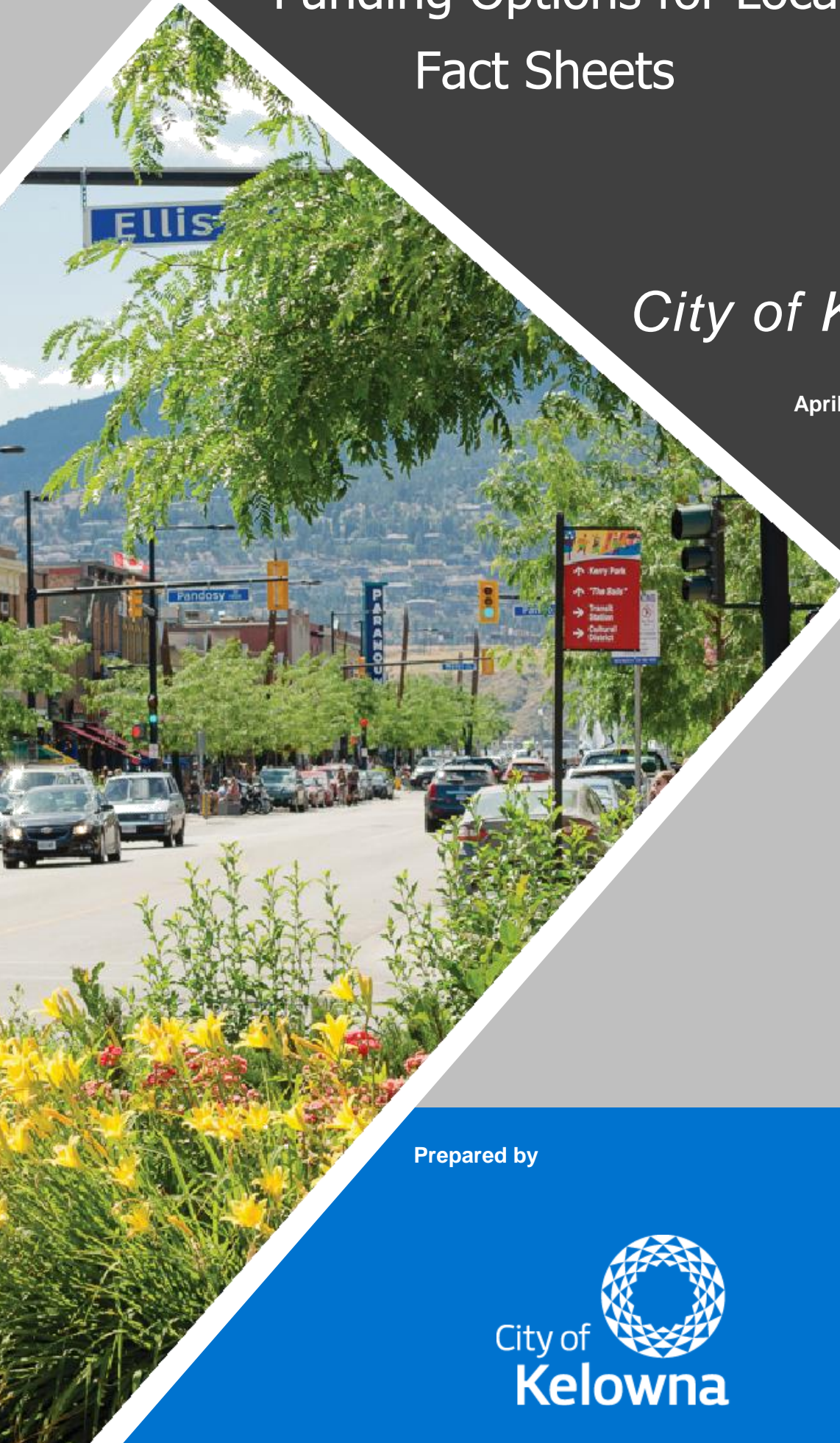


Funding Options for Local Governments: Fact Sheets

City of Kelowna

April 2019



Prepared by



URBAN
systems

TABLE OF CONTENTS

SECTION 1.0	INTRODUCTION.....	1
SECTION 2.0	OVERVIEW OF OPTIONS.....	2
	DEVELOPMENT COST CHARGES (DCCS)	4
	CONSIDERATION.....	5
	NEW PARKS DEVELOPMENT DCCS.....	5
	NEW STORM DRAINAGE DCCS	5
	STORM DRAINAGE UTILITY	10
	PARCEL TAX	13
	LOCAL AREA SERVICE	15
	FEES AND CHARGES.....	17
	COMMUNITY AMENITY CONTRIBUTIONS.....	19
	DENSITY BONUSING	22
	PARTNERSHIPS – P3 AND GENERAL	25
	INFRASTRUCTURE LEVY.....	27
SECTION 3.0	OTHER FUNDING TOOLS	30
SECTION 4.0	SUMMARY OF REVENUE POTENTIAL	34

This report is prepared for the sole use of the City of Kelowna. No representations of any kind are made by Urban Systems Ltd. or its employees to any party with whom Urban Systems Ltd. does not have a contract. Copyright 2019.

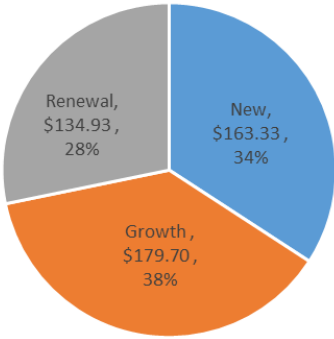
SECTION 1.0 INTRODUCTION

The City of Kelowna is one of the fastest growing communities in the nation with the population expected to surpass 150,000 in the next ten years placing a demand on infrastructure services. Kelowna is also in a period of transition from an agricultural and tourism based community to a thriving urban center with residents requesting improvements to existing services. Compounding these demands for infrastructure, is the need to replace Kelowna’s aging infrastructure that is nearing the end of its service life.

The 10-Year Capital Plan forecasts a total infrastructure investment of \$1.531 billion required to renew existing infrastructure and to put in place the necessary infrastructure to accommodate growth and meet the community’s evolving service expectations. Based on traditional funding sources the City is only able to fund \$1.053 billion leaving the City with \$478 million in unfunded infrastructure. This number is expected to grow with rising construction costs and an increase in demand for services.

Infrastructure Deficit 10-Year Plan P2 Projects

Infrastructure Deficit New, Growth & Renewal 2018-2027 \$478 (millions)



Infrastructure Deficit Cost Center 2018-2027 \$478 (millions)

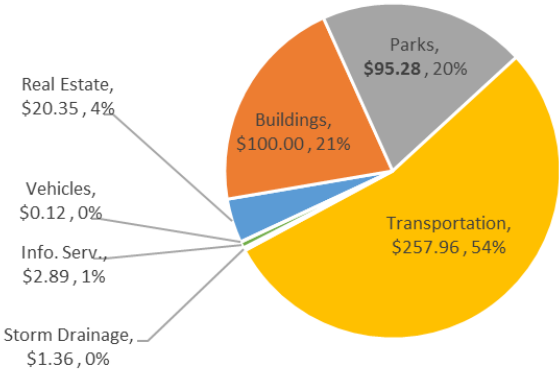


Figure 1. Infrastructure deficit as a percentage of New/Growth/Renewal and Infrastructure deficit by cost center.

This deficit is comprised of \$163 million New (infrastructure to enhance services), \$180 million Growth (infrastructure to accommodate growth) and \$135 million Renewal (to renew existing infrastructure). The infrastructure deficit analysis focuses on the General Fund service areas and does not include the following other services: Water, Wastewater, Solid Waste, and the Airport.

