

DATE: September 16, 2021
TO: Bob Dargatz, City of West Kelowna
FROM: Joel Short, Urban Systems
FILE: 2849.0070.01
SUBJECT: DCC update to Council

1.0 INTRODUCTION

This memo sets out information regarding the ongoing DCC update and specific items for discussion with Council. In some cases, we would like to receive Council direction and we have provided recommendations. The direction is based on our background work and discussions with City staff. The specific topics to be covered are as follows:

- Work done to date
- Capital Cost Increases
- Assist Factors
- Commercial and Industrial paying Parks DCCs
- Exemption below \$75,000 construction value
- DCC sectors
- DCC Waivers for Affordable housing
- Communications and Engagement
- Next steps

2.0 WORK CONDUCTED TO DATE

In summary, the work conducted to date is as follows:

- Reviewed current DCC project list – projects constructed, changed, or deleted, and projects still required.
- Reviewed infrastructure master plans and other plans to build infrastructure to serve growth
- Reviewed recent actual construction costs, material costs and tender prices
- Reviewed construction cost indices
- Prepared updated construction costs for DCC projects
- Meetings with working group to discuss projects and revised costs
- Reviewed OCP growth projections
- Prepared communications and engagement plan

3.0 COST INCREASES

We have reviewed recent actual construction costs, material costs and tender prices, and reviewed construction cost indices. We went through a fairly extensive exercise of applying those updated costs to the components in previous cost estimates to arrive at updated cost estimates. Overall, the resulting cost increases are as follows:

- Roads Costs – about a 50% increase
- Sewer Costs – about a 145% increase
- Storm Drainage Costs – greater than 50% increase
- Water Costs – about a 62% increase
- Parks Costs – not yet determined, but land costs have increased significantly

These costs may not translate directly into the same DCC increases, but will have a significant impact.

The sources of cost increases are as follows:

- Material costs - all areas, but particularly pipe and concrete
- Labour costs
- Changes in project scope once project is clarified
- Land costs

4.0 ASSIST FACTOR

One method that Council has available to address significant cost increases and the consequent increases in DCCs is to consider an Assist Factor. The City must provide assistance to pay costs of off-site infrastructure required by development. The extent of the assist factor is at Council's discretion. The Assist Factor can vary by service (i.e., roads different than water), but it cannot vary by area of community, or land use.

An example of how shifting the Assist amount impacts a Roads DCC is set out in the table below:

	1% Assist	25% Assist	50% Assist
Project Cost	\$2,000,000	\$2,000,000	\$2,000,000
Percentage required for Growth	100%	100%	100%
Assist amount, paid by City (Taxpayers)	\$20,000	\$500,000	\$1,000,000
Paid By DCCs	\$1,980,000	\$1,500,000	\$1,000,000
Development Units	800	800	800
DCCs per unit	\$2475	\$1875	\$1250

A comparison of Assist factors in the Okanagan Valley is set out below

	Roads	Sewage	Drainage	Water	Parks
West Kelowna	1%	1%	1%	1%	25%
Kelowna	15%	1%	n/a	1%	8%
Peachland	1%	1%	1%	1%	1%
Penticton	5%	15%	3%	15%	5%
Lake Country	1%	1%	1%	1%	1%
Vernon	1%	1%	1%	1%	1%

With an Assist factor it is important to remember that even though the project (or part of the project) benefits new development, the City and its existing taxpayers pay for the assist amount.

The assist factor could be used as a tool to reduce or phase in the increases due to higher construction costs. For example:

- 30% assist in year 1
- 15% assist in year 2
- 1% assist in year 3

The result is that the City would subsidize development costs for a couple of years to allow a more gradual introduction of the higher DCCs.

5.0 PARKS DCCS FOR COMMERCIAL AND INDUSTRIAL

Currently the City of West Kelowna does not charge Parks DCCs for Commercial, Industrial or Institutional uses. Many communities are shifting towards charging Parks DCCs for Commercial and Industrial uses. For example: the City of Kelowna charges these uses a parks improvement DCC and is considering charging them a parks acquisition DCC. The District of Lake Country charges both a parks improvement and acquisition DCC to Commercial and Industrial uses.

Commercial and Industrial uses can place demands on parks as employees, tourists, and business visitors use parks. Parks also provide a benefit by providing a more attractive community to do business.

