REPORT TO COUNCIL

City of Kelowna

Date:	June 20, 2012
File:	1220-02
To:	City Manager
From:	Long Range Planning Manager
Subject:	Revitalization Tax Exemption Bylaw 9561 - Proposed Amendment

Recommendation:

THAT Council receives, for information, the report from the Long Range Planning Manager dated June 20, 2012 with respect to the proposed amendment of Bylaw 9561, being City of Kelowna Revitalization Tax Exemption;

AND THAT Council gives initial consideration to Bylaw No. 10674 to enact amendments to Revitalization Tax Exemption Bylaw No. 9561, to expand the City Centre and Rutland Tax Incentive Areas, to provide tax exemptions for rental housing and for renovations of commercial and residential buildings as described in the June 20, 2012 report of the Long Range Planning Manager;

AND THAT Tax Incentive Area 3 be removed once a level of 18,580 m^2 (200,000 sq. ft.) in new construction has received a building permit;

AND FURTHER THAT Council direct staff to report back on an annual basis with a review of the need for continuation of the tax exemption for rental housing.

Purpose:

For Council to give initial consideration to amendments to the Revitalization Tax Exemption Bylaw No. 9561.

Background:

The Revitalization Tax Exemption program and bylaw was first established in July 2006. The original intention in developing the Tax Incentive program was to assist in the revitalization of the core areas of Downtown and Rutland - those areas most in need of some assistance. The Downtown tax incentive area at that time was much smaller - consisting of the blocks bounded by Bernard, Water, Abbott and Harvey. The program was set up such that the first project to qualify would be eligible for a 100% exemption of the municipal portion of the property tax and subsequent developments would be eligible for a 75% exemption. In the time from 2006 to 2011 there were no development proposals in the Tax Incentive Area.

The Downtown Tax Exemption Area was expanded in July 2011 to encompass a broader area bounded by Queensway, Richter, Abbott and Harvey. The amount of the Tax Incentive also changed. The slightly larger original core area (Area 1 - extended to include Leon Avenue east to Ellis Street)) provided for a 100% exemption of the municipal portion of the property tax, however, an expanded area (Area 2) provided a reduced tax incentive of 75% for a residential project and 50% for a commercial project. (See Attachment 1) A mixed use project would be blended based on the portion of residential floor space versus commercial floor space. The current boundary of the Rutland tax incentive area is indicated in Attachment 2.

Under the current program there is no reduction for subsequent projects and any qualified project would be eligible for the full exemption applicable to that area.

Two recent office projects (Davara Holding and Troika Developments) will provide 729 m^2 & 3,817m^2 of new office space respectively, and along with the Aquilini residential project on Bernard Avenue, qualify for the Tax Exemption.

<u>Downtown</u>

The provision of office space is recognized as key in the recently approved Downtown Plan, however, it is difficult for large projects to compete with existing and new office space in the Landmark projects.

Major projects would contribute to the fulfillment of a number of civic and OCP objectives related to:

- Focusing growth in compact and walk-able urban centres;
- Encouraging more people to live, work, shop and play in our urban centres;
- Supporting Transportation Demand Management by focusing growth in areas accessible by active transportation and transit; and
- Fostering sustainable prosperity.

New Downtown development would also be supported by policy in the OCP and the recently adopted Downtown Plan, as noted later in this report.

In order to encourage and support new projects, generate attendant benefits and help create critical mass, it is recommended that changes be made to the Revitalization Tax Exemption Bylaw that would expand the boundary of the City Centre Tax Incentive area north to Doyle Avenue between Water Street and the lane between Bertram and St. Paul Streets. New developments in the expanded area (Area 2 in Attachment 3) would qualify for a 100% incremental tax exemption where the new space being added is at least 3,716 m^2 (40,000 sq. ft.). Projects less than 3,716 m^2 would be eligible for a 75% exemption on the residential components, and/or a 50% exemption on the commercial components.

In addition, it is recommended that somewhat lesser incentives be made available to the remainder of the City Centre (see Area 3 in Attachment 3). It is recommended that the appropriate incremental tax exemption would be 50% where the new space being added is at least 3,716 m^2 (40,000 sq. ft.).

Rutland

There are areas of Rutland that are designated as Mixed Use (Residential / Commercial) not currently eligible for tax incentives that could be included into a revised Tax Incentive Area boundary (See Attachment 4) so as to be eligible for a 100% tax incentive.