Council proactively introduced an Infrastructure Levy that will generate an additional \$50 million to fund infrastructure over the next ten years but additional funding options are needed to close the infrastructure deficit.

This report provides an overview of a number of funding options that the City can use as a basis for developing a comprehensive funding strategy to address the remaining infrastructure deficit.

SECTION 2.0 OVERVIEW OF OPTIONS

This section describes a number of funding options that may act as revenue generators for addressing the infrastructure deficit. Summary sheets are provided in this section for each of the key funding options.

The City is exploring the following funding options:

- Development Cost Charges (DCC) – expansion of the existing DCC program to include Parks Improvement and Storm Drainage DCCs. The taxation assist factors are also being reviewed.
- Storm Drainage Utility – a utility similar to Water and Wastewater Utilities where serviced properties pay for Storm Drainage services.
- Parcel Tax – a tax applied to parcels that benefit from the provision of service(s).
- Local Area Services – a tax or charge that benefitting property owners pay for service upgrades (i.e. drainage, streetscaping).
- Fees and Charges – potential increases to the set of fees and charges collected from those who benefit from the use of a service, as per the rate established in the Fees and Charges bylaw.
- Community Amenity Contributions (CACs) - CACs are amenity or financial contributions provided by property developers to pay for the impacts of growth on services when City Council grants development rights for additional units or floor area through rezoning.
- Density Bonusing – is intended to provide options for the developer to build either to the “base” density or to a higher level of density, if they provide certain amenities or affordable housing.
- Public – Private Partnerships (P3s) – agreements between the public sector and the private sector to deliver local government infrastructure, which can take a wide range of forms (e.g. Prospera Place).
- Infrastructure Levy – an annual levy collected for the purpose of infrastructure investment. The City proactively introduced a 1.95% infrastructure levy in 2019 and 2020 that will raise approximately \$50 million in revenue over the next 10 years. The Infrastructure Levy is documented herein for completeness of the range of funding options.
- Long-term Capital Borrowing – the City currently uses long-term borrowing to fund capital improvements (ex. Police Service Building, Wastewater Treatment Expansion). This report reviews City’s borrowing capacity.
- Provincial and Federal Grants – the City actively applies for and receives grants from senior levels of government. Based on historic average of grants received in the last 10-years, a forecast has been estimated for the next 10-Years.

The summary sheet for each key funding option generally includes the following topics, where applicable:

- Description
- Tool Use
- Payment
- Pros & Cons
- Current City Approach
- Comparison with other communities
- Potential Financial Impact

Some funding options do not include all of these categories if they are not applicable to the specific option.

The report also mentions a few other mechanisms that are available to local governments that can be used to finance infrastructure and allocate costs to developers, these include:

- Long-Term Capital Borrowing;
- Latecomer Agreements;
- Development Works Agreements; and
- Phased Development Agreements.

A summary of each mechanism’s revenue potential is provided in Section 3.0, along with concluding remarks on how the City could approach the infrastructure deficit using a combination of the funding options.

The revenue potential for each funding option in this report is considered a high level estimate that should be used as a comparative tool when examining options and not to be mistaken as an in depth financial analysis.





Development Cost Charges (DCCs)

Description

Development cost charges (DCCs) are designed to assist local governments in recovering monies expended on growth-related infrastructure. DCCs may be imposed to recover costs related to the provision, construction, alteration or expansion of the following services:

- Transportation (Roads and Active Transportation), other than off-street parking,
- Sanitary sewers,
- Water,
- Drainage, and
- Parkland acquisition and improvement.

Tool Use

DCCs are one-time charges levied against residential (single and multi-family), commercial, industrial and institutional developments that impose a capital cost burden on the local government. DCCs may be specified according to different sectors as they relate to different classes and amounts of development. The principals of equity require that charges be similar for all developments that have a similar impact on servicing.

Payment

DCCs are collected for all new types of development at the time of subdivision or building permit approval. DCCs must be implemented by bylaw and must be approved by the Ministry.

Current City Approach

The City has a well-established DCC program that currently funds growth related infrastructure for transportation, sanitary sewer and water and parkland acquisition. The City does not collect DCCs for Parkland improvement or major system drainage infrastructure (i.e. detention ponds, large trunk sewers, channels and outfall infrastructure). Some storm drainage infrastructure directly associated with roads are included in the roads DCC. This includes catch basins, storm drainage mains and manholes that are part of a road design.

Expanding the DCC program to include Parks improvement DCCs and Storm Drainage DCCs would assist in paying for this growth related infrastructure.

Parks DCCs can be established to pay for developing parkland including providing fencing, landscaping, drainage and irrigation, trails, restrooms, changing rooms, and playground and playing field equipment on park land. The amount collected through Parks DCCs pays for the park expansion needs attributable to new growth over a specific time period.

A specific Storm Drainage DCC could be used to pay for large common drainage facilities such as large diameter common storm drainage pipes and channels, detention ponds and stormwater outfalls. Given the recent flooding events in Kelowna and the longer-term impacts of climate change the City will need to invest in major system drainage infrastructure to accommodate growth within the community.

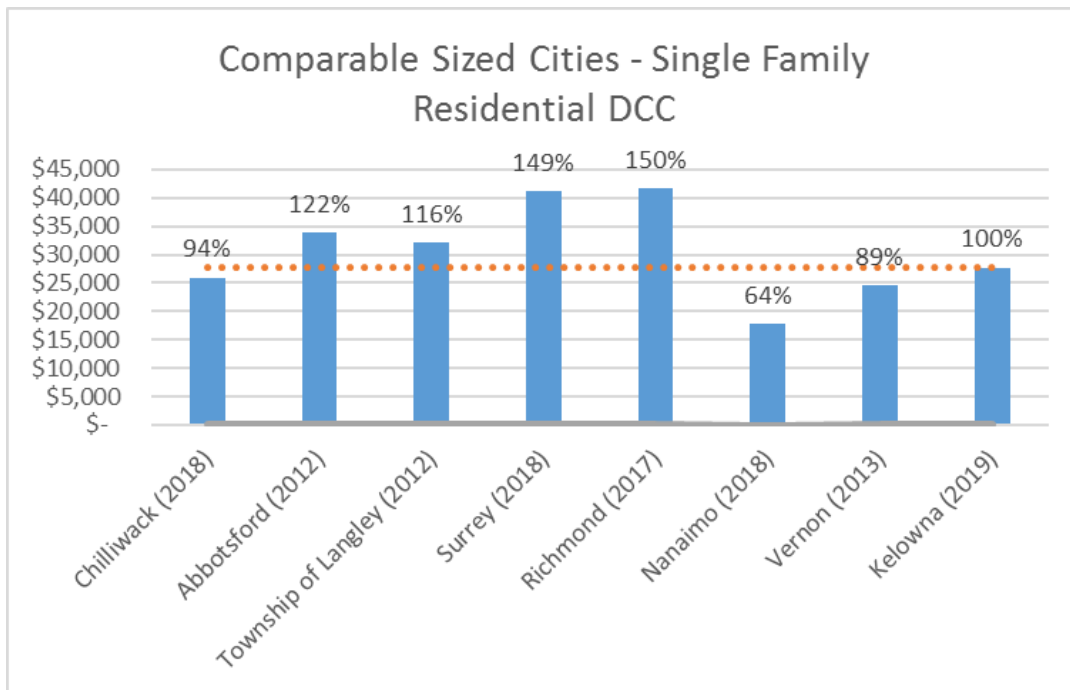
Pros and Cons

The Pros and Cons associated with existing City DCCs, proposed new parks development DCCs, and new storm drainage DCCs are set out in the table below. A **+** indicates a pro and a **-** indicates a con.

