

Memo



Date: May 6, 2011
File: 1220-02 - Economic Development - Revitalization
To: City Manager
From: Policy & Planning Department
Subject: Proposed interim changes to the Downtown and Rutland Urban Centre Revitalization Tax Exemption areas

Report Prepared by: Andrew Browne

Recommendation

THAT Council receives for information the report of the Policy & Planning Department dated May 6, 2011, with respect to proposed interim changes to the Downtown and Rutland Urban Centre Revitalization Tax Exemption program, as per Council Service Request #175123;

AND THAT Council direct staff to prepare for initial consideration a bylaw to enact interim amendments, as described in the May 6, 2011 report of the Policy & Planning Department, to the existing Revitalization Tax Exemption Bylaw No. 9561;

Purpose

To recommend Council direct staff to make immediate improvements to the Revitalization Tax Exemption Bylaw No. 9561 on an interim basis prior to broader improvements possibly being pursued as an outcome of the Downtown Plan.

Background

As an outcome of the July 26, 2010 afternoon regular meeting of Council, staff were directed to:

review the provisions of Revitalization Tax Exemption Bylaw 9561 to determine whether the program boundaries should be expanded, whether the program needs more aggressive marketing, whether incentives should be offered for sustainability features, or whether other refinements would be beneficial;

The City of Kelowna is evaluating its Revitalization Tax Exemption (RTE) program to determine to what extent the program has or has not been effective to date, and what changes or improvements to the program are likely to have success in encouraging redevelopment in the Downtown and Rutland Urban Centres.

Opportunities for interim improvements to the RTE program have been identified for immediate action, and research for a more extensive re-visioning and reform of the RTE program is nearing completion. Opportunity for stakeholder consultation and implementation of a new program could be found parallel to the Downtown Plan initiative.

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Kelowna's existing RTE program was established in mid-2006 and applies to a small part of the City Centre Urban Centre (30 parcels comprising 4.3 acres) and a larger portion of the Rutland Urban Centre (102 parcels comprising 45.1 acres).

Projects seeking a tax exemption under the program must satisfy two key eligibility criteria:

- i. Floor space must be added as a result of the project, and;
- ii. Construction value must not be less than \$250,000.

Once eligibility for a project has been established, tax exemptions are available as follows:

- i. 100% of the municipal property tax due annually in relation to the improvements on the parcel, where the owner is the first developer to apply for an exemption within each revitalization area (City Centre and Rutland);
- ii. 100% of the municipal property tax due annually for those projects which include residential units where at least 10% of those residential units meet affordability criteria and are secured by a housing agreement pursuant to s. 905 of the Local Government Act, and;
- iii. 75% of the municipal property tax due annually in any other case.

Tax exemptions granted under the program have the following key limitations:

- i. The duration of the tax exemption is limited to five years with a five year renewal available at the request of the property owner;
- ii. The amount of the tax exemption received cannot be more than the incremental increase in the assessed value of improvements on the parcel between the year before the commencement of construction of the project, and the year following the year in which the tax exemption is issued, and;
- iii. The tax exemption does not include relief from any applicable local service tax payable on the parcel.

To date no property owner has applied for or received a Tax Exemption Certificate under the program and only a small number of inquiries have been fielded.

Data and Analysis

Between 2000 and 2010 (inclusive), building permits with an aggregate construction value totaling \$428,600 were issued for properties within the Downtown RTE area. The balance of the identified Downtown Plan area (see Appendix B) garnered \$144.9 million of construction value in issued building permits over the same period. On an investment per square metre basis, this represents \$24.62 / m² within the Downtown RTE area and \$186.20 / m² within the balance of the Downtown Plan area.

First established in 2006, Kelowna's existing RTE program was one of the first enacted province-wide. As a result, other municipalities benefitted from our early work and went on to borrow elements of our program. The provincial government subsequently amended the enabling legislation to significantly expand the scope of the RTE tool and, as a result, programs introduced by other municipalities at a later date have been better timed to benefit from the expanded enabling legislation.

Municipal RTE programs which take advantage of the wide permissive scope of the revised enabling legislation (such as Prince George and Maple Ridge) generally provide a more varied and nuanced set of project eligibility criteria and corresponding tax exemptions. Other key differences include:

- More focus on performance and outcomes (e.g. residential construction above four storeys, LEED certification) and less emphasis on construction value in eligibility criteria.
- Where construction value limits are imposed, they are more often than not dramatically lower than the current limits imposed in Kelowna.
- The pairing of multiple RTE areas together to achieve related outcomes (e.g. a downtown RTE that incentivizes commercial and residential investment and an adjacent RTE area to encourage densification of a nearby inner suburb).
- The creation of RTE areas to serve very specific purposes that do not relate to downtown (e.g. reinvestment in an ageing industrial sector of the City).

