REPORT TO COUNCIL

Date:

August 14, 2012

File:

0705-70

To:

City Manager

From:

Acting General Manager, Corporate Sustainability

Subject:

Downtown Revitalization - Interior Health

Recommendation:

THAT Council receives, for information, the Report from the Acting General Manager, Corporate Sustainability, dated August 14, 2012, 2012, regarding the proposed redevelopment of City owned lands at the southeast corner of Ellis St. and Doyle Ave. in downtown Kelowna;

AND THAT Council directs staff to proceed with the steps necessary to complete the obligations identified in the Memorandum of Understanding ("MOU") between the City of Kelowna (the "City") and the Interior Health Authority, dated April 25, 2012 and attached to the Report of the Acting General Manager, Corporate Sustainability dated August 14, 2012 as Schedule 'C';

AND THAT Council authorizes the Mayor and City Clerk to execute all documents necessary to complete the related transactions identified in the MOU;

AND THAT Council directs staff to bring forward the associated 2013 budget requests for the development of the two (2) parkades for consideration during the 2013 budget discussions;

AND THAT the five (5) year financial plan be amended to provide for the construction of the parkades;

AND THAT Council approves borrowing through the Municipal Finance Authority of British Columbia for the amount of Fifteen Million (\$15,000,000.00) Dollars for the development of two (2) parking facilities as described in the Report from the Acting General Manager, Corporate Sustainability dated August 14, 2012, as the Extension and New Facility;

AND THAT Bylaw No. 10742 being the Extension and New Facility Loan Authorization Bylaw be forwarded for reading consideration;

AND FURTHER THAT following approval from the Inspector of Municipalities, Council directs staff to report back to Council with a Report to initiate an Alternative Approval Process (AAP) opportunity that will be open to all electors with the City of Kelowna.



Purpose:

To obtain Council approval to proceed with the steps necessary to:

- (1) dispose of City owned land for the purpose of accommodating a downtown redevelopment project with Interior Health as an anchor tenant and
- (2) to develop two new parking facilities in the downtown core
- (3) to approve an amendment to the five (5) Year Financial Plan
- (4) to give reading consideration to Bylaw No. 10742 in order to initiate an Alternative Approval Process for the borrowing of Fifteen Million Dollars (\$15,000,000) for the development of said parking facilities.

Background:

In 2011 City staff became aware that Interior Health was considering co-location of their community and corporate services into one leased building in Kelowna and that the relocation would not be limited to Kelowna's downtown area. In the interest of supporting revitalization and redevelopment of the downtown area as outlined in the Official Community Plan and the Downtown Plan, City staff began reviewing existing and new policy opportunities that might result in the relocation occurring in the heart of the City.

City staff completed a comprehensive analysis of policy incentive opportunities, available City owned land and assembled developer-owned land. Staff from Interior Health and the City had multiple discussions regarding Interior Health's project parameters and the key attributes that would need to be achieved (cost, timing, location, parking requirements, transit accessibility, etc.). In response to the criteria, including timing sensitivities, City and Interior Health staff ultimately identified that the best opportunity for this project to be successfully located downtown was for the City to sell the appropriate land to Interior Health. This specifically includes seven parcels located along Doyle Ave between Ellis Street and St. Paul Street.

This project encourages the redevelopment of the downtown area with higher density land uses and upgrades for better, safer parking. Bringing nearly 1000 permanent jobs into the downtown area will also stimulate business, transit ridership and housing investment in the area.

A Memorandum of Understanding ("MOU") agreement that defines the City and Interior Health's project commitments was developed in early in 2012.

The Agreement (MOU):

Land Disposition

The City proposes to dispose of seven titled lots at the corner of Ellis St. and Doyle Ave. as described in Schedule 'A' hereto ("Subject Lands"). Details of the disposition will be defined in a comprehensive Purchase and Sale Agreement which shall be consistent with the terms of the MOU. The purchase price for the Subject Lands is \$2.75 million.