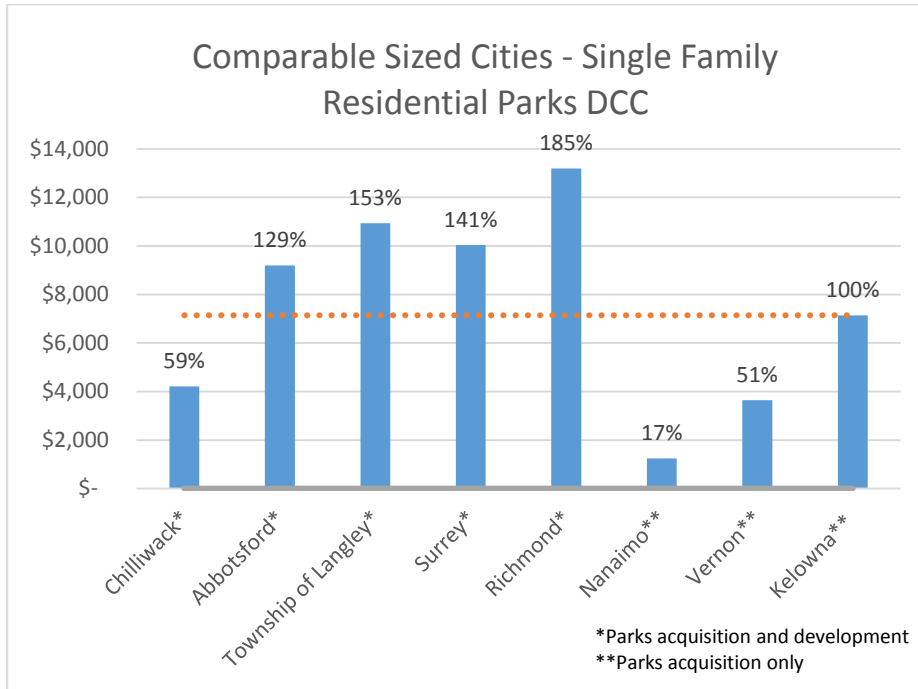
<i>Consideration</i>	<i>New Parks Development DCCs</i>	<i>New Storm Drainage DCCs</i>
Little cost to the City, if funds are accumulated before capital is required.	+	+
Consistent with the benefiter pay principle as growth pays for growth.	+	+
Common financing strategy that is already used. Developers are already familiar with DCCs and the expectation that they will be required to be paid for new development	+	+
Dependent on development. DCCs are development driven, therefore if demand for development is low, few funds will be generated	-	-
Can only be used to pay for infrastructure related to growth – cannot be used to finance works needed for existing development.	-	-
Adding a new DCC may affect the affordability of housing in Kelowna.	-	-

Comparison with other communities

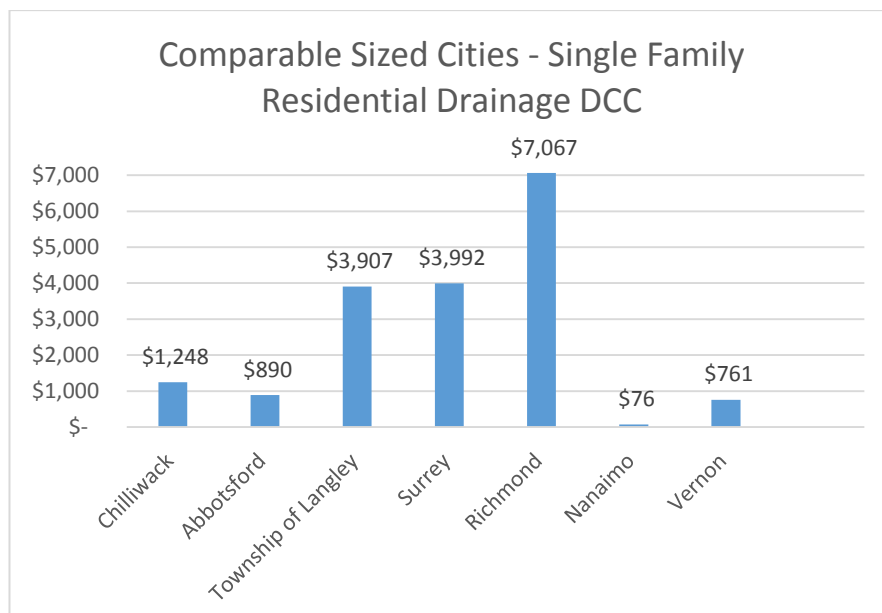
The DCCs charged for a single family development in some comparative communities are set out in the figure below. The bar graph shows the dollar value of the DCC, along with percentage figures that show how these rates compare to the city of Kelowna (e.g. 137% means the rates are 37% higher than the city of Kelowna).



Most municipalities reviewed collected DCCs for parkland development, as well as acquisition, including Abbotsford, Chilliwack, Kamloops, Langley and Richmond. The chart below shows the comparative Parks DCCs.



All of the comparative communities have a Storm Drainage DCC, including Abbotsford, Chilliwack, Vernon, Langley, Richmond and Surrey, as well as Lake Country, West Kelowna, Penticton, Summerland, Kamloops, Victoria, Nanaimo, New West Minster, North Vancouver, and Prince George. The chart below shows the dollar values of Drainage DCCs for comparable cities.



The municipal assist factor is the amount that the municipality 'assists' in paying for costs that are allocated to developers to pay for growth. The Local Government Act requires an assist amount, but it can be set as low as 1%. In terms of the assist factors used for the DCC programs, Kelowna has one of the higher assist factors for the Roads (Transportation) and Parks DCC programs compared to other municipalities (see the table below). This is something for the City to consider moving forward as reducing the municipal assist would allow for more funds to be generated by DCCs for Roads and Parks projects.

Community	Municipal Assist Factor (%)				
	Transportation	Water	Sewer	Drainage	Parks
Kelowna	15%	1%	1%	N/A	8%
Surrey	5%	10%	10%	10%	5%
Chilliwack	10%	10%	10%	10%	10%
Richmond	1%	1%	1%	1%	1%
Kamloops	10%	1%	1%	1%	1%
Langley	1%	1%	1%	1%	1%
Abbotsford	10%	1%	1%	10%	5%
Vernon	1%	N/A	1%	1%	N/A

Potential Financial Impact

The potential revenue from establishing a parks development DCC is about \$3.66 million per year, as set out in the June 2018 Report to Council on the Parks Development Funding Strategy. This would translate to about \$36.6 million over 10 years.

The 10-Year Capital Plan identifies \$28 million in Storm Drainage infrastructure. Approximately 40% of this infrastructure is related to growth and could be funded through the DCC program. If a storm drainage DCC was implemented the potential funding would amount to approximately \$12 million in the next 10-Years.

Another consideration would be to reduce the Assist Factor for Transportation (currently 15%) to 10% and Parks Assist Factor (currently 8%) to 5%. While the amount would depend on the specific DCC rates, which are adjusted over time, we can conservatively take the calculations in the 20-Year Servicing Plan and Financing Strategy and adjust them to cover a 10-year period. If the assist factors were reduced for a 10-year period, the City would have generated about \$6.4 million more in Transportation DCCs and \$2.2 million more in parks acquisition DCCs, for a total of \$8.6 million.

