

Supports Item No. 2
CS&B Committee Agenda
July 28, 2011



ADMINISTRATIVE REPORT

Report Date: July 5, 2011
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Meeting Date: July 28, 2011

TO: Standing Committee on City Services and Budgets

FROM: Director of Planning, in consultation with the Director of Finance and the Director of Legal Services

SUBJECT: 2011 Inflationary Adjustment to Development Cost Levy Rates

RECOMMENDATION

- A. THAT Council approve the inflationary adjustment of the Vancouver (City-wide) Development Cost Levy (DCL) By-law rates, with new rates to be effective September 30, 2011 as follows:
- i. from \$10.42/square foot (\$112.16/m²) to \$11.33/square foot (\$121.96/m²) for residential development at a density greater than 1.2 FSR and for non-residential (e.g. commercial and retail) development;
 - ii. from \$2.43/square foot (\$26.16/m²) to \$2.64/square foot (\$28.42/m²) for residential development with a density of 1.2 FSR or less and for a laneway house; and
 - iii. from \$4.17/square foot (\$44.89/m²) to \$4.53/square foot (\$48.76/m²) for development in an industrial zone;

FURTHER THAT Council hold unchanged the nominal Vancouver DCL By-law rates for school, parking garage, childcare, temporary building, and community centre uses.

- B. THAT Council approve the following inflationary rate adjustments for the Area Specific DCL By-law Districts:
- i. Inflationary rate adjustments, as shown in Appendix A, to all Area Specific DCL Districts: Arbutus; Burrard Slopes; Cedar Cottage/Welwyn Street; Downtown South; Dundas/Wall; False Creek Flats; Grandview Boundary; Oakridge/Langara; South East False Creek; and Triangle West, with new DCL rates to be effective September 30, 2011;

FURTHER THAT Council hold unchanged the nominal Area Specific DCL By-law rates in all Area Specific DCL Districts for school, parking garage, surface parking lot, childcare, temporary building, works yard and community energy centre uses.

- C. THAT Council instruct staff to notify the development industry and affected stakeholders regarding Council approved changes to the Vancouver (City-wide) DCL rates and all Area Specific DCL rates prior to by-law amendments.
- D. THAT the Director of Legal Services be instructed to bring forward amendments to the Vancouver DCL By-law No. 9755 and the Area Specific DCL By-law No. 9418 to implement the inflation adjusted DCL rates for September 30, 2011, generally in accordance with Appendix A.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services RECOMMENDS approval of the foregoing.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing.

Council has adopted an annual inflationary DCL rate adjustment system to ensure DCL rates keep pace with property and construction costs and to maintain the City's ability to provide necessary growth-related amenities. The annual rate adjustments recommended in this report represent an average rate increase of 7% across all DCL Districts. If Council does not approve Recommendations A and B, the City would forgo an estimated \$2.5 million in DCL revenue before the next annual inflationary rate adjustment and the gap will have to be funded from property tax and other City funding.

COUNCIL POLICY

In June 2003, Council adopted the Financing Growth Policy that sets the framework for the collection and allocation of DCLs to help pay for eligible capital facilities needed for growth: parks, housing, childcare, and engineering infrastructure. The Policy set the framework for City-wide Development Cost Levy (DCLs) rates and how DCL revenue is allocated.

In July 2008, Council approved adjustment of the City-wide DCL rates to reflect construction cost and property inflation and implementation of new rates to be effective in January 2010. Council also approved, in principle, annual inflationary adjustments to City-wide and Area Specific DCL By-law rates to begin in January 2010, subject to a report back on the details of the system and stakeholder consultation.

In October 2009, Council adopted the annual inflationary DCL rate adjustment system for all future rate adjustments to the City-wide DCL and Area Specific DCLs, with the new rates to be effective on September 30 of each year.

DCLs help pay for the capital facilities that support Council priorities for affordable housing, inclusive communities, and the environment.

PURPOSE

This report seeks Council approval for an annual inflationary adjustment to all Development Cost Levy (DCL) by-law rates, with new rates to be effective September 30, 2011.

