Refers to Item No. 3
CS&B Committee Agenda
October 22, 2009

CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	October 14, 2009
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Meeting Date:	October 22, 2009

TO: Standing Committee on City Services and Budgets

FROM: Director of Planning, in consultation with the General Manager of Business Planning & Services

SUBJECT: Development Cost Levies: January 2010 Rate Adjustment for the Vancouver (City-wide) DCL By-law & Annual Inflationary DCL Rate Adjustment System

RECOMMENDATION

A. THAT due to the recent, significant changes in market conditions Council not implement the full inflation adjusted Vancouver (City-wide) Development Cost Levy (DCL) By-law rates in January 2010, as previously approved on July 10, 2008, but approve a reduced, interim inflation adjustment for the Vancouver (City-wide) DCL By-law rates, as follows:

i. from \$6.00/square foot (\$64.59/m^2) to \$7.70/square foot (\$82.88/m^2) for residential development at a density greater than 1.2 FSR and for non-residential (e.g. commercial and industrial) development;

ii. from \$1.75/square foot (\$18.84/m^2) to \$2.20/square foot (\$23.68/m^2) for residential development with an FSR of 1.2 or less and for a laneway house; and

iii. from \$2.40/square foot (\$25.83/m^2) to \$3.10/square foot (\$33.37/m^2) for development in an industrial zone.

AND FURTHER THAT Council hold unchanged the nominal Vancouver DCL By-law rates for school use, parking garage, child care use, temporary building and community energy centre

B. THAT for further DCL rate adjustments, Council adopt the annual inflationary DCL rate adjustment system, as described in this report, for the Vancouver (City-wide) DCL By-law; and that staff's first annual report back occur by July 2010 with recommended inflation adjusted rates to be effective September 1, 2010.

C. THAT Council instruct staff to undertake further consultation and notification with stakeholders on applying the annual inflationary DCL rate adjustment system to the ten DCL districts within the Area Specific DCL By-law; and that staff first report back in July 2010 on application of the system and inflation adjusted rates to be effective September 1, 2010.

D. THAT Council instruct staff to report back on additional options for the DCL payment by installment process for all DCL By-laws, after further discussion with industry stakeholders.

E. THAT Council instruct the Director of Legal Services to amend the Vancouver DCL By-law to implement the adjusted DCL rates for January 1, 2010, as described in this report.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services RECOMMENDS approval of A through E.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of A through E.

COUNCIL POLICY

Financing Growth Policy (June 2003) sets the framework for how DCLs are collected and allocated.

Council priorities for affordable housing, inclusive communities, and the environment are supported by the capital facilities that DCLs help to pay for.

SUMMARY

Providing amenities for strong, safe, inclusive communities; environmentally-sustainable infrastructure; and affordable housing are key Council priorities. Development Cost Levies (DCLs) are a significant contribution to these facilities and help to relieve what would otherwise fall to property tax to support. DCLs are a growth-related charge on new construction, and the revenue is used to support the following growth-related public services and facilities:

- park land and improvements
- replacement (affordable) housing
- childcare facilities
- transportation facilities (including greenways, bikeways and public realm), and
- constructing, altering, expanding or replacing sewage, water, drainage.

The Vancouver (City-wide) DCL rates were last set in 2003. If these rates had been adjusted for inflation in the years since then, the City would have been able to collect an additional approximately $20 million for use in providing DCL-funded facilities. New facilities face increased costs for land and construction and these costs have grown faster than the rate of general inflation in the economy.

This report responds to two Council directions (approved July 10, 2008) designed to bring DCL rates back in line with inflation: first, implementation of a new inflation-adjusted DCL rate for January 2010, which included an 18-month 'grace period' (i.e., July 2008 – January 2010) before the rate change would take effect; and, second, development of a new annual inflationary DCL rate adjustment system.

Regarding the new rate for January 2010, this report recommends a smaller interim rate increase than originally anticipated. The recommended rate is based on the methodology developed for the new annual inflationary system (described below), and with a further adjustment to forecast coming inflation rather than respond only to current inflation. This is to recognize that there is a lag time in registering downward inflation and, thus, to respond to significant recent economic change and continuing economic volatility. The rate is labelled 'interim' because implementation of the new annual system will mean a rate adjustment again in September 2010 when more up-to-date information is available and there is a better understanding of market conditions and economic trends.

Regarding the new annual system, this report recommends implementation of an annual inflationary DCL rate adjustment system based on inflation in property values and construction costs which are the two components that DCL revenues go toward in providing growth-related public facilities. The recommended system is based on local and national best practices, and uses publicly accessible, third party data; provides transparent and accessible calculations; and responds to changing market conditions so that rates will increase or fall depending on 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 no longer fall behind inflation.

Upon Council approval in this report, the new system would apply to the City-Wide DCL which covers most of the city, and staff will report back on the details of also applying the system to the smaller Area Specific DCL areas.

This report also reviews the initial discussions with industry stakeholders on a possible new DCL payment by instalment process and recommends that staff report back on any recommended changes at a later date.

Staff has consulted with industry and community stakeholders and the report recommendations are broadly supported.

PURPOSE

This report recommends that Council implement a partial, interim rate adjustment for the City-wide DCL rate to be effective January 1, 2010. This report also recommends adoption of an annual inflationary DCL rate adjustment system for the City-wide DCL By-law. It also recommends undertaking consultation and notification with relevant stakeholders in order to apply the system to the Area Specific DCL districts.