Our recommendation is for West Kelowna to consider charging Parks DCCs for Commercial and Industrial uses.

6.0 EXEMPTION BELOW \$75,000 CONSTRUCTION VALUE

The Local Government Act exempts DCCs for construction values below \$50,000, and the Act allows municipalities to set a higher exemption value. Currently the City DCC bylaw provides an exemption for any construction value below \$75,000. With recent increases in construction costs, the City could consider increasing this amount. While the Council can use its discretion to increase it to any amount, a 33% increase, which is somewhat reflective of the increases in construction costs, would result in the exemption increasing to \$100,000. We suggest considering increasing the exemption amount to \$100,000.

7.0 DCC AREA SECTORS

7.1 PROS AND CONS OF DCC AREA SECTORS

The pros and cons of DCC area sectors are set out below

7.1.1 Pros

- **Allows cost to be allocated to the areas that are causing the impacts on infrastructure.** Can help ensure that outer areas or sprawl forms of development pay for the often higher costs associated with this form of development.
- **May result in lower costs for core or infill forms of development** – this can support broader goals of encouraging compact development and infill. However, the costs in the core might not be lower since the capital costs in the core can be high, e.g. if many of the roads upgrades are in the core and those costs are allocated to the core, then the DCC might even be higher in the core.

7.1.2 Cons

- **Requires separate reserve funds for the sectors.** For example if there were 'city wide' and 'outer' sectors, then the money collected for the city wide stays in the 'city wide' fund and can only be spent on city wide projects and the money in the 'outer' fund can only be collected and spent on the outer projects.
- This means **more little pots of money rather than one big pot of money**. It also means more restrictions on where those small pots of money can be spent. An issue is that the small pots never get enough money in them to actually build a project. Having just one city wide sector ensures that enough money is collected to build projects each year.
- **Requires more detailed accounting.** The reserve funds for each sector need to be accounted for separately. This means that the location of each development needs to be tracked to ensure that the money collected from a specific area of the city is deposited in the correct DCC reserve fund for that area.
- **Challenges with transition to sector approach.** The new sector funds would have no money to start with for the sector even though the projects have been on the list since 2016. The sector fund would start from zero.
- **Can be a challenge to define sector boundaries.** Particularly in West Kelowna where it may be difficult to clearly define sprawl areas.
- This **gets a bit more complicated if there are overlapping sectors**. E.g. if roads has two sectors, a city wide sector and an outer sector then when DCCs are collected, they need to be placed in the right fund, some in the outer sector fund and some in the city wide sector fund.
- **Can be a challenge to allocate costs to sectors.** It can be a challenge to establish rationale to allocate a percentage of a project to a specific sector.
- **Often sector boundaries differ for different services.** E.g. water or roads boundaries may differ, this means the payments for various sectors differ by service and usually results in more sectors for the overlapping areas.