Taking all of these items together DCCs could generate the following additional revenues over 10 years:

- Parks Development DCC = \$36.6 million
- Storm drainage DCC = \$12 million
- Reduce DCC assist (Roads 10% and Parks 5%) = \$8.6 million
- Total = \$57.2 million





Storm Drainage Utility

Description

Utility charges must be established by bylaw and must be clearly related to the cost of providing the service (e.g., water, sanitary sewer). A Storm Drainage Utility is similar to water and sewer utilities but it applies to storm drainage operation and capital costs. The Storm Drainage Utility would utilize a user pay approach, based on the philosophy that those who use the system pay for it. Utility fees and charges may vary by property, business and activity to reflect the different impacts on a service that different users may have. Municipalities support their fee structure through the provision of a report which outlines how a fee was established. The implementation of fees and charges is not subject to an elector assent process.

Tool Use

Storm drainage utility fees could be collected to cover the costs of financing storm drainage operating and capital costs. The utility would aim to fund all Priority 1 projects and Priority 2 projects that would otherwise require taxation.

Payment

Storm drainage utility charges follow the benefiter pays principle as only those who benefit from the infrastructure will be required to pay the charge. Payments to a utility can be in the form of a levy, a fee, a charge, a parcel tax, a frontage tax or even a charge based on property values and classes. Utility charges are usually paid by property owners as an annual or quarterly charge based on the type of land use (residential, commercial, industrial). A storm drainage utility charge is sometimes based on measurements or assumptions about the amount of impervious area on a property. Greater amounts of impervious areas contribute greater volumes of stormwater, and therefore may be subject to higher charges to pay for the additional storm drainage infrastructure.

Current Approach being used by the City

The City currently does not have a dedicated Storm Drainage Utility. Storm Drainage infrastructure are primarily funded from general taxation to roads, police, fire fighting and many other municipal services. Some storm drainage infrastructure directly associated with DCC roads are included in the roads DCC.

Comparison with other Communities

North Vancouver, Abbotsford, Surrey, Victoria, and Penticton have storm drainage utilities. North Vancouver established a Sewerage and Drainage Utility in 1995, making the Drainage Utility part of the Sewerage Utility. The City imposes a Storm Drainage Levy based on the taxable assessment of a property and the class. The charge is included as part of the annual property tax notice.

Abbotsford has used an urban storm drainage fee for properties within the City's Urban Drainage Boundary since 2001. Every owner of property within the Urban Drainage Boundary is levied a service fee, based upon the assessed value of land and the property class, to cover the costs associated with the operation, administration, maintenance and repair of the storm drainage system within that area of the City.

Surrey has a Drainage Utility that is funded primarily by a Drainage Parcel Tax of \$225 per residential parcel and \$459 per commercial parcel in 2019. The Drainage Parcel Tax was introduced in 2001.

Victoria's stormwater utility was introduced in 2016, prior to which revenues for stormwater projects were paid out of property taxes, like most other communities. Victoria took the funds generated by property taxes for stormwater management and now generates it through a stormwater utility bill. The stormwater utility bills are now charged based on the following three property characteristics: the amount of impervious area, the length of a property's frontage, street type, and the property's density.

The City of Penticton established a Storm Water Utility in 2018. The different categories of the City's Storm Water Utility Rates are based on Property Tax Classifications (residential; farm/recreational/non-profit/supportive housing; business/industry/utilities). The City has a set of rates for properties connected directly to the storm water system that differ from the rates for properties that are not connected directly to the storm water system. The rates are set low to start and will gradually increase over time to make the utility financially sustainable.

Chilliwack has a separate property tax for drainage, which applies to land only, based on the property class and assessed value of land, but it does not have a separate storm drainage utility. The drainage funds are used for river management projects such as dike upgrades.

The City of Vernon recently considered implementing a stormwater utility and decided not to proceed, keeping the funding of stormwater projects from the general fund through property taxation.



Potential Financial Impact

As a noted above the storm drainage utility could be funded by a fee based on impervious area and use, or a flat base fee, with tiered fees based on ranges of impervious area, or on the total assessed value or just the assessed value of land. While the amount of potential revenue would depend primarily on the revenue required and the cost recovery approach, if approximately 60% of the \$28 million in storm drainage projects in the 10-Year Capital Plan was paid by a storm drainage utility levy, the levy would need to be about \$30 per tax roll based on 56,000 tax rolls, which would generate about \$1.7 million per year.

Pros and Cons

Pros

- User pay approach provides greater fairness
- Transparent and sustainable
- May result in more storm drainage projects being completed, since there will be a defined funding source
- Incentive to reduce stormwater from private property

Cons

- New utility may add cost to property owner
- Implementing utility can be complex and public education is required
- There are varying service levels across the City (gravel strips in front of some properties and curb and gutter elsewhere). It may be difficult to justify similar charges with differing service levels.





Parcel Tax

Description

Parcel taxes vary from property value taxes in that they are levied based on the parcel, frontage, or area of a property rather than its assessed value. These may be collected on properties that are receiving a certain service. They are often levied in conjunction with a user fee. The bylaws required to establish a parcel tax scheme must identify the service; state the basis of the parcel tax and specify the years for which the tax is imposed. In addition, they must establish how the taxable area or the taxable frontage of a given property is determined. Parcel taxes can be established for a specific area or they can be applied to the entire City.

Tool Use

Parcel taxes may be applied to properties that are benefitting from the provision of new or improved infrastructure. The tax may be imposed only on parcels that have the opportunity to be provided with the service, whether or not they are in fact being provided with the service. Parcel taxes can be applied to all parcels in the City or the City may identify which parcels will benefit specifically from a service under a Local Area Service. The City can identify the underfunded infrastructure projects they wish to pay for using parcel taxes and then the funds generated would be used to pay for those projects. All funds collected would therefore be used to pay for this infrastructure.

Payment

Parcel taxes may be levied as a single amount per parcel (e.g. \$x per parcel), or a rate of tax paid per unit of parcel area (e.g. \$x per square meter of parcel area), or per unit of taxable frontage (e.g. \$x per meter of frontage). Rates of tax can also be established for different ranges of taxable area or taxable frontage (e.g. \$X for parcels between 500 m² and 800 m², and \$Y for parcels between 801 m² and 1200 m²).

Current Approach being used by the City

The City currently uses parcel taxes to generate funds for the Water Utility. Parcel taxes are also used to recover infrastructure costs within a Local Area Service. Examples of this include the sanitary sewer LAS's that were established in Rutland and South Mission.

Comparison with other Communities

Most other communities will utilize parcel taxes of some form to pay for utilities such as sewer and water, however fewer communities utilize a general parcel tax to pay for other forms of infrastructure. Some examples of other communities that have established community wide parcel taxes to pay for General Revenue type items are set out below:

- Lake Country in 2016 established a Road Renewal Parcel Tax of \$125 per parcel.
- Salmon Arm established a Transportation Parcel Tax in 2008 at an annual amount of \$120 per parcel. Revenue raised from the Transportation Parcel Tax can only be used for the City's transportation network.
- Kimberley established a parcel tax in 2006 to pay for the Kimberley Aquatic Centre, and the 2018 amount was \$154 per parcel.

- Castlegar adopted a parcel tax in 2016 of \$150 per parcel for constructing, improving, operating and maintaining storm water management works and systems throughout the City.
- Surrey in 2015 introduced a Cultural and Recreation parcel tax of \$100 per residential parcel and \$250 per commercial parcel. The tax has since been revised to the Capital Parcel Tax to provide more flexibility.
- Surrey also has a drainage parcel tax that was established in 2001 and in 2019 the rate is set at \$225 per residential parcel and \$459 per commercial parcel.



Potential Financial Impact

The potential financial impact will depend on the number of parcels taxed and amount of each parcel tax. The City currently has about 56,000 tax rolls and assuming that each tax roll represents a parcel, a parcel tax of say \$50 per parcel would generate about \$2.8 million per year to help pay for addressing the infrastructure deficit. Over 10 years this would generate \$28 million. At the higher end of the range if a parcel tax was set at \$100 per parcel, it would generate \$5.6 million per year and \$56 million over 10 years.

