or agreed upon estimates.

4. ARTERIAL ROAD ROW CREDIT

A developer providing land for Arterial Road right of way or other Off-site Levy projects will be provided a credit to offset the land value. The value of the credit will be based on the current value of undeveloped land as determined by the City's Assessment department. The assessment shall be carried out following the conditions of the land as laid out in the Municipal Reserve cash-in-lieu process.

When more than 2 hectares are being provided then the Developer can request an appraisal that can be completed by a jointly agreed upon appraiser, the costs of which will be shared between the developer and City, or the average of appraisals completed by the City and the Developer. The appraisals must be completed under the same basis as defined in the MGA Section 667 for determining the cash-in-lieu evaluation for Municipal Reserve. The results of the appraisal will be used regardless of if it is higher or lower than the amount established by the Assessment department.

5. PAYMENT OF CREDITS TO DEVELOPERS

Oversize credits will be offset from the total amount of the Off-site Levy Fees owing at the service agreement stage. Any remaining oversize credits owing will then be paid to the developer upon execution of the service agreement. Where the developer chooses to split the Levy payment into two (Section 6) the first payment will be zero if the credits owing are greater than the first 50% of Levies being paid. The remainder of the credits will be applied to the second 50% of Levies owed. This is to reduce administrative work where the City issues a payment only to receive it back at a later date.

The terms of payments for Off-site credits will be reflected in the Service Agreement and will be determined on a case by case basis.

6. PREPAYMENT OF OFF-SITE LEVIES

Prepayment of Off-site Levies occurs when Off-site Levies for a parcel of land are paid prior to the year in which it will be serviced as indicated by a Construction Completion Certificate being issued by the City for the water and sanitary sewer utilities.

Prepayment will be accepted when:

a. A single legal entity has control over the land on which prepayment is to be made.

b. Payment is made on entire legally defined parcels of land. (no payment will be accepted on part of a parcel)

c. The total of the parcels consists of more than 100 hectares of land excluding land that would be designated ER, MR, SR and MSR.

Provided that the above three conditions have been met the Levies will be calculated as:

Off-site Levies Due = Current Off-site Levy Rate x Land Area

Once Off-site Levies have been paid under this clause, no further Off-site Levies will be collected. No refund of Off-site Levies will be provided on any land which has had the Levies prepaid and subsequently become exempt from Off-site Levies at a future date (for example land that once subdivided is designated Municipal Reserve at a later date).

Oversize credits will be calculated based upon the Off-site Levy Bylaw, Service Agreements, procedures and rates in place at the time the work is completed.

7. TIMELINES FOR APPLYING LEVY RATES

It is intended to collect Off-site Levies appropriate for the year in which a developer intends to have all lots within a development phase ready for on lot development.

If a Developer requests a service agreement past September 1, in order to qualify for Off-site Levies in place in that year, the developer will:

a. Provide a construction schedule that shows there is a reasonable expectation that the development phase will be ready for the Underground Construction Completion Certificate prior to November 1st. Standard practice is 2 lots serviced per day from the start of construction (i.e. 30 lots would take 15 days to service with underground utilities)

b. Demonstrate effort consistent with the proposed Construction Schedule to complete the development phase during that year's construction season.

Part 2 – Off-site Review Process

As an input to the Capital Improvement Program budgeting cycle, the City undertakes a review of the Levy at least every 4 years in order to establish the rate and align Off-site Levy projects with the CIP.

A cash flow forecast, the Offsite Levy Cash Flow is used to set rates that maintain the capacity of the of the Levies to create infrastructure in the time frames established in consultation with Industry and balance the debt risk to the municipality.

The following section outlines the steps in the review process, how the input values were derived, and where the values are used in the Off-site Levy Cash Flow Forecast.

