Report to Council

Date: September 13, 2021

To: Council

From: City Manager

Subject: Development Cost Charge Update

Department: Infrastructure Engineering

Recommendation:

THAT Council receives, for information, the report from the Infrastructure Engineering Manager dated September 13, 2021, with respect to updating the 20-Year Servicing Plan and the associated Development Cost Charge Bylaw;

AND THAT Council direct staff to move forward with stakeholder engagement prior to returning to Council for reading consideration.

Purpose:

To provide Council with an overview of the proposed changes to the 20-Year Servicing Plan and the associated DCC Bylaw prior to stakeholder engagement.

Background:

The purpose of the 20-Year Servicing Plan is to provide a detailed analysis of the major servicing required to accommodate growth as outlined in the Official Community Plan (OCP) and provide the foundation document for the Development Cost Charge (DCC) Bylaw. In conjunction with the proposed 2040 OCP and 2040 Transportation Master Plan (TMP), the 20-Year Servicing Plan has been updated to reflect future infrastructure demands for the community. The 20-Year Servicing Plan informs the DCC Bylaw which sets out the charges imposed on developers to offset infrastructure expenditures incurred by the City to service the needs for new development.

DCCs assist local governments in recovering a portion of the costs expended on growth-related infrastructure triggered by development. DCCs facilitate development by providing a method to finance capital projects related to public roads, water, sanitary sewer, drainage and parkland acquisition and development as defined by the Local Government Act.

The Local Government Act limits the infrastructure eligible for recovery through DCCs to road, water, sanitary and drainage infrastructure as well as parkland acquisition and development. Although this provides an essential framework to service growth, there are many other infrastructure needs required to satisfy the demands of a growing community such as protective services, transit service, recreation/cultural and operational facilities. As well, DCCs only cover a portion of the upfront capital investment for the eligible categories and do not support long-term operation, maintenance, or renewal costs of infrastructure.

Minor DCC Bylaw updates, to bring project cost estimates in line with updated market construction and land acquisition cost information, occur regularly, most recently in April 2019. In February 2020, a new Parks Development DCC category was added to the program. The last major update to the 20-Year Servicing Plan was in 2011 in conjunction with the 2030 OCP.

The objectives of this major update to the 20-Year Servicing Plan and DCC Bylaw are:

- Servicing plan and financial strategy to accommodate growth identified in 2040 OCP
- Equitable approach that aligns with best practice,
- Simplify where possible and ensure transparency,
- Minimize rate increases.

The 20-Year Servicing Plan and DCC rates presented in this report align with the 2040 OCP, 2040 TMP, Utility infrastructure plans and 10-Year Capital Plan.

To facilitate the update an inter-departmental team was formed with representation from Finance, Planning, Development Engineering, and Infrastructure Engineering. The Urban Development Institute was provided an opportunity to comment on the underlying assumptions and methodology of the update but the proposed DCC rates in this report are being presented for the first time. The team used the Development Cost Charge Best Practice Guide developed by the Province to guide the update and ensure 20-Year Servicing Plan and DCC Bylaw are fair, understandable, and transparent.

Hemson Consulting was retained to provide expertise and comparative data from other municipalities. Hemson Consulting was selected for their vast experience working with municipal clients developing DCC programs and infrastructure financing strategies in BC and across Canada.

Proposed DCC Program:

The 2040 OCP estimates an additional 44,000 residents and a total population of nearly 180,000 by 2040. Housing needs related to the 2040 population projections anticipate that demand for apartment, townhomes and compact family-friendly housing options will outpace the demand for single-detached housing. As a result of changing housing preferences, transportation behavior and demographics in Kelowna, the 2040 OCP anticipates greater demand for housing in walkable mixed-use neighbourhoods. For this reason, the City is looking to direct a significant share of future growth to Kelowna's Urban Centres in the form of medium to high-density apartments, as well as ground-oriented units. As housing prices rise and household sizes decrease, it is anticipated that many citizens will be challenged to afford home ownership. These forces will strengthen the demand for long-term rental housing and enhance the viability of purpose-built rental apartment projects, secondary suites, and carriage houses.

Commercial, Institutional, and Industrial land uses were estimated based on the non-residential land available for development. Modest growth in each of the non-residential categories is expected in the 2040 planning horizon.