BACKGROUND

DCLs are a growth-related charge collected from all new development and a very important source of revenue for civic facilities. Since 2003 over $200 million in funds has been collected from all DCLs to help pay for growth-related facilities. DCLs are applied on a per square foot (sq. ft.) 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,
- transportation facilities (including greenways, bikeways and public realm), and
- sewer, water, and drainage.

The City-wide DCL district covers most of the City and there are also ten other additional, smaller Area Specific DCL districts. See Appendix A for more information and a map of the DCL districts.

DISCUSSION

City-Wide DCL rates were last set in 2003. If these rates had been adjusted for inflation in the years since then, the City would have been able to collect an additional approximately $20 million for use in providing DCL-funded facilities. New facilities face increased costs for land and construction, and since rates were last set, these costs have grown significantly faster than the rate of general inflation in the economy (see Appendix B for tables).

To catch up with growth cost escalation, Council approved new DCL rates on July 10, 2008, based on inflation from 2003 to 2007. New rates were to be effective in January 2010 after a report back on a further inflation adjustment from July 2008 to late 2009. Council also approved, in-principle, an annual inflationary adjustment system for DCL rates, subject to a report back on the details of the system and the results of consultation. As part of the consultation, a third topic, DCL payment options, was raised with industry stakeholders. Council also asked staff to develop an enhanced DCL tracking system and an annual DCL report. The Discussion section therefore contains the following sub-sections:

1. City-wide DCL Rates for January 2010
2. Annual Inflationary DCL Rate Adjustment System
3. Report Back on DCL Payment by Installments
4. Tracking and Reporting

1. City-wide DCL Rates for January 2010 (RECOMMENDATION A)

Staff recommend a partial, interim adjustment to the City-wide DCL rates for January 2010 rather than the full adjustment for inflation approved by Council in July 2008. The proposed decrease in the rate adjustment balances the need to re-establish the lost purchasing power of the City-wide DCLs by adjusting the rates upward, while not losing any of the momentum of economic recovery by bringing in too high a rate given current market uncertainty. (Note: Inflation here refers to property value and construction cost inflation, since the City uses DCL revenue to provide public facilities through property acquisition and capital construction.)

Staff came to recommend a partial rate adjustment for January 2010 through the following considerations and methodology:

(a) Previously Approved Rate for January 2010: $10.20 per sq. ft.
In July 2008, Council approved adjusting the rate for inflation from 2003 to 2007 (an increase from $6.00 to $10.20 for most types of development), and instructed staff to further adjust

the rate for inflation between 2007 and January 2010 when the new rate would come into effect. The rate adjustment from 2003 to 2007 was based on a consultant study (Coriolis Consulting) that used third-party construction cost data and property value data to identify inflation. The updating between 2007 and January 2010 was to be based on the same types of data, further developed by staff for an annual inflation adjustment system.

(b) Rate Adjusted for Changes in Economy: $9.35 per sq. ft.
This has two parts. First, staff calculated the inflation for 2008 and 2009 which resulted in a rate adjustment from $10.20 to $10.39. This calculation is based on the third-party data described in detail in the next section of this report (Annual Inflationary DCL Adjustment System). However, in calculating this new rate, staff also noted that inflation adjustments draw on data and trends from the past to generate new rates. In an upward economy this lag in data will typically result in conservative but reasonable rate changes. However, when the economy is declining, as it has recently, this lag does not take into consideration more recent declines and thus can overshoot coming inflation. To address this, staff applied a second phase to this step by generating a worst-case forecast for property and construction inflation in 2010, based on observed worst-case decreases over the last ten years. This generated a conservative forecasted rate of $9.35 for 2010.

(c) Recommended Interim Rate for January 2010: $7.70 per sq. ft.
Given the continuing high-level of uncertainty in the economy, and noting that the annual system discussed in the next section will bring forward another rate in September 2010 (based on more up-to-date data), staff recommend a partial, interim rate adjustment for January 2010. The recommended interim rate of $7.70 is approximately 50% of the difference between the current rate ($6.00) and the inflation-adjusted rate which reflects recent changes in the economy ($9.35).

Table 1 provides the current City-wide DCL rate and the different rate calculations that led to the recommended interim rate.

Table 1. January 2010 City-wide DCL Rate Calculations (per sq. ft.)

Type of Development	Current Rate (set in 2003)	January 2010		
		Previously Approved Rate (July 2008)	Rate Adjusted for Changes in the Economy	Recommended Interim Rate
Residential with FSR over 1.2, commercial and other uses	$6.00	$10.20	$9.35	**$7.70**
Residential of 1.2 FSR or less	$1.75	$3.00	$2.65	**$2.20**
Industrial Areas	$2.40	$4.10	$3.80	**$3.10**

The City-wide DCL By-law includes a number of uses that have lower DCL rates such as daycare, and elementary and secondary schools. Recommendation A also proposes that the rates for these uses not be adjusted to reflect inflation as their lower rates reflect their lower growth costs and the rate is intentionally nominal.

2. Annual Inflationary DCL Rate Adjustment System (RECOMMENDATIONS B & C)

When Council approved, in principle, an annual inflationary system for DCL rate adjustments, it was on the understanding that such a system would be an improvement for both the City and the development industry. The proposed annual inflationary DCL rate adjustment system represents a major advance in DCL policy. Staff recommends an annual system consisting of a four step process where the most recent, publicly accessible data on property and construction inflation are used to adjust DCL rates every year in September. The benefits of an annual system are that it provides the development industry with smaller, more predictable DCL rate changes, and it ensures the City maintains the purchasing power of DCL revenue needed to provide growth-related public facilities and services.