Pros and Cons

Pros

- Parcel taxes are not dependant on development, therefore this could enable the City to accelerate construction of needed infrastructure
- Potential to quickly generate significant revenue through a charge on every parcel in the City
- Relatively stable revenue source
- Consistent with the benefiter pay principle

Cons

- Requires elector assent for local service area taxes
- Increases in taxation are not favourably received
- Since the Infrastructure Levy was recently implemented, residents may not be open to having to pay another tax



Local Area Service

Description

A local area service (LAS) is a municipal service that is provided to a specific area within the community and that is to be paid for (in whole or in part) by a local service tax. Projects funded through local service often include localized street or utility improvements, such as extending community sewer services or providing sidewalks, as well as local park acquisitions and development. Local area services may be proposed by Council or undertaken in response to a petition from property owners. Assent of the property owners or electors within the proposed local service area is required.

Tool Use

Local service taxes will be levied only within the area of the community that receives the service to be consistent with the benefiter pay principle. Local service taxes are most useful in cases where a specific area in the community desires a higher level of service (e.g. extension of sewer or water service, improved parks or additional street lighting) than is typically provided. In these cases, the costs of the enhanced service could be charged back to those benefiting through the local service tax. LAS requires elector assent process through council initiative and counter petition, or petition by residents

Payment

A local service tax may be a property value tax (on land, improvements or both), or a parcel tax. Property owners usually pay an annual charge to cover the capital costs and borrowing costs associated with providing the service. Property owners also have the opportunity to pay for the entire cost up front rather than over the term of the debt financing. All works developed to benefit a LAS must be undertaken by bylaw.

Current Approach being used by the City

The City has used LASs many times, to provide specific services for an area. For example, when the City was expanding community sewer services to replace septic tank systems in Rutland and South Mission, it used LAS to recover costs to provide service within the service boundary. The charges are often in the form of parcel taxes, although in many cases residents had the opportunity to cash commute the charges (pay all the charges in a lump sum up front). While the city has used LAS charges successfully for sewer system projects, which benefited from significant Provincial grants to reduce the costs to residents, there are fewer examples of Local Service Areas established for other General Revenue Fund items such as sidewalks, curb and gutter, or boulevard landscaping. These are not usually



subject to grants, so residents need to pay the full costs. There have been examples of significant effort expended on a LAS initiative that did not proceed because it didn't receive electoral assent.

Potential Financial Impact

The potential financial impact can vary widely, depending on the service and the size of Local Area Service. Between 2004 and 2010 the City funded close to \$50 million in sanitary sewer projects using the LAS funding strategy. However, these projects were successful because of significant provincial grants that made it more financially appealing to the benefitting property owners.

Examples of General Fund LAS that proceeded over the last 10 years include:

- Bernard Avenue LAS generated \$1.5 million.
- Lawrence Avenue Streetscape LAS generated \$430,000

This resulted in a total of just under \$2 million in funds generated from LAS over the last 10 years. This could be identified as the conservative low estimate. A high estimate of \$5 million might be generated in revenue through LAS if this option was pursued more aggressively.



Municipalities may contribute a portion of the cost from general revenues as an incentive for property owners to go forward with a LAS.

Pros and Cons

Pros

- Adds requested services to established areas. Provides a tool for residents of an area to request and pay for a higher level of services if desired
- As local service taxes are not dependent on development, the use of local services taxes could enable the City to accelerate construction of needed infrastructure
- Consistent with the benefiter pay principle

Cons

- Requires elector assent process through council initiative and counter petition, or petition by residents
- There is a lot of administration effort required to establish a LAS and the LAS may not receive approval from residents



Fees and Charges

Description

A local government may impose fees and charges to help finance any service that a government provides. Fees must be established by bylaw and must be clearly related to the cost of providing the service including renewal or new investment in the related infrastructure. Fees may vary by category of persons, property, business and activity to reflect the different impacts on a service that different users may have. Local governments must be able to support their fee structure through the provision of a report which outlines how the fee was established.

Tool Use

User fees are often used to recover costs associated with facilities that have high user levels (i.e. skating rinks and swimming pools). They are also used for services where the consumption can be measured such as metered water rates, or where the fee can be varied based on the type of use such as sewer user fees. In this case, a user fee increase can provide funds for underfunded infrastructure projects and services. The imposition of fees and charges is not subject to an elector asset process.

Payment

User Fees could be increased to help cover the costs of replacing or expanding facilities. For example, fees paid at skating rinks could be increased to set aside money for eventually replacing or upgrading the skating rink. Parking fees could be increased to help replace or improve parking facilities. Sports facility fees could be increased to help pay for more of the costs to improve or replace facilities.



Current Approach being used by the City

The City currently uses fees and charges to generate revenue for a wide range of services including water, sanitary sewer, solid waste, parking, recreation parks and culture programs, facility rentals, administrative services, planning services, licensing, permits, and cemetery. Fees for water, sewer and solid waste are not the focus of this analysis as these areas do not contribute to the infrastructure deficit.

Comparison with other Communities

All other communities have fees and charges for providing a range of services. In 2018 Kelowna generated about 31% of revenues from fees and charges. This is generally within the range of

comparative communities which in 2017 generated 22% to 34% from Sales of Services in the 2017 Municipal Statistics, which largely equates to Fees and Charges.

Potential Financial Impact

The 2019 financial plan notes that, in 2018, General Fund fees and charges amounted to about \$59 million and Utility fees and charges totaled about \$67 million, for a total of about \$126 million. The focus of this analysis excludes Utility (water, sewer) charges as well as solid waste, regional transit and debt, which leaves about \$28.5 million in fees and charges. This amount could be examined for potential increases to help fund the infrastructure deficit. While the potential financial impact of adjusting fees and charges can vary widely depending on which fees and charges are revised, if we assumed a 5% increase in all applicable fees and charges, (in addition to the rate of inflation) the City would generate an additional \$1.43 million per year which could be allocated towards addressing the infrastructure deficit. Over 10 years this would equal about \$14.3 million. At a higher end of the range if fees and charges were increased by 5% to start and then gradually raised to reach a 20% increase over 10 years (in addition to the rate of inflation) the City would generate an additional \$35.6 million over the 10 years.

Pros and Cons

Pros

- May be perceived as more equitable than other methods such as general taxation since users of a service are paying more directly for it
- Flexibility - the City may charge fees for any service as long as the rationale behind the fee is clearly set out in a report

Cons

- Some services are not 100% cost recoverable and need to consider social benefit
- Administratively demanding





Community Amenity Contributions

Description

Community Amenity Contributions (CAC) are amenity contributions agreed to by the City and a developer as part of a rezoning process initiated by the developer. These contributions can be applied in the form of community amenities (i.e. fire halls, police servicing buildings, cultural and civic buildings), affordable housing and financial contributions towards infrastructure that cannot be obtained through DCCs.

The type of CAC that would be contemplated by the City would be where charges are clear at the outset, with a specific contribution rate per unit or per square meter of building, similar to DCCs. There would be a clear link between the rate and the impacts of new development. This would ensure transparent rates that will allow developers to calculate the costs they would need to pay if their rezoning is successful. The principles used in creating Development Cost Charges would be used to create Community Amenity Contributions.

Tool Use

CAC funds could contribute towards specific infrastructure items required due to growth such as fire halls, police service buildings, cultural and civic buildings. These are items where the City cannot collect funds through DCCs. Further, CACs in the form of amenities such as parks, public spaces or community spaces are often required in areas where greater density is anticipated to ensure the City is delivering a higher level of amenity commensurate with the level of densification in these live-work high-density communities.

