

Report to Council



Date: February 25, 2019

File: 0245-20

To: City Manager

From: J. Shaw Manager, Infrastructure Engineering Manager

Subject: Development Cost Charges Bylaw No. 11755 Amendment No.4 to Development Cost Charge Bylaw No.10515

Recommendation:

THAT Council receives, for information, the report from the Infrastructure Engineering Manager dated February 25, 2019, with respect to amending the Development Cost Charge Bylaw No.10515.

AND THAT Bylaw No. 11755 being Amendment No.4 to Development Cost Charge Bylaw No.10515 be forwarded for reading consideration;

AND THAT Council direct staff to submit DCC Bylaw and supporting documentation to Ministry of Community Services for their review and approval prior to fourth reading and adoption of the DCC Bylaw by Council.

Purpose:

To inform Council about the proposed changes to the Development Cost Charge Bylaw and receive direction from Council to submit the bylaw for Ministry approval prior to returning to Council for adoption.

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 serving needs required to service growth as projected in the 2030 Official Community Plan. The City has recently updated project costs in the 20 Year Serving Plan

and Financial Strategy based on current construction and land costs. These costs have been used to revise the Development Cost Charges (DCC) which were last updated in July 2016. This review updates construction and land costs only and there were no changes made to the projects or type and quantity of developable units in the program.

Project Cost Estimating

Urban Systems Limited (USL) was retained by the City to review construction costs and update the project costs in the 20-Year Servicing Plan. Where possible, unit rates were derived from City of Kelowna tendered projects from 2016, 2017 and 2018. 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. The selected unit cost was typically on the lower end of low-average. This is meant to be conservative in order to recognize the possible inaccuracies in relying on an average approach.

Where unit costs were not available, a 7% construction escalation factor was used, based upon the Engineering News Record Construction Cost Index. The value used was an average increase between the years of 2015 and 2017.

The City's Real Estate Department updated the land and parkland costs in the 20-Yr Servicing Plan. The real estate market conditions have significantly increased since 2015 with general land and parkland increasing by 25%.

Table 1 summarizes the updated (2018) costs of major servicing in comparison to the costs in the current 20-Year Servicing Plan. The total program cost increased from \$784.7 to \$880.3 million (12.2%) since the last update in 2016. The portion of the program funded from DCCs and the City funded portion increased as follows:

DCCs increased from \$441.5 to \$497.1 million (12.6%)

City Funded- Taxation share increased from \$165.6 to \$186.6 million (12.7%)

City Funded - Utility user rates share increased from \$58.1 million to \$62.5 million (7.6%)

Table 1 - Funding sources for the 20-Yr Servicing Plan and Financial Strategy based on the 2018 construction and land cost update.

2030 Major Services - Funding Sources (\$ Millions) - 2019 Update								
Major Service	Gov't Funded	Developer Funded		City Funded		2030 OCP		
	Grant	Developer Construct	DCC's	Taxation	Utility User Rates	2019 Totals	2016 Totals	% Change from 2019 - 2016
Arterial Roads	39.7	75.1	234.1	168.9		517.9	461.4	12.2
Water Distribution		6.4	26.3		31.3	64.0	60.0	6.6
Wastewater Trunks		7.4	28.2		9.4	45.1	41.1	9.8
Wastewater Treatment			66.1		21.9	88.0	85.7	2.7
Parkland Acquisition	5.4		142.2	17.7		165.3	136.4	21.2
2019 Totals	45.1	88.8	497.1	186.6	62.5	880.3	784.7	12.2
2016 Totals	43.3	76.0	441.5	165.6	58.1	784.7		
% Change from 2019 - 2016	4.1	16.9	12.6	12.7	7.6	12.2		

The Arterial Roads Program (both Roads and Active Transportation) costs increased from \$461.4 to \$517.9 million (12.2%) since the last update in 2016. The primary cost increases were attributable to concrete curb and gutter (+47%), concrete sidewalk (27%), granular subbase (+35%) and asphalt (+25%).

Costs for the Water Distribution program increased from \$60 to \$64 million (6.6%) since the last update.

Costs for the Wastewater Trunks program increased from \$41.1 million to \$45.1 million (9.8%).