Zoning

The Subject Lands are currently zoned C4 and C7. The C4 lands will need to be rezoned to C7 to accommodate the project. Interior Health or a developer of the building will be responsible for the rezoning of these properties. It is understood by the parties that Council is not compromising its discretion over the approval of the proposed rezoning by endorsing the MOU. The anticipated rezoning to C7 remains at Council's discretion however C7 zoning would accommodate the proposed uses in a form consistent with the future land use designation in the OCP and the Downtown Plan.

Covenants / Land Protection

The City will be disposing of the Subject Lands for the purposes of accommodating the relocation project only. As such, staff are recommending that two covenants be placed on title to the Subject Lands (attached to the Purchase and Sale Agreement hereto). One covenant will ensure a commencement date for the building and the other will ensure a certain size of building (>100,000 sq ft) is achieved. If either of these objectives are not accomplished, the City has the option of re-acquiring the Subject Lands at the price for which it was disposed. These covenants will be removed at the time of issuance of the building permit.

Parking & Parkades

There are two issues related to this project that drive the need for the City to consider construction of new parking facilities:

- 1) the complexity of the project gives rise to a higher parking need than the zoning bylaw would generally require for a building this size.
- 2) the Subject Lands being disposed of to Interior Health are currently used for public parking purposes.

Staff are proposing to construct one new parking facility and one extension to an existing parking facility in order to mitigate the loss of surface parking on the Subject Lands as well as to support the IHA operational requirements. The parking facilities will be located on:

- 1) the lands adjacent to the existing Library Parkade ("Extension") and
- 2) the lands directly south of Memorial Arena ("New Facility") (Attached as Schedule 'B')

The City will be responsible for the design, construction, operation and maintenance of the Extension and the New Facility. The Extension will be designed with ground floor retail fronting the east and south edges thereby improving the pedestrian realm in the cultural district. The building, which IHA will lease, will also be designed to have a substantive amount of active street frontage on the east, west and north edges.

IHA will lease from the City +/- 410 total parking stalls in the Extension or New Facility for daytime use. 380 of the 410 stalls will be available to the public during the evenings and weekends which will help alleviate current challenges with event parking and weekends during tourism/boating season. The balance of the newly constructed stalls will be available for public use 7 days a week.

The Extension of the Library Parkade will be constructed first in order to accommodate the lost stalls on the Subject Lands and New Facility lands during construction. The New Facility will be completed in time for the opening of the new building on the Subject Lands. A more detailed construction phasing plan will be brought forward at a later date.

<u>Development</u>

The respective parties or their assignees will be responsible for all servicing costs, permit fees, applications, approvals, DCCs, etc. related to the proposed development on their lands. Interior Health or the developer/assignee is responsible for the costs related to the Subject Lands and the City is responsible for the costs associated with the Extension and New Facility development lands. For further clarity, the developer/assignee will pay for all servicing costs directly attributable to the proposed development, which shall be defined in a servicing agreement as part of the development process. The City agrees to pay for non-development related electrical servicing that may be necessary.

Incentives

The Subject Lands are within the City of Kelowna Tax Exemption Bylaw (No.9561) boundary and will therefore be relieved of 100% of the municipal portion of the property taxes (improvements only) for a period of 10 years. This will be the third project to benefit from this bylaw.

Communications Comments:

City staff have coordinated with Interior Health staff to ensure communications regarding the project are clear, consistent and coordinated between the two organizations.

Both organizations are committed to proactive and ongoing communications as the project moves forward.

Existing Policy:

The above noted project, as it is currently envisioned, is consistent with the future land use designation in the Official Community Plan, numerous overall goals of the Official Community Plan, the parameters of the Downtown Plan and many of the objectives of the Community Strategic Plan.

OCP:

- 14. Attract government and utility company office buildings to the downtown.
- 14.a Politically engage in discussions with MLAs, MPs and key CEOs.
- 14.b Consider the role the City can play in providing incentives to the location of key office buildings (land, parking, etc.)

Downtown Plan:

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

Community Strategic Plan:

To foster a strong, stable and expanding economy.