The following is a list of meetings along with the work and assumptions that go into each discussion:

1. MEETING #1 - OFF-SITE LEVY 101
    a. Typically, the process begins with a refresher on how the Levy works for any new Industry stakeholders.
    b. Discuss the plan for the review process
    c. Often this meeting also includes a review of the previous year's annual report.
2. MEETING #2 - FINANCIAL FACTORS
    a. Financial factors are inputs into the Off-site Levy Cash Flow Model. The MGA requires that the Off-site Levy include mechanisms to account for changes in cost over time. The cost of borrowing is included in the recovery from land developments and so the interest rates are required to estimate these and the interest flowing into the Off-site Levy account is also to be accounted for.
    b. This meeting covers the discussion around financial factors. As the Levy is carried by the City, certain requirements from the City Financial Department must be followed. While information from sources such as the Alberta Government and Consumer Price Index (CPI) are referenced, because the rate is to be used to estimate future costs, the exact values to be included in the model are set in consultation with the Land Development Industry, within the limits set by the Finance Department. The financial factors are used to predict future value and borrowing interest rates.
    c. Financial Factors include:
        i. Inflation Rate
            1. The project inflation factor relates to the CIP approval process. The finance department and the City Treasurer gives instructions on the inflation factor to be used when estimating future projects. For the 2022-2031 CIP, we were instructed to use 3% per year. If when the project is initiated the costs of a project are significantly different than forecast as part of the CIP, a project review takes place that considers, adjusting the scope of the project, seeking other funding mechanisms or amending the CIP. An inflation factor is used to increase the Off-site Levy rates year over year. This inflation factor is normally the same as the inflationary factor used to forecast future value of projects.
            2. The CPI rate can be found at: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ09j-eng.htm (Change location to Alberta to get the regional data). We use historic CPI rates to predict reasonable future inflation factors.
            3. The CPI rate for the last 107 years is found in the cash flow spreadsheet. The Cash Flow Spreadsheet is available to view upon request to the City Engineer, Byron Buzunis, byron.buzunis@lethbridge.ca.

ii. Interest Rate

1. Interest rates are forecast to estimate the future cost of borrowing for projects. Website for current rates are here: [Loans to Local Authorities - Lending Rates (gov.ab.ca)]
2. Prior to September 30, 2020, loans and lending rates were offered through Alberta Capital Finance Authority (ACFA). As of October 31, 2020, ACFA was dissolved and loans and lending rates are now offered by the Government of Alberta.
3. In the last review, the following rates were used:

Term (in Years)	Rate Used (2020-21)
0	0.000%
3	2.812%
5	3.107%
10	3.623%
15	4.028%
20	4.324%
25	4.516%
30	4.629%

4. In order to manage the City's debt risk, an interest rate safety factor is used. The primary decision maker on the increase factor is the City Treasurer. The City Treasurer consults with Industry. As part of the review, we can adjust the factor to ensure we are accounting for all the influences that have an effect on borrowing rates. The factor used in the 2020-21 was 1.75%. This means there was 1.75% added to the most current indicative rates from the ACFA/Alberta Government site. The primary decision maker on the value of the interest rate safety factor is the City Treasurer. Borrowing rates have increased considerably over the last 6 months. One of the reasons is when the ACFA was dissolved and the borrowing was moved to the Alberta Government the preferential rates are no longer available to municipalities. Economy and Bank of Canada are also factors in the borrowing rates.
5. The borrowing terms of a loan are highly dependent on the cash flow of the Off-site Levy.
6. The following are the rates being proposed for 2023-2026

   Interest Rate Safety Factor 1.75%

Term	Proposed New Rate (2023-2025)	Current ACFA (15-Mar-22)	Increase From Previous Review
0	0%	0%	0.000%
3	4.28%	2.530%	1.468%
5	4.46%	2.710%	1.353%
10	4.82%	3.070%	1.197%