Costs for the Wastewater Treatment program increased from \$85.7 to \$88.0 million (2.7%).

Parkland Acquisition costs increased from \$136.4 to \$165.3 million (21.2%) since the last update. Assisting in the keeping the parkland acquisition cost increase manageable a conservative estimate was used. This estimate did not incorporate a justifiable premium for 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. The table on the next page summarizes the DCC rates by service area and sector for Residential 1 – Single Family.

When all services are combined the DCC rate increase ranges from 10.5% in Sector C to 21.1% in Sector A (Table 2).

As a result of this update, the City will be able to maintain DCC reserves at a level that reflects construction costs of the current economic environment in order to allow appropriate levels of growth related infrastructure investment.

Table 2 - Proposed DCC rates by service area and sector based on 2018 construction and land cost update

2019 VERSUS 2016 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
2016 Update	9,243	26,118	15,513	13,321	11,000	8,338
2019 Update	11,068	27,666	16,758	15,054	13,244	9,583
\$ Difference	1,825	1,549	1,245	1,733	2,244	1,245
% Change	19.7	5.9	8.0	13.0	20.4	14.9
Parkland Acquisition	A					
2016 Update	5,795					
2019 Update	7,142					
\$ Difference	1,347					
% Change	23.2					
Wastewater Treatment	A					
2016 Update	3,645					
2019 Update	3,691					
\$ Difference	46					
% Change	1					
Wastewater Trunks	A	B				
2016 Update	1,541	1,379				
2019 Update	1,687	1,631				
\$ Difference	146	252				
% Change	9.5	18.3				
Water Distribution	A	B	D			
2016 Update	1,282	833	3,584			
2019 Update	1,503	995	3,729			
\$ Difference	221	162	145			
% Change	17.2	19.4	4.0			
Total All Services	S.E. Kelowna (A)	South Mission (B)	N.E. of Inner City	N. Hwy 33 (D)	N. of Inner City (E)	Inner City (I)
2016 Update	15,038	37,769	26,494	24,302	21,981	20,601
2019 Update	18,209	41,125	29,278	27,574	25,764	23,606
\$ Difference	3,172	3,355	2,784	3,272	3,783	3,005
% change	21.1	8.9	10.5	13.5	17.2	14.6

Internal Circulation:

Divisional Director, Infrastructure

Divisional Director, Community Planning & Strategic Investment

Divisional Director, Corporate Strategic Services
Legislative Coordinator
Director, Financial Services
Financial Analyst, Infrastructure Planning

Legal/Statutory Authority:

The Development Cost Charge (DCC) Bylaw sets out the charges collected from Developers for public roads, water, sanitary sewer infrastructure and public parkland acquisition 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 DCC rates and amend DCC Bylaw for review,
- Letter with amended rates submitted to stakeholder groups for input (UDI and Canadian Home Builders' Associate November 9, 2018)
- Rates adjusted based on stakeholder input (UDI December 21, 2018)
- Council readings (1st, 2nd and 3rd) of proposed DCC Bylaw by Council (February 25, 2019),
- Bylaw revisions by staff (if any) considering Council input from February 25, 2019 meeting,
- 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 adoption.

Existing Policy:

Development Cost Charge Bylaw 10515

Financial/Budgetary Considerations:

The City's 10-Year 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 and utility 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