BACKGROUND

DCLs are a growth-related charge collected from all new development and a very important source of revenue for civic facilities. Since the inception of DCLs in the city, nearly \$290 million in funds have been collected from DCLs to help pay for growth-related facilities. Approximately half of these funds have been generated from the City-wide DCL and the other half from the ten Area Specific DCLs. DCLs are applied on a per square foot basis and payment is due at Building Permit issuance. The Vancouver Charter permits DCL revenues to pay for the following growth-related capital projects:

- park land and improvements,
- replacement (affordable) housing,
- childcare facilities, and
- transportation facilities (including greenways, bikeways and related public realm).

There are 11 DCL Districts within the city. The City-wide DCL District applies to most of the city and the ten Area Specific DCL Districts apply to smaller planning areas across Vancouver. See Appendix B for more information and a map of the DCL districts.

In October 2009, Council adopted the annual inflationary DCL rate adjustment system for all DCL districts in the city. This Council direction means that all DCL rates are now adjusted annually for property and construction inflation, enabling the City to align DCL rates with local inflation. To adjust DCL rates the system uses an annual inflation index based on property value and construction cost inflation. These are the key components that DCL revenues go toward in the provision of growth-related public facilities. The system is implemented with a report to Council every July to adjust DCL rates for inflation so that new rates will come into effect every September. The annual system is based on local and national best practices; uses publicly accessible, third party data; and, provides transparent and accessible calculations. It also responds to changing market conditions so that DCL rates reflect inflationary trends. The system provides more predictability to both the development industry and the City, and ensures that the City's DCL revenue purchasing power will keep pace with inflation. The system has been broadly supported by stakeholders, including the development industry. For more information on the Council approved annual inflationary DCL rate adjustment system, see the [Financing Growth website](#).

DISCUSSION

The recommendations in this report will bring all of the City's DCL districts in line with the most recent property and construction inflation. By ensuring that DCL rates and revenues keep pace with property and construction costs, DCL purchasing power is maintained and the City retains its ability to provide necessary growth-related amenities. DCL rates were last adjusted under the annual inflationary DCL rate adjustment system on September 30, 2010.

The proposed DCL rate adjustments in this report represent an average 7% rate increase across all eleven DCL districts. This is primarily due to an increase of 10% to 20% to the 2011

property assessed values¹ in Vancouver over the 2010 values which vary by neighbourhood. The majority of the increase is in land value as annual construction cost inflation was just under 4%.² The inflationary index blends property inflation and construction cost inflation based on [public benefit strategies](#) that accompany each DCL district. The overall average 7% inflationary rate adjustment is a result of this blended calculation.

In terms of City-wide DCL rates, which can be considered as 'benchmarks' since they apply to most areas of the city, this results in a:

- \$0.91 per sq.ft. increase to higher density residential and commercial developments;
- \$0.36 per sq.ft. increase for industrial development; and,
- \$0.21 per sq.ft. increase for lower density residential development.

Table #1 shows the annual inflation index values for the City-wide DCL rate from 1997 to 2011. The inflation index for the City-wide DCL in 2011 shows an 8.8% annual increase. This is higher than the average 7% annual increase across all eleven DCL districts, although the overall trends are similar.

Table 1: Inflation Index for City-wide DCL (Residential>1.2 FSR and Commercial)

Year	Annual Inflation
1997	1.0%
1998	0.3%
1999	-3.6%
2000	-0.9%
2001	1.1%
2002	1.0%
2003	4.3%
2004	6.8%
2005	12.9%
2006	10.6%
2007	19.7%
2008	12.6%
2009	-3.6%
2010	-1.4%
2011	8.8%

Source: City of Vancouver [Financing Growth website](#)

Table #1 shows that overall DCL-related inflation was negative in 2009 and 2010 reflecting the global and local economic slowdown during this period. In 2011 inflation rebounded reflecting

¹ According to BC Assessment property value data for the City of Vancouver

² According to Statistics Canada Non-Residential Construction Price Index for Vancouver

the increased property values and construction costs. Linking DCL rates to an annual inflationary index means that when annual inflation is positive DCL rates will increase, and when inflation is negative DCL rates will decrease. Of note is that Table #1 shows an index of property and construction inflation since 1997 to allow current rate adjustments to be compared to historical trends. However, Vancouver's DCL rates have only used this index to adjust rates since 2009.

