Supports to Item No. 5
P&E Committee Agenda
June 24, 2010

CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	June 14, 2010
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Meeting Date:	June 24, 2010

TO: Standing Committee on Planning and Environment

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

SUBJECT: Development Cost Levies: September 2010 Inflationary Rate Adjustments for the Vancouver (City-wide) and Area Specific DCL By-Laws

RECOMMENDATION

A. THAT Council approve the full inflationary adjustment of the Vancouver (City-wide) DCL By-law rates, with new rates to be effective September 30, 2010 as follows:

   i. From \$7.70/square foot (\$82.88/m^2) to \$10.42/square foot (\$112.16/m^2) for residential development at a density greater than 1.2 FSR and for non-residential (e.g. commercial and retail) development;

   ii. From \$2.20/square foot (\$23.68/m^2) to \$2.43/square foot (\$26.16/m^2) for residential development with an FSR of 1.2 or less and for a laneway house; and

   iii. From \$3.10/square foot (\$33.37/m^2) to \$4.17/square foot (\$44.89/m^2) for development in an industrial zone;

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

B. THAT Council approve the following inflationary rate adjustments for the Area Specific DCL By-law Districts:

   i. Full inflationary rate adjustments, as shown in Appendix A, to the following Area Specific DCL Districts: Arbutus; Burrard Slopes; Cedar Cottage/Welwyn Street; Downtown South; Dundas/Wall; False Creek

Flats; Grandview Boundary; Oakridge/Langara; and South East False Creek, with new DCL rates to be effective September 30, 2010.

ii. Limited inflationary rate adjustment to the Triangle West DCL District from $9.36/square foot ($100.75/m^2) to the recommended City-wide DCL rate of $10.42/square foot ($112.16) for residential development at a density greater than 1.2 FSR and for non-residential (e.g. commercial and retail) development, with the new DCL rate to be effective September 30, 2010;

AND FURTHER THAT Staff report back to Council on a review of the Triangle West Public Benefit Strategy and any further DCL rate adjustments by July 2011.

AND 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, child care, 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, 2010, generally in accordance with Appendix A.

CONSIDERATION

If Council does not support Recommendations A and B(i), the Director of Planning submits for consideration option E:

E. THAT Council approve a two-year phase-in of the 2010 inflation-adjusted DCL rates for the City-wide and Area Specific By-laws, except for the Triangle West Area Specific DCL District, as follows: 1/3 of the rate adjustment on September 30, 2010; followed by 1/3 of the rate adjustment on September 30, 2011; and a final 1/3 rate adjustment on September 30, 2012 which would include a further adjustment to account for any inflation between 2010 and 2012;

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services RECOMMENDS approval of the Recommendations and puts forward the Consideration for Council determination.

CITY MANAGER'S COMMENTS

The City Manager RECOMMENDS approval of the foregoing. If Council approves Consideration E which would extend the phase-in period for both the City-wide and Area Specific DCLs by two years, the City could forego an estimated $6.6 to $8.8 million in DCL revenue and delay the City's ability to align DCL rates with construction and property inflation.

COUNCIL POLICY

In June 2003 Council approved the Financing Growth Policy. The Financing Growth Policy took a comprehensive look at long term, city-wide growth and its associated public facility costs. The Policy sets the framework for how DCLs are collected and allocated.

In July 2008, Council approved adjustment of the City-wide DCL rates to reflect construction cost and property inflation, with new full inflation adjusted 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 September 2010.

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 related public realm), and
- construction, alteration, expansion or replacement of sewage, water, drainage.

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.

In July 2008 Council directed staff to adjust all DCL rates annually for inflation, effective Janaury 2010, so that the purchasing power of DCL revenue keeps pace with the inflationary pressures facing the City in its provision of DCL eligible, growth-related facilities. In October 2009, Council approved an annual inflationary DCL rate adjustment system to be applied to all DCL Districts. This report provides recommendations to bring all of the City’s DCL rates in-line with inflation, with new DCL rates to be effective in September 2010.

Council also instructed staff to undertake further consultation and notification with stakeholders on applying the annual inflationary adjustment system to all of the DCL Districts with a report back in July 2010 on the application of the system and recommended inflation adjusted rates.

The City-wide DCL rates were last adjusted in January 2010 to reflect a partial inflationary rate adjustment. This phase-in rate adjustment was approved by Council to respond to development industry concerns regarding significant economic change and continuing economic volatility in the economy. Prior to that, City-wide DCL rates were last set in 2003.

Most Area Specific DCL Districts pre-date the City-wide DCL with a number of them established in the mid to late 1990's. With the exception of Downtown South, the Area Specific DCL Districts have not been adjusted since first established.

For the City-wide DCL, Council has responded to changing circumstances and has provided the development industry more than two-years (27 months) to phase-in a full inflation-adjusted DCL rate. Staff estimate that the combined cost of Council decisions to phase-in City-wide DCL rates is approximately $12 million in foregone City-wide DCL revenue.

If City-wide DCL rates had been fully adjusted for inflation since 2003, it is estimated that the City would have collected an additional $20 million. New city facilities face increased costs for land and construction and these costs have grown faster than the rate of general inflation in the economy. Similarly, if each of the Area Specific DCL rates had been adjusted to reflect annual inflation, the City would have collected additional DCL revenue.