15	5.15%	3.400%	1.122%
20	5.37%	3.620%	1.046%
25	5.51%	3.760%	0.994%
30	5.59%	3.840%	0.961%

iii. Rate of Return

The balance in the Off-site Levy account earns interest. This is paid by the City and calculated based on what the City earns on investments. This factor ranges from 1 to 3%. The rate of return for 2021 was 1.615%. In the Off-site calculation the rate is 3%. We have reviewed and set this rate at 2.5% for the 2023-2026 term.

iv. Oversize Costs

Oversize infrastructure is considered to be sanitary facilities, storm sewer, and water facilities sized greater than the predefined base size or capacity that provides increased capacity in the system beyond what is required by the current phase of development. The Off-site Account provides compensation payments for the installation of oversize infrastructure. These costs are budgeted as part of the Off-site Levy rate and accounted for in the cash flow of the Off-site Levy balance. The 2021 oversize costs were $795,325. The estimate of yearly oversize costs in the Off-site Levy calculation is $1.9 million. The oversize cost will be part of the review.

v. Allocation of Rate to Water, Sanitary Sewer, Storm Water Management, and Transportation

The allocation of the Levy into the 4 components is based on the actual cost of each Levy as well as what is required in the cash flow to cover debt payment in the near future. This is shown on the Detail tab in the Cash Flow spreadsheet.

vi. Borrowing Terms

1. Borrowing terms are adjusted by project between 0 (paid without borrowing) and 20 years. Special approval is required to go past 20 years. Borrowing terms are selected to optimize the cash flow.

vii. Proactive Planning.

These are ideas that have been considered in the past to manage risk, however, they have not been actioned. They indicate future potential issues related to the City's management of risk and capacity to continue to finance growth. They will be explored further during the Offsite Levy Review Phase 2 planned for 2023 - 2024.

1. Creating a "reserve" within the Levy – This would involve managing the balance of the account to some value higher than $0. The current though would be to manage to one year's debt payment (~$6M)
2. Establishing a debt cap - This would cap the total Off-site funded debt. The result would be spreading out projects and likely limiting the number of growth areas..
3. Alternative financing strategies – Exploration of potential funding from Bond issues.

3. MEETING #3 - FORECAST GROWTH AND GROWTH DIRECTIONS

The growth forecast maps predict the timelines of growth and development in various areas of the City by quarter section. These forecast timelines are then used to predict the year of Off-site funded projects required to serve the subject area.

a. Review forecast maps and growth direction based on Industry input:

   i. There are 3 growth maps representing each sector of the city: North, South and West.

   ii. Areas within the City boundary that are undeveloped are divided into quarter sections. Initial timing is based on previous growth rates and estimates. Growth directions are based on the location of completed ASP's and Outline Plans, existing infrastructure, active growth fronts, and market demand. High level guidance is provided through policies in the MDP. The estimates are based on 8-10 fronts, completing on average 4 Ha. Per phase is 32-40 ha per year. That means that a ¼ section of 60 ha is completed in about 15 years.

   iii. These maps are updated by the Stakeholder group and then the final maps are drafted and/or updated by the Planning GIS Technician. These maps along with other supporting documents are available on the City website Lethbridge.ca and are listed at the bottom of this section.

b. Talk about the forecast estimates as a group:

   Once those initial timeframes have been set discussion with Industry further refines the dates based on the developers understanding of market conditions. Any sections that are in unplanned areas are dated based on estimates (as laid out in growth forecast map) taking into account actual growth that has occurred since the last Levy review.

c. Staged growth rate forecasting:

   i. As a risk mitigation strategy the growth forecast is staged by:

      1. individual year for the first 4 years

      2. then a conservative lower than average growth rate for 6 to 10 years

      3. then the historical average for 11 years and beyond.

   ii. This is done so that the subsequent review can avoid a substantial change in the Levy rates.

d. Staging the start of new development areas:

   This discussion occurs if an area has high level planning (such as an Area Structure Plan) is in place, but requires significant investment in infrastructure to begin development. In consultation with Industry the Offsite Levy review may recommend delaying investments and projects or delaying the projected start of certain developments in order to improve the forecast cash flow.