As part of the annual DCL inflationary adjustment process, staff reviews current economic indicators to verify that the proposed rate adjustments are in line with current local market trends and forecasts. For this report, staff found a positive Gross Domestic Product (GDP) forecast for the remainder of 2011 and into 2012 according to [B.C.'s independent Economic Forecast Council](#). Year-to-date building permit values in Vancouver (as of May 2011) corroborate this, as they were 21% higher than last year. Housing starts in the City (year-to-date as of April 2011) were about even with the year prior, but up significantly from 2009 levels. These indicators suggest that the recommended inflation adjusted DCL rates for Vancouver are in-step with the overall direction of our economy.

The City-wide and Area Specific DCL By-laws include a number of uses that have nominal DCL rates such as childcare, and elementary and secondary schools. The recommendation in this report proposes that the rates for these uses not be adjusted to reflect inflation.

In-Stream Building Permit Applications

A recent amendment to the Vancouver Charter now provides 12 months of protection against DCL inflationary rate increases for in-stream building permit applications. This provision came into force on January 1, 2011 and only applies for applications submitted after January 1, 2011. When a DCL By-law with higher rates is introduced, building permit applications may be at various stages in the approval process. To ensure fairness to building permit applications that have been submitted prior to the adoption of new DCL By-law rates, in-stream building permit applications are exempt from DCL rate increases for a period of 12 months from the date of by-law rate amendment, provided that:

- the applicant has submitted a building permit application in a form satisfactory to the City; and
- the applicant has paid the applicable building permit fee to the City.

FINANCIAL IMPLICATIONS

DCLs have financial implications for both the City and development.

Financial Implications for the City

DCLs are a significant revenue source for the City's growth-related amenities and capital priorities, and relieve what would otherwise fall onto property taxes. From the inception of DCLs in 1993 to June 1, 2011, approximately \$290 million were collected from all DCL districts half of which came from the City-wide DCL and the remaining from the ten Area Specific DCL districts. In the current 2009-2011 Capital Plan, DCLs account for \$73.6 million (14%) of total capital program expenditures (City funding portion, excluding senior government and other external funding).

If Council does not approve the recommended DCL rates presented in this report, the City would forgo an estimated \$2.5 million in DCL revenue before the next annual inflationary rate adjustment, thereby delaying the City's ability to align DCL rates with construction and property inflation.

Financial Implications for Development

Financing Growth Policy includes the principle that DCL rates should not deter development or harm housing affordability. Coriolis Consulting (2007) analyzed market impacts of DCLs and concluded that in most cases, in Vancouver, the primary impact of DCLs is to put downward pressure on the value of properties for redevelopment. Coriolis noted that because the DCL is not passed directly onto sales prices, it does not affect affordability -- as long as DCL rates are set so they do not interfere with an adequate continuing supply of development sites.

The proposed DCL rate adjustments in this report represent an average 7% rate increase across all eleven DCL districts. The magnitude of the recommend DCL rate adjustments are generally in line economic conditions and these adjustments represent a relatively small percentage of overall development costs today.

Vancouver's City-wide DCL rates continue to be in line with other municipalities in the region.

COMMUNICATIONS PLAN

The proposed rates have been available for public review starting in late May 2011. The following steps have been taken to ensure broad notification of proposed rate changes:

- Web site posting of proposed rates on the [City's Financing Growth web page](#);
- Notice of proposed changes in the City's DCL Information Bulletin (available online and at information kiosks in City Hall);
- Advertisements describing the proposed rate adjustments, together with details on how to provide feedback, were placed in two editions of the Vancouver Courier newspaper and one edition of the Business in Vancouver newspaper;
- Verbal notification was given to inquirers and written notification was given to applicant's in-process.
- Staff notified local industry groups (UDI, NAIOP, GVHBA) so that notice of this report can be communicated with their members; and,
- City Clerks notified a list of stakeholders related to Financing Growth matters informing them of this report and where they can review it online prior to the Council meeting.