This report recommends that Council implement the full rate adjustment for both the City-wide DCL and Area Specific DCLs effective September 30, 2010. It also recommends a limited inflation adjustment to the Triangle West DCL District pending a review of the area's Public Benefit Strategy.

If approved by Council, the Recommendations in this report will bring all of the City's DCL Districts in-line with property and construction inflation. This means that DCL purchasing power would be aligned with today's costs, and going forward DCL rates and revenues would keep pace with property and construction costs.

Staff have consulted with industry and community stakeholders. This report includes a Consideration resulting from a request by the Urban Development Institute (UDI) to phase-in DCL rates over an additional two-year period. The UDI notes that the additional phase-in period would enable developers more time to adjust to the full inflationary rates. If Council approves this Consideration, staff project $6.6 to $8.8 million in foregone DCL revenue.

PURPOSE

This report recommends that Council implement the full rate adjustment for the City-wide DCL and for all Area Specific DCLs, except Triangle West, with new DCL rates to be effective September 30, 2010. The report also recommends a limited inflation adjustment of Triangle West Area Specific DCL rate, with staff to report back on a review of the Triangle West Public Benefit Strategy and any further adjustments to this DCL rate.

BACKGROUND

DCLs are a growth-related charge collected from all new development and a very important source of revenue for civic facilities. Since 1994, $214 million in funds has been collected from all DCLs to help pay for growth-related facilities. Approximately half of these funds were 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,
- transportation facilities (including greenways, bikeways and related public realm), and
- sewer, water, and drainage.

The City-wide DCL district covers most of the City and the ten Area Specific DCL districts cover smaller planning areas within the City. 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. 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 will be adjusted to 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.

DISCUSSION

The Discussion section outlined below provides detail on the recommendations contained in this report. This section also outlines a new addition to the Vancouver Charter impacting DCL payments. This section is divided into the following sub-sections:

1. Inflationary adjustments to the City-wide DCL
2. Inflationary adjustments to all Area Specific DCLs, except Triangle West
3. Inflationary adjustment for Triangle West DCL

1. Full inflationary rate adjustment to the City-wide DCL (RECOMMENDATION A)

Staff recommend that the full inflationary rate adjustment be applied to City-wide DCL rates effective September 30, 2010 as shown in Table 1.

Table 1: Proposed City-wide DCL Rates - Effective September 30, 2010

Type of Development	Current Rates (per sq. ft.)	Proposed Rates (per sq. ft.)
Residential (>1.2 FSR) and Commercial	$7.70	$10.42
Residential (<1.2 FSR) e.g. duplexes, rowhouses, townhouses, single family and laneway houses	$2.20	$2.43
Industrial zone	$3.10	$4.17

The staff recommendation is based on the following:

(a) Extended 18 Month Grace Period
A grace period is the length of time between Council approval of a new DCL rate and when the rate comes into effect. In the past, the City typically provided a 12 month grace period for new DCL rates to ensure adequate notice of the rate change and to enable most development applications in-process to clear the system before the new rates took effect.

On July 10, 2008, City Council approved fully adjusting the City-wide DCL rates for inflation with an 18 month grace period, so that new rates would take effect in January 2010. Council extended the grace period from 12 to 18 months in response to industry concerns regarding slower than normal application processing times due to the increased volume and priority applications related to the 2010 Winter Olympics. The six month extension of the grace period represents approximately $9 million in foregone DCL revenue.

(b) Additional Phase-in and Partial Inflation Adjustment
In October 2009, Council decided not to implement the full inflationary adjustment of the City-wide DCL rate for January 2010. This was in response to development industry concerns about the significant economic change occurring at that time, especially with regard to global financial markets. Instead, Council approved a smaller, 50% phase-in of the full inflationary adjustment to the City-wide DCL rates. This resulted in an adjustment of $6.00 to $7.70 per sq. ft. for most uses. This phase-in, partial rate adjustment went into effect on January 1, 2010. Council instructed that that the City-wide rate should be adjusted to its full inflationary amount in September 2010.

With the phase-in partial rate adjustment, Council extended the full inflationary adjustment of the City-wide DCL rate by a further nine months to September 2010. The phase-in rate adjustment will represent an estimated $3 million in foregone City-wide DCL revenue by September 2010. This is in addition to the approximate $9 million in foregone revenue resulting from the extension of the grace period, for a total of $12 million.

The phase-in period combined with the 18 month grace period has given the City-wide DCL over two years (27 months) to align with its full inflationary rate.

(c) Land Use Policy to Increase the Supply and Viability of New Development
The July 2008 Council report also recognized development industry concerns regarding potential impacts of DCL rate changes, especially on office and industrial project viability. Independent economic analysis (Coriolis, 2007) showed the recommended rates could be absorbed by the market without affecting affordability or significantly deterring development although some projects, particularly office and industrial developments, faced viability challenges.

