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# CITY OF KELOWNA MEMORANDUM

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**Date:** April 19, 2006  
**File No.:** 6480-40  
**To:** City Manager  
**From:** Director of Planning and Corporate Services  
**Subject:** INCENTIVES FOR DOWNTOWN AND UPTOWN (RUTLAND)  
REVITALIZATION

Report prepared by: Patrick McCormick

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## **RECOMMENDATIONS**

THAT Council receive information on the tax incentive program described in the Planning and Corporate Services report of April 19, 2006;

AND THAT the Tax Incentive Program described in the Planning and Corporate Services report of April 19, 2006 (Attachment 1) be endorsed and that the Official Community Plan Bylaw and Tax Exemption Program Bylaw amendments required to implement the program be brought forward at such time as there is developer interest in applying for a tax incentive for development within Downtown and Rutland (areas as identified in Attachment 1);

AND THAT Council endorse amendments to Council Policy 314 (Parking Credits for Mixed-Use Developments within the Downtown Urban Centre) described in Attachment 2 of the Planning and Corporate Services report of April 19, 2006;

AND FURTHER THAT the Mayor, on behalf of Council, write a letter to the Minister of Community Services expressing dissatisfaction with Local Government Act provisions for tax incentives and requesting a review of legislation with a view towards providing a wider, more effective, and easier-to-administer range of development incentives.

## **BACKGROUND**

In August, 2004 Council instructed staff to investigate refinements and options with respect to Urban Centre development incentives.

As a result of the direction from Council, further discussion regarding the terms of development stimuli took place with the Urban Centres Implementation Committee (UCIC). The UCIC considered a range of possible incentives, including grants. However, provincial legislation does not allow grants to businesses. The UCIC therefore concluded that tax exemptions in conjunction with an expanded parking credit program, showed the most immediate promise while working within legislative constraints.

The discussions with UCIC resulted in a set of recommendations that were later presented to Council on December 13, 2004. At that Council meeting, Council endorsed the terms of the tax incentive and parking credit proposals and directed staff to seek input from stakeholders prior to final consideration.

In response to Council's direction, staff sent letters outlining the terms of the programs to identified stakeholders and requested input (see Attachment 3: List of Stakeholders, and Attachment 4: Comments Received).

The comments received were generally supportive. It should, however, be noted that several respondents, principally the local chapter of the Urban Development Institute, did not feel the program would, on its own, be sufficient to trigger development.

## **DISCUSSION**

### **Tax Incentive Program**

The tax incentive program (Attachment 1) would exempt up to 100% of the municipal tax on property improvements that meet the terms set out in this report. This exemption would take maximum advantage of provincial legislation which sets the context under which municipalities can offer grants.

The tax incentive program is structured to help achieve Downtown and Rutland redevelopment objectives spelled out in the Official Community Plan and other relevant planning policy.

The boundaries proposed would encompass those Urban Centre properties deemed most in need of assistance. As currently identified, the properties are generally those where the gap between existing use and future potential (as identified in the OCP) is the greatest.

All tax exemptions would be subject to Council's approval. As such, the merits of individual applications could be assessed as received and Council would at any time be able to end or amend the program.

### **Parking Credit Program**

Under the terms of the Parking Credit Program, 25 parking credits would be made available<sup>1</sup> for new development within the Downtown tax incentive area<sup>2</sup> according to the following terms:

- The commercial component must be less than fifty percent of the gross floor area;

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<sup>1</sup> These credits would be in addition to the 25 credits currently available under *Council Policy 314, Parking Credits for Mixed Use Developments in the Downtown* (Attachment 3), assuming that policy were to still be in effect.

<sup>2</sup> The rationale for applying the parking incentive only to the Downtown was that the high water table Downtown makes it expensive to provide underground parking.

- Parking stall credits can only be applied to the parking requirements generated by the commercial uses;
- Credits are assigned on a first-come, first-served basis;
- The parking requirement for the residential component can be reduced where the developer puts forth a sustainable car-sharing proposal.

Any development consistent with Council Policy 314 would be eligible for the existing 25 credits. However, if all the credits were used by development within the tax incentive area such that there were none available for development elsewhere, or vice versa, the proposed additional 25 credits for the tax incentive area would be used to top up the original 25 credits already available. This potential revision to Council Policy 314 was discussed with and supported by the Parking Committee at their meeting on October 21, 2004.