Program uptake is highly variable. Excluding the City of Vancouver (and corresponding customized Vancouver Charter), Prince George appears to have the most successful RTE program with \$18 million of investment. This is not a typical outcome, with most municipalities reporting little to no uptake.

Proposed Amendments and Discussion

Staff recommend the following immediate improvements be made to the existing RTE program:

1. Expand the area of the Downtown RTE to include a larger portion of the urban centre and introduce more varied conditions and exemptions (see Appendix A for details).
 - Staff have had difficulty encouraging participation in the existing RTE program which focuses only on catalyzing change in the Leon and Lawrence Avenue area. Another approach would see the RTE boundary expanded to include a much broader portion of downtown such that development can be encouraged in the general area, and in doing so, gradually improve the investment climate of the broader neighbourhood.
 - Expand the original RTE (Area 1 on Appendix A) to benefit from the existing 100% RTE.
 - Create a new Downtown RTE (Area 2 on Appendix A) to benefit from a 75% RTE for residential projects and a 50% RTE for commercial projects.
2. Reduce the required construction value of eligible projects to \$50,000 (from \$250,000). This would apply to both the Rutland and Downtown RTE areas.
 - The majority of RTE programs province-wide stipulate lesser construction value requirements than our current value. Staff considers this value appropriate because it is not likely that landowners will be able to satisfy the condition of creating additional floor space with expenditures of less than \$50,000.
 - A reduction in the construction value requirement would hopefully encourage more incremental, stable investment in the RTE area and not solely focus on “hallmark” projects which require lot consolidation and large amounts of capital. Conversely, if the community and Council prefer block-scale redevelopment, encouraging smaller scale investment may raise property values and hinder lot consolidation.

3. Reconfigure the RTE duration for any given project to consist of one 10-year term rather than the current process of two 5-year terms. This would apply to both the Rutland and Downtown RTE areas.
 - o The 5-year term was a limitation of the legislation of the day. The revised legislation now allows ten year terms without renewal. Provision for a 10-year term upfront without renewal risk offers more certainty for landowners and therefore should constitute another incremental enhancement to the RTE program.
4. Make other necessary wording and housekeeping changes as may be required to implement the above.

The above recommended amendments are easy to implement in the short-term and represent a meaningful enhancement to the effectiveness of Kelowna's RTE program. However, in order to take full advantage of the revised provincial enabling legislation, it is suggested that the program be revisited more fully once the Downtown Plan charrette has been completed and a vision for Downtown has been endorsed by Council. The RTE program could then be further refined to support achievement of the newly endorsed vision.

With respect to Council's inquiry regarding awareness and promotion of the RTE program, it is anticipated that a closer working relationship with the Downtown Kelowna Association and the Uptown Rutland Business Association will aid in promotion of the program. In addition, the Community & Media Relations Department will likely have a role in publicizing the outcomes of the Downtown Plan. Finally, Land Use Management staff broach the RTE program while addressing relevant development inquiries.

With respect to utilizing the RTE program to further sustainability goals, this is possible (see Legal/Statutory Authority section, below) but is not proposed at this time (however the sustainability benefit accruing from development occurring centrally should not be dismissed). Further consideration can be given to specific sustainability incentives following completion of the Downtown Plan.

Should Council endorse the recommendations of this report, staff will prepare the necessary amending Bylaws and return these to Council for endorsement as soon as possible. Should Council choose an alternate direction, additional research may be required prior to returning to Council with a supplemental report.

Internal Circulation

Community & Media Relations Department

Financial Services Department

Infrastructure Planning Department

Real Estate & Building Services Department

General Manager, Community Sustainability

Legal/Statutory Authority

Section 226 of the *Community Charter* establishes the authority for and conditions under which Council may establish a revitalization tax exemption program.

As an example of improved flexibility on the part of the enabling legislation, the requirement to designate an RTE area is no longer in effect. The City may designate an area extent, but does not have to. This opens the possibility of providing some sort of modest RTE City-wide to achieve, for example, certain green building performance objectives for new and existing structures. This is but one example of the new legislative flexibility that the City has not yet used.

Legal/Statutory Procedural Requirements

Section 227 of the *Community Charter* establishes the notice requirements particular to revitalization tax exemption bylaws.

Existing Policy

Current Official Community Plan - Policy 6.1.2 and Maps 6.3 and 6.4

Draft Official Community Plan - Policy 5.1.3

Financial/Budgetary Considerations

Staff have confirmed with the Financial Services Department that the RTE program is adequately represented in the Financial Plan and that no further detail is required at this time. Should data become available in the future regarding rate of uptake, more detailed projections regarding financial impacts of the incentives can be included in future Financial Plans.