Up to now City policy has been to conduct periodic reviews every three years, or as directed by Council, to update DCL rates for inflation. Staff found that the three-year period for review is neither effective nor efficient, as it resulted in inconsistent outcomes in terms of the timing of DCL rate increases and methodology.

Staff reviewed practices in other local municipalities and found several that adjust rates for inflation every three years. Currently, no local municipalities undertake annual reviews, though Surrey and Coquitlam expressed interested in an annual system. In Ontario, Toronto and several other local municipalities adjust their Development Cost Charges (DCCs) for annual construction cost inflation, using the Statistics Canada Non-Residential Building Construction Price Index (NRBCPI), as recommended below for the annual system. Rates are also adjusted for changes in land values at periodic reviews. Adjusting DCL rates for annual change in inflation is recommended by the BC Provincial “Development Cost Charges (DCC) Best Practices Guide” and by Coriolis Consulting (2007).

During the 2007 rate review, Coriolis Consulting was contracted to explore a variety of inflation indices that relate to Vancouver’s DCL expenditures (both property and construction). The consultant used inflation data from Statistics Canada and a sample of BC Assessment (BCA) data to calculate inflation for the City-wide DCL between 2003 and 2007, and recommended that the City further develop the methodology for property and construction inflation.

Staff started with guiding principles:

- An inflationary system should use publicly accessible, third party data.
- The internal calculations of the system should be transparent and accessible to external stakeholders.
- The system should be able to respond to changing market conditions so that rates will increase or fall depending on inflationary trends.
- In situations where the market trend changes drastically for the worse, the system should be able to adapt so that DCL rates do not overshoot inflation.

The resulting system is a transparent four step process that responds to changing market conditions from year to year and is based on two key inflationary indices that meet the test of accessible, third party data. The annual system uses most recent inflationary data (available March to May) and culminates in a new inflation adjusted DCL rate effective every September 1, as follows:

- The first step is to determine annual inflation rates for property and construction. For property inflation, BCA's final property assessment roll, released every March, would be used. The roll is a comprehensive list of all city properties. BCA reports also allow the city to determine actual market based inflation by removing change due to non-market processes such as rezonings, new developments, etc. For construction inflation, the Statistics Canada NRBCPI's first quarter data for Vancouver, released in May, would be used. This index is widely used and it most closely measures the type of construction costs DCL revenue is expended on.
- The second step blends these two inflation rates using the proportion of long-term, planned DCL expenditures (i.e. 65% property purchase costs and 35% construction costs).
- The third step is to publish the pending new, inflation adjusted DCL rates each spring and notify stakeholders using standard procedures (e.g. Bulletins, City website, posters, etc.).
- The fourth step is to implement the rates with an annual report to Council each July to adjust the DCL rates in the By-law for September 1 (staff will also be monitoring the implementation of the system and will provide updates to Council in the July report as appropriate).

Appendix C provides more details on the annual system (Appendix B shows rate changes as if the system were in-place between 2003-09).

The current market downturn highlights the need for the City to occasionally pause the indexing system and consider the timing and implications of the proposed new rate (as demonstrated in the proposed interim City-wide DCL rate in Section 1 of this report). At these moments, the City would pause the system to consider the appropriateness of the magnitude of the rate increase in light of a negative Provincial GDP forecast. In these rare moments, staff would recommend adjusting more cautiously or holding rates based on the forecast.

In Recommendation B, staff recommends Council adopt the system for the City-wide DCL By-law. In Recommendation C, staff recommend that Council direct staff to undertake further consultation and notification with local stakeholders within the ten Area Specific DCL districts before applying the system to these areas. This is because they were not included in the consultation leading to this report, and consultations may identify local issues that require minor system adjustments before application. Many of Vancouver's Area-Specific DCL By-law rates have never been adjusted for inflation. Staff will report back on, or before, July 2010 with recommended inflation adjusted rates for all DCL by-laws (City-wide and Area Specific) and any system modifications needed for full implementation of the system for the Area Specific DCL districts.

3. Report Back on DCL Payment by Installments (RECOMMENDATION D)

This report includes a recommendation that staff explore with stakeholders additional options for paying DCLs by installments and report back with any recommended changes. Industry stakeholders have expressed interest in additional payment options. Staff investigated an option that is in line with the Local Government Act (LGA) model and would therefore provide applicants with a payment option found everywhere else in the region. However, the financial impact is a potential loss of 2-3% in DCL revenue on each project that uses this installment process, because the current City model includes an interest charge, whereas the LGA alternative does not (in the LGA model, more is paid up front, as well as other differences between the two models). Staff recommend undertaking further discussion with stakeholders to determine if there is an installment process that can address the needs of both the City and development.

4. DCL Tracking & Reporting

In July 2008, Council also directed staff to enhance the City's DCL tracking and reporting capabilities. In September 2009, staff completed an upgrade of the City's DCL database in response to new Local Government "Green Communities" Statute Amendment Act (Bill 27) passed in 2008. This Act requires the City to publish an annual report on the collection and expenditure of DCL reserve funds. Stakeholders, both community and industry, have expressed interest in seeing more detailed reporting on DCLs. The first annual report, 'Development Cost Levies Status Report on Collection and Expenditure', was submitted to Council on October 6, 2009.