URBAN SYSTEMS MEMORANDUM

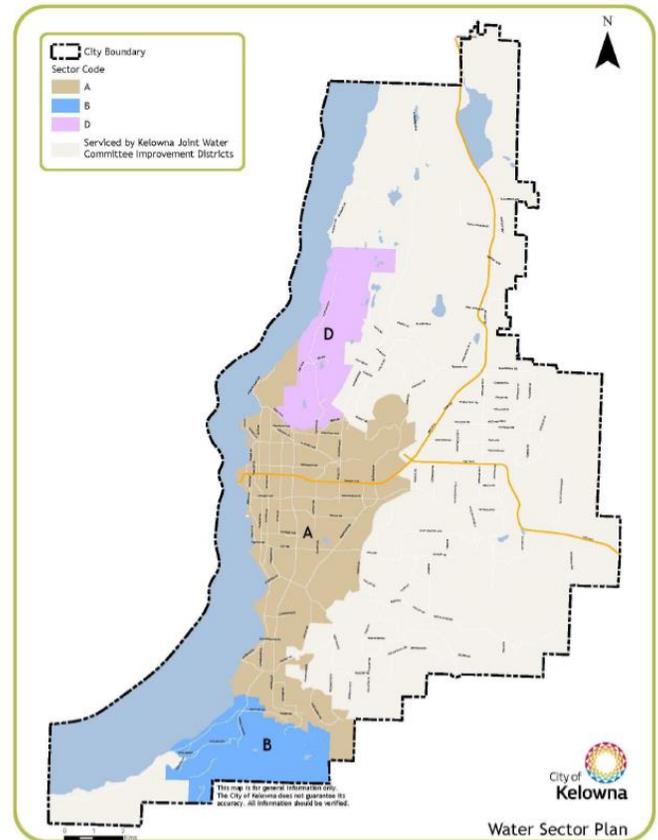
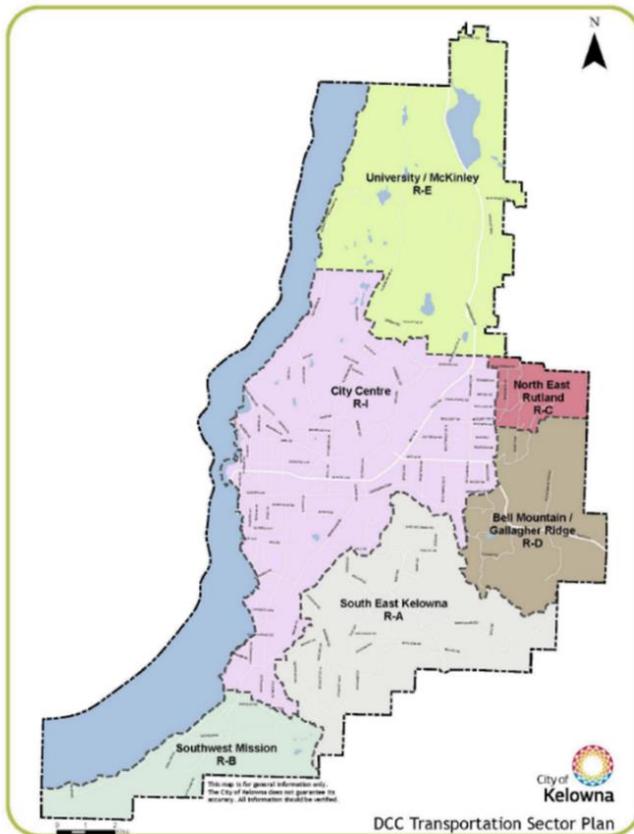
DATE: September 16, 2021

FILE: 2849.0070.01

PAGE: 5 of 14

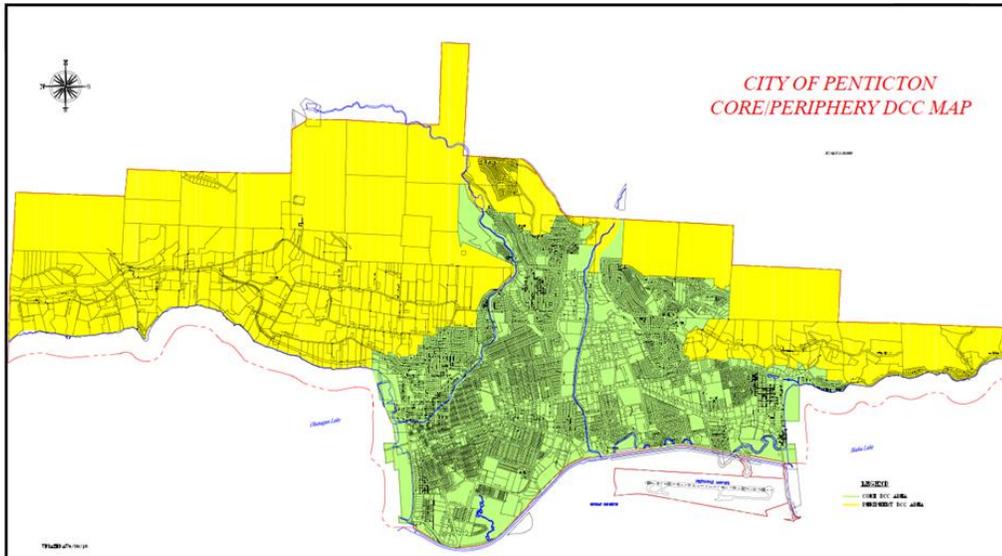
SUBJECT: DCC update to Council

- o E.g. the City of Kelowna has 6 roads sectors and 4 water sectors, which results in 10 different charges and even more combinations of charges depending on the location of the development. This also gets a bit more complicated if developments cross sector boundaries