4. MEETING #4 - PROJECT SCOPE / ESTIMATES / TIMING

   a. Review Projects required to service all land to the extents of the city limits:

      i. City Administration, including Infrastructure and Planning staff, review the projects required to service land to the city limits. These are the projects required to create capacity to allow servicing of new lots. The justification for the projects falls into two categories: 1) Extending infrastructure to new development areas; and 2) expanding existing infrastructure capacity to accommodate growth.

      ii. Projects within planned areas of the city are established based on the planning in place.

      iii. Infrastructure in unplanned areas are located based on knowledge of the existing system and current geographical conditions. Projects in unplanned areas are refined as planning takes place.

b. Review project scope (how long is the pipe, what size of road, what type of intersection)

i. For each project the scope of work is determined.

1. Road

Arterial Roads				
Stage 1	Stage 2	Roundabout	Signalized Intersection	Total Road Estimate

2. Underground

Water		Sanitary Sewer			Storm		
Length of Pipe	Total Estimate	Depth 2-8m	Depth 8+m	Total Estimate	Depth 2-8 m	Depth 8+m	Total Estimate

3. Other (these are based on previous projects or engineer's estimates)

a. Storm Outfalls

b. Lift Stations

ii. The project estimates are located in the cash flow spreadsheet on tab "Project Costs 2019". These are the current rates:

Project Unit Rate Estimates		
	per	**Unit Costs**
Arterial Roads Stage 1 Thru Lanes	meter	$ 3,600
Arterial Roads Stage 2 Thru Lanes	meter	$ 4,100
Stage 1 Intersection	ea	$ 400,000
Stage 2 Intersection	ea	$ 600,000
Round About	ea	$ 850,000
Purchase of Land for Arterials		
Deep Storm / San Sewer more than 8 m	meter	$ 3,000
Storm / San Sewer Less than 8 m	meter	$ 1,800
Water Distribution Lines	meter	$ 800
Contingency		20%

c. Review Project costs

i. Estimates for all the work scopes are created based on similar work done in the recent past.

ii. Unit rates have been developed in consultation with Industry for each component.

iii. A contingency rate of 20% has been added to the total project costs as project costs are based on high level estimates.

d. Review Project timing based on Growth Forecast and directions

   i. The year assigned to each project comes from the growth forecast maps showing the estimated years of development for the land surrounding the project.

   ii. The review may decide to delay areas to improve the cash flow as laid out in Staged Growth forecast (3. c.).

e. Arterial Roadway Off-Site Funded Cost Share

   The MGA requires that project costs are apportioned between the beneficiaries. For Arterial Roads funded from the Off-site Levy the following approach is taken to apportion costs between the proportion creating capacity for development paid for by Offsite Levies and the proportion benefiting the existing community paid for from other sources. These proportions are developed in consultation with Industry over multiple Off-site Levy reviews.

   The Off-site Levy funds the following share of arterial road projects:

   i. Funding will be 100% of the project costs of the new arterial roadway. New arterial roads include projects that construct the initial two lanes of the required arterial.

   ii. Funding will be 75% of the project costs for twinning an arterial roadway. Twinning new arterial roads includes projects that expand arterial roads constructed after 2003 from 2 to 4 lanes.

   iii. Funding will be 50% of the project costs for projects bounded on at least one side by areas built prior to 2003. Expanding bounded arterial roads includes projects that expand the arterial road from 2 to 4 lanes.

   iv. Funding will be 25% of the project costs for projects that expand or enhance Arterial roadways located within the historic core of the City which is show on the Figure 1, Map of Historic Core.