Renovations

Changes are proposed to Section 6 of Bylaw 9561 to allow those renovating buildings to qualify for a tax exemption in recognition of the role such improvements can play in enhancing the Downtown and Rutland business communities. Interior / exterior renovations to a building do not typically provide an increase in value that would be substantial enough to generate a change in assessment. However, if that renovation was significant (minimum $300,000 value) there could be a small tax difference and a tax incentive may help entice improvements. It is recommended that the renovation tax exemption would apply only to Areas 1, 2 and 4.

Rental Housing

The recently endorsed Housing Strategy recommended providing a Tax Exemption for new rental housing constructed under the terms of a Housing Agreement for projects in compliance with the future land use designations as at the time of OCP adoption (May 30, 2011). Any such Tax Exemption would be for a maximum of 10 years. Given the current over supply and a higher than normal vacancy rate, it would also be appropriate to tie the rental housing incentive to the vacancy rate. It is suggested that rental housing tax incentives be considered only when the vacancy rate is at or below 3% and that the continuation of the rental housing tax exemption program be reviewed on an annual basis.

The proposed changes in the Bylaw text related to boundary adjustments, rental housing and renovations, including a definition of Purpose-Built Rental Housing, are outlined in Attachment 5.

The advantage of tax exemption programs is that they can help stimulate development in an area that is at a competitive disadvantage, but that the community wishes to see revitalized. The disadvantage is that they reduce taxation revenue. The reduced revenue makes it difficult to fund amenities and infrastructure (pedestrian/cycling facilities, urban plazas/parks and other gathering places) critical to long-term success. As such, it is recommended that the program be carefully evaluated on an on-going basis and discontinued when there is evidence to suggest that the market can sustain future redevelopment without the tax incentive. It is also suggested that specific areas of the proposed City Centre Tax Incentive Area be removed once a level of 18,580 m^2 (200,000 sq. ft.) in new construction has been issued a building permit.

Internal Circulation

General Manager, Community Sustainability
Acting General Manager, Corporate Sustainability
Director of Financial Services
Director of Development Services
Urban Land Use Manager
Revenue Manager

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.

Legal/Statutory Procedural Requirements

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

Financial/Budgetary Considerations:

There will be a reduced level of new construction assessment value and a subsequent reduction in taxation revenues for the term of the tax exemption. The revenue loss will not be known until development occurs and actual assessment value changes are obtained.

Existing Policy:

Kelowna OCP 2030 Bylaw 10500.

Objective 5.1 - **Ensure new development is consistent with OCP goals.**

Policy 5.1.3 **Rutland & Downtown Revitalization Tax Exemption.** Provide a revitalization tax exemption for the municipal portion of the annual taxes on improvements for development within the City Centre and Rutland Town Centre as per Revitalization Tax Exemption Bylaw No. 9561.

Objective 5.3 - **Focus development to designated growth areas.**

Policy 5.3.2 **Compact Urban Form.** Develop a compact urban form that maximizes the use of existing infrastructure and contributes to energy efficient settlement patterns. This will be done by increasing densities (approximately 75 - 100 people and/or jobs located within a 400 metre walking distance of transit stops is required to support the level of transit service) through development, conversion, and re-development within Urban Centres (see Map 5.3) in particular and existing areas as per the provisions of the Generalized Future Land Use Map 4.1.

Policy 5.3.4 **Downtown Development.** Support rezoning to C7 use in the downtown Urban Centre area only where properties are surrounded on a minimum of 3 sides by existing C7 zoning. The intent of this policy is to support intensification within the existing core areas of Downtown.

Objective 5.18 - **Ensure efficient land use.**

Policy 5.18.1 **Re-development of Parking Lots.** Encourage that excess parking areas be used for infill commercial, residential and mixed use buildings.

Objective 5.25 - **Ensure that Urban Centres develop as vibrant commercial nodes.**

Policy 5.25.3 **Office Building Location.** Encourage office buildings providing more than 929 m^2 of useable space to locate in the City Centre or the Town Centres. This policy does not include offices integral to business park / industrial uses and "corporate offices" allowable under relevant industrial zones.

Objective 5.27 - **Increase supply of green office space.**

Policy 5.27.2 **Offices Near Transit.** Direct new office development to areas served by public transit.

Objective 5.32 - **Ensure the development of institutional facilities meets the needs of residents.**

Policy 5.32.11 **Government Offices.** Encourage the provincial and federal governments to locate their offices and service facilities within Urban Centres, with emphasis on the Downtown Centre as a preferred destination.