Staff noted that land use policy could have a more powerful impact on development viability than changes in the DCL rates. Several major initiatives have been completed or are underway that provide increased density and improved development viability, especially for non-residential development. These include:

- Metro Core Jobs and Economy Land Use Plan:

  - Downtown – Council approved significant increase in office density through upzoning and rezoning policy;
  - Central Broadway (C-3A) Planning Program – process underway to provide increased office capacity and appropriate residential and commercial mix;
- North East False Creek High Level Review – Council approved policy to significantly increase job space as well as providing for increased residential capacity;
- Cambie Corridor Planning Program – process underway to integrate new development with transit along the Canada Line -- including Council instruction to consider non-industrial uses for limited I-2 and M-2 zoned sites adjacent to Cambie, south of Marine Drive;
- Industrial/High Technology to General Office Rezoning Policy – Council approved a rezoning policy to allow additional general office use in a portion of False Creek Flats, and a similar approach has been applied to sites adjacent to rapid transit stations in the Grandview-Boundary Industrial Area; and,
- Greenest City Action Team – actions are underway to support Vancouver as a Green Capital, including a focus on encouraging green businesses expansion and investment.

(d) Change in Market Conditions
Staff note that current economic conditions have improved since 2009 when Council approved a phase-in of the City-wide DCL rate. Unlike the negative trend in Provincial GDP at that time, there is now a positive GDP forecast for the remainder of 2010 and into 2011. Development activity which slowed considerably in 2009 appears to be on a rebound in both local housing starts and building permit values. The latest Development Services statistics show that year-to-date Development Applications are slightly higher than the annual average (2001 to 2009), and Development-Building Applications (mostly single-family) are 33% above average, representing a 93% increase over 2009.

The City-wide DCL By-law includes a number of uses that have nominal DCL rates such as child care, and elementary and secondary schools. Recommendation A proposes that the rates for these uses not be adjusted to reflect inflation.

2. Full inflationary rate adjustments to all Area Specific DCL Districts except Triangle West, with new rates effective September 30, 2010. (RECOMMENDATION B(i))

Staff recommend applying the full inflationary rate adjustment to the following Area Specific DCL Districts: Arbutus; Burrard Slopes; Cedar Cottage/Welwyn Street; Downtown South; Dundas/Wall; False Creek Flats; Grandview Boundary; Oakridge/Langara; and South East False Creek; with new rates to be effective September 30, 2010. See Appendix A for current and proposed Area Specific DCL rates.

Recommendation B(i) is based on the following:

(a) Notification of inflationary adjustments to Area Specific DCL Districts
Staff are very conscious of the need to provide DCL rate information to the development industry so that appropriate values can be incorporated into pro formas and other financial assumptions. Since Council's decision in July 2008 to inflation-adjust the City-wide DCL and to apply this approach to all Area Specific DCLs, the development industry has had a clear indicator of where DCL rates were headed.

For the City-wide DCL, Council approved a full inflation adjustment to the City-wide DCL rate of just over $10/sq. ft. for most residential/commercial projects in July 2008. This rate was provided on the City's website and the DCL Information Bulletin. While the rate was only partially implemented following Council's decision in October 2009, the full inflation-adjusted value (i.e. approximately $10/sq. ft.) was re-affirmed.

Staff acknowledge that the specifics of proposed Area Specific DCL rates were not available until earlier this year (February 2010). However, the industry has been on-notice of this change for much longer. Area Specific DCL rates were also addressed in the July 2008 report. Council approved, in-principle, that these rates be adjusted for inflation annually. This was affirmed in October 2009 when Council adopted the annual inflationary DCL rate adjustment system. Council directed staff to apply this system to Area Specific DCL rates, with new rates to come into effect in September 2010.

With each Council decision regarding the adjustment of DCL rates for inflation, staff have been instructed to further consult and notify stakeholders. Staff have done this, and they continue to work with all stakeholders, inquirers, and applicants in-process.

(b) Impact on applications in-process
A key concern for staff when new DCL rates are proposed is the potential impact on applications in–process. Of particular concern, are projects that may have entered the application process without fully anticipating changes to DCL rates. These projects have the potential to be negatively impacted by new DCL rates as their projects costs would not reflect proposed DCL rates.

Staff reviewed projects in the approvals process in all Area Specific DCL Districts to gauge potential impacts. Staff found there are currently a total of eight projects in the Development Permit approval process. These eight projects are unlikely to reach building permit issuance before September 30, 2010. For some, the approval date may extend well past the date when new inflation-adjusted DCL rates could be in effect.

Staff acknowledge that these projects may be impacted by new DCL rates, but note that a staff review of these projects reveals that several have been in the approvals process for up to a year or more already, which is beyond the average period of time development permits are in approvals.

(c) City-wide DCL rate 'benchmark'
City-wide DCL rates can be considered as 'benchmarks' since they apply to most areas of the city. The volume and scale of development activity within the City-wide DCL area indicates that, in general, development within the city is viable at these rates.

Staff note that the majority of Area Specific DCL rates are below City-wide DCL rates. Generally, this is because Area Specific DCL rates were established before the City-wide DCL and based on an approved area plan, identification of growth-related public facilities, and a localized Public Benefit Strategy that established DCL rates.

From a market perspective, there is often little difference between the City-wide and Area Specific DCL districts. However from a DCL rate perspective the rate differential often results in less DCL revenue per square foot from developments on the Area Specific side of the street. The City-wide DCL 'benchmark' provides another indication that the proposal to adjust

Area Specific DCLs for inflation should not have serious, or sustained, market impacts on these areas.

3. Limited inflationary rate adjustment to the Triangle West Area Specific DCL District and review of the Public Benefit Strategy (RECOMMENDATION B(ii. and iii.))

Staff recommend that Council limit the inflationary rate adjustment in the Triangle West DCL District, and that staff report back on a review of the Triangle West Public Benefit Strategy (1997) and any further rate adjustments by July 2011.