PUBLIC PROCESS

An overview of the public process conducted for the January 2010 City-wide DCL rate and the annual inflationary adjustment system proposal is provided below. All submissions and written responses to date are included in Appendix D.

Consultation Outreach
Notification of upcoming changes to City-wide DCL rates began in the fall of 2008, through the City's website, in the DCL Information Bulletin and development and building permit letters to applicants. Advertisements describing the key changes to DCLs, together with details on how and when to participate were placed in Courier, Business in Vancouver and major ethnic newspapers in June 2009. The detailed proposal, "Vancouver (City-wide) Development Cost Levy January 2010 Rates & Annual Inflationary Index", was made available on-line in July 2009. The web site included a list of Frequently Asked Questions and an on-line Feedback Form.

Community and industry stakeholders participated in the consultation. Two sessions with various community organizations that use and/or operate facilities funded by DCLs were held on July 6 and 17. Staff also met separately with representatives of the National Association of Industrial and Office Properties (NAIOP), Greater Vancouver Home Builders Association (GVHBA), Vancouver Economic Development Corporation (VEDC) and the Urban Development Institute (UDI) between July 6 and 13. Four submissions were received from the UDI, GVHBA, Coalitions of Child Care Advocates of BC, and Arbutus-Ridge, Kerrisdale, Shaughnessy (ARKS) Vision Implementation Committee.

Responses from Stakeholders to Proposals in this Report
Overall, there was wide agreement on the value of having new development contribute toward public facilities through development charges because of their importance in maintaining the city's livability. Stakeholders expressed broad support for all the recommendations in this report. Specific feedback included:

- City-wide DCL Rates for January 2010: Stakeholders from the development industry recognized the need for the city to catch-up DCL rates for inflation, and they appreciated staff's proposal to bring in the interim, inflation adjusted rates rather than the fully adjusted DCL rates, given the market conditions. Some community representatives wondered if a higher interim DCL rate could be achieved, and stressed the importance of the interim rate not becoming the new benchmark for future rate adjustments.

- Annual Inflationary DCL Rate Adjustment System: Community representatives stressed the need to deliver community facilities in-step with new development, and expressed concern about the City falling behind in its ability to provide facilities. Industry stakeholders requested the timely provision of annual property and construction inflation data to allow for better budgeting and investment decisions (which the proposed system accommodates).

  The UDI also suggested the City consider grandparenting the DCL rate for "complete" Building Permit (BP) applications that are still in-process when new inflation-adjusted DCL rates come into effect. However, Vancouver's Charter does not allow the City to grandparent DCL rates. DCL payments are due at BP issuance, at the DCL rate in effect at that time. In addition, the recommended annual system provides a full year of DCL rate stability which is consistent with past practice of providing one-year DCL rate change 'grace periods' (i.e., time for applications in-process to clear the system before rates change).

FINANCIAL IMPLICATIONS

DCLs have financial implications for both the City and development.

Financial Implications for the City

DCL revenue joins with property taxes to help pay for growth related capital facilities. As a financial tool, DCLs are a significant revenue source for the City. As of Dec 31, 2008 the total DCL revenue generated from all DCL areas was over $200 million.

In the 2007 rate review, staff estimated that if City-wide DCL rates had been adjusted annually to reflect inflation between 2003 and 2007 the City would have been able to collect approximately $20 million in additional DCL revenue. Without an annual adjustment system, revenue for growth-related capital facilities is lost and there is no mechanism to catch-up foregone DCL revenue. New inflation adjusted rates will only recover growth costs going forward, putting greater burden on property taxation or slowing the delivery of growth-related facilities.

Financial Implications for Development

The 2003 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 development 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. Staff are aware that irrespective of DCLs, assembling development sites (e.g., in C-2 zones along arterials) is challenging because in a city like Vancouver, most land already has some form of development on it. In response, in addition to currently available zoned capacity across the city, there are several planning programs underway to increase housing and job capacity (e.g., Cambie Corridor, Metro Core, Northeast False Creek).

Another important aspect is providing more certainty about DCL rate changes which the recommendations in this report deliver, through smaller, more predictable annual changes. If the annual system had been applied to the $6.00 per sq. ft. City-wide DCL rate, the annual median DCL increase between 2003-09 would have been $0.77 per sq. ft. In addition, because the inflationary indicators used to adjust DCL rates draw from the same factors facing new development (i.e., property and construction costs), rate values are maintained rather than increased. Staff also notes that Vancouver's DCL rates continue to be in-line with other municipalities in the region.

SOCIAL AND ENVIRONMENTAL IMPLICATIONS

DCLs provide an important part of the social infrastructure of the City by contributing to the funding of growth-related capital projects. This includes: new park land acquisition and park improvements; acquisition of sites and construction of child care facilities; and, acquisition of sites for non-market housing.

In addition to contributing to social infrastructure, DCLs also contribute toward environmental sustainability. Vancouver's DCLs are applied on a square foot basis which supports provision of smaller, more affordable and compact housing which has a smaller ecological footprint, rather than charging on a per unit basis which can penalize smaller units. The DCL also encourages re-use and adaptation of existing buildings by exempting renovations and heritage restoration from DCL charges. Transportation improvements provided by DCLs focus on pedestrian, bicycle, and transit throughout the city also contribute toward a reduced carbon footprint.

