

Report to Council



Date: March 2nd, 2016
File: 0245-20
To: City Manager
From: J. Shaw Manager, Infrastructure Planning Manager
Subject: Development Cost Charges Bylaw No. 11205 Amendment No.2 to Development Cost Charge Bylaw No.10515

Recommendation:

THAT Council receives, for information, the report from the Infrastructure Planning Manager dated March 2, 2016, with respect to the Development Cost Charge Bylaw No. 11205 Amendment No.2 to Development Cost Charge Bylaw No.10515.

AND THAT Bylaw No. 11205 Amendment No.2 to Development Cost Charge Bylaw No.10515 be forwarded for reading consideration;

AND FURTHER THAT Council direct Staff to hold a public open house to receive input on the proposed Bylaw amendment prior to returning to Council for Second and Third Readings and adoption.

Purpose:

To inform Council about the proposed changes to the Development Cost Charge Bylaw.

Background:

The Development Cost Charge (DCC) Bylaw sets out the charges imposed on developers to offset some of the infrastructure expenditures incurred to service the needs for new development. DCCs are intended to facilitate development by providing a method to finance capital projects related to public roads, water, sanitary sewer, drainage and parkland. The current DCC Bylaw 10515 was adopted by Council June 13, 2011 in conjunction with the OCP review.

The City's 20 Year Serving Plan and Financial Strategy forms the basis of the DCC program and provides detailed analysis of the major servicing needs required to service growth as projected in the 2030 Official Community Plan. The City has recently updated project costs

in the 20 Year Servicing Plan and Financial Strategy based on current construction and land costs and these costs have been used to revise the DCCs. No changes were made to the projects or type and quantity of developable units in the DCC program.

Project Cost Estimating

Urban Systems Limited (USL) was retained by the City to review construction costs and update the projects costs in the 20-Yr Servicing Plan. Where possible, unit rates were derived from City of Kelowna tendered projects for both 2014 and 2015. Construction costs from other projects tendered in the region were used where local costs were not available. USL reviewed each unit cost, and using engineering judgment, selected the appropriate unit cost to use in the 20-Yr Servicing Plan.

Where unit costs were not available, a 12% construction escalation factor was used, based upon the Engineering News Record Construction Cost Index. The value used was an average increase for Canadian Cities between the years of 2010 and 2015.

The City's Real Estate Department updated the land and parkland costs in the 20-Yr Servicing Plan. The real estate market conditions have improved since 2010 with general land and parkland increasing by 7% and 8.7%, respectively.

The following table summarizes the updated (2016) costs of major servicing in comparison to the costs in the current 20-Year Servicing Plan. The total program cost increased from \$709 to \$785 million (10.7%) since the last update in 2011. The portion of the program that is Developer funded (Developer Construct + DCC's) increased from \$468 million to \$518 million (10.7%) and the City funded share (Taxation + Utility) increase from \$209 to \$224 million (6.8%). It is worth noting that the last update in 2011 saw the Developer funded portion of the program decrease by \$209 million (-30.9%) and the City's share increase by \$13 million (6.6%). This was attributable to projects being removed from the program as a result of lower growth projections in the 2030 OCP compared to the 2020 OCP.

Table 1 - Funding sources for the 20-Yr Servicing Plan and Financial Strategy based on the 2016 construction and land cost update.

2030 Major Services - Funding Sources (\$ Millions) - 2016 Update								
Major Service	Gov't Funded	Developer Funded		City Funded		2030 OCP		
	Grant	Developer Construct	DCC's	Taxation	Utility User Rates	2016 Totals	2011 Totals	% Change from 2016 - 2011
Arterial Roads	37.9	63.3	209.1	151.1		461.4	400.3	15.3
Water Distribution		6.0	24.7		29.4	60.0	59.1	1.6
Wastewater Trunks		6.9	25.8		8.4	41.1	37.9	8.2
Wastewater Treatment			65.4		20.3	85.7	86.1	(0.5)
Parkland Acquisition	5.4		116.5	14.5		136.4	125.5	8.7
2016 Totals	43.3	76.0	441.5	165.6	58.1	784.7	709.0	10.7
2011 Totals	32.0	61.2	406.4	149.8	59.6	709.0		
% Change from 2016 - 2011	35.4	24.2	8.7	10.5	(2.6)	10.7		

In reference to Table 1, the Arterial Roads Program costs increased from \$400 to \$461 million (15.3%) since the last update in 2011. For Transportation projects (both Roads and Active Transportation), the primary cost increases were attributable to granular sub-base (+18%), granular base (+25.3%), asphalt (+8-10%) and concrete curb and gutter (+25%). Costs for the Water Distribution program increased from \$59.1 to \$60 million (2%) since the last update.

Costs for the Wastewater Trunks program increased from \$37.9 to \$41.1 million (8.2%). Costs for the Wastewater Treatment program decreased from \$86.1 to \$85.7 million.

Parkland Acquisition costs increased from 125.5 to \$136.4 million (8.7%) since the last update in 2010. The higher than average market increase for parkland is justified given the high proportion of 'unique' properties (i.e. waterfront properties or properties with prime development potential) on the parkland acquisition list.