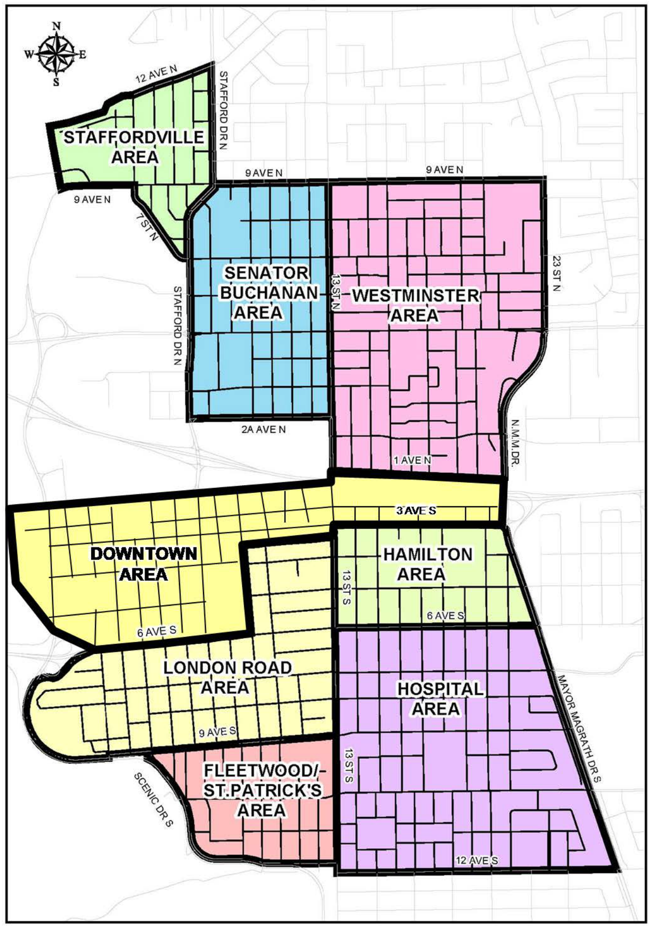

Figure 1 Map of Historic Core

f. Underground Utility Off-Site Funded Cost Share

The MGA requires that project costs are apportioned between the beneficiaries. For underground utilities funded from the Off-site Levy the following approach is taken to apportion costs between the proportion creating capacity for development paid for by Offsite Levies and the proportion benefiting the existing community paid for from other sources. These proportions were developed in consultation with Industry over multiple Off-site Levy reviews.

The Off-site Levy for each of the underground facility will cover the costs of expanding the capacity of collection or distribution system and the extension of these systems to service additional lots which pay the respective Offsite Levies.

In cases where water, sanitary sewer, and storm sewer improvements are made to underground infrastructure built prior to 1991, then the available credit will be the present value of the upgraded facility less the present value of the existing facility. These types of upgrades are typically covered under a capital project.

5. MEETING #5 - SET THE OFF-SITE LEVY RATE

a. Enter all the actual historical data available to bring the cash flow model up to date.

b. The rate is distributed across the 4 Levy components based on current balances in each component fund and forecasted projects.

c. Update all the factors determined through the review process in the cash flow model.

d. A review of the financial impacts (debt vs revenue) is undertaken.

e. Through an iterative process changes are made to the project timing, loan terms and rates to distribute costs more evenly.

f. The cash flow is reviewed internally with the City Treasurer and members of the Executive Leadership Team and Finance. This step is to determine a proposed rate that manages risk to acceptable levels for the corporation. Factors that are considered include:

   i. Forecast balance in the account focused on the next +20 years

   ii. Debt load of the Levy and projected annual revenue

   iii. The forecasted point at which the balance in the Levy account reaches zero

   iv. The lowest forecasted amount in the Levy account including balances below zero

   v. Administrative comfort with the estimates determined by the review process.

   vi. The current Economic climate and forecast stability.

g. A rate is selected for proposal to Industry.

h. A discussion is held with Industry and any input received

i. The rate is finalized for inclusion in the bylaw and approval by Council. The cash flow is reviewed internally with the City Treasurer and members of the Executive Leadership Team. Industry input is discussed. The cash flow is reviewed and if required the Levy rate is adjusted. Factors that are considered include:

   i. Balance in the account

   ii. Debt load

   iii. Point at which the balance reaches zero

   iv. The amount below zero the balance goes

   v. Uncertainty level in forecast inputs

   vi. Economic state and stability.