Financial/Budgetary Considerations:

It is anticipated that this project will not result in any impact on taxation other than the allocation of a portion of the new construction revenues associated with this project, in future years.

The estimated cost of the parking facilities (preliminary estimates only) is approximately \$19 million and will be funded through:

(1) Parking Reserve / other related revenues	Contribution of \$1, 575,000
(2) Contribution from land sale	The contribution from the sale of the Subject Lands to Interior Health will be in the amount of \$2.75 million. This sale is approximately seven hundred and fifty thousand (\$750,000) below market value however this is offset by the constraints and covenants the City will be placing on the property along with the revenue stream associated with a parking lease.
(3) Long term debt	Long term debt financing of fifteen million (\$15,000,000) borrowed through the Municipal Finance Authority of British Columbia for a thirty (30) year The fifteen million (\$15,000,000) long term debt borrowed through the Municipal Finance Authority of British Columbia will be repaid from: (1) Annual long term lease revenues from new parking facilities (2) Annual general parking revenues (3) Annual taxation and rent revenues from associated new commercial development and taxation on the land only component of the property sold to Interior Health

External Agency/Public Comments:

The Ministry of Transportation and Highways will be required to approve the consolidation of the Subject Lands and the rezoning.

The Municipal Finance Authority of British Columbia will be the provider of long term debt financing.

Legal/Statutory Procedural Requirements:

Both the Inspector of Municipalities and the electorate must approve the long-term borrowing bylaw prior to its adoption consideration by Council. The long term borrowing bylaw will be sent to the Inspector of Municipalities once it has received third reading, and Council will be asked to initiate an Alternative Approval Process (AAP) once approval from the Inspector has been received. A future report to Council from the City Clerk will initiate the AAP process and establish the deadline for elector responses.

Internal Circulation:

Director, Financial Services Director, Infrastructure Planning Director, Design & Construction Director, Development Services GM, Community Sustainability

Considerations not applicable to this report:

Legal/Statutory Authority: Personnel Implications: Alternate Recommendation:

In light of the above, the Acting General Manager, Corporate Sustainability request Council's support of the above noted resolutions.

Submitted by:

D. Gilchrist, Acting General Manager - Corporate Sustainability

Schedule 'A'



Schedule 'B'



Schedule 'C'

Memorandum of Understanding

Between

City of Kelowna (the "City")

and

Interior Health Authority ("IHA")

This Memorandum of Understanding made the 25th day of April 2012 is effective as of the date of execution and extends through until completion of the Project or as otherwise replaced with other contracts and agreements described herein.

1. Introduction

This Memorandum of Understanding ("MOU") sets out the understanding between the City and IHA regarding the proposed transfer of City properties (described below) to IHA to provide a site for a new building that would accommodate the consolidation of IHA's community health centres and community support services (the "Project"). This MOU generally identifies the related infrastructure, procedural issues and City and IHA requirements related to the proposed land and building.

The City is proposing to construct two parking facilities that will address the parking requirements for the new building as well as providing additional public parking in the downtown area.

2. City Land Disposition

The proposed disposition involves the fee simple transfer of six parcels of City land (collectively the "Lands"), the civic addresses and legal descriptions of which are as follows:

- (a) 1415 Ellis Street Lot 2, Plan 432
- (b) 1415 Ellis Street Lot 3, Plan 432
- (c) 1415 Ellis Street Lot 4, Plan 432
- (d) 1402 St. Paul Street Lot 17, Plan 432

- (e) 1408 St. Paul Street Lot 18, Plan 432
- (f) 1414 St. Paul Street Lot 19, Plan 432

which will be consolidated prior to the transfer.

The City will be responsible for consolidating the Lands, which consolidation will include and incorporate a closed portion of lane. The City will provide notice of the proposed disposition of the Lands to IHA, as required under s. 26 of the *Community Charter*.

The purchase price for the Lands and the closed lane (addressed above) is \$2.75 million dollars which will be payable at the time of the transfer. The details of the transfer will be further defined in a Purchase and Sale Agreement.