CONCLUSION

Vancouver will continue to grow and with more people come more demands on City facilities and services. However, the City's DCLs are not keeping up with inflation. New public facilities face increased costs for land and construction and in the recent period of rapid growth these costs have grown faster than the rate of general inflation in the economy.

To bring DCL rates in line with inflationary pressures while also recognizing the current market downturn, this report recommends two actions: first, a partial, interim inflation rate adjustment for City-wide DCL rates, effective January 2010; and second, the implementation of an annual inflationary DCL rate adjustment system. Implementation of the annual system will use 2010 data to lead to a further update of City-wide DCL rates effective September 1, 2010, after a Council report in July.

While the recommendation is to apply the annual system to the City-wide DCL, staff will also undertake consultation and notification with relevant stakeholders in Area Specific DCL districts in order to apply the system to these districts as well.

Finally, staff will explore with industry stakeholders additional payment by instalment provisions.

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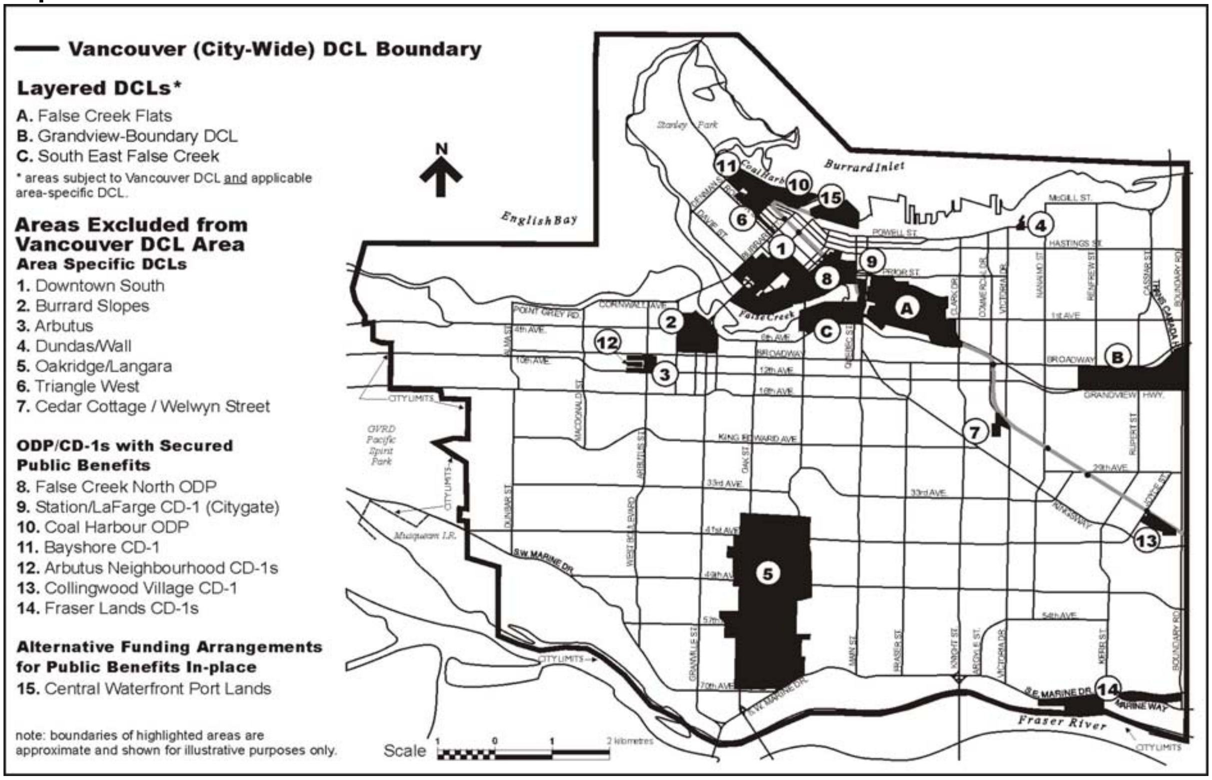
DCL Background Information

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 alternative funding arrangement.

Table 1: Retrospective Inflation Adjustment to the City-wide DCL Rate (2003-2009)