6. MEETING #6 - DOCUMENT REVIEW

   a. Review the revised Bylaw, add the new rates and adjust any other language.

   b. Review and update the methodology document.

   c. Submit to City Solicitor for legal review and bylaw preparation.

7. TAKE THE BYLAW TO COUNCIL

   a. Once the rates have been agreed to along with the Bylaw wording changes, it is submitted to Council for approval

   b. Once the rates have been approved, new values are used in future service agreements.

8. CHANGES TO THE BYLAW

   a. Should any projects require changing in timing or scope beyond the CIP process, the changes must be taken to Council for final approval. As per the management plan, the proposed changes will be discussed with Industry.

9. DRAFT CIP SHEETS FOR PROJECTS WITHIN THE CIP TIMELINE
    a. Draft CIP sheets are created and shared with Industry after the rate is finalized.
10. DOCUMENTS REFERRED TO AND CREATED TO ESTABLISH THE OFF-SITE LEVY RATES

Please see the Offsite Levy Bylaw for the list of documents and reference materials used to establish the Off-site Levy rates.

Part 3 – Off-site Management Plan

1. PURPOSE

This management plan supports the Off-site Levy principle of creating an open and transparent process by creating a framework for meeting with stakeholders and establishing roles and responsibilities in managing and reviewing the Off-site Levy and CIP Projects.

The Objectives of the management plan are to create the following mechanisms:

a. Off-Site Funding Eligibility Rules

   i. Provide Industry input into the interpretation of rules used to determine which projects are funded from the Off-site Levy. The rules are set during the Off-site Bylaw Review and used to establish the Off-site Levy cost share of for Capital Improvement Program (CIP) projects.

b. Ensure Congruence

   i. Provide Industry information and Off-site Levy financial statements on an annual basis so Industry representatives can have confidence that Off-site Levy funds are being applied in congruence with the Bylaw.

   ii. Outline the content and process for annual reporting.

c. Off-Site Levy Forecasting

   i. Define guidelines for developing an integrated set of inputs from the City and Industry based on which the Off-site Levy Cash Flow Model forecasts the Off-site Levy Account Balance as part of the Off-site Levy Review.

d. Off-Site Levy Bylaw & CIP Amendments

   i. Provide Industry information and request input for consideration by City Council into changes to the Off-site Levy Bylaw or to Off-site Levy funded CIP projects.

e. Maximize Value

   i. Manage infrastructure delivery strategies to ensure that good value is received for infrastructure investments made by the Off-site Levy.

   ii. Provide Industry information that good value is achieved in the delivery of all Off-site Levy funded infrastructure.

f. Manage Risk

   i. Provide an action plan for the initial management of short falls in predicted revenues.

2. MANAGEMENT GROUP – STAKEHOLDERS – ROLES AND RESPONSIBILITIES

The MGA empowers the City to enact Off-site Levies and sets out the legal requirements of a Bylaw in the MGA and Regulation.

The City of Lethbridge manages the Levies as required by the Act and regulations and generally accepted accounting practices for the benefit of infrastructure users and taxpayers, in support of the development Industry and the city as a whole. The City carries the debt risk of financing infrastructure required to provide infrastructure to lots and is the ultimate owner of all public infrastructure. After the warranty period the city , as owner, is responsible for maintaining and replacing the infrastructure as required by Council.

City Council sets the Levy rates with input and discussions from Administration and Industry stakeholders. City Council sets the budget and schedule of projects in the Capital Improvement Program (CIP).