Objective 8.1 - **Focus on economic drivers that generate new and sustainable wealth.**

Policy 8.1.1 **Sustainable Prosperity.** Assign priority to supporting the retention, enhancement and expansion of existing businesses and post secondary institutions and the attraction of new businesses and investment identified as bringing sustainable prosperity to Kelowna.

Objective 8.9 - **Portray a positive image of Kelowna.**

Policy 8.9.2 **Downtown.** The City of Kelowna recognizes that a unique, attractive, thriving and livable downtown is strategically important to Kelowna's overall prosperity and success. Towards this end, the City will plan and manage the Downtown as a single and special entity and will take a proactive, comprehensive, integrated and collaborative approach towards providing services and infrastructure, delivering programs, and developing a supportive regulatory and financial environment.

<u>Downtown Plan.</u>

Action 14 **Attract government and utility company office buildings.**

Policy 24 **Office Buildings.** Support the continued location of professional and commercial office developments in the Downtown Plan area. Support the expansion of the Downtown office core north of Clement Avenue to meet future office demand *when* land supply in the Downtown becomes constrained.

Policy 25 **Government, Institutional, and Utility Company Offices.** Encourage provincial and federal governments, major institutions (IHA, UBC, OC, SD23 etc.) and utility companies to locate administrative offices, education facilities and/or satellite functions in the Downtown.

Alternate Recommendation (To replace Recommendation 2):

The primary objective in the creation of the Tax Incentive Program was to generate increased residential and commercial development activity in the core areas of Downtown and Rutland. Expansion of the incentive area to the boundaries of the Downtown Urban Centre (Area 3) will bring significantly more development sites into the mix, albeit, at a reduced exemption rate and limited building floor area, that could be perceived as being at odds with the original intention to assist those areas most in need. Should Council wish to focus more on the core areas of Downtown the following alternate recommendation is provided:

AND THAT Council gives initial consideration to Bylaw No. 10674 to enact amendments to Revitalization Tax Exemption Bylaw No. 9561, to expand the City Centre (Areas 1 & 2 only) and Rutland Tax Incentive Areas, to provide tax exemptions for rental housing and for renovations of commercial and residential buildings as described in the June 20, 2012 report of the Long Range Planning Manager.

Considerations not applicable to this report:

External Agency / Public Comments
Communications Comments:
Personnel Implications:

Submitted by:

Gary Stephen, Long Range Planning Manager
Policy and Planning

Approved for inclusion:

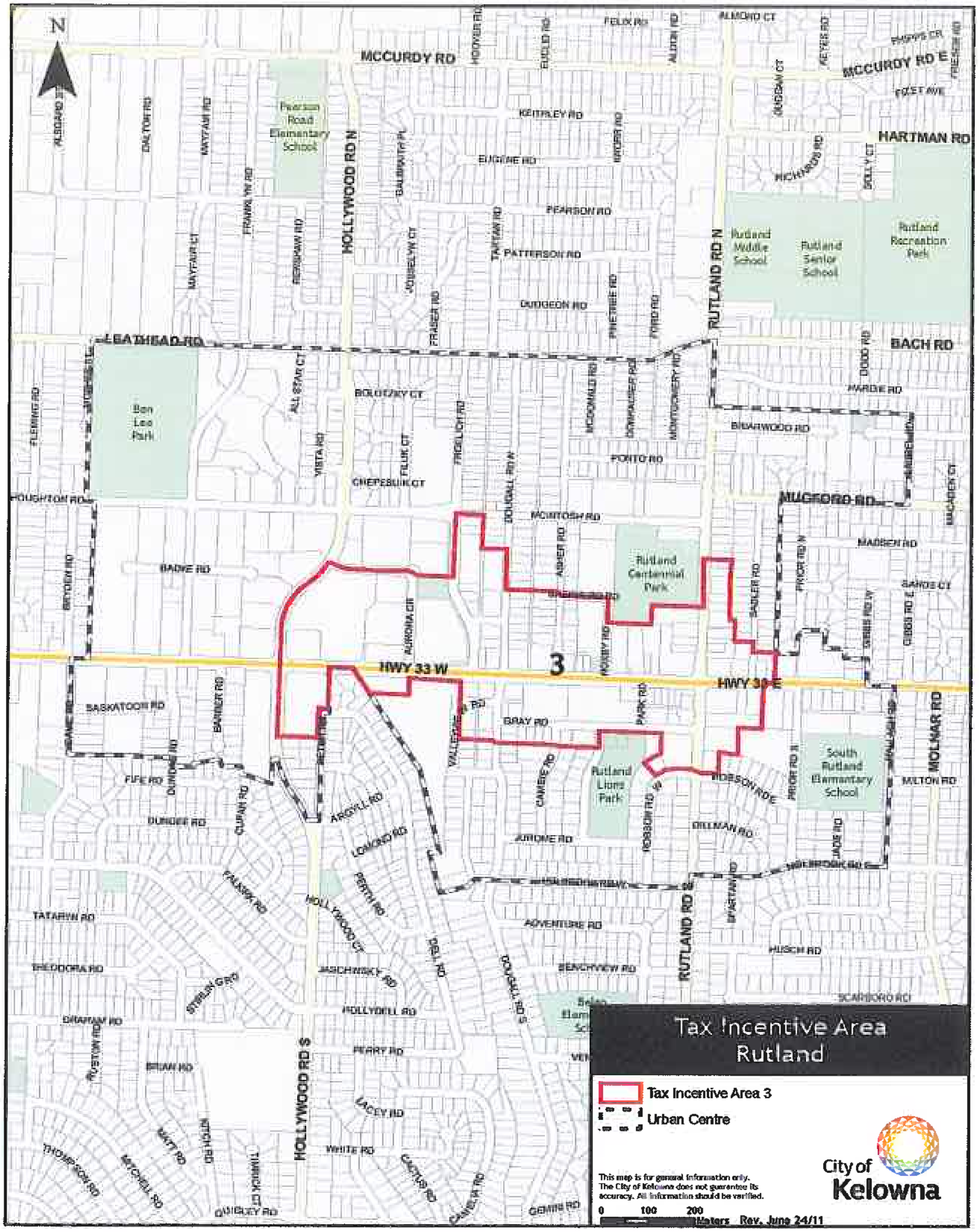
Signe K. Bagh, MCIP
Director, Policy & Planning