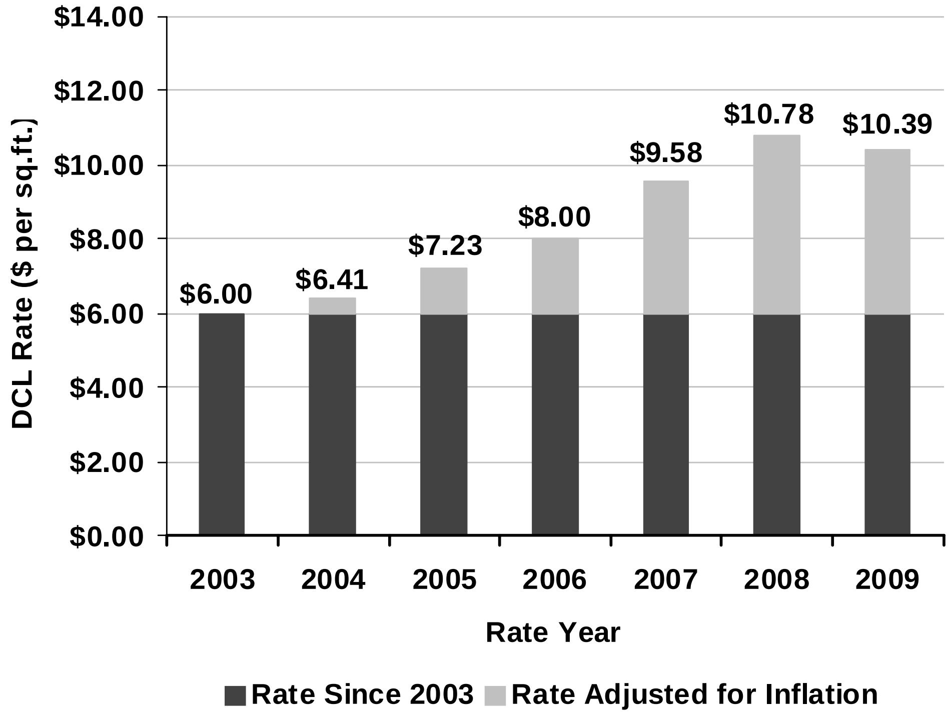
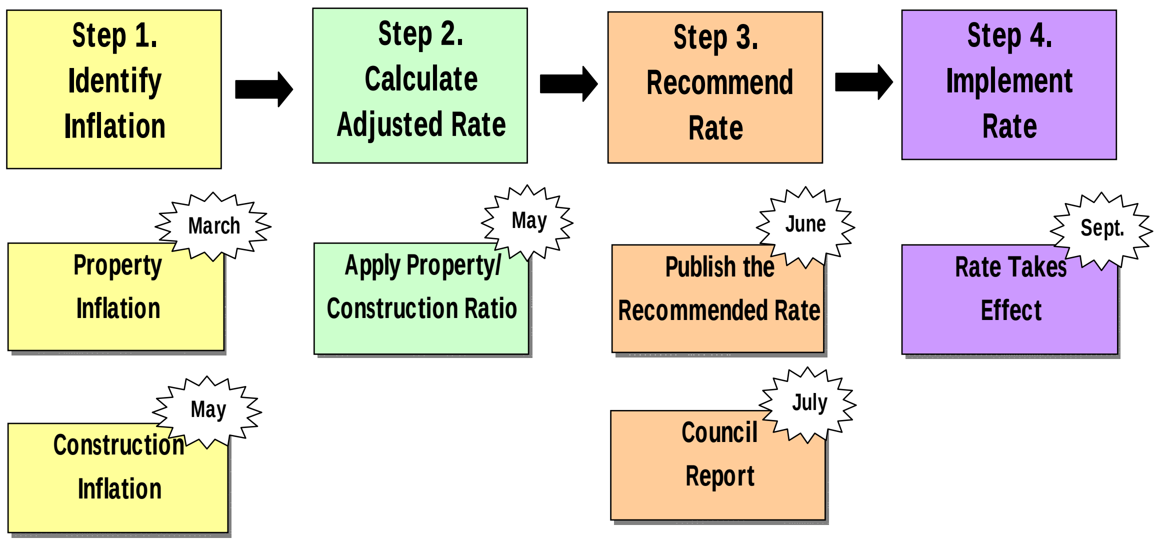


Table 2: Retrospective Annual Inflation Rates and Rate Changes for the City-wide DCL Rate (2003-2010)

Year	Index 2003=100	Annual Inflation Rate	Annual Change in DCL
		%	**$ per sq.ft.**
2003	100.0	N/A	N/A
2004	106.8	6.8%	$0.41
2005	119.7	12.9%	$0.82
2006	130.3	10.6%	$0.77
2007	150.0	19.7%	$1.58
2008	169.7	12.6%	$1.20
2009	166.0	-3.7%	($0.39)
2010 forecast	156.0	-10.0%	($0.62)

Sources: Vancouver's proposed annual inflationary DCL rate adjustment system, with data from Statistics Canada and BC Assessment.

Annual Inflationary DCL Rate Adjustment System Overview



Step 1. Identify Inflation (March-May)
The proposed blended index is composed of two different measures of inflation: construction cost inflation and property inflation. Construction cost inflation is measured using the Statistics Canada Non-Residential Building Construction Price Index (NRBCPI) for Vancouver. This data is published quarterly by Statistics Canada and is a reliable, widely used and publicly available data set. The annual system uses the first quarter construction cost data which is available annually in May.

Property inflation is measured using the change in BC Assessment (BCA) property values for the City. The BCA makes public the final assessment roll each year in March. BCA also publishes annual non-market change figures, which include rezonings and new construction. This allows for the non-market change values to be removed on an annual basis so that the roll used in calculating the index represents only the actual market change in property values. Through comparison with the previous year's roll, the annual inflation in property values can be calculated.

Step 2. Calculate the Blended Rate (May)
The two inflation rates are blended based on the anticipated proportion of expenditures on property and construction for the DCL district. For example, the ratio of construction to property spending in the City-wide DCL district is based on the 25 year growth cost estimates in the 2003 Financing Growth Review. These growth cost estimates are weighted toward property acquisitions in a 65/35 split (65% of growth costs go toward property acquisitions and 35% toward project construction). To create a DCL inflationary index, the two measures of annual inflation are weighted to create a single inflation rate that can be applied to the previous years DCL rate.

Step 3. Recommend the Adjusted Rates (June-July)
The annual measures of property and construction inflation are made available to the public in March and May. The blended inflation rate and the proposed new indexed DCL rate are available no later than June each year. Stakeholders are notified of the new rates using the

usual procedures (e.g. Bulletins, City website, posters, etc.). A report to amend the rates in the DCL By-law would go to Council annually in July.