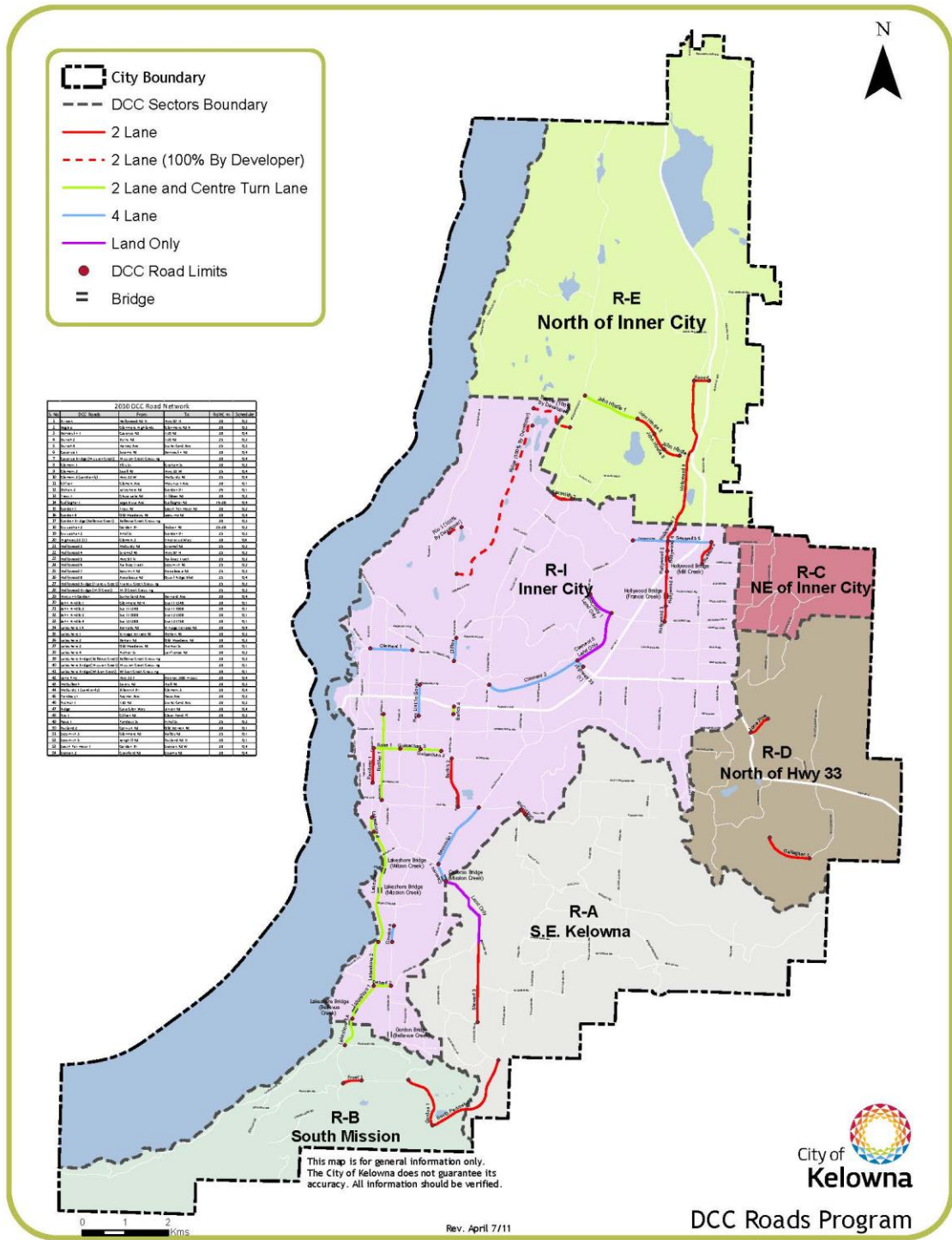
Development Cost Update

Stemming from the land and construction cost increases, the DCC rates in all areas of the City have increased since the last update. Table 2 summarizes the DCC rates by service area and sector for Residential 1 - Single Family. Figure 1 the shows associated Arterial Roads sector map.

When all services are combined the DCC rate increase ranges from 4.8% to 14.1% (Figure 1).

Table 2 - Proposed DCC rates by service area and sector based on 2016 construction and land cost update.