Attachment 2 details the changes that would be required to provide an additional 25 parking credits. As per the terms of the existing policy, no exemptions would be granted without Council's approval. As such, the merits of individual applications could be assessed as received and Council would at any time be able to end or amend the program.

#### Impact on Development

Analysis by staff indicates that the proposed tax and parking credit incentives would not in themselves be enough to make a project profitable, or to attract development.

Additionally, the proposed tax incentive program would offer little motivation for a developer who builds to sell in the short-term<sup>3</sup>. The proposed tax incentive would have more appeal to the investor who intends to hold a property and rent it after construction.

The impact of the proposed tax incentive on a developer's bottom-line is expected to be limited. As such, the value of the program would primarily be as a good-will gesture. Council and the former Urban Centre Implementation Committee have previously indicated a desire to signal the City's interest in redevelopment within the areas identified in this report. The tax incentive program was formulated toward that end.

#### Administration of Programs

It is anticipated that administration of the Parking Credit Program would not significantly impact staff time.

The set-up and administration of the Development Incentive Program could significantly increase work loads. The OCP would need to be changed to establish the program. Templates for Tax Exemption Certificates would also need to be drafted. Additionally, staff time would be required to make changes to financial recording and invoicing systems. On an on-going basis, staff time would be required to process applications and any associated Housing Agreements.

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<sup>3</sup> The tax credit would only accrue to building owners. A developer selling strata units would therefore receive no direct benefit. However, availability of a tax credit could help make such units more desirable possibly resulting in a higher selling price per unit and/or a shorter period to sell the units.

## **SUMMARY**

Expansion of the parking incentive program would be easy to implement and it is suggested that the City proceed with the necessary changes to allow for that.

Implementation of a tax incentive program would be cumbersome and would likely generate minimal interest. Feedback from developers and from city-commissioned consultant evaluations both suggest that the Tax Incentive Program would have limited impact on stimulating new development. Perhaps acknowledging that reality, affected stakeholders are not expressing outright enthusiasm for the program. Implementation of the program could require significant expenditures of staff time, with possibly no results. Having said that, a lot of staff, Council Committee, and stakeholder time has also gone into developing the proposed program. Rather than abandon a program that has the potential to at minimum be used to convey the City's goodwill towards encouraging redevelopment within the targeted areas, it is suggested that the program be endorsed as the basis for implementing a tax incentive program if/when there is developer interest in pursuing such. In the event that there is never any interest, further staff time will not have been needlessly expended. In the event that there is interest, staff can quickly forward the bylaw changes that would be required to implement the program.

At present, the tax incentive program proposed is the best that can be offered given Provincial legislative constraints. If those constraints were lessened, it is possible that a more meaningful and less administratively cumbersome package of incentives could be brought forward. It is suggested that the City of Kelowna lobby the Province for such legislation.

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Signe K. Bagh MCIP  
Manager  
Policy, Research & Strategic Planning

Approved for inclusion

Attachments

cc: Director, Financial Services  
Manager, Community Development and Real Estate  
City Clerk

## Attachment 1: Tax Incentive Program

Consistent with the provisions of the Community Charter, a tax incentive program for the revitalization of the Downtown and Rutland Urban Centres would meet the following terms:

- 1) Projects eligible for a tax exemption must be located within selected areas of the Downtown and Rutland Town Centres (see attached maps);
- 2) The exemption will only apply to projects that result in floor space being added to a new or existing building on a site and have a Building Permit value of \$250,000.00 or greater;
- 3) Projects eligible for a tax exemption must be consistent with OCP Future Land Use designations and applicable City of Kelowna policies and plans;
- 4) Projects eligible for a tax exemption must not involve buildings listed on the City of Kelowna Heritage Register;
- 5) Properties currently receiving a municipal tax exemption will not be eligible;
- 6) The exemption will apply only to the municipal portion of the tax registered against the assessed value of the improvements<sup>4</sup> on a property and excludes the Local Services Tax<sup>5</sup>.
- 7) The available annual exemption will be the difference between the assessed value of the improvements on a property in the year in which the exemption is approved, and the value of the improvements on a property upon completion of construction.
- 8) The annual exemptions will be for a period of five (5) years.
- 9) The exemption period will start in the year immediately following the first post-construction assessment conducted by BC Assessment Authority.
- 10) The exemption period can be subsequently extended for another five years at the applicant's option;
- 11) The amount of the exemption will be:
  - 100% of the available exemption as determined by the above conditions, for the first developer to apply for a tax incentive and complete a project within either of the designated tax exemption areas;
  - 100% of the available exemption as determined by the above conditions where a portion of a project includes residential units and where at least 10% of the total number of those units meet affordability criteria as identified in the Official Community Plan; and
  - 75% of the available exemption as determined by the above conditions, subsequent to the first development within either of the designated areas, and which doesn't