Attachment 1 - City Centre Tax Incentive Area Map (existing)
Attachment 2 - Rutland Tax Incentive Area Map (existing)
Attachment 3 - City Centre Tax Incentive Area Map (Recommended)
Attachment 4 - Rutland Tax Incentive Area Map (Recommended)
Attachment 5 - Proposed Amendments to Bylaw 9561

cc: General Manager, Community Sustainability
Acting General Manager, Corporate Sustainability
Director of Finance
Director of Development Services
Urban Land Use Manager
Revenue Manager

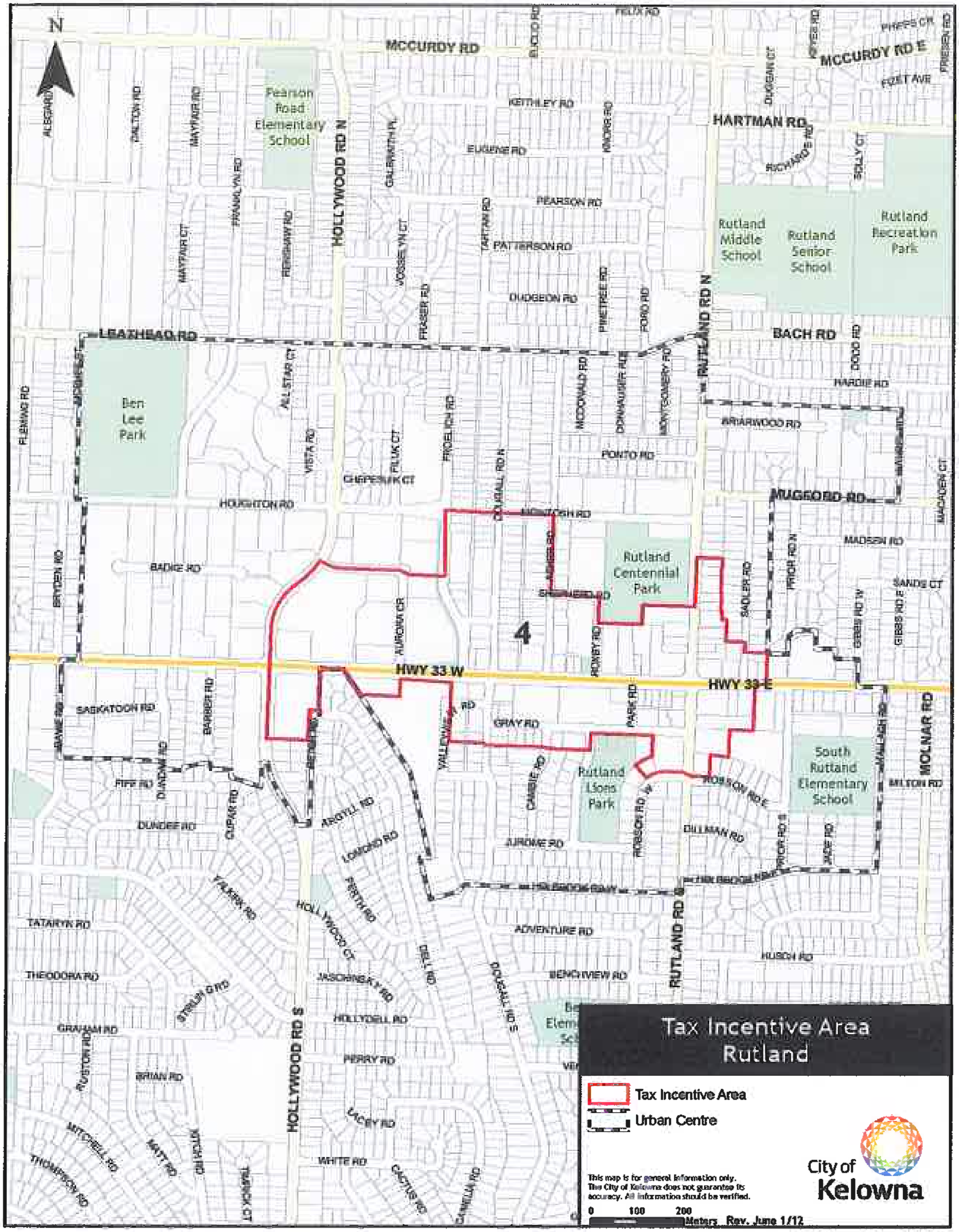
Attachment 1 – Existing City Centre Tax Incentive Area Map

Attachment 2 - Existing Rutland Tax Incentive Area Map



Attachment 3 – Proposed City Centre Tax Incentive Area Map

Attachment 4 – Proposed Rutland Tax Incentive Area Map



Attachment 5

Excerpt from Bylaw 9561 (Consolidated)

New proposed text is underlined, text to be deleted in ~~strikethrough.~~

2. In this Bylaw:

   "Purpose-Built Rental Housing" means a self-contained building(s) containing five or more Dwelling Units that are intended to be used for rental housing and does not include buildings that are stratified. Purpose-built rental housing meets an identified need for affordable housing in the city. Since rent is controlled within rental buildings under the Residential Tenancy Act, this is a form of affordable housing;

5. The amount of an annual Tax Exemption shall be equal to:

   a. For "Tax Incentive Area 1," 100% of the municipal share of the property tax due annually in relation to the improvements on the Parcel;