To apply the annual inflationary system to the Area Specific DCLs, staff reviewed the status of each area's Public Benefit Strategy from a DCL revenue and population growth perspective. This analysis showed that the Triangle West DCL District was distinct from other areas because it had met the anticipated DCL revenue target and exceeded the expected population growth. Staff also found that Triangle West has minimal development capacity remaining.

Triangle West is located immediately adjacent to the Central Business District which is subject to the City-wide DCL. In light of this adjacency, and in the absence of a firm rationale based on staff's initial assessment of Triangle West's Public Benefit Strategy, staff recommend applying a limited inflationary adjustment that will align rates in Triangle West with those found in the surrounding area. Staff also recommend a report back on a review of the Triangle West Public Benefit Strategy and any further adjustment to DCL rates by July 2011.

The Area Specific DCL By-Law includes a number of uses that have nominal DCL rates such as child care, and elementary and secondary schools. Recommendation B 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.

PUBLIC PROCESS

An overview of the public process conducted for the September 2010 Rate Adjustments for all DCL By-Laws is provided below. All submissions received are included in Appendix C.

Consultation & Notification

Staff have been working with stakeholders on inflationary adjustments to the City's DCL rates since 2008. Consultation sessions with industry and community stakeholders were held in 2008, 2009 and 2010. Following Council's instruction to further consult and notify stakeholders in October 2009, staff have undertaken the following:

- Web site posting of Council decisions related to inflationary adjustments on the City's Financing Growth web page at: http://vancouver.ca/commsvcs/cityplans/fg/index.htm;
- Notice of pending changes in the City's DCL Information Bulletin (available on-line and at information kiosks in City Hall) e.g., the DCL Bulletin was amended in August 2008 to include a notice of Council's instruction to adjust all DCL rates for inflation;
- Advertisements describing the proposed rate adjustments, together with details on how and when to participate, were placed in the Vancouver Courier, Business in Vancouver and major ethnic newspapers in March 2010;
- Verbal advice to inquirers and written advice to applicants in-process.

Council's decisions regarding inflationary adjustments to DCL rates have been communicated to industry stakeholders, inquirers, and applicants in-process for up to two-years.

Staff also met separately with the stakeholder groups in March and April 2010 to discuss the September 2010 rate adjustments. Meetings were organized with the Urban Development Institute (UDI); National Association of Industrial and Office Properties (NAIOP); Greater Vancouver Home Builders' Association (GVHBA); Vancouver Economic Development Commission; and Vancouver City Planning Commission.

Stakeholders Responses (CONSIDERATION E)
Overall, there was wide agreement on the value of development charges because of their importance in maintaining the city's livability. There was also general support for annual inflationary adjustments to DCL rates and for applying the annual inflationary system to all DCL rates.

From the consultation sessions there has been a mix of responses. National Association of Industrial and Office Properties (NAIOP) members advised that the proposed rate adjustments would have a negative impact on office development. They noted that office development is not viable in the current economy and increased rates could impact future office development in the city. The Greater Vancouver Home Builders Association (GVHBA) indicated that they support the proposed rate for new single family homes (i.e. less than 1.2 FSR residential rates).

The UDI have requested a two-year phase-in of rate adjustments to all DCL Districts (both City-wide and Area Specific DCLs) so that the full inflation-adjusted DCL rate would come into effect in September 2012 (CONSIDERATION E).

The UDI notes that the proposed rate changes are substantial and could have a negative impact on new development. They request a phase-in for the new rates to mitigate the impacts and to take into account new market realities and issues such as new mortgage rules, increasing interest rates, the Harmonized Sales Tax, and the City's Green Rezoning Policy (UDI's letter is contained in Appendix C).

Staff have met with the UDI on three separate occasions in 2010 to discuss the proposed rate adjustments and to better understand their concerns. Staff acknowledge that market recovery is not yet complete and there continues to be uncertainty. With the exception of the rezoning policy, the other challenges identified by UDI are within the mandate of senior levels of government and the financial sector. All of these actions will have an impact and it will take time for industry and the City to adjust. In October 2008 when Council first considered the phase-in inflation-adjusted DCL rates they were taking many similar economic variables into consideration.

Staff have worked with the UDI and other stakeholders for several years on this initiative. During this period, the City has been very responsive to the challenging market conditions facing industry and local government. Council has responded to changing circumstances affecting the implementation of inflation adjusted DCL rates on two previous occasions. These decisions carry significant cost to the City in terms of lost purchasing power and foregone revenue. Staff estimate that the combined cost of adding 6 months to the typical 12 month grace period, and implementing a 50% phase-in for January 2010, is approximately $12 million in foregone City-wide DCL revenue. Further extending the phase-in to 2012 will add to this already substantial total, estimated at $6.6 to $8.8 million in foregone DCL revenue.

UDI's proposal for a two-year phase-in of DCL rates extends Council's decision to fully adjust rates for inflation to a four-year implementation period. Chart 1 illustrates this phase-in.

Chart 1: Implementation of City-wide DCL Inflation Adjusted Rates

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. DCLs are a significant revenue source for the City. As of Dec 31, 2009 the total DCL revenue generated from all DCL areas was approximately $214 million. Approximately half of this revenue has come from the City-wide DCL and the remaining half from Area Specific DCLs.