CONCLUSION

The purpose of this report is to seek Council approval for an annual inflationary adjustment to all Development Cost Levy (DCL) by-law rates with new rates to be effective September 30, 2011.

In October 2009, Council adopted the annual inflationary DCL rate adjustment system for all DCL districts in the City. This direction means DCL rates are adjusted annually for changes in property and construction inflation, enabling the City to align DCL rates with local inflation.

The recommendations in this report will bring all of the City's DCL districts in line with property and construction inflation. The proposed DCL rate adjustments in this report represent an average 7% rate increase in 2011 across all DCL districts.

If Council does not approve the recommended DCL rates presented in this report, the City would forego an estimated \$2.5 million in DCL revenue before the next annual inflationary rate adjustment, and delay the City's ability to align DCL rates with construction and property inflation.

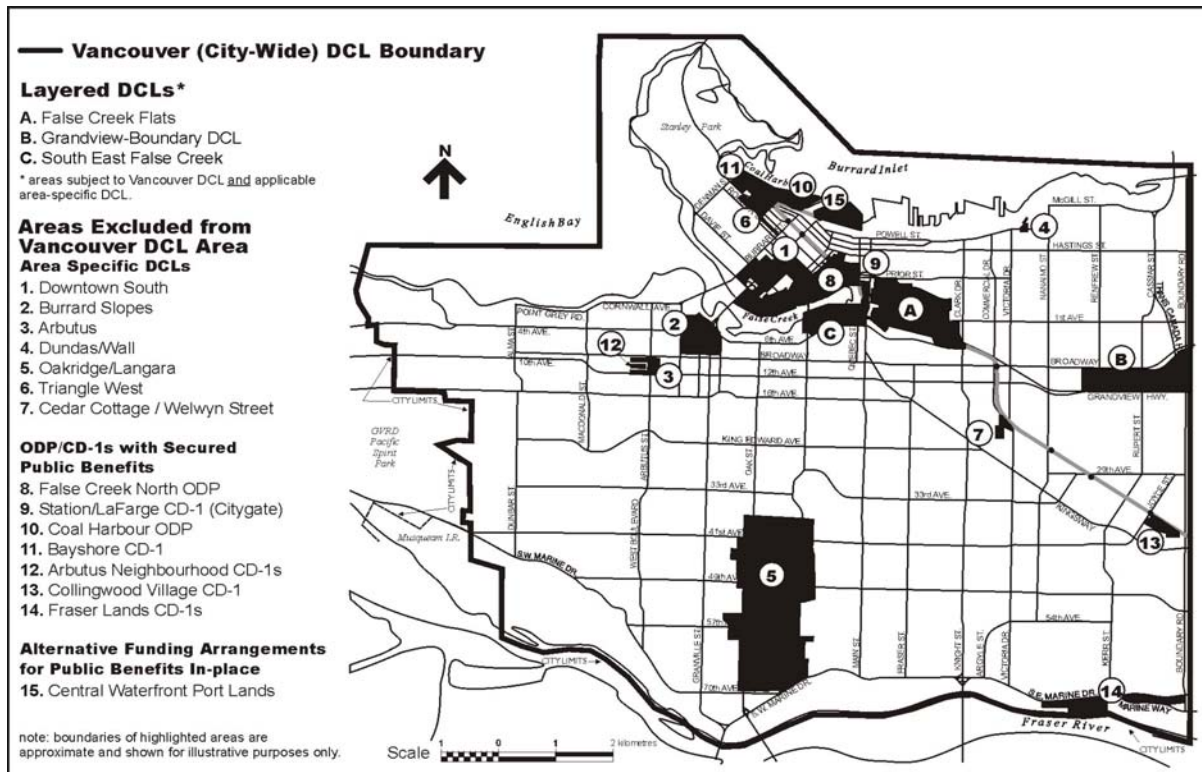
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Appendix A:
Proposed Area Specific Development Cost Levy (DCL) Rates
Effective September 30, 2011