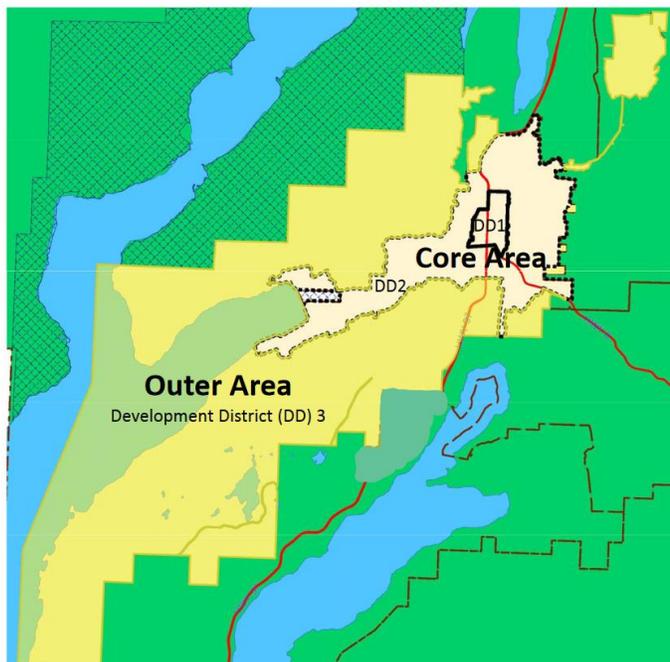


- o We could address this by aiming to have just two sectors that have the same boundaries for each service. Similar to Penticton and Vernon:

Penticton DCC Sectors

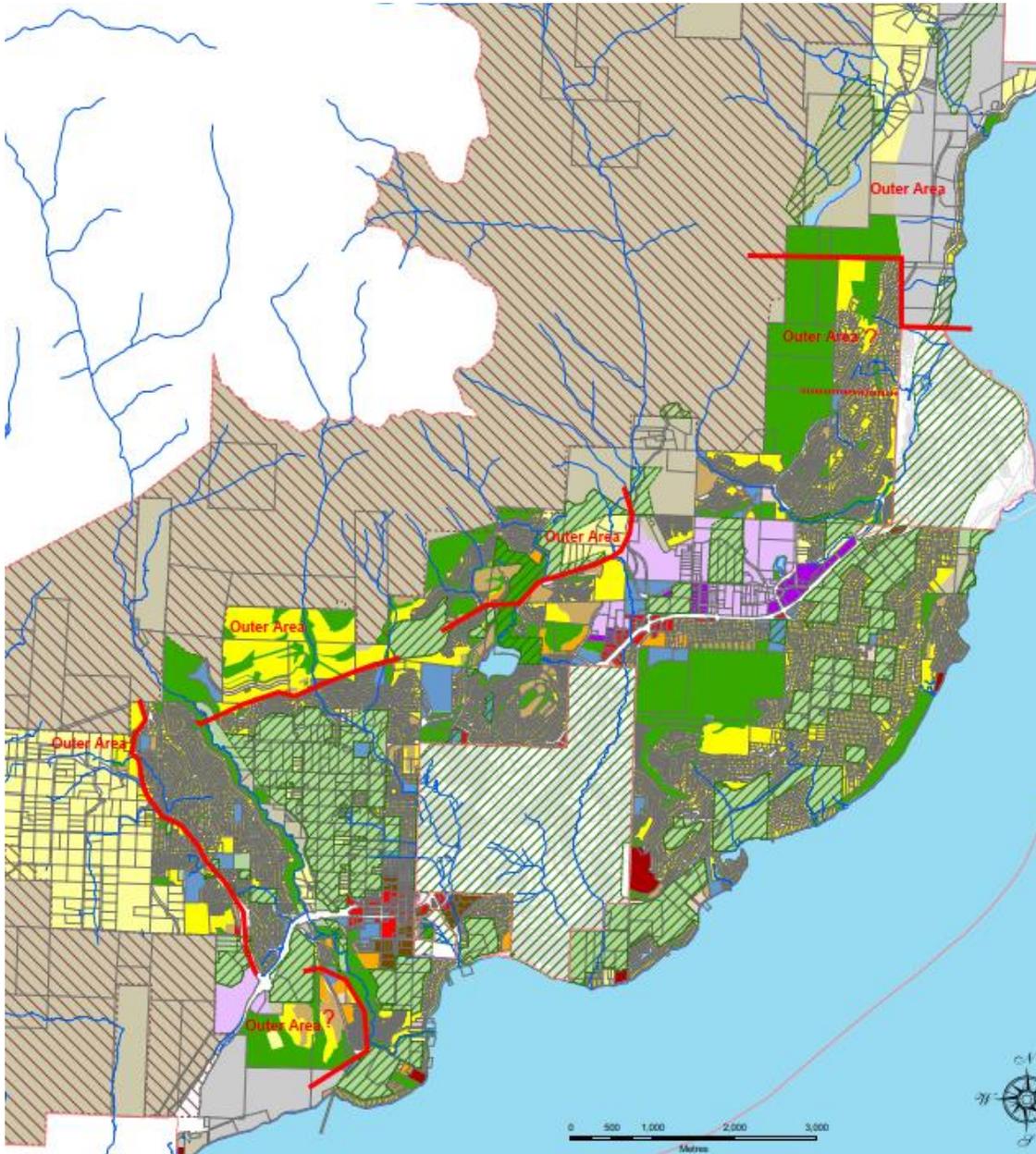


Vernon DCC Sectors



7.2 WHAT SECTOR AREAS IN WEST KELOWNA?

While this topic would obviously take more discussion, a cursory attempt at a map showing areas that could be considered as outer / sprawl areas for DCC sector purposes is set out below.



7.3 THOUGHTS ON SECTORS FOR EACH SERVICE

7.3.1 Water

- Aiming for integrated system
- Most improvements are more heavily weighted towards addressing existing issues, rather than sprawl growth
- Water is somewhat divided into Lakeview (Rose Valley) and Westbank (Powers Creek) sides and we want to avoid emphasizing division between these two parts of the community
- Probably not a good candidate for sectors
- Could the WK Estates transmission main a sprawl type of project?
- Harold Road Water pump station could be seen as supporting sprawl
- Could we combine WK Estates transmission main and Harold road water pump station as sprawl projects?
- What about projects to serve Goats Peak area. Would that be outer / Sprawl? Although it is quite close to the core / downtown

7.3.2 Roads

- Some roads are located in areas that serve sprawl / greenfield forms of development, but most roads serve a combination of established areas, infill, and newer areas
- Possible Sprawl oriented roads projects:
 - 3d Gellatly Rd South from 4035 to Glen Canyon
 - 3f Gellatly Rd South from Glen Canyon to Hwy 97
 - 4b Glenrosa Rd from Webber to Glen Abbey.
 - 4c Glenrosa Rd from Glen Abbey to McGinnis.
 - 5d Elliott from Reece to Smith Creek
 - 6a Smith Creek from Elliott to Wild Horse
 - 17 Glenrosa Access: - Second Access Route Study
- And possibly even:
 - 8b Shannon Lake Road from Asquith to 2835
 - 8f Shannon Lake Road from 1850 to Bartley
 - 12 Tallus Ridge Rd / Shannon Lake Rd Intersection Improvements
- However, it is difficult to allocate 100% of the cost of these roads to sprawl areas. They also serve core residents who want or need to access these areas for recreation, visiting, travel through the area, providing services.

7.3.3 Drainage

- Possible Drainage sprawl types of projects
 - 5.3 Stream Stabilization – Smith Creek

- Project not yet numbered - piping the drainage beyond edge of development from Gorman to Webber Road. The piped storm routing option would connect the Gorman Road system down to Webber Road and into the existing City storm pipe just south of Scotstown Road intersection
- Possible Drainage projects – in ‘question mark’ areas:
 - 9.4 Erosion Protection – Bear Creek Rd from Vancouver Road to I.R. boundary
 - 9.5 Erosion Protection/ Drainage Easement – Parkinson Road to Bear Creek Road
- Not in sprawl area on map, but could be seen as draining sprawl area above
 - 5.4 Obtain Drainage Easement – Bridlehill Road to Rubicon Road
 - 5.5 Storm Pipe Installation – Copper Ridge Drive to Wild Horse Drive

7.3.4 Sewer

- Sewer may be difficult since the projects seem to serve both upstream infill and upstream greenfield / Sprawl types of growth.
- There are only 5 projects and none of the projects seems to be sprawl related, although upon deeper sewer system modelling analysis some portion of each project could be related to sprawl and some to infill.