Administration and Industry stakeholders through the Off-site Levy review, provide the estimated costs, and timing of projects and recommend these to City Council for the CIP. Forecasts of growth and predictions of project timing and costs are completed by Administration with input from Industry stakeholders.

Growth directions and the initiation of Area Structure and Outline Plans are the responsibility of the Planning department which takes its direction from higher level planning documents, including the MDP, and principles approved by City Council. The Off-site Levy as a funding source is one input into this decision making.

The City Engineer is tasked with the routine management of the Off-site Levy. The City Engineer interprets and applies the Bylaw and determines if Off-site Levies are due and if projects meet the requirements for Off-site Levy funding. These decisions are based upon the provisions of the Bylaw and the results of consultations with Industry during the reviews of the Bylaw.

Land Developers pay the Off-site Levy which reimburses the account for investments made in infrastructure, creating capacity for continued growth. Land developers recover these costs through the sale of lots.

The Building Industry & Land Development Association Lethbridge Region (BILD) is the main association representing the local land development Industry. As such, they form the primary contact point for the City in obtaining Industry feedback on the Off-site Levy.

3. DELIVERY OF OFF-SITE INFRASTRUCTURE

The delivery of Off-site Levy Funded infrastructure needs to be monitored to ensure that good value is received for the investments made.

Off-site funded infrastructure projects are identified in the following documents

a. The Capital Improvement Program (CIP)
    i. Completed concurrently with the Off-site Levy Bylaw and Rate review.
    ii. Establishes general project limits, order of magnitude budget, project timing, and Off-site Levy cost share.
b. Area Structure Plans and Outline Plans
    i. Completed in advance of land development
    ii. Establishes general project limits, indicates project timing, and Off-site Levy cost share.
c. Infrastructure Master Plans

Delivery of CIP projects is typically managed by the City of Lethbridge Infrastructure Services Departments. In the majority of cases, these projects are delivered following the standard City of Lethbridge procurement policy and processes.

Occasionally Off-site funded projects are delivered by the local developer. Assignment of work to a developer who is undertaking the local servicing associated with the Off-site project is generally done to take advantage of economies of scale, provide the developer greater control of project timing, and to stream line communications by reducing the number of project managers, consultants and contractors involved. Developer delivered projects are required to execute the project with equivalent levels of competition and process as City procurement processes.

4. ANNUAL REPORTING

   On an annual basis, the City Engineer will have a report prepared covering the revenue and expenditures from the Off-site Levy account. The report will include financial statements for the Off-site Levy Accounts, as well as updated forecasts. The report will be reviewed with Industry representatives. A draft of the report will be completed for the November meeting and the final report for the previous year will be provided for management meeting with BILD in April.

   a. Annual Report Outline:
      i. Review of Past year
         1. Review of the Years Projects and Developments
         2. Financial Statements (audit report)
         3. Expanded Off-site Levy Report Table
         4. Discussion of Off-site Levy Funding Eligibility Rules / Criteria
         5. Review of Projects Underway and Completed in the past year.
         6. Review of Projects Scheduled but not completed in the past year.
      ii. Forecast
         1. Review of Projects Scheduled for the coming year.
         2. Discussion of Changes Effecting Forecast
         3. Adjusted Forecast
         4. Proposed Changes to Levy Rate
         5. Discussion of Bylaw Application and Clarifications

5. OFF-SITE FUNDED PROJECT DELIVERY STRATEGY

   Off-site Levy projects should be delivered in a way that gives confidence that good value is achieved. The main mechanisms to do this include the following:

   a. Approval by City Council of a project under the CIP with funding designated from the Off-site Levy.
   b. Conformance with the City's Purchasing Policy which are aligned with the requirements of Public Purchasing and in compliance with legislation and trade agreements.
   c. Project Management Methodologies including Scope Definition, Schedule, Budget, Quality, Change Control and Monitoring and Control.
   d. Review of the detailed project scope, goals and objectives by the City Engineer and shared with BILD, in advance of issuing the Request for Proposal for the Design Engineer.
   e. Value Analysis for projects that exceed $2,000,000 in construction budget applied at the 50 to 60% design stage.
   f. Partnering: Using formal facilitated partnering to establish relationships, improve communications and to establish shared goals and objectives for projects where the budget exceeds $2,000,000.