Step 4. Implement the Adjusted Rates (September 1st)
In the annual system, new rates are effective September 1 of each year. The system calculates inflation and adjusts the DCL rate in the same year helping to reduce the lag time between the capture of the inflation data and the adjustment of the rate.

What if market conditions change drastically?
Current market conditions highlight the need for the City to occasionally pause the indexing system and consider the timing and implications of the proposed new rate. The annual system has roughly three months of lag time between calculation of the annual inflation rate and the actual adjustment of the DCL rate. In rare situations (similar to current conditions) the index can calculate a DCL rate increase when the economy is in downward trend. At these moments, the City would pause the system and consider the appropriateness of the magnitude of the rate increase. This would be triggered by a negative Provincial GDP forecast and when this occurs staff would recommend adjusting rates more cautiously.

Stakeholder Feedback

Letter #1 – Greater Vancouver Homebuilders' Association

(Received via On-line Feedback Form - August 14, 2009)

Name: Amy Spencer-Chubey

Address: 203 15463 104 Ave

Postal Code: V3R 1N9

Phone Number: 604-588-5036

Email: amy@gvhba.org

Organization: Greater Vancouver Home Builders' Association

Comments:
Thank you for the opportunity to review the DCL proposal.

January 2010 Rates: While no increases are preferable during this economic time, we do realize the City has not increased its DCL rates for many years, and we want to ensure that necessary projects are not compromised due to lack of funding. As such, we support the City's interim/partial rate adjustment, and thank staff for taking inflation forecasts into consideration.

Annual Inflationary System: In the past members have indicated the desire for more consistent DCL rate reviews, so we support this policy. Annual reviews seem to be the preferred method for industry.

Payment by Installments - to date we have not received comment on this policy.

We also look forward to the annual DCL reporting, and commend the city for waiving DCL payments on market rental housing projects.

Letter #2 - Urban Development Institute

URBAN DEVELOPMENT INSTITUTE – PACIFIC REGION
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July 30, 2009

Randy Pecarski
Senior Planner, City Plans
Community Services
City of Vancouver
453 West 12th Avenue
Vancouver, BC V5Y 1V4

Dear Mr. Pecarski:

Re: Proposed City-wide Development Cost Levies (DCLs)

The Urban Development Institute (UDI) appreciates the consultation process staff have provided on the City-wide DCL rate and annual inflationary index. As you know, DCLs are an issue of particular concern for our members and their customers – new homebuyers and businesses.

In general, UDI favours the approach being proposed given the specific mandate staff were given (please see our detailed comments below). However, there are some larger and more fundamental issues that the industry believes need to be addressed.

City officials continue to state publicly that DCL increases (and other fee increases as well as new requirements that add costs to development) do not impact housing affordability or business costs for commercial projects. They argue that any increase in costs will be reflected in the purchase price of land.

This is not the case in Vancouver where there is no excess land and redevelopment has to occur. Land owners, in many cases, are earning income from the current uses on their land. In this environment, land owners will likely choose to hold onto their property until prices increase, rather than to accept discounted rates for their land. This will not assist the land supply problem and may deter projects which add to the supply of housing and new commercial space. These supply problems inevitability contribute to housing affordability issues and higher costs for businesses.

During our discussion, we noted that there is in effect a moratorium on the redevelopment of rental housing stock in many parts of the City through the Rate of Change Report; yet replacement affordable housing DCLs are still being charged. Similarly, DCLs are being used for daycare centres even though developers are building daycare spaces through Vancouver's density bonusing program.

Many of the DCLs collected are being used for services consumed by all Vancouverites, so there needs to be a better balance in the sharing of these costs between new development

and current residents. At the very least, the industry would like a better understanding on how much of the DCL services are being used by new residents and businesses.
With regard to UDI's specific comments on the City's proposals, they are as follows.

- We support the indexing approach being proposed for the annual inflationary increases, and ask that it be considered for the other DCL areas in the City.

- Information on the annual inflationary adjustments should be provided to our members as early as possible. Although the final rates will not be determined and published until June of each year, information on property and construction costs are available much earlier in the year. These should be posted on the City's website when available.

- The City's estimates on the recent decline in costs seem low. Our members have noted that construction costs have decreased 30% from peak prices. We would be very interested in reviewing the information the City has on recent changes in property inflation and construction costs.

- We look forward to reviewing the City's annual report on DCLs that will be available soon. UDI will provide comments at that time on what data and information should be included in future annual reports.

- In terms of the timing of payments, we ask that the City consider allowing developers to pay the lower DCL rates if they provide a complete Permit application before the new rates come into effect. Although our members have noted that staff have been very proactive in issuing Permits, this approach would avoid any potential future concerns over delayed permit issuance, which would result in developers paying higher DCLs. It would also reduce pressure on staff to issue numerous permits to meet the annual September deadline when the new DCL rates take effect.

- The City is asking for comments on which instalment payment approach the industry would prefer – the current City approach, or the alternative one provided to other municipalities through the *Local Government Act* (*LGA*). Under the *LGA*, DCLs are paid in three equal instalments – at Building Permit issuance, one year after the initial payment, and two years after the initial payment – with no extensions permitted. Each development project is different, so UDI recommends that both options should be provided to developers. There may be other options, so further discussion on this issue is warranted.

UDI generally supports the DCL proposals recommended by staff as a good first step. However, we also ask that there be more dialogue on charges being applied to new development. This proposal, for example, does not impact community amenity contributions or density bonusing policies even though they have significant cost implications as well. We believe that this discussion will benefit the investment climate in the City. UDI looks forward to continuing to work with staff on this key issue.