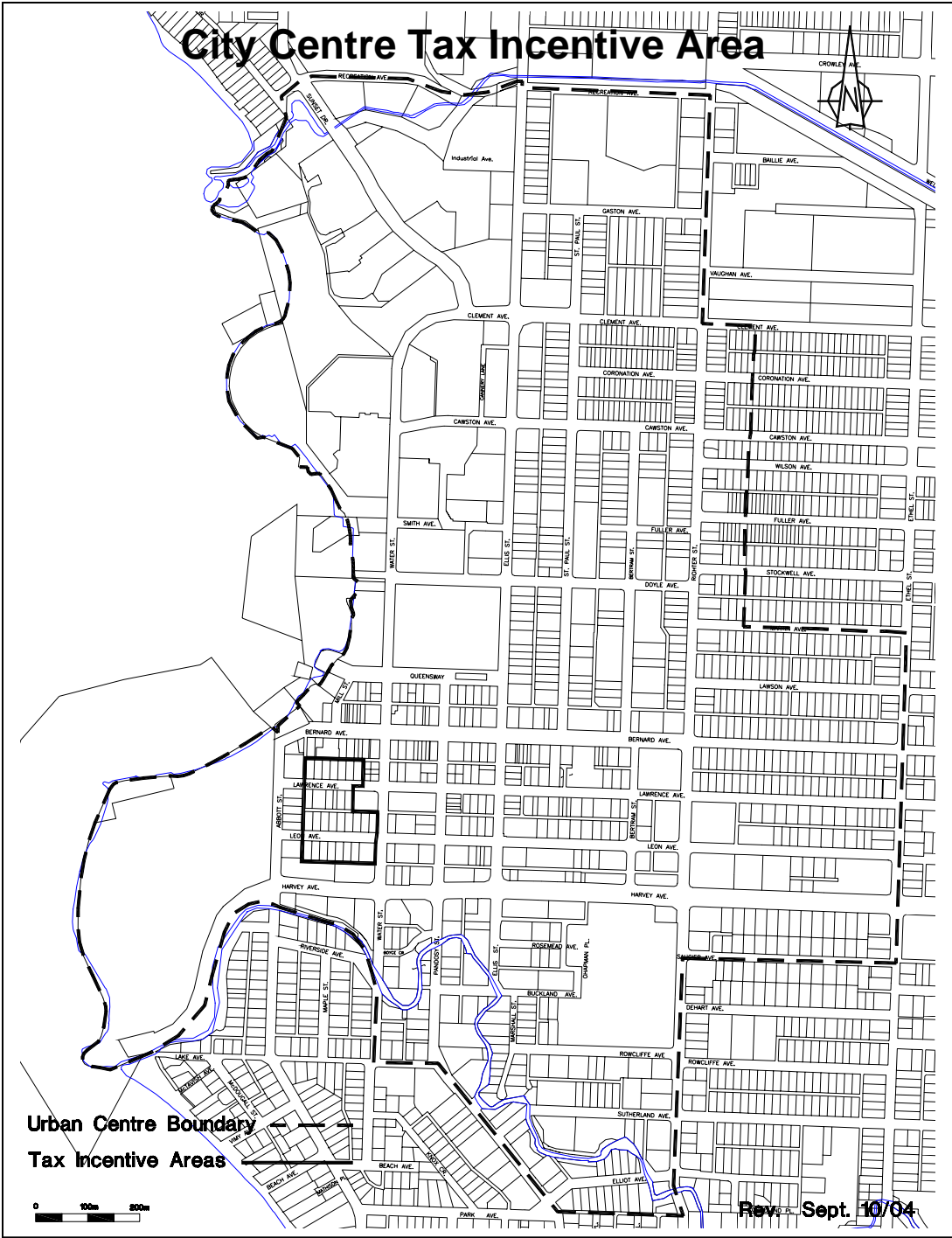
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<sup>4</sup> The term "improvements" refers to any structures on a property at the time of assessment and does not include the land the structures sit upon..