External Agency/Public Comments

Staff have undertaken stakeholder consultation and interviews with six individuals from a variety of backgrounds (municipal officials, a commercial real estate professional, an appraisal professional, an economic development professional, and a developer). Input was also sought from the Downtown Kelowna Association and the Uptown Rutland Business Association. The input received informed the recommendations in this report.

Given that the recommendations serve to enhance an existing program and are not breaking new ground, it is suggested that the most effective way to determine the merits of the program changes are to implement them and monitor results for a trial period. More comprehensive consultation would be recommended should the Downtown Plan suggest more substantial changes to the RTE program.

Considerations not applicable to this report

Personnel Implications

Community & Media Relations Comments

Alternate Recommendation

Submitted by:



Andrew Browne, Planner II

Approved for inclusion:



Signe K. Bagh, MCIP
Director, Policy & Planning

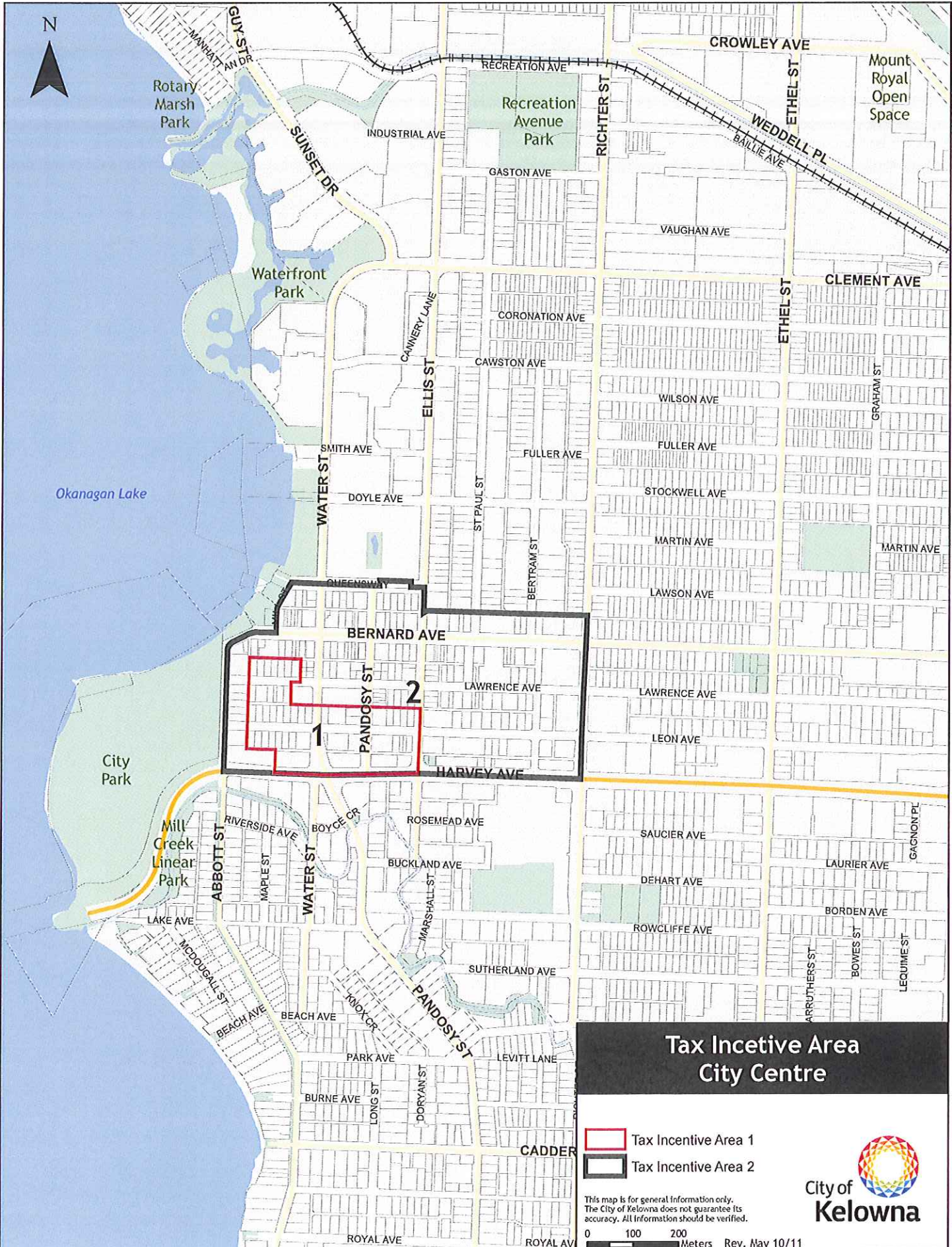
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Community & Media Relations Department
Financial Services Department
Infrastructure Planning Department
Real Estate & Building Services Department
General Manager, Community Sustainability
Downtown Kelowna Association
Uptown Rutland Business Association