Area Specific DCL District	RESIDENTIAL OVER 1.2 FSR, COMMERCIAL, AND MOST OTHER USES		INDUSTRIAL		RESIDENTIAL AT OR BELOW 1.2 FSR; AND LANEWAY HOUSE	
	Current Rate	<i>New Rate Effective Sept 30th</i>	Current Rate	<i>New Rate Effective Sept 30th</i>	Current Rate	<i>New Rate Effective Sept 30th</i>
False Creek Flats	\$49.73/m ² (\$4.62/sf)	\$52.81/m ² (\$4.91/sf)	\$49.73/m ² (\$4.62/sf)	\$52.81/m ² (\$4.91/sf)	Not Applicable	
Grandview-Boundary	\$7.75/m ² (\$0.72/sf)	\$8.21/m ² (\$0.76/sf)	\$31.11/m ² (\$2.89/sf)	\$32.83/m ² (\$3.05/sf)		
South East False Creek	\$168.78/m ² (\$15.68/sf)	\$175.37/m ² (\$16.29/sf)	\$25.62/m ² (\$2.38/sf)	\$26.61/m ² (\$2.47/sf)		
Downtown South	\$155.86/m ² (\$14.48/sf)	\$168.35/m ² (\$15.64/sf)	No industrial capacity	No industrial capacity	Not Applicable	
Burrard Slopes	\$101.72/m ² (\$9.45/sf)	\$111.06/m ² (\$10.32/sf)	\$40.69/m ² (\$3.78/sf)	\$44.43/m ² (\$4.13/sf)		
Arbutus	\$75.99/m ² (\$7.06/sf)	\$82.38/m ² (\$7.65/sf)	\$30.35/m ² (\$2.82/sf)	\$32.95/m ² (\$3.06/sf)		
Dundas/Wall	\$31.75/m ² (\$2.95/sf)	\$33.43/m ² (\$3.11/sf)	No industrial capacity	No industrial capacity		
Triangle West	\$112.16/m ² (\$10.42/sf)	\$121.96/m ² (\$11.33/sf)	No industrial capacity	No industrial capacity		
Cedar Cottage/Welwyn Street	\$59.09/m ² (\$5.49/sf)	\$63.80/m ² (\$5.93/sf)	\$36.38/m ² (\$3.38/sf)	\$39.26/m ² (\$3.65/sf)	\$24.43/m ² (\$2.27/sf)	\$26.41/m ² (\$2.45/sf)
Oakridge/Langara	\$64.69/m ² (\$6.01/sf)	\$71.11/m ² (\$6.61/sf)	No industrial capacity	No industrial capacity	\$26.26/m ² (\$2.44/sf)	\$28.83/m ² (\$2.68/sf)

Appendix B: DCL Background Information

Map 1: DCL Areas in Vancouver



DCL By-laws establish area boundaries of each DCL district. Levies collected within each district must be spent within the area boundary, except for DCLs collected for replacement housing which can be spent city-wide. There are 11 DCL districts in the City in three general categories:

1. The Vancouver (City-wide) DCL District: This applies across most of the City. Exceptions are shown on the map in black.
2. Layered DCL Districts: These are specific geographic areas in which both an Area Specific DCL and the Vancouver DCL apply. There are three such areas shown on the map as A, B, and C (False Creek Flats, Southeast False Creek, and Grandview-Boundary). These are or were industrial areas where new plans identified potential for significant redevelopment and a higher need for facilities than could be covered by the City-wide DCL alone (e.g., sewer and water).
3. Area Specific DCL Districts: These are numbered 1-7 on the map. Developments in these districts are subject to the Area Specific DCL and are exempt from paying the Vancouver DCL. Vancouver's DCL system evolved over time. The City first applied DCLs to specific areas undergoing redevelopment planning that would bring significant, localized growth impacts. In 2003, Council approved the Financing Growth Policy, which recognized the significant growth capacity in the rest of the City and created the City-wide DCL District to collect DCL revenue from all areas of the City to support the provision of city-wide growth-related capital projects.

There are also eight additional areas (numbered 8-15) exempt from paying the City-wide DCL because prior to the introduction of the City-wide DCL, the City had already secured the provision of growth-related capital projects as part of a Comprehensive Development District (CD-1), Official Development Plan (ODP) or an alternative funding arrangement.