   ~~b. For "Tax Incentive Area 2," 75% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a residential land use, and/or 50% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a commercial land use. For mixed-use buildings the above tax exemptions shall be pro-rated across the building to arrive at a combined exemption (e.g. half the building is residential [0.5*75%=37.5%] and half the building is commercial [0.5*50%=25%] for a combined exemption of 62.5%);~~

   b. For "Tax Incentive Area ~~3~~2,"

      I. 100% of the municipal share of the property tax due annually in relation to the improvements on the Parcel, for a project with a minimum floor area of 3,716 m^2 (40,000 sq. ft.);

      II. 75% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a residential land use, and/or 50% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a commercial land use, for a project with a floor area of less than 3,716 m^2 (40,000 sq. ft.);

   c. For "Tax Incentive Area 3," 50% of the municipal share of the property tax due annually in relation to the improvements on a Parcel, for a project with a minimum floor area of 3,716 m^2 (40,000 sq. ft.);

   d. For "Tax Incentive Area ~~3~~4," 100% of the municipal share of the property tax due annually in relation to the improvements on the Parcel;

   e. For Purpose-Built Rental Housing Projects throughout the City, 100% of the municipal share of the property tax due annually in relation to improvements on the Parcel where the project is subject to a Housing Agreement (for up to 10 years) and is in compliance with the OCP Future Land Use designation as at

May 30, 2011. A tax incentive for rental housing will only be considered when the vacancy rate is at or below 3%;

but in any case shall not:

a. 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 Certificate is issued; nor

b. include an exemption from any local service tax payable.

