City of Kelowna

MEMORANDUM

DATE: July 18, 2007

FILE: 3150-00

TO: City Manager

FROM: Director of Financial Services

RE: Development Cost Charges Discussion Paper

RECOMMENDATION:

THAT Council receive the Development Cost Charges Discussion Paper dated July 18, 2007 for information;

AND THAT Council direct staff to prepare options and recommendations to address current issues related to the application of Development Cost Charges in the City of Kelowna;

AND FURTHER THAT a DCC Bylaw Amendment be prepared on a timeline to facilitate adoption and implementation in early 2008.

BACKGROUND:

The last revision to the City's 20-Year Servicing Plan and Financing Strategy was presented to Council in January, 2007 and came into effect on April 1st. The primary purpose of an annual review is to ensure that project costs are updated to reflect rapidly escalating material, labour and land costs.

The foundation for development of a DCC bylaw is projected growth, initially in terms of population and then extrapolated into equivalent units. The Policy, Research and Strategic Planning division invests significant time and effort in developing growth projections as part of a major OCP review process.

Methodology changes between major reviews that are not consistent with the servicing plans developed to support growth may compromise future bylaw revisions and exposes the City to criticism and challenge from the development community.

In the past 6 months, concerns have been expressed from developers, Council members and other stakeholders regarding current Development Cost Charge practices and the City's DCC bylaw. There are also a number of emerging issues that Council may wish City staff to address as part of this year's review or future reviews. It is important to note that any changes in policy or methodology will require a higher level of stakeholder consultation than a costing update and may be a challenge to resource appropriately. The issues for discussion in this paper are:

1. DCC's on secondary suites
2. DCC's charged on the basis of floor space for small high density units
3. DCC's for developments with less than 4 units (no subdivision)
4. DCC's on 'green' developments
5. DCC's on small supportive housing units

Subject to Council direction on these issues, a further report will be brought to Council with terms of reference for a consulting assignment along with a budget amendment based on projected costs with funding from the DCC Administration Reserve. Prioritization is important in achieving a realistic objective.

1. DCC's on Secondary Suites

- Old DCC bylaws included secondary suites in the "low density multi-family residential" definition and were charged a lower DCC for roads, water, wastewater. Overall, the DCC was 74% of a single family unit.
- Current method of DCC calculation is to count secondary suites as a unit and then determine overall density of the development to the determine the gradient (Res 1, 2, 3 or 4) and DCC rate.
- Changed in recent years to reflect number of persons per unit relative to other forms of development. The 2001 census revealed:
  - Secondary suites — 2.3 persons per unit
  - Apartments — 1.6 persons per unit
  - Townhouses — 2.2 persons per unit
  - Single Family homes — 2.7 persons per unit
  - Duplex — 2.5 persons per unit
  - Overall Average — 2.2 persons per unit
- 2006 census data is not yet available for the above data.
- Challenges
  - Empirical evidence that demand on services for secondary suites is substantially different than other forms of residential development other than apartments based on factors such as:
    - Trip ends
    - Water demand (lower given there is no irrigation)
    - Wastewater demand
    - Parks (higher density requires greater offsite green space)

- Review of DCC bylaws for other communities
  - Richmond defines suites as multi-family and charges by sq ft
  - White Rock charges as multi-family ~ 72% of single family
  - Surrey does have a different rate for single family with suite but is marginally higher – low drainage charge but full parks charge as though 2 units
- Determine if there is a supportable methodology for application of a different DCC rate than under the present bylaw

2. DCC's Charged on the Basis of Floor Space for Small High Density Units

- Request for City to review the potential for reduced DCC's on the basis of the development community's desire to satisfy the market for entry level home ownership and potentially, the rental market.
- City has worked with the development community in the adoption of a density gradient methodology that categorizes DCC's in density groupings. This was contentious at the time because it shifted a greater cost burden to single family developments.
- Currently, the lowest residential DCC rate is 'Residential 4'. For developments in the City Centre area (>85 units per hectare), the per unit DCC is 61% of a single family unit.
- Challenges
  - Determine whether it would be feasible to establish a 'Residential 5' category that would calculate DCC's on the basis of floor space and what that floor space threshold ideally would be
  - Determine whether it would be feasible to restructure the density gradient methodology on the basis of floor space for all multi-family developments. This is a major change from our current practice.
  - Determine if there are other more equitable solutions that can be applied consistently without burdening an already extremely busy Development Services group

3. DCC's for developments with less than 4 units (no subdivision)

- DCC legislation has been amended to allow local governments to collect DCC's on all residential unit development. Previously, new units applying for a building permit, where subdivision was not required, were protected from DCC's.
- City staff has always taken the position that all units place demand on City infrastructure and therefore, should attract DCC's.

- City staff has been reluctant to take the lead in recommending that all units be charged until there is experience gained by other local governments with respect to acceptance by stakeholders. There are communication issues that must be addressed to ensure that 'novice' developers understand the rules before committing to developing a property.
- The Cities of Richmond and Surrey have adopted DCC bylaws that provide for DCC's on all units, with collection at the earlier of subdivision or building permit issuance.
- All projected units are included in DCC calculations. Since the first DCC bylaw in 1988, the burden of infrastructure costs not collected on these units have been shared by both existing taxpayers and new development.

4. DCC's on 'Green' Development

- The Ministry of Community Services is preparing materials for discussion at the July 26th meeting of the Development Finance Review Committee (DFRC) on the following topics:
    - Revitalization tax exemptions
    - Tax increment financing to promote green communities
    - Varying DCC's for green development
- While the first two topics are not directly DCC related, they are tools that may be employed to encourage and enhance redevelopment in City Centres
- Current legislation provides for the adoption of revitalization tax exemption bylaws and the City has put this process in place. It is not known whether the discussion is intended to simply review or to expand the legislation.
- Tax increment financing (TIF) was initially adopted in the United States to address urban blight. The use of TIF has expanded to areas that may be similar to Kelowna's downtown with the intent of creating attractive urban settings to support increasing core population density, tourism and promote entertainment opportunities and cultural experiences for its citizens.
- Any legislative change that may allow varying DCC's for green development will need to address the fundamental questions of 'who benefits' and 'who pays'.
- Council will be updated on these issues subsequent to the DFRC discussions.

5. DCC's on Small Supportive Housing Units

- The July 26th meeting of the DFRC will also have a presentation on greening the BC building code and provide information on the new multi-phase development legislation and the Premier's requirement to encourage DCC exemptions for small supportive housing.
- Presently, the City has a policy in place that charges DCC's on these units, subject to certain conditions, at institutional rates which are considerably lower than residential rates.
- There is no indication at this point of funding sources for the contingent liability created by exempting these units other than taxation.
- Council will be updated on this issue subsequent to the DFRC discussions.

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