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. Similarly, if each of the Area Specific DCL rates had been adjusted annually, additional DCL revenue would have been collected (due to the small areas that these DCLs apply an accurate figure is difficult to calculate). When DCL rates do not reflect current property and construction inflation, DCL revenue for growth-related capital facilities loses purchasing power. 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.

Council decisions to extend the City-wide DCL grace period to 18 months, and to phase-in the rate adjustment, result in an estimated $12 million in foregone City-wide DCL revenue. Consideration E would result in $6.6 to $8.8 million in foregone DCL revenue due to an additional two-year phase-in of City-wide and Area Specific DCLs. Table 1 provides a summary of these past and potential foregone DCL revenues.

Table 1: Foregone DCL Revenue

	Foregone DCL Revenue
2003-2007 City-wide DCL Rates not adjusted for inflation during this period	**$20.0 M**
2008 – 2010 City-wide DCL Extended grace period to18 months & Phased-in partial rate in January 2010	**$12.0 M**
2010 – 2012 Consideration E - UDI proposal City-wide DCL Two-Year Phase-in Area Specific DCLs Two-Year Phase-in Total for Additional Two-Year Phase-in	 $4.3 – $6.0 M $2.3 - $2.8 M **$6.6 - $8.8 M**

The Province has recently passed an amendment to Section 523D of the Vancouver Charter that will provide in-stream protection from DCL rate changes. These changes are coming into effect on January 1, 2011. Under the new legislation, building permit applications that are submitted in a form satisfactory to the City will have 12 months of in-stream protection from DCL rate changes. Staff have not yet assessed the possible revenue impact resulting from this Charter amendment and it is not included in the DCL estimates above.

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. Staff are aware that assembling development sites in a built-up city is challenging because most land already has some form of development on it. In response, there are several planning programs underway to increase housing and job capacity. Several of the major initiatives that have been completed or are underway are described earlier in this report.

The City-wide DCL adjustments recommended in this report represent a $2.42 square/foot adjustment for most uses (i.e. $7.70 to $10.42 square/foot). The Area Specific DCLs rates are proposed to be adjusted by an average of $2.00 square/foot for most uses. The magnitude of these adjustments is generally in line with past rate changes. Additionally, staff note that these proposed DCL rate adjustments represent a relatively small percentage of overall development costs today.

Additionally, staff note that Vancouver's City-wide DCL rates continue to be in-line with other municipalities in the region, while most of the Area-specific DCL rates fall below the City-wide level.

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. During the recent period of market uncertainty Council has responded by providing the market with over two years to adjust to the implementation of full inflation-adjusted DCL rates. Council has also responded to the need for a continued supply of development opportunities, especially with regard to the non-residential sector, to help address development viability and affordability concerns.

However, if the purchasing power of DCL revenue does not keep pace with inflation, the City's commitment to provide growth-related public facilities cannot be met without placing a greater burden on property taxes or slowing the delivery of growth-related facilities.

To bring DCL rates in line with inflationary pressures, this report recommends a full rate adjustment to the City-wide DCL and to all Area Specific DCLs (except Triangle West), with the new rates effective September 30, 2010. For Triangle West, this report recommends a limited inflation adjusted rate, effective September 30, 2010, with a report back on this area's Public Benefit Strategy and any further inflationary adjustments.

* * * * *

Proposed Area Specific DCL Rates

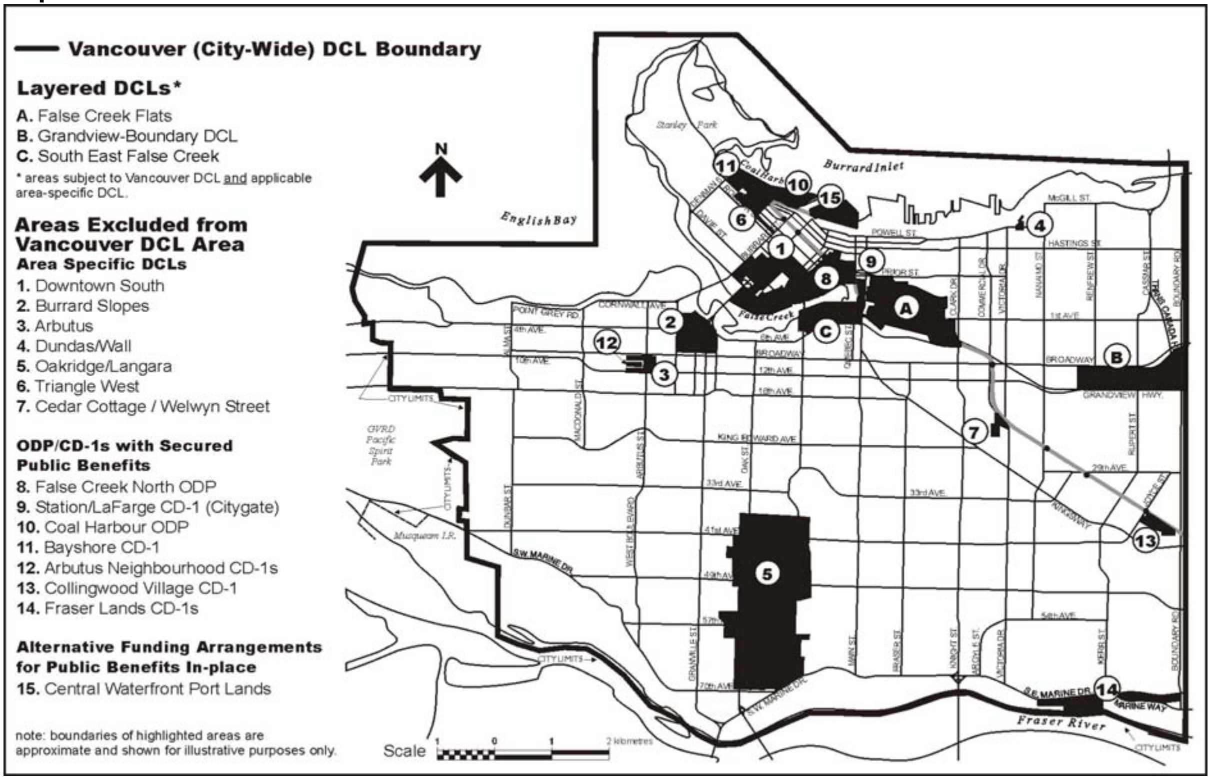
(excludes Triangle West)