6. In order for a Project to be considered by Council for a Tax Exemption:

a. the Project must involve construction that results in floor space being added to an existing building or in a new building altogether, or a renovation of existing floor space;

b. the construction value of additional or new floor space of the Project, as determined based on the building permit(s) issued, must be $50,000.00 or greater;

c. the construction value of a renovation of the Project within 5a, 5b or 5d, as determined based on the building permit(s) issued, must be $300.000.00 or greater. A Tax Exemption will not be considered for a renovation within 5c;

d. for Projects within 5c, a Tax Exemption will be considered on the first 200,000 sq. ft. of development to receive a building permit. When building permits have been issued for 200,000 sq. ft "Tax Incentive Area 3" will be removed;

e. the land use into which the Project is intended to fit must be one of the uses permitted in the applicable zone for the Parcel, as set out in City of Kelowna Zoning Bylaw No. 8000, as amended from time to time, ~~is~~ and must be consistent with the future land use designation for the Parcel, as set out in *Kelowna 2030* - Official Community Plan Bylaw No. 10500, as amended from time to time, and the Project must meet all other applicable City policies and bylaws;

f. the owner of the Parcel must enter into an Agreement with the City; and

g. the form and character of the Project must be largely consistent with the applicable Development Permit Area Design Guidelines contained within Chapter 14 of the Kelowna 2030 - Official Community Plan Bylaw No. 10500

Amend Schedule "A" by replacing the Tax Incentive Area - City Centre Map and the Rutland Map with new maps.

Attachment 5 (Cont'd)

Excerpt from Bylaw 9561 - Schedule "B"
Revitalization Tax Exemption Agreement

New proposed text is underlined, text to be deleted in ~~strikethrough.~~

4. Conditions - the following conditions shall be fulfilled before the City will issue a Tax Exemption Certificate to the Owner in respect of the Project:

   a. The owner must obtain a building permit from the City for the project on or before ____________________, 20___;

   b. The Owner must complete or cause to be completed construction of the Project in a good and workmanlike fashion and in strict compliance with the building permit and the plans and specifications attached hereto as Appendix "C" and the Project must be officially opened for use as [describe permitted use] ___________ (the "Exempt Use") and for no other use, by no later than July 15, 20___;

   c. The Owner must submit a copy of the Occupancy Permit and Revitalization Tax Exemption Agreement to the City of Kelowna's Financial Services Department before the City will issue the Tax Exemption Certificate.

   d. The completed Project must substantially satisfy the performance criteria set out in Appendix "D" hereto, as determined by the City's Director of Land Use Management or designate, in their sole discretion, acting reasonably.

5. **Calculation of Calculation of Revitalization Tax Exemption** - the amount of the Tax Exemption shall be equal to *[choose one from below and insert applicable wording:*

   a. For "Tax Incentive Area 1," 100% of the municipal share of the property tax due annually in relation to the improvements on the Parcel;

   ~~b. For "Tax Incentive Area 2," 75% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a residential land use, and/or 50% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a commercial land use. For mixed-use buildings the above tax exemptions shall be pro-rated across the building to arrive at a combined exemption (e.g. half the building is residential [0.5*75%=37.5%] and half the building is commercial [0.5*50%=25%] for a combined exemption of 62.5%);~~

   b. For "Tax Incentive Area ~~3~~2,"

      I. 100% of the municipal share of the property tax due annually in relation to the improvements on the Parcel, for a project with a minimum floor area of 3,716 m^2 (40,000 sq. ft.);

      II. 75% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a residential land use, and/or 50% of the municipal share of the property tax due annually in relation to the improvements on the Parcel which can be attributed to a commercial land use, for a project with a minimum floor area of less than 3,716 m^2 (40,000 sq. ft.);

c. For "Tax Incentive Area 3," 50% of the municipal share of the property tax due annually in relation to the improvements on a Parcel, for a project with a minimum floor area of 3,716 m^2 (40,000 sq. ft.);

d. For "Tax Incentive Area ~~3~~4," 100% of the municipal share of the property tax due annually in relation to the improvements on the Parcel;

e. For Purpose-Built Rental Housing Projects throughout the City, 100% of the municipal share of the property tax due annually in relation to improvements on the Parcel where the project is subject to a Housing Agreement (for up to 10 years) and is in compliance with the OCP Future Land Use designation as at May 30, 2011. A tax incentive for rental housing will only be considered when the vacancy rate is at or below 3%;

but in any case shall not 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 Certificate is issued.]