6. PERFORMANCE REPORTING – INFRASTRUCTURE DELIVERY

   As projects proceed, changes in cost and timing will be monitored and authorized to ensure that appropriate value comparisons can be made between initial estimates and final results. The City Engineer will be included in all design teams in the role of Project Sponsor.

For all Off-site Levy Projects, the City Engineer will:

a. Authorize all changes which affect the total project budget.

b. Authorize all changes which affect the planned completion date.

c. Be informed regularly on project progress and financial status.

d. Be provided a summary of project costs upon substantial completion of the work for each design and construction project.

7. REVIEW OF BYLAW APPLICATION AND INTERPRETATION

Concurrently with the review of the annual report a discussion will be held regarding the interpretation and application of Off-site Bylaw with any resulting clarifications documented.

8. OFF-SITE LEVY BYLAW AMENDMENTS

BILD will be informed of, and their input solicited, on all proposed amendment to the Off-site Levy Bylaw and on proposed changes to Off-site Funded Projects in the CIP. Industry Stakeholders are to be provided information:

a. When a CIP project funded from Off-site Levies is amended.

b. When an amendment is made to the Off-site Levy Bylaw.

c. Industry and individual developers will be notified when projects are delayed or put on hold due to slower than anticipated growth.

BILD will be consulted in advance of City Council’s approval of the changes so that Industry feedback can be included as part of Council’s decision making.

9. RISK MANAGEMENT STRATEGY

The Off-site Levy Cash Flow Model is a tool used to forecast future inflows and outflows from the account and allows future risks to be dealt with proactively. A full review of the Off-site Levy Bylaw and Levy rate calculation is completed at least once every four years, while forecasting is updated annually forming part of the Off-site Levy Annual Report.

a. Primary Risk

The primary risk faced by the Off-site Levy account is if actual growth rates are less than those forecast. The annual growth rate translates directly into account revenue. A small short fall in the amount of land developed can have a significant impact on the required Off-site Levy rate and the ability of the account to fund required growth infrastructure. The rate of growth is variable and unpredictable and could vary by 80% or more of the average from one year to the next.

b. Forecast Inputs

The cash flow model contains several interrelated assumptions which affect future risks. For example, increased growth rates will improve revenue but have the effect of advancing projects which advances expenditures.

The inputs are not independent of each other so forecast inputs must be generated as an integrated set. This means that more rapid growth must result in adjustments to project timing.

c. Account Management Strategy

The Levy Rate is adjusted to manage the City's debt risk and keep the Off-site Levy rates as small as possible. Ideally the Off-site Levy Account balance never drops below zero. It is also desirable as a risk mitigation strategy that the balance in the account stays at a level allowing for one year of debt payments. These strategies create time where an undesirable trend in the account balance can be corrected without significant changes in the Off-site Levy rate. This allows the differences between actual events and the forecast. Typically, reviews of the forecast focus on approximately the next 20 years. Beyond this time frame uncertainty in the estimates makes the forecast unreliable. However, looking this far out allows adjustments to be spread over ±20 years of development, thereby reducing volatility in the Off-site Levy Rate.

The City Engineer continually monitors growth rates and forecasts if a revenue shortfall may occur. If a significant revenue shortfall is anticipated, the City Engineer in discussion with senior Administration and Industry will prepare a proposal for an out of cycle review of the Off-site Levy and may suggest projects which can be delayed or staged to offset pressure on the Off-site Levy Rate.