In addition to the Lands, the Project would encompass the closure and sale by the City of a portion of the lane between the three Ellis street parcels and the three St. Paul Street parcels. The parties acknowledge that the Project cannot be undertaken without both the Lands and the portion of lane being transferred to IHA. The transfer of the Lands will be contingent on the approval of the lane closure and sale to IHA.

IHA acknowledges that the closure of a lane requires the adoption of a bylaw by City Council under s. 40 of the *Community Charter*.

3. Zoning Amendment

The Lands are currently zoned a combination of C4 and C7 and designated in the 2030 OCP as having a future land use designation of Mixed Use Residential Commercial. The proposed Project would require the zoning of the parcels currently zoned C4 to be rezoned to C7. While the parties acknowledge that nothing in this MOU can bind the City Council in the future exercise of its discretion in the consideration of a rezoning the proposed building uses (incorporating office, clinical and ground floor commercial use) are consistent with the future land use designation, the Official Community Plan and Downtown Plan. IHA would be responsible for the application to rezone the Lands. City staff will work with IHA and the Developer in the processing of the zoning amendment bylaw which, as required by the City, would be submitted concurrent with a development permit application.

4. Covenant Restrictions and Option to Re-Purchase

Prior to any sale of the Lands the City will register covenant(s) on title that would:

(a) require that construction of the administration building be commenced by a specified date. In the event of construction not being commenced, the City would have the

- option to re-purchase the Lands at the same price as the original disposition; to be secured by an option agreement also registered on title, and
- (b) require that the building constructed on the Lands be a minimum size of 100,000 square feet and that this building size be reflected in the Development permit submission to the City.

Once a building permit has been issued for a building complying with these requirements and construction has commenced the City will release the covenants.

5. Parking

The Project on the Lands will provide a minimum 90 stalls. IHA acknowledges that the proposed Project would require substantially more than 100 parking stalls under the current parking requirements of the Zoning Bylaw in respect of a development the size of the Project. IHA will request a variance from the Zoning Bylaw requirements in respect of the balance of the required number of parking stalls. For clarity, IHA does not contemplate a payment in lieu under section 8.5.3 of the Zoning Bylaw. The Developer will seek a variance in accordance with section 922 of the *Local Government Act*.

In support of its application to vary the Zoning Bylaw parking requirements, IHA will commit to lease a minimum of 400 parking stalls from the City within a parkade or parkades to be constructed by the City on the vacant site south of the Memorial Area (the "Memorial Parkade") and/or the existing Library Parkade to be expanded by the City. The long-term parking lease agreement will be at a lease rate of \$1750.00 per stall, per year. Any inflationary adjustment to this rate that may apply will be identified in the long-term lease agreement. The lease will provide that IHA will make payment monthly for all of the leased stalls. The new leased parking stalls will be made available to the public on weekends and between 6pm and 6am weekdays with the exception of 30 designated stalls for IHA Fleet vehicles or after hours parking by IHA staff which will be available 24/7/365. The City will determine the parking rates applicable to the non-designated stalls when available to the public and the City will retain any parking fee revenue from public parking.

Until site preparation for the Project commences on the Lands the City will continue to make the Lands available for public parking and IHA will enter into an agreement with the City to secure this right following the Lands disposition.

6. City Parkade Development

The City will undertake the design, construction and operation of the Memorial Parkade and/or Library Parkade expansion (the "Parkade Project") which will have a minimum of 410 parking stalls; these stalls shall be leased to IHA as set out in the preceding section of this MOU.