<table>
<tr><th rowspan="2">Area Specific DCL District</th><th colspan="2">RESIDENTIAL OVER 1.2 FSR, COMMERCIAL, RETAIL AND MOST OTHER USES</th><th colspan="2">INDUSTRIAL</th><th colspan="2">RESIDENTIAL AT OR BELOW 1.2 FSR; AND LANEWAY HOUSE</th></tr>
<tr><th>Current</th><th>Proposed</th><th>Current</th><th>Proposed</th><th>Current</th><th>Proposed</th></tr>
<tr><td>False Creek Flats</td><td>$32.29/m² ($3.00/sf)</td><td>$49.73/m² ($4.62/sf)</td><td>$32.29/m² ($3.00/sf)</td><td>$49.73/m² ($4.62/sf)</td><td colspan="2" rowspan="3">Not Applicable</td></tr>
<tr><td>Grandview-Boundary</td><td>$5.38/m² ($0.50/sf)</td><td>$7.75/m² ($0.72/sf)</td><td>$21.53/m² ($2.00/sf)</td><td>$31.11/m² ($2.89/sf)</td></tr>
<tr><td>South East False Creek</td><td>$156.08/m² ($14.50/sf)</td><td>$168.78/m² ($15.68/sf)</td><td>$23.68/m² ($2.20/sf)</td><td>$25.62/m² ($2.38/sf)</td></tr>
<tr><td>Downtown South</td><td>$139.93/m² ($13.00/sf)</td><td>$155.86/m² ($14.48/sf)</td><td>No industrial capacity</td><td>No industrial capacity</td><td colspan="2" rowspan="4">Not Applicable</td></tr>
<tr><td>Burrard Slopes</td><td>$53.82/m² ($5.00/sf)</td><td>$101.72/m² ($9.45/sf)</td><td>$21.53/m² ($2.00/sf)</td><td>$40.69/m² ($3.78/sf)</td></tr>
<tr><td>Arbutus</td><td>$43.06/m² ($4.00/sf)</td><td>$75.99/m² ($7.06/sf)</td><td>$17.22/m² ($1.60/sf)</td><td>$30.35/m² ($2.82/sf)</td></tr>
<tr><td>Dundas/Wall</td><td>$20.45/m² ($1.90/sf)</td><td>$31.75/m² ($2.95/sf)</td><td>No industrial capacity</td><td>No industrial capacity</td></tr>
<tr><td>Cedar Cottage/ Welwyn Street</td><td>$34.98/m² ($3.25/sf)</td><td>$59.09/m² ($5.49/sf)</td><td>$21.53/m2 ($2.00/sf)</td><td>$36.38/m² ($3.38/sf)</td><td>$18.84/m² ($1.75/sf)</td><td>$24.43/m² ($2.27/sf)</td></tr>
<tr><td>Oakridge/Langara</td><td>$34.98/m² ($3.25/sf)</td><td>$64.69/m² ($6.01/sf)</td><td>No industrial capacity</td><td>No industrial capacity</td><td>$18.84/m² ($1.75/sf)</td><td>$26.26/m² ($2.44/sf)</td></tr>
</table>

Note: The full Triangle West inflationary rate is not recommended in this report and therefore not shown in the table above. If Triangle West was to be fully inflation adjusted, the rate for Residential over 1.2 FSR, Commercial, Retail and most other uses would be: Current - $100.75/$m^2$ or ($9.36/sf); and Proposed - $183.96/$m^2$ or ($17.09/sf)

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.

Stakeholder Feedback (sorted by date received)

Letter #1 - Urban Development Institute
(Received by e-mail – June 1, 2010)

URBAN DEVELOPMENT INSTITUTE – PACIFIC REGION
#200 – 602 West Hastings Street
Vancouver, British Columbia V6B 1P2 Canada
T. 604.669.9585 F. 604.689.8691
info@udi.org
www.udi.bc.ca

June 1, 2010

Dr. Penny Ballem
City Manager
City of Vancouver
453 West 12th Avenue
Vancouver, BC V5Y 1V4

Dear Dr. Ballem:

Re: Increases to City of Vancouver Development Cost Levies (DCLs)

Thank you for meeting with our new President, Peeter Wesik, UDI's Vancouver Liaison Committee Chair, Ward McAllister, and myself on May 26, 2010. It was a very productive meeting that we believe will lead to improved relations between the City and our industry.