7.3.5 Parks

- The parks program focusses on waterfront parks, Athletic parks, and community parks which serve the entire community and could not readily be divided into the parks serving the core and sprawl.
- Furthermore, the parks DCC program does not identify the specific location for parks.

7.4 RECOMMENDATION

Based on a review, the cons of having sectors outweigh the pros. Our recommendation is to not implement a sector based approach and to retain the existing City-Wide approach. The City can reconsider the direction in future updates if more outer / sprawl types of projects are identified. The City also has other tools available to ensure outer / sprawl development pays their costs of growth. Future development in outer areas will have to pay for the required upgrades through rezoning and development agreements; latecomers; local service areas and other methods.

8.0 DCC WAIVERS FOR AFFORDABLE RENTAL HOUSING

8.1 LOCAL GOVERNMENT ACT

A local government may waive or reduce a development cost charge for an eligible development including:

- a) not-for-profit rental housing, including supportive living housing
- (b) for-profit affordable rental housing

8.2 COMPARISON OF LOCAL COMMUNITIES

The following table summarizes the DCC reductions or waivers provided by community as set out in their DCC bylaw.

Community	DCC Reduction or Waiver
North Okanagan Regional District	Waive DCCs for “Not-for-Profit Rental Housing” for Regional Water DCC, and Trails and Natural Space DCC.
Spallumcheen	No reduction
Vernon	Waive DCCs for “Low Income Housing” rental units with Housing Agreement and Restrictive covenant.
Coldstream	No reduction
Central Okanagan Regional District	No reduction
Lake Country	Reductions considered on a case by case basis. Adopted a DCC reduction bylaw for one proposed affordable housing project. No reduction in main bylaw.
Westbank First Nation	No reduction
West Kelowna	No reduction
Peachland	Waived DCCs for Peachland Seniors Support Society housing. No reduction in main bylaw.
Summerland	No reduction
Penticton	Waive DCCs for affordable rental housing including supportive housing with housing agreement for persons at risk of homelessness and support service providers.
Oliver	No reduction
Osoyoos	Waive DCCs for “Not-for-Profit Rental housing” on a case by case basis.

8.3 OTHER FORMS OF ASSISTANCE

Communities provide a range of other forms of assistance for affordable rental housing. While not an exhaustive list, some examples that we know about in the Okanagan Valley include the following:

- Vernon provides a Rental Housing Incentive Grant equal to DCCs or \$4,000 per unit whichever is less.
- The District of Peachland donated land for Peachland Seniors Support Society affordable seniors housing project, waived development fees (zoning, subdivision and permit) and building permit fees, and funded the Regional District DCCs that applied to the project.
- The Town of Oliver provides some level of tax exemptions for apartment buildings within certain locations, this applies to any form of apartment and would apply to affordable rental housing.
- Penticton has density bonusing where developers pay for additional Floor Area Ratio, and the funds paid are placed in the City's affordable housing reserve fund.
- Osoyoos has policies in the Official Community Plan that support density bonuses for affordable housing projects
- We have seen that some communities provide reductions in parking requirements for affordable or rental housing.

8.4 CASE BY CASE EXEMPTIONS

- For the communities that state "No reduction" in the summary table above it is important to note that the opportunity still exists for a community to provide a DCC reduction on a case by case basis.
- While DCC reductions can be set out in the main DCC bylaw in advance, they can also be considered on a case by case basis.
- Recently there has been a trend to consider each on a case by case basis due to many different situations that may arise. It can be challenging to write a bylaw that covers every situation appropriately. For example, the legislation allows exemptions to "for-profit affordable rental housing", however, the community may see a development that meets the definition, but they don't want to exempt it from DCCs.
- Some Councils would rather consider each case to provide an exemption, rather than have a development inadvertently qualify for an exemption without their input.
- The Ministry of Municipal Affairs has also recently expressed a preference for seeing a DCC reduction bylaw being set out in a separate bylaw, rather than being woven into the main bylaw. This allows a municipality to make changes or adopt a DCC reduction without Ministry approval.