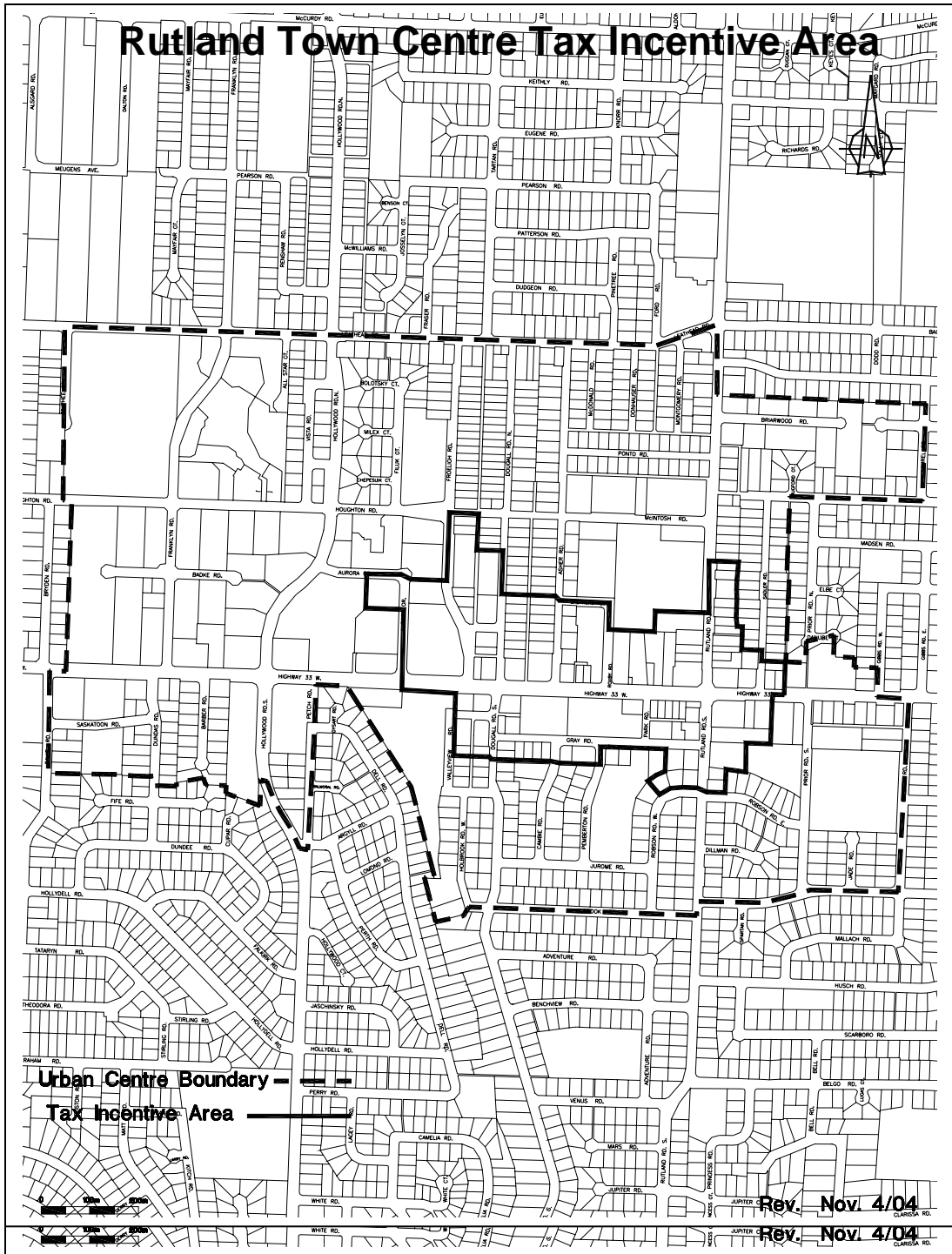
<sup>5</sup> The Local Services Tax applies to garbage and landfill fees, as well as any Specified Area Bylaw charges in effect.

include residential units where at least 10% of the total number of those units meet affordability criteria as identified in the Official Community Plan.