At the meeting, I promised further information on UDI's position on the proposed increases to the City-wide and Area-specific DCLs. UDI has long supported the concept that development should pay for itself. However, the implementation of these charges needs to be done carefully, so that development and the economic/revenue benefits it brings to the City are not undermined.

UDI is supportive of the plan to have annual adjustments to DCLs to avoid future surprise and significant fee increases along with the tensions they create. Through annual adjustments, smaller increases are implemented with some notice.

The City is proposing that the new rates be fully implemented this September. The increases will be substantial. For example, the City-wide DCLs will increase from $7.70 to $10.45 per square foot, and the levies for the Burrard Slopes will increase $4.48 per square foot – almost double the current $5 per square foot charge.

We ask that those applications currently in process be grandparented from increases, as the pro formas will have already been established for these projects and any changes will be difficult.

Further, ***UDI recommends that the City phase-in the rates over a two-year period***. For example, the City-wide DCL rate would increase in the following way:

- $7.70 to $8.62 in September 2010
- $8.62 to $9.54 in September 2011, and
- $9.54 to $10.45 in September 2012 (full implementation).

If there are further inflationary increases in 2012, the City should adjust the rates for September of that year to ensure that the DCL rates are fully implemented and tied to cost increases.

UDI asks that the City consider this proposal to help mitigate the impact of the increases, and take into account the following market realities and issues.

Mortgage Rules

Changes to government-backed insurance mortgage rules made last month will challenge many homebuyers who will not be able to spend as much on new housing. The changes made are as follows:

- All borrowers must meet the standards for a five-year fixed rate mortgage (it is currently set at a three-year fixed term), even if they choose a mortgage with a lower interest rate and shorter term.
- The maximum amount Canadians can withdraw in refinancing their mortgages has been lowered to 90 per cent from 95 per cent of the value of their homes.
- A minimum down payment of 20 per cent for government-backed mortgage insurance is required for the purchase of non-owner-occupied properties.

As a result, many new homebuyers will face restrictions, which will reduce how much they can afford to pay for new housing.

Interest rates

One of the reasons that the Federal government introduced the above changes was to "... *help Canadians prepare for higher interest rates in the future*." Many believe consumers will face these higher interest rates later this year. New homebuyers will face higher costs (as well as further restrictions on what they can afford) approximately when the City plans to fully implement the DCL increases.

Financial Sector

As you are aware, the resent recession occurred because of problems in the financial sector, which severely restricted lending to businesses – including the development industry. In response to this, Council limited the DCL increase to $7.70 per square foot. However, troubles in the financial sector are far from over – especially with the current economic issues facing Europe that are adding to the problems. Our members will continue to face difficulties in financing their projects.

Harmonized Sales Tax (HST)

The HST will add significant costs to new housing (especially in Vancouver, which, outside of Whistler and West Vancouver, has the highest housing prices in B.C.). The impact is quite dramatic. For example, the additional tax from the new HST for an $800,000 three-bedroom townhome (which is an affordable alternative to single-family homes in the Vancouver market) will be $13,750. The total HST paid would be $69,750 (it should be noted that the HST only applies to new housing, and is not charged on resale housing). UDI opposed the tax, but it is still being implemented, and is a market reality. The tax will lower sales, as well as the number of future development applications (and therefore City revenues).

Green Rezoning Policy

This policy will be coming into effect only a few months after the proposed implementation of the new DCL rates. UDI has recently hired Heather Tremain, a consultant, to review the additional costs of requiring LEED Gold Certification. For the current version of LEED, the premiums range from 6.0% to 7.10%. However, the Canada Green Building Council is releasing a newer version of LEED that will add to these costs. It is not clear how much of the premium will be recovered from the City through reduced land-lift and Community Amenity Contributions.

It should be noted that these costs will impact end sale prices of units. As an example, the total impact on a condominium with a current sale price of $400,000 is an increase of $16,562 for a resulting cost to the consumer of $416,562, or a 4.1% increase in sale price. This assumes a 7% increase in construction costs and related soft costs (20% of hard costs). The Green Rezoning Policy does not affect land and marketing costs. This price is for a two-bedroom condo, which is the affordable price point for small families entering the market. The extra cost will increase the monthly mortgage payments by $77.

The Costs over Time

Under the approved DCL policy, the levies will be annually adjusted for inflation. As previously noted, this is being done with the support of UDI. Under this system, the City's DCL revenues will not fall behind inflation as they have in the past. In fact, it means that any shortfalls the City experiences by phasing-in the DCL increases will be one-time only and therefore the impact on the overall program will diminish over time.

Decreasing Development

One way City DCL revenues can decrease is through a reduction in development applications. This is another reason Council chose to delay the full implementation of the City-wide rates. We note that the number of larger projects reviewed by the Development Permit Board continues to drop precipitously.

- 2006 – 39 applications
- 2007 – 31 applications
- 2008 – 34 applications
- 2009 – 9 applications
- 2010 – 5 applications to be reviewed by the July meeting

Development activity in the City is still down. It is our understanding that most of the applications staff have been receiving are for smaller projects that are more costly to service and provide the City with less revenue. Increasing DCLs at this time will not improve the environment for expanded development and revenues.