The parties acknowledge that the construction of the Parkade Project is not included in the City's current Financial Plan and that the City will be required to fund the construction through long-term borrowing. The parties further acknowledge that amendment of the City's Financial Plan must be approved and a bylaw to authorize long-term borrowing must be adopted by City Council in order for the parkade construction to proceed. The adoption of a bylaw authorizing borrowing for a period of greater than 5 years will be subject to an elector approval process, either by assent of the electors or alternate approval process, as provided for by section 84 of the *Community Charter*. The parties acknowledge that nothing in this MOU can bind the City Council in the future exercise of its discretion in the consideration of any amendment of the City's Financial Plan or adoption of a borrowing bylaw, however it is the City's full intent to seek community assent for the purpose of funding the Parkade Project so as to facilitate the City's commitment to the Project.

Provided the proposed Parkade Project obtains elector approval for the required borrowing and Council amendment of the Financial Plan, City staff will recommend to Council an increase in parking rates in the Library Parkade so as to be equivalent to the proposed parking rate that IHA will charge its employees for parking stalls leased from the City. Parking rates for surface lots, the Chapman Parkade or on-street parking in the downtown will remain at the City's discretion.

7. Kelowna Sawmill Trust

The proposed Memorial Parkade would be situated on lands that are subject to a charitable trust in accordance with the Supreme Court judgment in *Save the Heritage Simpson Covenant Society v. City of Kelowna* 2008 BCSC 1084 that requires the lands subject to the trust to be used for municipal purposes and not for commercial or industrial purposes. The parties acknowledge their mutual understanding that the use and development of municipal land for parking and off-street parking facilities has been permitted by municipal enabling legislation, applicable to the City, for at least fifty years and therefore the proposed Memorial Parkade would be permissible under the terms of the charitable trust.

8. Subdivision and Servicing Responsibilities

IHA or the developer will be responsible for the costs of developing the Project in accordance with the City's bylaws, including the cost of servicing, site preparation, development cost charges and development applications.

The City will be responsible for the costs of developing the Memorial Parkade and/or the expansion of the Library Parkade, including subdivision or consolidation if required, servicing, site preparation and development applications.

The development of the Parkade Project will be timed to coincide with the Project development.

9. Development – General

City staff will propose an amendment of the City of Kelowna Revitalization Tax Exemption Bylaw No. 9561 to include the Lands, with the amendment to be considered by Kelowna Council prior to IHA issuing a request for proposals (RFP) in respect of the Project.

IHA will include a requirement in the RFP that substantial commercial/active use development at grade be incorporated as part of the Project.

The City makes no representation as to approval to vary any of the City's development related bylaws other than those related items specifically identified herein.

10. Effect of MOU

No legal rights or obligations shall arise or be created until the agreements contemplated under this MOU have been approved and executed by the parties', respective signatories and all related procedures and conditions have been completed.

For Interior Health Authority:	For the City of Kelowna		
Authorized Signatory	Authorized Signatory		



DOWNTOWN REDEVELOPMENT

Interior Health





AGENDA:

- Background
- Project overview
 - MOU
- Financial Analysis
- Next Steps
- Questions







BACKGROUND

- Project Chronology:
 - Awareness
 - Analysis/Investigation
 - Action
 - Negotiation
 - Corporate Authorization(s)
 - Electorate Approval ...
 - Revitalization ...













BACKGROUND

Analysis/Investigation:



- Needs Analysis
 - Location
 - Size
 - Parking requirements
 - Transit relationship
- Business Case
 - Benefits
 - Cost
 - Timing



ANALYSIS & INVESTIGATION



- Confirmation of sites
 - ▶ 11 site options in the downtown core
- Site Evaluation
 - Sites rated (cost/complexity/availability/suitability/risk)
- Site Analysis
 - More detailed viability study & massing
- Priority Sharing with IHA