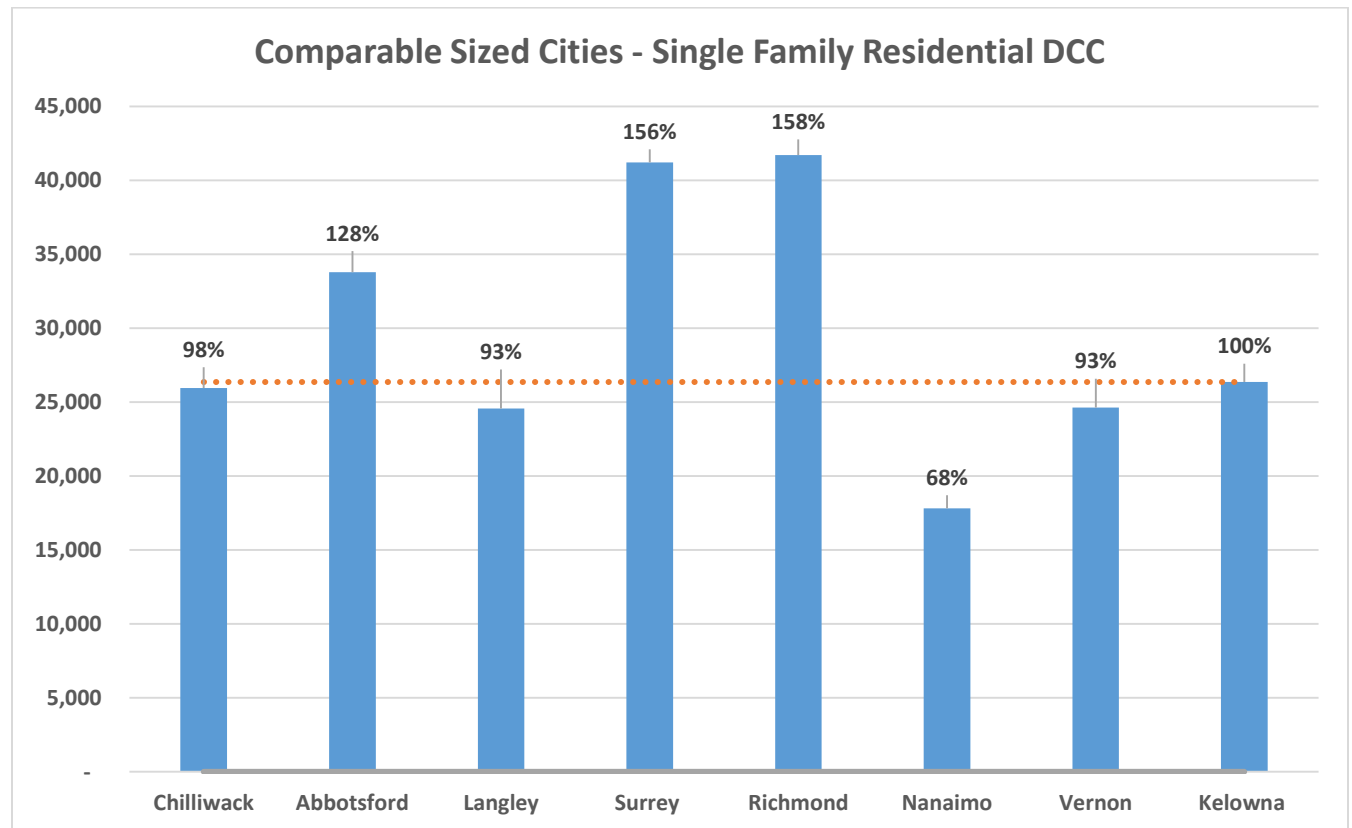
External Agency/Public Comments:

Staff met with the Urban Development Institute on November 16, 2018 and have responded to their questions. UDI expressed general concern over project cost increases and inquired whether cost savings strategies were considered. UDI also provided comment on issues to address in the upcoming 20-Yr Servicing Plan update in conjunction with the OCP update. With respect to project costs the City is continually looking for ways to deliver infrastructure projects in a cost effective way. All major construction projects are procured through a competitive public procurement process. Where possible

the City reduces cost by combining projects for economy of scale, providing contractors with longer construction schedules and tendering early in the year before the construction market is busy.

The increased rates are still comparable to like size communities in B.C. as shown in the figure below.

Figure 1. Single Family Residential Average DCC Rate based on updated DCC rates



Considerations not applicable to this report:

Alternate Recommendation: N/A

Communications Comments: N/A

Personnel Implications: N/A

Submitted by:

J. Shaw, Manager, Infrastructure Engineering Manager

Approved for inclusion:



A. Newcombe, Division Director, Infrastructure

Attachment 1 - DCC Cost Update Presentation

cc: City Clerk

Divisional Director, Community Planning & Strategic Investment

Divisional Director, Corporate Strategic Services

Divisional Director, Financial Services

Divisional Director, Infrastructure