The 20-Year Servicing Plan and DCC Bylaw are interrelated and for simplicity will be collectively termed herein as the 'DCC program.'

In this update, the DCC program has increased from $1.1 to $1.3 billion with the overall share of the increase distributed relatively evenly between Developer funded and City funded sources (+/- 2%). The Province has indicated it will not approve unsecured grants as part of the financing strategy, so these have been removed. The City will continue to pursue grants where possible for some of the major DCC projects and, if successful, the DCC program will be updated to reflect the financial benefit of the grant revenue. The changes between the current and proposed DCC program are shown in Table 1.

$ Millions	Current	Proposed	Change
Total Program	$1,105.3	$1,301.2	$195.9
Developer Funded	$733.5	$879.0	$145.6
	66%	68%	
Tax / Utility Supported	$326.7	$391.7	$65.0
	30%	30%	
Grants	$45.1	$30.5	($14.6)
	4%	2%	

Table 1. Proposed DCC Program.

The current DCC program aligns closely with the BC Best Practice Guide but there are several modifications that will help to make it more understandable, transparent, and better reflect the true cost of servicing different forms of development.

Summarized below are the big moves and challenges addressed in the current update:

1. Construction and land acquisition increases. Even before the pandemic, municipalities across British Columbia and the country were experiencing upward pressure on construction costs, with tender costing coming in significantly higher than engineering estimates included in budget, long range plans and master servicing plans. The increased level of construction activity across the province in recent years has resulted in trade shortages and significant material supply competition, resulting in higher project costing. The pandemic has only

exacerbated these issues. The factors influencing the upward construction prices is not expected to soften in the foreseeable future and municipal capital project costs will continue to increase at rates greater than core inflation.

The last DCC update for construction costs was based on 2018 prices and it estimated that there has been a 14% increase in the last 3-years. Similarly, land costs have increased at an estimated 40% over the last 3-years. All project cost in the DCC program have been updated to reflect these cost increases and this has placed upward pressure on the DCC rates.

2. Secondary Suites and Carriage Houses. A significant portion of single-family homes in Kelowna are being built with suites to assist homeowners with financing. To account for and encourage these units, the current DCC program levies a reduced charge of $2,500 per secondary suite unit. This policy practice is unique and does not aligned with best practice as it fails to account for the servicing impacts of suites on infrastructure. Most municipalities in British Columbia treat this form of housing as ground-related multi-family units or as single-family units for the purpose of rate calculation, if they do not exempt them outright.

   To encourage the provision of alternative housing options and account for serving demand for this type of development, it is proposed that a secondary suites DCC be included in the DCC charge for the Residential 1 & 2 categories which includes single family, duplexes and row housing. Simply stated, once the homeowner pays their residential DCC for the base build the secondary suite can be constructed with no further DCCs levied. This applies to all residential categories including Res 1, 2, 3 & 4, although most secondary suites will be within the Res 1 and Res 2 categories.

   Laneway, or carriage houses are currently levied a flat rate $2,500 DCC which does not reflect the servicing demand of these detached residents. The population per unit for carriage home is forecast at 1.8 persons and has a comparable servicing demand to a townhouse or walk-up apartment. The proposed DCC program would assess carriage houses a Residential 3 DCC which is the same charge assessed for row housing and 4-storey apartments.

3. Industrial DCCs. Historically, industrial development has been primarily land-extensive in nature, often resulting in buildings with modest gross floor area and coverage ratios when compared to the total area of the development site.

   However, given the changing nature of industrial-type work and shifting development trends, it is becoming increasingly common for 'light industrial' type employment, such as some production, distribution, and repair-focused activities, to occur in higher-density built forms. As these activities are able to locate on smaller sites with more gross floor area and higher coverage ratios, including multi-story development in some cases, the land area of site may not reflect the amount of employment and customers, or subsequent demand for services, occurring thereon.