Within most jurisdictions where a CACs program is in place, the contribution is determined at the time of rezoning through negotiation or a target unit rate (cost per unit or square foot) required to fund community amenities. However, within Kelowna, much of the downtown is already zoned C7 meaning that the vast majority of development applications do not require a rezoning. Although, the City has made a number of foundational investments in the Downtown, this is one of the primary areas where the demand for amenities would be highest. Furthermore, several of the urban centers (i.e. Pandosy, Rutland and Midtown have large areas that are currently pre-zoned for C4 which would also limit the potential to capture value through a rezoning process).

Payment

The City would establish pre-determined target CACs they intend to seek from applicants when the land is rezoned. The target amount will apply to typical developments and will allow developers to identify how much they will need to pay in CACs. Technically CACs cannot be presented as fixed charges, but the target amounts and the approach to determining those target amount can be set out in a transparent way, just like with Development Cost Charges. Ultimately, the financial contribution towards infrastructure will be provided to the City from the developer as per the manner identified in the written agreement between the two parties.

Current Approach being used by the City

The City does not currently utilize Community Amenity Charges.

Comparison with other Communities

A number of generally comparable communities have implemented CACs with straightforward and transparent fee schedules based on development type similar to DCCs. The CAC rates for a single detached dwelling in noted communities are as follows:

- Langley (Township) \$5,673
- Mission \$2,815
- Maple Ridge \$5,100
- Pitt Meadows \$2,100
- Coquitlam \$5,500
- Surrey \$1,700



Potential Financial Impact

The financial impact of establishing CACs can vary widely depending on the CAC rates and the type and quantity of units where CACs are applied. Given the complexity of forecasting revenue generated by CACs, the City surveyed other like size communities to gauge the potential funding impacts from CACs. Langley, Coquitlam and Maple Ridge were surveyed and their 10-Year contributions forecasted from CACs is in the range of \$30 - \$35 million. Given that much of the downtown Kelowna is already zoned C7 this may significantly reduce the financial potential of CACs from the numbers noted above.

Pros and Cons

Pros

- CACs can be used to generate funds for a range of projects that can't be paid for by DCCs such as fire halls, police services cultural and civic building and affordable housing
- CACs can be administered in a transparent way similar to DCCs. Province of B.C. has a published guide recommending best practice
- Widely used across B.C. communities

Cons

- The local development community is opposed to CACs
- May impact the affordability of housing
- CACs are development driven, therefore if demand for development is low, few funds will be generated
- Can be used only to pay for the amenity needs of growth – cannot be used to finance works needed to service existing residents
- Much of the Downtown is already zoned C7, which reduces the opportunity to capture the community amenity through a development application process
- The majority of prime land area to benefit from increased density in the Pandosy, Rutland and Midtown is already zoned C4, which also eliminates the requirement for re-zoning in the targeted areas where community amenities would be most beneficial



Density Bonusing

Description

Density bonusing is an arrangement under which a local government allows a developer to exceed basic density levels in a zoning bylaw in exchange for the provision of a specific public amenity that benefits the community. The developer benefits by being able to build more floor area in a given project. The local government benefits from the public amenities secured through the agreement, as well as higher tax revenues from the increased floor space.

Tool Use

Local governments can grant bonus densities in exchange for contributions toward amenities, such as walkways, plazas and open spaces, child care facilities, landscaping and off-street parking. In the City's case, a list of underfunded infrastructure projects would be prepared that are classified as eligible for funding by density bonusing. Use of this tool by the developer is voluntary, in that the developer can proceed with the base density and not take advantage of a density bonus.

Density bonusing can provide municipalities with leverage necessary to obtain needed funds and/or facilities while providing developers with the benefit of obtaining increased densities for their projects. However, density bonusing is feasible only if market conditions are favourable. If market conditions do not support increased density, then the developer may not choose to accept increased densities in exchange for the provision of community amenities or funds. Therefore, if a city relies on density bonusing as the primary means to acquire community amenities, there is a significant risk that community amenities might not be obtained.

Density bonusing may find limited uptake within the downtown area of Kelowna due to the high base-density that is already permitted under the C7 zone. The City could consider reducing the amount of permitted density in areas where further amenities are needed. Some communities have reduced the permitted or base density in some areas and allowed developers to increase the density in return for specific amenities (e.g. park, plaza, community facility, child care space). However, outside of the downtown in the other urban centers (Capri-Landmark, Pindos, Rutland and Midtown) the primary mixed-use development zone (C4) has a fairly modest base density in relation to the City's density targets for urban center. Therefore, outside of the Downtown a bonus density approach could be a suitable tool, given the alignment between City's goals for densification in the urban centers, the low base-density within the C4 zone and the market demand for greater densification in the other urban centers.



Payment

The City and developer will enter into an agreement that outlines when funds or amenities will be provided to the City in exchange for increased density. This may occur at the time of subdivision, development permit, or rezoning approval.

Current Approach being used by the City

The City of Kelowna has some density bonus provisions in its zoning bylaw, but they are quite limited and relate to the provision of underground or structured parking and a car sharing program, or provision of a green roof. Density bonusing provisions had been set out in the zoning bylaw in the past to encourage the provision of affordable housing, but there was very little uptake of the bonusing provisions.

Comparison with other Communities

In general Density bonusing has generated modest amounts compared to Community Amenity Charges or DCCs. As an example of a community with both density bonusing and CACs, in 2017 the City of Vancouver Collected \$1 million in Density Bonus contributions compared to \$88 million in CACs and \$88 million in Development Cost Levies, which are similar to DCCs.

Potential Financial Impact

The potential financial impact of density bonusing is difficult to project, as it depends on the amenities provided as a result of the density bonusing. A discussion of density bonusing revenues is also interrelated to the discussion of Community Amenity Contributions (CAC) that can be collected in return for rezoning to higher density, although the legal mechanisms differ. The potential financial impact from Density bonusing might be about the same as for CAC, but it would likely be in one form or the other, not both. The potential revenue from CACs could be considered as revenues from CACs and density bonusing together.

Pros and Cons

Pros

- Little cost to the City
- Can benefit developers who wish to build at higher densities
- Can be used to secure funding for specific projects
- Mixed-use zones (C1-C4) outside of the Downtown Urban Centre (Capri-Landmark, Pandosy, and Rutland) have modest base density that could be appropriate to support a density bonusing program
- Long-term market demand is likely strong for further density outside of the Downtown in the other urban centers, and is supported by the City's growth strategy to encourage densification in the Urban Core and maximize capital projects to benefit the highest number of residents

Cons

- Effective strategy only if the developer wishes to have higher densities and if market conditions support density bonus
- If there is a lack of transparency in agreement between City and the developer for provision of funds, this may lead to legal implications
- Down-zoning to reduce the base density in order to require density bonusing has been done in the past, but it is a highly political decision that can be very contentious
- Current allowable base density in the Downtown (under the existing C7 zone) is extremely high, eliminating the demand/desire for further density through a bonusing program



Partnerships – P3 and General

Description

For the purpose of this discussion paper, Partnerships include the traditional Public-private partnerships (P3s) and general partnership arrangements where both parties combine resources to deliver a project (i.e. KU Soccer dome, downtown public pier). Partnerships are co-operative ventures in which local governments and private sector entities combine strengths and share risks and rewards, to develop local infrastructure and community facilities. The rationale for establishing partnerships is that both the local government and private sector partner have unique strengths and advantages that, when combined, make possible the provision of community works and services that would be difficult for a local government to provide on its own.