8.5 REPLACING THE SHORTFALL

- Bear in mind that if DCCs are waived for some forms of housing, the shortfall needs to be addressed from other sources, since there is an impact on infrastructure, but no DCC revenue to pay for that impact.
- Note that on page 1.4 the DCC Best Practices Guide states "Also, the intent of the legislation is that in cases where the DCC is waived or reduced, the amount waived is to be entirely supported by the existing

development.” The Ministry interprets the phrase “entirely supported by the existing development” to mean existing taxpayers.

- DCC amounts waived for not-for-profit rental housing should be replenished by taxes. This means that taxpayers are footing the bill for the DCC shortfall, and it is not simply an amount that is foregone by the City.
- A more transparent approach might be to provide an outright grant (paid by taxpayers) to the housing entity that they can give to the City to pay DCCs. That is essentially what happens when the DCC reserve fund is replenished by taxpayer funds to make up for the DCCs waived.
- This perspective can help housing organizations understand that by asking for a DCC exemption, they are not just asking for the City to forgo the money, they are asking for taxpayers to directly pay for the DCC shortfall. Taxpayers need to pay for the impact on infrastructure if the housing organization doesn't pay.
- For Council, the question changes from “Are you willing to give up this DCC money?” to “Are you willing to ask taxpayers to pay this DCC money?”. The answer to the second question may well be “yes”, but it is useful for Council to be thinking about the right question.

8.6 RECOMMENDATION

Based on the review our recommendation is to consider waiving DCCs for affordable or non-profit rental housing on a case by case basis.

9.0 NEXT STEPS AND ENGAGEMENT

We have prepared a detailed communications and engagement strategy, and the key points are summarized in this section.

The key audiences for the external engagement are as follows:

- The development community – UDI, Home builders, others
- West Kelowna Residents – thoughts on paying for growth
- The Ministry – DCC bylaw required their approval
- Adjacent jurisdictions – to keep them informed

The engagement on the DCC update will also need to be coordinated with the Official Community Plan and Transportation Master Plan engagement.

Our planned engagement with the Development community is as follows:

- Review with UDI Liaison Committee
- Virtual Stakeholder Workshop with Development Community – UDI, Home Builders - October / November
- Ongoing dialogue

Our plans for engagement with West Kelowna residents, as well as the stakeholders such as the development community, are as follows:

- City of West Kelowna Website Content - September
- Public Service Announcement (DCC Engagement Begins)
- Update issued to e-News subscribers – October
- Cross promotion opportunities during OCP and Transportation Master Plan engagement
- Prepare questionnaire - focus on asking about paying for growth
- Supporting social media posts (get involved, complete the questionnaire)
- e-News DCC update to subscribers to review the Draft DCCs
- Social Media Post (Review the Draft DCCs)

Our reviews with the Ministry and adjacent jurisdictions are as follows:

- 1st Draft to Ministry for initial Review,
- Send Drafts to RDCO, WFN and Peachland for information
- Send final bylaw to RDCO, WFN and Peachland for information
- Send final Bylaw to Ministry for Approval

We will be engaging directly with Council at a number of points and the key points during the engagement process are as follows:

- Review First draft of DCC rates in October, before going to Development Community and Residents
- After engagement on the first draft will come back to Council with the input - November
- Identify changes and then move on to final DCC bylaw

Once we have completed the engagement process we enter the bylaw approval process which include the following steps:

- DCC projects need to be set out in the City's Financial Plan
- DCC bylaw requires approval of Inspector of Municipalities
- Ministry of Municipal Affairs staff review bylaw prior to forwarding to inspector.
- Typical process:
 - Three readings by Council

URBAN SYSTEMS MEMORANDUM

DATE: September 16, 2021
SUBJECT: DCC update to Council

FILE: 2849.0070.01

PAGE: 14 of 14

- Referral to Ministry / Inspector
- Approval by Inspector
- Fourth reading / Adoption by Council

After adoption by Council, the new DCC rates come into effect, although Council can set a grace period before the bylaw takes effect, which can be considered closer to the adoption process.

10.0 CLOSING

We look forward to presenting this information to Committee of the Whole on September 28th, and would be happy to answer any questions or make revisions before then.

Sincerely,

URBAN SYSTEMS LTD.



Joel Short, MCIP, RPP
Senior Planner / Principal

/js

U:\Projects_KEL\2849\0070\01\R-Reports-Studies-Documents\RI-Reports\Council update memo\2021-09-16-DCC Council Update memo.docx