The City has some of the lowest Industrial DCCs in the province that do not fully fund the servicing demands of the shifting 'light industrial' development trend. To better reflect the true cost for servicing the Industrial category has been split into two categories – Light Industrial and Heavy Industrial. The distinction between the two industrial categories will be based on the proposed zoning bylaw. I3 (Heavy Industrial) and I5 (Extraction) categories of the bylaw will be subject to the Heavy Industrial DCC based on gross site area. All other industrial zones would be categorized and charged a Light Industrial DCC based on gross floor area. The Light Industrial DCC is approximately 50% of the Commercial DCC rate and is more in line with the cost of servicing this development form

4. Storm Drainage DCC. DCC legislation permits the inclusion of a Drainage DCC to fund the infrastructure required to meet the demands placed on drainage systems and natural flood zones by development. The City does not currently collect a separate Drainage DCC but does fund minor drainage infrastructure associated with road works through the DCC program. This includes catch basins, manholes and drainage mains needed for drainage on DCC roads.

   The recent floods of 2017 and 2018 have demonstrated a need to manage the City's major drainage systems which include the City's creeks and streams. A new Drainage DCC is proposed to fund the work along Mill Creek, a primary drainage corridor that runs through the City's urban core and is an area of future development densification.

   The new DCC would be supported by the approved federal Disaster Mitigation and Adaptation Fund grant and general revenue.

5. Parks Acquisition DCC for Commercial/Industrial. Council approved the Parks Development DCC in February 2020 and as part of the preferred scenario Council directed staff to explore the inclusion of a Parks Acquisition DCC for the Commercial and Industrial DCCs. This new Parks Acquisition DCC is now included in proposed Commercial and Industrial DCC rates.

6. Shift to City Wide DCCs. The BC Best Practice Guide allows DCCs to be calculated on a city-wide or area specific basis, however, the recommended practice is that DCCs are established on a city-wide basis, unless there is a significant disparity between development and benefiting users. Staff considered both options and applied a city-wide charge to all service areas except Transportation where the sectors were consolidated from six in the current program to three for the proposed DCC program. The three sectors within Transportation were retained as there is unique transportation challenges to each sector that warrant the sector approach.

Proposed DCC Rates:

The following tables outline the proposed DCC rates applicable to three areas of the City as defined by the Transportation sectors. The sectors include:

- Sector I – Inner City (including City Centre, South East Kelowna, Rutland, Black Mountain)
- Sector B – South Mission
- Sector E – North of Inner City (including University, McKinley, Airport and north Industrial)

These rates include all DCCs (i.e. water, wastewater, drainage, parks, and transportation). DCC rates are for comparative purpose and actual rates may differ based on services received. For example, development in South East Kelowna would not pay Wastewater DCCs because there is no service in that area and the total DCC would be lower than that shown in Table 2. Similarly, water service for the area north of the Inner City is supplied primarily from other water purveyors so the Water DCC is not included in Table 4 but may be assessed by another purveyor or the City depending on the location of the development.

All DCCs except transportation are city-wide and uniform across the City. Transportation DCCs vary based on three sectors therefore it is necessary to show three tables for comparative purposes. Appended to this report is the DCC schedule showing a breakdown of all DCCs.

Inner City		
Unit type	Existing Rate	Proposed Rates
Residential 1 - Single family residential	$ 30,989	$ 36,319
Residential 2 - Low rise Multi-family Residential (16-35 unit/ha)	$ 29,003	$ 34,311
Residential 3 - Low rise Mulit-family Residential (36-85 units/ha) , Carriage homes	$ 24,678	$ 28,325
Residential 4 - Mid-rise/Apartment Residential (>85 unit/ha)	$ 23,977	$ 27,087
Commercial (per m2)	$ 82	$ 96
Institutional General (per m2)	$ 60	$ 71
Primary and Secondary Schools, Post-secondary Dorms (per m2)	$ 28	$ 30
Heavy Industrial (per hectre)	$ 87,453	$ 100,428
Light Industrial (per m2)	New	$ 49

Table 2 - Inner City proposed DCC rates. Rates are for comparative purpose and actual rates may differ based on services received. Assumed all Inner City development pay DCC for wastewater service. Developments not receiving this service would not be charged wastewater DCC.