PROPOSED 2016 VERSUS 2011 DCC RATES (\$'s per Residential 1 Unit)						
	S.E. Kelowna	South Mission	NE of Inner City	North of Hwy 33	North of Inner City	Inner City
Arterial Roads	A	B	C	D	E	I
2011 Update	7,878	21,540	14,292	11,072	10,666	7,530
2016 Update	9,243	26,118	15,513	13,321	11,000	8,338
\$ Difference	1,365	4,578	1,220	2,249	333	807
% Change	17.3	21.3	8.5	20.3	3.1	10.7
Parkland Acquisition						
	A					
2011 Update	5,300					
2016 Update	5,795					
\$ Difference	495					
% Change	9.3					
Wastewater Treatment						
	A					
2011 Update	3,723					
2016 Update	3,645					
\$ Difference	(78)					
% Change	(2.1)					
Wastewater Trunks						
	A	B				
2011 Update	1,294	1,903				
2016 Update	1,541	1,379				
\$ Difference	247	(524)				
% Change	19.1	(27.5)				
Water Distribution						
	A	B	D			
2011 Update	998	679	3,552			
2016 Update	1,282	833	3,584			
\$ Difference	284	154	32			
% Change	28.5	22.7	0.9			
Total All Services						
	<u>S.E. Kelowna</u>	<u>South Mission</u>	<u>N.E. of Inner City</u>	<u>N. Highway 33</u>	<u>North of Inner City</u>	<u>City Centre</u>
2011 Update	13,178	33,145	24,609	21,389	20,983	18,845
2016 Update	15,038	37,769	26,494	24,302	21,981	20,601
\$ Difference	1,860	4,625	1,885	2,913	997	1,756
% change	14.1	14.0	7.7	13.6	4.8	9.3



Total All Services	<u>S.E. Kelowna</u>	<u>South Mission</u>	<u>N.E. of Inner City</u>	<u>N. Highway 33</u>	<u>North of Inner City</u>	<u>City Centre</u>
2011 Update	13,178	33,145	24,609	21,389	20,983	18,845
2016 Update	15,038	37,769	26,494	24,302	21,981	20,601
\$ Difference	1,860	4,625	1,885	2,913	997	1,756
% change	14.1	14.0	7.7	13.6	4.8	9.3

Internal Circulation:

Divisional Director, Infrastructure
Divisional Director, Community Planning & Real Estate
Divisional Director, Corporate & Protective Services
Legislative Coordinator
Director, Financial Services
Community Engagement Consultant
Financial Analyst, Infrastructure Planning

Legal/Statutory Authority:

The Development Cost Charge (DCC) Bylaw sets out the charges imposed for public roads, water, sanitary sewer, drainage and public park infrastructure when subdividing or constructing, altering or extending a building, pursuant the Local Government Act.

Legal/Statutory Procedural Requirements:

The *Local Government Act* requires the Inspector of Municipalities to approve local government DCC bylaws. The following process, which is recommend by *DCC Best Practices Guide*, is being followed by staff for amending the DCC Bylaw.

- Staff calculate the DCC rates and amend DCC Bylaw for Council review,
- First reading of proposed DCC Bylaw by Council (March 7th, 2016),
- Public Information Meeting March 30th, 2016 Rotary Centre of the Arts,
- Bylaw revisions by staff (if any) considering stakeholder input,
- Second and Third Reading of DCC Bylaw by Council
- Submission of DCC Bylaw and Supporting Documentation to Ministry of Community Services,
- Statutory approval from Inspector of Municipalities
- Fourth Reading and adoption of DCC Bylaw by Council,
- Bylaw implementation

Existing Policy:

Development Cost Charge Bylaw 10515

Financial/Budgetary Considerations:

The City's long-term capital plan will be updated to reflect the revised project costs once the DCC Bylaw has been adopted by Council.

DCCs contribute to the initial capital cost of growth-related infrastructure, along with taxpayer contributions that account for the benefit of the new infrastructure to the existing community. The subsequent operation, maintenance, capital renewal and the eventual replacement of all infrastructures accrues to general taxation or utility rates.

Personnel Implications:

There are no personnel implications related to this proposed DCC Update.

External Agency/Public Comments:

Staff met with the Urban Development Institute and the Canadian Home Builders Association on January 22, 2016 and have responded to their questions. UDI has expressed concern about the impacts a DCC rate increase may have on their industry and have requested that we either postpone the increase or apply a two year “grandfather” term to the adoption of the new rates. UDI is drafting terms of reference for an arm’s length review of the DCC program and they would like this DCC Update to be part of that arm’s length review which will examine methodology and assumptions in the current DCC program.

Staff are recommending we move forward with the current DCC Update because it has been nearly 5 years since the last cost update. Staff are willing to work with UDI as part of the arm’s length review of the DCC program but feel that the arm’s length review is best managed as an independent assignment. Staff appreciate UDI’s concerns about the uncertain economic conditions given the economic challenges in Alberta and have committed to updating the DCC cost estimates again should construction or land costs change appreciably.

Communications Comments:

A joint public open house for both the *2016 Capital Project Delivery* and the *proposed DCC*

Bylaw amendment is tentatively scheduled for:

- Wednesday March 30th at the Rotary Centre of the Arts;

Once confirmed this meeting will be advertised.

Considerations not applicable to this report:

Alternate Recommendation:

Submitted by:

J. Shaw, Manager, Infrastructure Planning

Approved for inclusion:



A. Newcombe, Divisional Director, Infrastructure

Attachment: DCC Update - Presentation

- cc: Divisional Director, Community Planning & Real Estate
- Divisional Director, Corporate & Protective Services
- Legislative Coordinator
- Director, Financial Services
- Community Engagement Consultant
- Financial Analyst, Infrastructure Planning