Tool Use

Traditional P3s are well suited for sizable infrastructure projects that benefit a large number of people over wide areas (e.g. an entire municipality), such as wastewater treatment plants, recreation centers, and arenas (Prospera Place and CNC). P3s are not well-suited to smaller projects that only benefit specific areas as the resources required to enter and implement a P3 may outweigh the benefits. A possible future P3 arrangement could be utilized to construct a project such as the Parkinson Recreation Centre Replacement or the Capital News Centre Expansion.

The City has entered into many general partnership agreements to deliver smaller scale projects like KU Soccer Dome, Surtees Heritage restoration, Rail Trail and the Public Pier where private partners are willing to contribute resources to deliver infrastructure that benefits the community. The general partnership agreements are applicable to wide range of projects in the City's capital plans.

Payment

Payment terms for P3 arrangements can cover a broad spectrum, and each payment approach is customized to the particular situation. For typical P3 arrangement such as a Design-Build-Finance-Operate the private party recovers costs through user fees, a government contract or a combination of both over the useful life of the facility.

The general partnership agreements involve each party combining resources to deliver an infrastructure project that would otherwise not go ahead. For example, the Public Pier was constructed by a private partner at their cost but the City provide the water license that enabled the private partner to operate a marina and receive a return on their investment.

Current Approach being used by the City

The City has used P3s to effectively build larger more complex projects in the past including Prospera Arena and the Capital News Centre.

The City has many examples of general partnership agreements as noted above and will continue to pursue these opportunities.

Potential Financial Impact

The potential financial impact of a partnerships can vary quite widely. There may only be one or two projects in the City's capital plans that would justify the use of a P3. Examples include Parkinson Recreation Centre Replacement and the Capital News Centre Expansion. Based on a review of past P3 projects in BC, we have identified a conservative range of between 1% and 7% in cost saving through the P3 process.

The general partnership agreements with local organization has significant potential to assist refurbishing old facilities and to develop new facilities. The financial impact of these improvements could be in the range of \$10 - \$30 million.

Pros and Cons

Pros

- Enables the completion of projects that would otherwise be too costly or of lower priority if the for the City were to undertake alone
- P3s are a means of financing large scale projects and amortize costs over an extended period of time
- Private partners assume risks of project delivery and operation of facility

Cons

- Agreements may be complex to develop and administer
- The City may not have full control over the project or operation of facility



Infrastructure levy

Description

An Infrastructure Levy is a component of the City's property taxation that is dedicated towards generating revenue to pay for infrastructure. It is often a specific percentage of the property tax revenue such as 1% or 2% in addition to the general property tax. The Levy assists in funding infrastructure and works to eliminate the backlog of infrastructure projects.

Tool Use

The Infrastructure Levy was recently introduced by Council and starting in 2019 revenue from the Levy will be used to fund infrastructure projects as directed by Council. Each year as part of the 10-Year Capital Plan update, staff will prepare a list of eligible projects for Council's consideration and recommendation for funding from Levy revenue.



Payment

An Infrastructure Levy takes the form of an increase in the property taxation levy, often in form of a specific percentage, to be applied to all property owner's annual taxes. Payment is through payment of property taxes. All funds collected as a result of the Levy are directly applied to the list of infrastructure projects identified.

Current Approach being used by the City

In December 2018, City Council approved a 1.95% Infrastructure Levy to be added to the annual general property taxation in 2019. An additional 1.95% Infrastructure Levy will be added in 2020 and thereafter the revenue generated from the Levy will be used for infrastructure investment. Ongoing the Levy has not been indexed to account for inflation.

Comparison with other Communities

Many communities have implemented an Infrastructure Levy to address infrastructure funding challenges. A sampling of Infrastructure Levies in other communities are set out below:

- Lake Country
 - Infrastructure Levy (Road Renewal Parcel Tax) imposed in 2016, and phased in over 4 years and anticipated to continue in future.
 - \$125 per parcel and consecutive property tax increases of up to 1.83% (\$35 per avg. home) over 4 years and then levelling out.
 - Will generate \$1.15 million per year once completely implemented.
 - Funds used to pay for Transportation for Tomorrow Infrastructure renewal projects.
- Vernon
 - Cumulative Levy increasing by 1.9% of the previous year's taxation demand and dedicated to renewal.
 - 2018 generated \$3.67 million.
 - Enacted 2012 and projected out to at least 2022.
- Port Moody
 - 1% Levy of previous taxation demand for 2018-2022 for renewal.
 - Generated \$386,000 for 2018.
 - In place in 2011 and projected out to at least 2022.
- Saanich
 - Introduced in 2017 for renewal.
 - Forecasted requirement for sustainability 1.25% for the average home owner per year.
- District of West Vancouver
 - History of annual levy for renewal:
 - 2016: 5.25% or \$3.2 million
 - 2017: 2.45% or \$1.4 million
 - 2018: 1.56% or \$1.1 million
- District of North Van (2018 figures)
 - 1% of the previous year's demand until the sustainment level is reached.
 - 1% is ongoing until the 100 million funded gap (forecasted over 10 years) is closed.
 - Has been in place since 2012.

Potential Financial Impact

The 1.95% Infrastructure Levy will generate an estimated \$2.6 million in 2019, \$5.2 million in 2020 onward for a total of \$49.4 million in the next 10-years. This amounts to approximately 10% of the \$478 million infrastructure deficit.

Pros and Cons

Pros

- Consistent and reliable funding source
- Provides funding specifically allocated towards infrastructure investment

Cons

- Residents may be unhappy with paying an increased tax rate
- Depending on the rate, usually only addresses a small part of the infrastructure deficit. In Kelowna's case, the levy will generate \$50 million in ten years, less than 10% of the deficit



SECTION 3.0 OTHER FUNDING TOOLS

There are a number of other funding tools that the City may consider. Any or all of these tools can be incorporated into the financial toolkit that will be applied to fund underfunded infrastructure projects. There are four additional tools described in this section: long-term capital borrowing, latecomer charges, development works agreements, and phased development agreements. Except for long-term borrowing, these tools are aimed at allowing the City to allocate costs to developers of specific lands, or ensuring that developers construct services associated with their development.

LONG-TERM CAPITAL BORROWING— CURRENTLY IN USE

Description

Long-term borrowing is a tool used by local governments to front-end the cost of major infrastructure projects. Long-term borrowing requires a loan authorization bylaw which must include the purpose of the borrowing, the maximum amount to be borrowed and the maximum duration of the borrowing.

Tool Use

The City has an approved debt policy that allows for long term borrowing for major, one-time capital projects that align with the 10-Year Capital Plan and the City's long-term goals. These include projects with long term benefits (Police Services Buildings), growth related (Waste Water Treatment Plant Expansion) or major rehabilitation of an existing asset.

Payment

The term of the borrowing would ideally match the lesser of the life expectancy of the capital asset or 20 years where possible but the maximum borrowing period is limited to 30 years. Long-term borrowing can also be combined with cost recovery tools such as local area improvements or DCCs to recover costs attributable to specific beneficiaries to lessen the burden on general taxation.

Potential Financial Impacts

The City has a borrowing policy that limits the debt serving ratio to 8% of the total tax demand. The 10-Year Capital Plan forecasts the debt servicing ratio at the maximum of 8% and suggests there is no more capacity for borrowing to fund infrastructure investment.