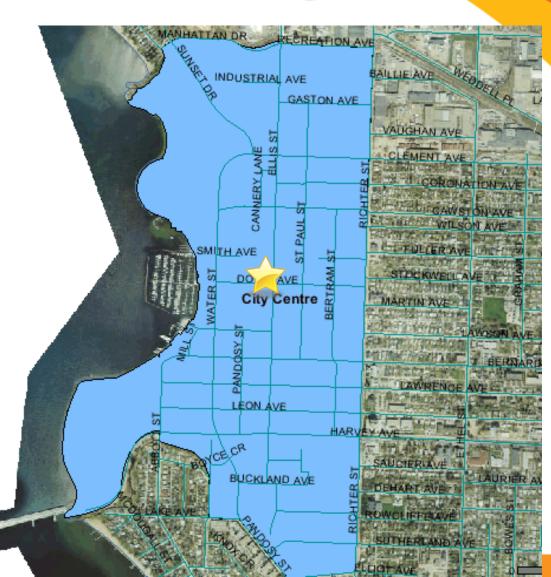


ANALYSIS & INVESTIGATION



- SITE LOCATION

- City owned
- Assembled
- Surplus
- Cost Effective
- Suitable Location
- Policy Conforming





ANALYSIS & INVESTIGATION - SITE LOCATION







ACTION - PROJECT OVERVIEW



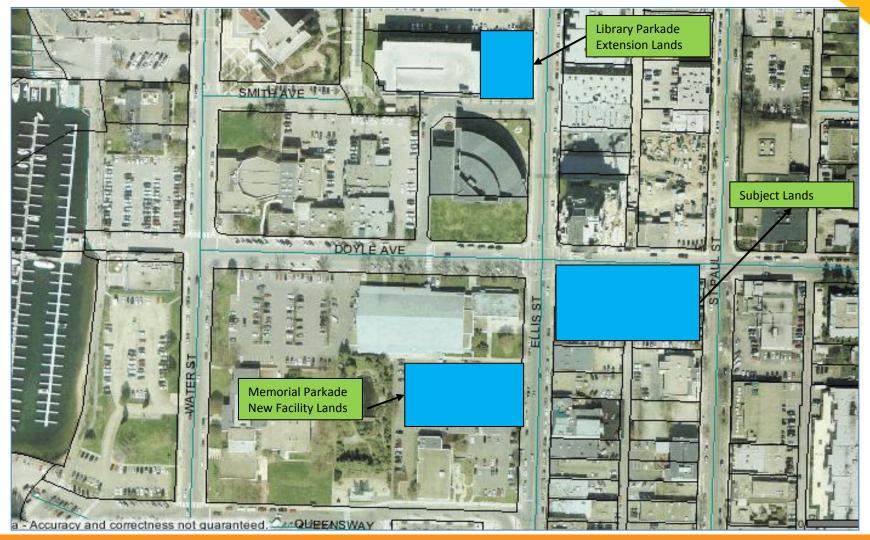
- City
 - Land Sale
 - ParkadeDevelopment
 - Long-term lease

- Interior Health
 - Office & ClinicalSupport Co-location
 - Facility RFP
 - Long-term leases



ACTION - PARKADES & DEVELOPMENT LANDS







PARKADE SITES



Library Parkade Extension Lands



Memorial Parkade New Facility Lands



THE DEAL / MOU

- Direct Disposition of Land
 - 7 Lots
 - Covenants (x2)
 - Lease back (parking)
- Zoning & DP
 - Within Policy OCP, D/T Plan, Cultural District Plan
 - Rezoning Required
 - Noted Variance (1)

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THE DEAL / MOU

- Parkade Construction Commitment (City)
 - Memorial Arena & Library
 - Meet with building occupancy timeline
- Parkade Lease Back Commitment (IHA)
 - Fixed price
 - Long-term
- Parkade Rate Equalizing (City)
 - Match Chapman Parkade



THE DEAL / MOU

- New Parkade (x2)
 - New evening and w/e public parking (410)
 - Evening and w/e revenue City
- Tax Revite Area
 - Municipal tax relief
- Development Servicing
 - Parties responsible for their site(s)



- Two Financial Components in Project
 - Capital to construct the Parkades
 - Ongoing operations
- Anticipate that this project will not use any existing tax revenues



- Key Metrics in Financial Model
 - Capital contributions
 - Internal and external
 - Operations
 - Annual Revenues
 - Annual Expenses
 - Debt financing payments
 - Indexing to account for inflation