- 12) A developer who provides rental accommodation must enter into a Housing Agreement with the City of Kelowna to qualify for the 100% tax exemption for affordability. The Housing Agreement will set out the maximum rents that can be charged over the duration of the tax exemption. The Housing Agreement will also limit conversion of rental units to strata units over the duration of the tax exemption.
- 13) Any application for a tax exemption must be made prior to July 15th so that the exemption can be considered by Council for the subsequent year.
- 14) Once an exemption has been approved by Council, the applicant will be issued a Tax Exemption Certificate.
- 15) To initiate a tax exemption, the applicant must notify the City and produce proof an Occupancy Permit has been issued. The exemption will then be applied to the next year's tax statement and for each of the four years thereafter and any extension of the permit period (see 6) re: extension of exemption period).
- 16) Where a property is partially within a tax exemption area, the tax exemption will apply where at least 50% of the site area lies within the tax exemption area;
- 17) Properties with property taxes in arrears will not be eligible for a tax exemption;
- 18) Any work done prior to application for a tax exemption will not be eligible for consideration.



# Rutland Town Centre Tax Incentive Area





## CITY OF KELOWNA

### COUNCIL POLICY MANUAL

POLICY:	314
PAGE:	1 of 1
APPROVAL DATE:	March 15, 2004
RESOLUTION #:	R261/04/03/15
REPLACING #:	n/a
DATE OF LAST REVIEW:	March 2004

**SUBJECT: PARKING CREDITS FOR MIXED USE DEVELOPMENTS WITHIN THE DOWNTOWN URBAN CENTRE**

On an annual basis, starting January 1, 2004, Council will support the provision of a maximum 25 parking stall credits within the Downtown Urban Centre that can be applied to development projects that meet the following criteria;

- The development proposal is located within the Downtown Urban Centre and located within the Urban Centre boundaries shown as 'Area A' on Map 6.2 in *Kelowna 2000 - Official Community Plan* Bylaw No. 7600.
- The development proposal is a mixed use (commercial and residential) project where the commercial component is less than 50% of the gross floor areas (excluding areas for parking).
- Only the commercial component, or a portion thereof, of the required parking is being requested to be waived.

*The existing 25 units outlined above will be augmented by 25 parking credits available specifically to projects within the City Centre Tax Incentive Area identified on the map attached to this Council Policy. Development within this area will therefore potentially have access to 50 parking stall credits. These credits will be available to any development where in addition to the criteria outlined above, the commercial component does not exceed an FAR of 1.0.*

*Credits will be assigned on a first-come, first-served basis. Credits will be available January 1st of each year within the designated City Centre Tax Incentive Area. There will be no carry-over of unused credits from one year to the next.*

*The parking requirement for the residential component of a mixed use building may be reduced where the developer puts forward a sustainable car-sharing proposal. The amount of the reduction will be based on the particulars of each proposal.*

The credits may be applied for by way of a Development Variance Permit Application to relax the required parking for the proposed development. Planning and Corporate Services Staff will evaluate the proposal and make a recommendation to Council based on the suitability of the proposed development and the availability of parking credits. If the project can be supported by staff based on all considerations other than the provision of required parking and there are credits available, staff may recommend to Council that some or all of the parking shortfall be covered by parking credits provided by this policy. Any parking that is waived by Council approval of the Development Variance Permit would be funded by Council at the equivalent cash in-lieu of parking rate once a year during budget preparation. The funding of this policy would be from new taxation as a result of construction.

### ATTACHMENT 3: List of Stakeholders

- Property owners within the boundaries of the proposed tax incentive areas
- Mr. Graham Wood, President (2004), local chapter of the Urban Development Institute
- Mr. Claude Guerette, President (2004), local chapter of the Canadian Home Builders' Association
- Mr. Clint McKenzie, Executive Director, Downtown Kelowna Association
- Mr. C.W. Chang, representative of an informal Rutland business association

ATTACHMENT 4: Comments Received