Appendices

Appendix A - Revised RTE map for Downtown

Appendix B - Map showing focus of Downtown Plan



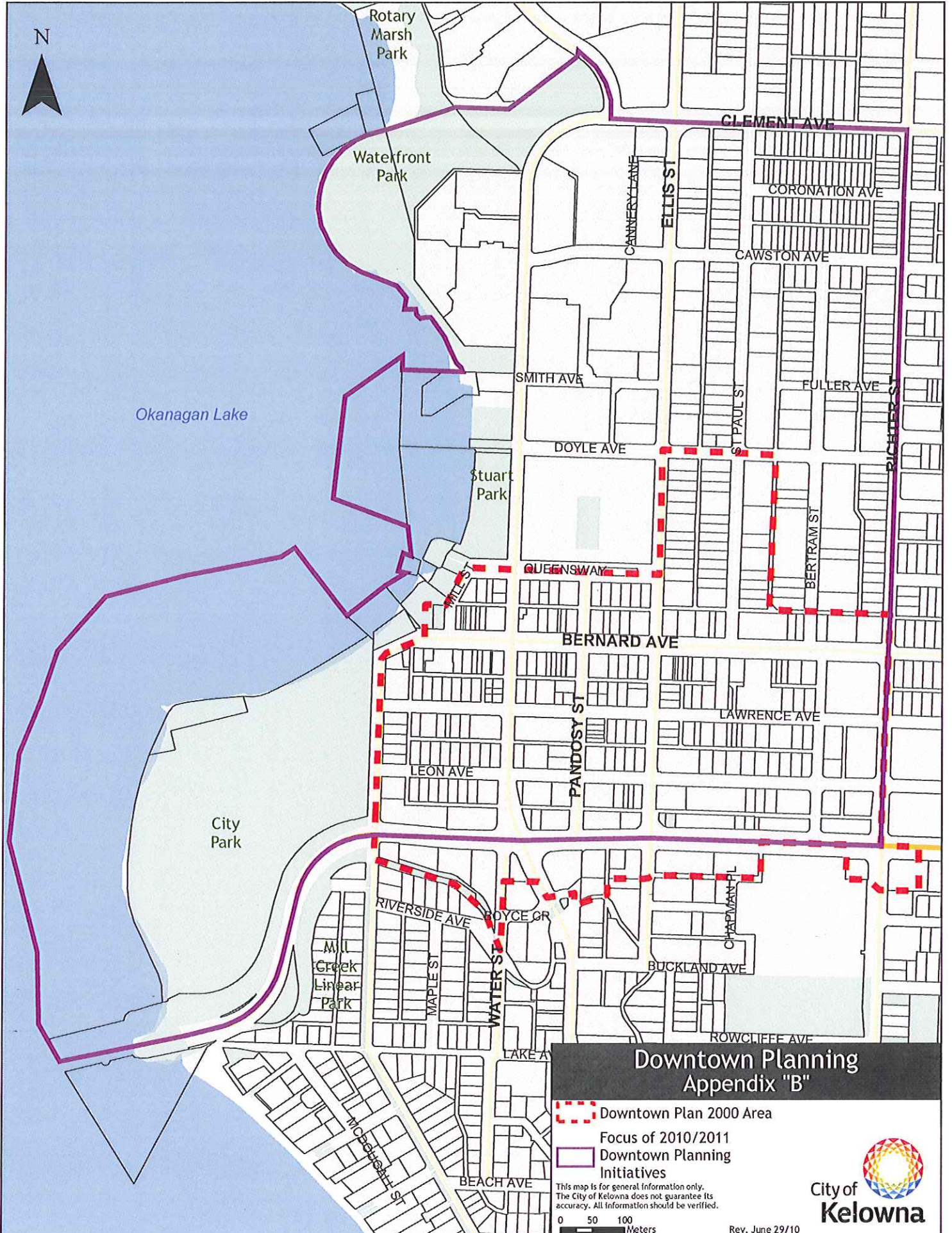
Tax Incentive Area City Centre

- Tax Incentive Area 1
- Tax Incentive Area 2

This map is for general information only. The City of Kelowna does not guarantee its accuracy. All information should be verified.

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Downtown Planning Appendix "B"

- Downtown Plan 2000 Area
- Focus of 2010/2011 Downtown Planning Initiatives

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Rev. June 29/10