LATECOMER CHARGES – CURRENTLY IN USE

Description

A latecomer charge is a charge imposed on properties which connect to, or use, excess or extended services. A local government may require that the owner of land that is to be subdivided or developed provide excess or extended services (i.e. facilities that serve properties other than the land being developed). Latecomer Charges entitle developers that build excess or extended services to recover these costs from properties that will benefit from these services. Excess services would include upsizing of infrastructure beyond what is required through works and services, whereas extended services are infrastructure extensions that will benefit

future development along the extension. The City is responsible for preparing and administering the Latecomer Agreement, collecting the charges from benefiting properties as they develop, and passing those charges on to the developer who bore the costs. Latecomer agreements expire after a maximum of 15 years, so if any benefitting development occurs after 15 years, the initial developer does not receive those funds.

Tool Use

The City may use Latecomer Agreements to require initial developers to construct excess or extended services that benefit later developers in the area. Latecomer charges are typically used in cases where the developers wish to build “out-of-sequence” green field sites that are not contiguous to existing urban development. In exchange for granting development approval, the local government may require the developer to provide road, water, sewage and/or drainage works with enough capacity to service not only the developer’s own site but also the future development properties situated nearby. Developers who agree, as a condition of approval, to finance excess or extended services accept the risk that not all of the costs will be recovered before the 15-year period has expired. Latecomer charges can only be used to finance roads, water, sewage and drainage infrastructure.

Payment

Latecomer charges can only be collected for a maximum of 15 years from the date on which the excess or extended services are completed. Latecomers who connect to the service after the 15-year period are not required to pay their fair portion of the cost of providing the services. The charge can come in several forms: a charge per hectare, a charge per length of frontage, a charge per potential residential unit or per square meter of floor area, or a specific charge per benefitting property.

DEVELOPMENT WORKS AGREEMENTS

Description

A development works agreement is an agreement between a municipality and a developer for the provision of off-site sewage, water, drainage and highway facilities to, or for the improvement of parkland in, a new development area of the community. These agreements allow developers to recoup off-site servicing costs (e.g., utility upgrades) from properties that benefit from the service. Development Works Agreements can be used when there are a limited number of property owners who want to develop an area and a majority can agree to pay for off-site services required to develop the area. This usually applies when the city has no plans to build these off-site services, but the property owners want to proceed. It may also apply when an initial developer wants to proceed, and the other owners also want to proceed, but not at the same time. Development works agreements allow developers to recoup not only the original capital costs, but also interest costs. Unlike latecomer agreements, development works agreements are not subject to a collection time period; however, development works agreements do require elector assent from those property owners in the area subject to the agreement.

Tool Use

Where a developer provides the works, the municipality must allocate all or part of the cost of the works to the property owners in the area which is subject to the agreement (i.e., the development works area). Development works agreements are typically used to provide services to undeveloped, greenfield areas. The agreements allow a municipality to require a developer to provide significant services in exchange for

receiving development approval. The agreements afford some level of comfort to the developer on the issue of cost recovery. The developer knows with some degree of certainty that they will recover a portion of the infrastructure monies, complete with interest, from future beneficiaries. Since there is no time limit on the collection of charges (as opposed to latecomer payments), the developer knows that future developers who benefit from the services will not be allowed to connect without paying their fair shares.

Payment

The municipality collects the cost by imposing a one-time charge to the property owners. The property owners must pay the charge, including any interest that may have accrued, before they can obtain the various approvals and permits necessary for development. The actual charge is based on a formula set by the municipality. The charge varies by property to account for different levels of impact on services.

PHASED DEVELOPMENT AGREEMENTS

Description

The Local Government Act authorizes local governments to voluntarily enter into Phased Development Agreement (PDAs) with developers to essentially exchange zoning for community amenities and the inclusion of specific features (as determined through the agreement) in the development. As long as the agreement is in effect, any subsequent changes to the zoning bylaw would not apply to the lands subject to the agreement. The maximum term of a PDA is 10 years, but the Inspector of Municipalities can extend this term to 20 years. Phased Development Agreements must be adopted by bylaw and require a public hearing. Since they are more flexible, a city could use PDAs to require the provision of community amenities (e.g., park space, recreation facilities, daycare space, libraries, etc.) not covered by Development Cost Charges.

Tool Use

The City and developer may have an agreement that the developer will construct any necessary underfunded infrastructure within the area that they are developing in exchange for their required zoning.

Payment

The developer would provide the agreed upon services after Council zoning approval has been granted, or per the terms of the agreement.

SECTION 4.0 SUMMARY OF REVENUE POTENTIAL

An estimate of 10-year revenue potential for each funding option is shown in Table 1. These are considered high level estimates that should be used as a comparative tool when examining options and not be mistaken as an in-depth financial analysis. Because the revenue potential varies, the report sets out a possible range of revenue for each funding option. The analysis indicates that even using all the tools and assuming the high range of revenue, the goal of closing the \$478 million deficit is not achieved.

Table 1. 10-year revenue potential for each funding option.

<i>Funding Source</i>	<i>Low Range Revenue Potential (\$ million)</i>	<i>High Range Revenue Potential (\$ million)</i>
DCC Changes (Parks, Drainage, tax assist)	\$50	\$60
Storm Drainage Utility	\$15	\$35
City-wide Parcel Tax	\$28	\$56
Local Service Area	\$5	\$10
Increase in Fees and Charges	\$15	\$35
CACs and Density Bonusing	\$15	\$35
Partnerships	\$10	\$30
Infrastructure Levy*	\$50	\$50
Grant funding 10 Year Average**	\$30	\$30
TOTAL	\$218	\$341

*Infrastructure Levy approved by Council December, 2018.

**Historical grant funding for the period 2009-2018 across all infrastructure areas

While many variables can influence the revenue potential with each option the high-level assessment indicates that there are some options with the potential to generate the greatest amount of revenue. These options include the following:

- Development Cost Charge changes (Parks, Drainage, tax assist)
- Storm Drainage Utility
- City-wide Parcel Tax
- Increase in Fees and Charges
- Community Amenity Charges and Density Bonusing
- Infrastructure Levy
- Partnerships

Grant funding is another area where the City receives significant funding for infrastructure and the City will continue to aggressively pursue grant opportunities.

The City has a range of funding options available to address the infrastructure deficit. This report identifies funding options that the City can pursue in more detail to refine the estimates and to clarify how to move forward. The key funding options reviewed in this report include:

- Development Cost Charge changes
- Storm Drainage Utility
- City-wide Parcel Tax
- Local Service Area
- Increase in Fees and Charges
- Community Amenity Charges
- Density Bonusing
- Public Private Partnerships
- Infrastructure Levy

The analysis indicates that even using all the tools and assuming the high range of revenue, the goal of closing the \$478 million deficit is not achieved. In addition to implementation of funding tools, the City will need to explore other opportunities to reduce infrastructure costs. These may include service level and infrastructure standards review.

Table 2. Ranks the funding options based on the potential financial impact and the complexity of implementing the funding options.

Tool	In Use	Staff Knowledge	Financial Impact	Complexity
Parcel Tax	Yes	High	High	Moderate
Infrastructure Levy	Yes	High	High	Moderate
Parks Improvement DCC	No	High	High	Moderate
Storm Drainage DCC	No	Med	Med	Moderate
Storm Drainage Utility	No	Med	Med	High
CAC & DB	No	Med	Med	High
Fees & Charges	Yes	High	Med	High
LAS	Yes	High	Low	Moderate
Partnerships	Yes	High	Med	High

Given that the City has recently introduced an Infrastructure Levy that receives funding from general taxation it is recommended the City explore the next highest 'non taxation' funding options which include:

- Parks Improvement DCC (in progress)
- Storm Drainage DCC
- Storm Drainage Utility
- Fees and Charges Review
- Community Amenity Contribution & Density Bonusing
- Partnerships

It is recommended that the above be reviewed and prioritized in more detail and that a plan be developed for the implementation of above funding options.