Yours truly,

Original sign by:

Jeff Fisher
Deputy Executive Director

Letter #3 – Arbutus-Ridge, Kerrisdale, Shaughnessy Vision Implementation Committee

(Received via Email - August 10, 2009)

On behalf of the Arbutus-Ridge, Kerrisdale, Shaughnessy (ARKS) Vision Implementation Committee, I would like to thank you for the opportunity to meet and discuss your proposal for Vancouver (City-wide) Development Cost Levy: January 2010 rates & Annual Inflationary Index. To summarize my comments:

- I support your proposal to use an annual inflationary index for establishing DCL's. I support the methodology for calculating the inflation index. It seems reasonable.
- I can also understand how it would be difficult to jump to the $10.39 rate for 2009 when the rate has not increased over the years and the difficult economic times for the development industry. However. I think it is important to establish the 2009 rate at $10.39 with the proviso that there would be a phase-in or catch-up period over two (?) years. That is, the $10.39 is established as the base for 2009, not the reduced amount as the basis for future percentage increases.
- while I agree the large jump in rate is difficult, you should make City Council aware that Development Cost Levies are a vital way to address pressures we are feeling due to increased density in our neighbourhood. For example, ARKS has identified two Greenways for the neighbourhood and one new bikeway. These alternative transportation infrastructure routes are not being developed because of limited funding and resources at the City. DCL's could help fund these projects. The sidewalk along the north-side of 41st Avenue, west of Maple Street is in deplorable condition and perhaps DCL's could help restore this sidewalk to a more acceptable standard. At the Kerrisdale Community Centre, facility upgrades have been identified for the aging Centre and arena. Again, funding and limited staff resources have delayed these important facility upgrades. The Kerrisdale Community Centre has difficulty meeting community needs with the existing population due to space and staff resource limitations. At the last registration there were waiting lists for 130 programs. Because DCL's have not increased over the years, we have lost a significant amount of funding which would help address the pressures on our community facilities due to increased population growth due to density increases.
- ARKS would like to be involved in the process that determines DCL funding allocations for our community.
- I would question why New Housing Demonstration Projects are exempt from DCL's as they are usually a higher density than normal redevelopments, and could likely be better able to afford the DCL's.

We'll monitor community reaction to your report once it is available and see if it is worthwhile for you to attend our September 16, 2009 ARKS meeting.

Jim Hall, Chair, Arbutus-Ridge, Kerrisdale, Shaughnessy Vision Implementation Committee
(604) 261-8796

Letter #4 – Coalitions of Child Care Advocates of BC

COALITION OF **child care advocates** OF BC

Working together for a community based, non-profit child care system that is high quality, affordable, accessible, publicly funded and accountable.

August 2009

Mayor and Council,

The Coalition of Child Care Advocates of BC (CCCABC) wishes to add our voices to those in our community calling for strong, sustainable and updated Development Cost Levy (DCL) policies.

First, we want to applaud Vancouver's leadership in using this tool to build quality child care facilities in City neighbourhoods. At the time, the City's inclusion of child care as a standard growth related facility that needed to be planned for and provided in new developments was a groundbreaking initiative. Today, the large number of families with young children who live and access downtown child care facilities demonstrates the value of this far reaching policy.

We understand that DCL rates have not been adjusted since 2003. During that time, the development and real estate sectors realized unprecedented profit and growth – in large part because of the investments City residents made to keep Vancouver one of the most liveable cities in the world. We believe that Vancouver must maintain its ability to provide public amenities and necessities, including child care, and that the development industry must fund their fair share of growth related costs.

It is important to remember that during a boom for residential development, there was no windfall for child care or other social services. In fact, since 2001, child care services in BC experienced cuts in the operating funds provided by the provincial government and, with the loss of dedicated federal transfers for child care, more hardship is expected in the coming year.

The CCCABC was therefore supportive of Council's initial intent to fully catch up for inflation rates and lost purchasing power in a rate increase effective January 2010. Due to "market uncertainty" and challenges facing the development industry. we now understand that the City is only considering a partial 'catch up' rate increase at this time.

While we remain supportive of any increase that makes up for some of the City's lost purchasing power, we strongly recommend that this partial increase not become a new 'benchmark' and that the City also adopt policies to ensure a full catch up with annual adjustments for inflation.

We note that child care facilities are facing the same economic challenges as the development community with no 'breaks' from any level of government in sight. As a result, parent fees are up, wages for early childhood educators remain shamefully low and wait lists for quality spaces are growing. Given what we now know about the importance of quality experiences for young children in their early years – we will all pay the price for this situation.

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Nor are difficult economic times a reason not to invest in child care. In fact, investment in a community based child care system is a key element of any effective economic recovery strategy. Access to quality child care makes it possible for parents to train, retrain and find employment. It ameliorates the negative effects of poverty on young children. Investment in child care has a greater multiplier effect than other sectors. And, most importantly, it lays the foundation for healthy child development.

For almost 20 years, the City of Vancouver has been a leader in supporting access to quality child care for all. We fully expect that this Mayor and Council will protect and strengthen this legacy. Supporting DCL rates that enable the City to develop childcare facilities that meet the needs of a growing City is one way to demonstrate this commitment.

Sincerely,

Susan Harney

Susan Harney, Chair
Coalition of Child Care Advocates of BC

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