Southwest Mission		
Unit type	Existing Rate	Proposed Rates
Residential 1 - Single family residential	$ 48,508	$ 55,138
Residential 2 - Low rise Multi-family Residential (16-35 unit/ha)	$ 45,615	$ 51,518
Residential 3 - Low rise Mulit-family Residential (36-85 units/ha) , Carriage homes	$ 36,519	$ 40,260
Residential 4 - Mid-rise/Apartment Residential (>85 unit/ha)	$ 35,166	$ 37,962
Commercial (per m2)	$ 139	$ 158
Institutional General (per m2)	$ 118	$ 133
Primary and Secondary Schools, Post-secondary Dorms (per m2)	$ 26	$ 30
Heavy Industrial (per hectre)	$ 128,216	$ 146,914
Light Industrial (per m2)	New	$ 80

Table 3 - Southwest Mission proposed DCC rates. Rates are for comparative purpose and actual rates may differ based on services received.

The proposed DCC rates for the Inner City and South Mission increase in a range from 6% to 18% depending on the development type and are within the range of cost escalation for construction and land acquisition that Kelowna has experienced in the last three years. These DCC rates are in the mid-range of similar BC municipalities DCCs. The new Light Industrial DCC reflects the impacts of servicing this development type and is comparable to the Industrial DCC levied by other similar communities.

North of Inner City		
Unit type	Existing Rate	Proposed Rates
Residential 1 - Single family residential	$ 33,147	$ 43,344
Residential 2 - Low rise Multi-family Residential (16-35 unit/ha)	$ 31,438	$ 40,735
Residential 3 - Low rise Mulit-family Residential (36-85 units/ha) , Carriage homes	$ 26,410	$ 32,780
Residential 4 - Mid-rise/Apartment Residential (>85 unit/ha)	$ 25,772	$ 31,147
Commercial (per m2)	$ 88	$ 119
Institutional General (per m2)	$ 66	$ 94
Primary and Secondary Schools, Post-secondary Dorms (per m2)	$ 22	$ 25
Heavy Industrial (per hectre)	$ 86,097	$ 113,363
Light Industrial (per m2)	New	$ 60

Figure 4 - North of Inner City proposed DCC rates. Rates are for comparative purpose and actual rates may differ based on services received. Assumed all development do not receive water service from City and are not subject to Water DCC.

The proposed DCC rates for North of the Inner City increase in a range from 14% to 32% depending on the development type and, in addition to inflationary impacts, reflect the large infrastructure projects targeted for this area including the extension of Hollywood Rd, 4-Laning Glenmore Rd south of John Hindle Dr and connection of the north Industrial area to the Highway via Commonwealth Rd. It is worth noting that these rates do not include the 4-Laning of Glenmore north of John Hindle Dr to McKinley Rd.

The new Light Industrial DCC reflects the impacts of servicing this development type and is comparable to the Industrial DCC levied by other similar communities. The Heavy Industrial rate remains one of the lowest in the province.

In summary, the City has demonstrated its commitment to achieving a balanced approach for this DCC update. While key cost drivers (land and construction costs) are entirely beyond the City's control, the City has contained the size of the DCC program and implemented improvements that reflect the true cost of servicing growth while at the same time ensuring the DCC program is understandable, transparent and aligns with best practice.

Legal/Statutory Procedural Requirements:

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

- Draft DCC program prepared by staff – Jun 2020 – Sep 2021
- Report to inform Council – Sept 2021
- Stakeholder engagement and public information meeting – Oct – Nov 2021
- Council readings (1st, 2nd, and 3rd) of proposed DCC Bylaw - Nov 2021,
- Submission of DCC Bylaw and Supporting Documentation to Ministry of Community Services – Nov 2021,
- Statutory approval from Inspector of Municipalities – 8 weeks (estimate)
- Fourth Reading and adoption of DCC Bylaw by Council - Feb 2022 (estimate)

Legal/Statutory Authority:

The Development Cost Charge (DCC) Bylaw sets out the charges collected from Developers for public roads, water, sewer, drainage and public parkland acquisition and development when subdividing or constructing, altering, or extending a building, pursuant the Local Government Act.

Internal Circulation:
OCP Project Planner
Parks & Buildings Planning
Utility Planning
Strategic Transportation Planning
Transportation Engineering
Infrastructure

Considerations applicable to this report:
Financial/Budgetary Considerations:
Existing Policy:
External Agency/Public Comments:
Communications Comments:

Submitted by: J. Shaw, Infrastructure Engineering Manager

Approved for inclusion: J. Vos, Acting Division Director, Infrastructure

Attachment 1 – DCC Rate Schedule (Schedule A)
Attachment 2 – Development Cost Charge Update Presentation