Capital Costs

\$19M

Cash contributions

4M

- Sale of Land
- Parking Reserve
- Other Revenues

Capital Financing

\$15M

- Borrowed from MFA
- Estimate 4.5% interest rate
- 30 year term



Financing	Amount
Development cost Parkades	\$19,000,000
Cash from sale of Land	(2,750,000)
Contribution Parking Reserve	(900,000)
Other Revenues	(675,000)
Total Financing Required	\$ <u>15,000,000</u>



- Annual Operating Revenues
 - General parkade parking
 - Leasehold parking
 - Commercial rent
 - Municipal taxation from project
 - Land Yr 1
 - ▶ Improvement YR 11-30 only
 - Commercial in library parkade



Operating Revenues	Year 1	Year 11
General	176,148	194,577
Leasehold	717,500	874,628
Rent	27,125	29,963
Tax – Land	31,541	38,449
Tax –Improve.	0	237,277
Tax -Parkade Commercial	2,572	3,135
Total Revenue	954,886	1,378,029



- Annual Operating Expenses
 - Attendant est. 64,000
 - Maintenance est. 77,000
 - Debt servicing costs 932,000



- Assumptions
 - ▶ 30 yr MFA debt financing for parkades
 - Long term leasehold parking revenues
 - Full occupancy on public stalls
 - Parking rates equalized
 - Includes new construction tax revenue from commercial library and land



- Assumptions
 - ▶ 4.5% Debt Cost
 - ▶ 10 year Municipal Finance Authority
 - Rate confirmed at time of borrowing
 - Annual Indexing
 - Parkade revenues
 - Municipal tax revenues 2%
 - ▶ Long term lease revenue 2%
 - Annual operating expenses 2%



Operating Statement	Year 1	Year 8	Year 11	Total Year 30
Revenues	954,886	1,081,303	1,378,029	43,327,541
Expenses	140,582	161,485	171,369	5,703,141
Net Operating Income	814,304	919,819	1,206,661	37,624,400
Debt Servicing	932,321	932,321	932,321	27,969,642
Net Cash Flow	(118,017)	(12,503)	274,339	9,654,758

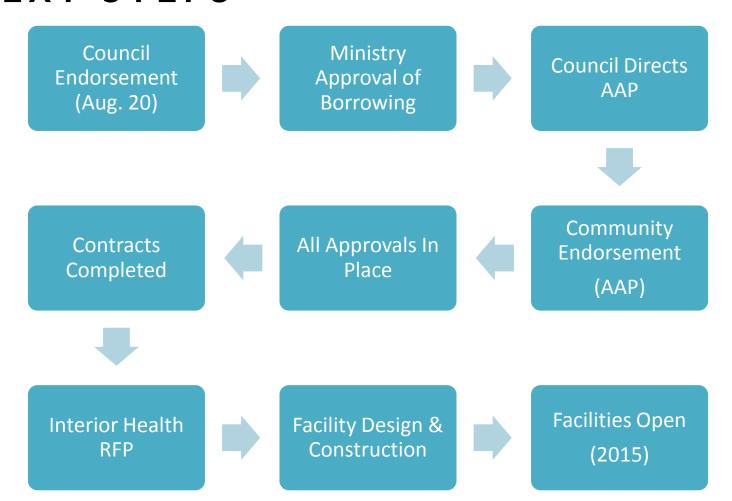


PARTNERSHIP





NEXT STEPS





RECOMMENDATIONS

- Receive the report
- Authorize staff to proceed with the steps identified in the MOU
- Authorize the Mayor and City Clerk to execute all documents
- Staff to bring forward the associated 2013 budget requests for consideration
- Staff amend the 5 year Financial Plan
- Approve borrowing from the Municipal Finance Authority of BC for the amount of \$15 Million for the development of two parking facilities
- Council gives reading consideration to the Loan Authorization Bylaw
- Staff report back to Council to initiative the APP process once we have approval from the inspector of municipalities



DOWNTOWN REDEVELOPMENT

Interior Health Authority