Notice

At our meetings with staff, they noted that our members received notice about the potential for City-wide DCLs increasing. This is true. However, the timing of the increases was not made clear to the industry. Further, there has been very little notice provided about the increases to the Area-specific DCLs. The proposed increases were not released until earlier this year, so developers do not have the opportunity to adjust their pro formas and financial assumptions. As a result, projects will either become more unviable from the investor's perspective or more costly for homebuyers or for tenants moving into new commercial/industrial projects.

The Need for a Full Review of DCLs

Our members have suggested to staff that the City review the current DCLs charged as some of the purposes for charging them might now be less necessary. For example, Replacement Affordable Housing DCLs are being charged after the City passed the Rate of Change Bylaw, which severely restricts any redevelopment of rental housing. Further, DCLs for childcare facilities are being charged when many developers are incorporating these facilities into projects as amenities. It is not clear how much the City is losing in DCLs by phasing them when some of the DCLs currently being charged may not be as needed as they have in the past.

We respectfully request that the City consider phasing-in the proposed DCL increases over a two-year period. This will mitigate their impact on our industry, which is still experiencing difficulties in this current economic climate. We would be pleased to discuss this matter further with you.

Again, we thank you for meeting with us last week. We look forward to working with you to further build the relationship between our members and the City.

Yours truly,

Original signed by:

Maureen Enser
Executive Director

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Letter #2 – Vancouver City Planning Commission
(Received by e-mail – June 1, 2010)

May 31, 2010

City-Wide and Regional Planning
Community Services
City of Vancouver

Attention: Chris Clibbon, Planner

RE: Development Cost Levies Annual Inflationary Adjustments

Thank you for the opportunity to attend the staff presentation and provide feedback on the suggested adjustments to Development Cost Levies (DCL) in the City. The Vancouver City Planning Commission (VCPC) recognizes the important role that DCLs play in providing funds to support affordable housing, childcare centres, parks and transportation improvements; these are essential city facilities required for the social, economic and environmental sustainability of Vancouver.

The VCPC supports DCLs continuing to be adjusted by the annual inflationary costs of the construction sector. We understand that the development industry has found this to be a clear and dependable mechanism to estimate project costs. As well, it provides the City a dependable mechanism for making revenue projections.

There are numerous area-specific changes outlined in the report including the elimination of the Triangle West area specific DCL. The VCPC will not comment on each of these individual recommendations but will limit our comments to the overall inflationary changes of the city-wide DCLs. Recognizing that Council has previously provided a 2-year delay of the full inflationary increase to the city-wide DCL rate, we see it as reasonable to institute the changes on September 30, 2010 as proposed in the draft report.

Sincerely,

Elizabeth Ballantyne, Manager,
On behalf of the
Vancouver City Planning Commission

Letter #3 – Greater Vancouver Home Builders' Association
(Received by e-mail – May 25, 2010)

We appreciate the certainty that annual DCL rate adjustments bring. The DCL inflationary increase in SF homes appears to be reasonable, and we've received no feedback from members on the change stating the contrary. We would like to see some relief for DCLs on Laneway Housing, which is rental and proving costly to build in the city.

Regards,

Amy Spencer-Chubey, BA I Director of Government Relations
Greater Vancouver Home Builders' Association

Letter #4 – Arbutus-Ridge, Kerrisdale, Shaughnessy Vision Implementation Committee
(Received by e-mail – May 12, 2010)

As the Arbutus-Ridge, Kerrisdale, Shaughnessy (ARKS) Vision is not in one of the area-specific rate areas, we'll defer comment on area-specific rates.

Regarding City-wide DCLs, we support the catch-up provision the City is proposing and agree with the methodology (i.e. construction index) for calculating the DCLs. We would also seek to have input on how DCLs funds are allocated as part of the budget process.

Thanks for the opportunity to provide input.

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

Letter #5 – Onni Group of Companies
(Received by e-mail – April 20, 2010)

April 20, 2010

City of Vancouver
Planning Department
453 West 12th Avenue
Vancouver, BC V5Y 1V4
Canada

Attn: Chris Clibbon, Planner

Re: Proposed September 2010 Rate Adjustment to Area Specific & City – Wide DCLs

Dear Chris,

Pursuant to our telephone conversation this afternoon, I am writing to express my concerns regarding the subject as they pertain to both Onni's development in South East False Creek (SEFC) and to the Development Industry in general.

To put this in simple terms, as we understand the situation, this proposed DCL increase will add approximately $1.5 million to our development budget in SEFC. I respectfully request that the City give consideration to exempting our site from this DCL increase based on the following.

Our rezoning application for 1553-1577 Main St. (SEFC) was submitted in the summer of 2009. Prior to submission, we had been working with the City for close to a year on the design due to the project's architectural uniqueness. Three months into the processing of our rezoning application, the City contacted us and informed us it had made an error in the calculation of the view-cone height relative to our site. The City had provided view-cone heights for us to work with which ended up being inaccurate (all of this information is substantially documented with the Planning Department). As a result of the aforementioned error, our rezoning application essentially stopped being processed.

The error in view-cone height has resulted in a very significant delay in the processing of our application. We had originally been given spring 2010 as a target for rezoning approval and as of today's date, we still have not been to Urban Design Panel with our proposal.

Currently the City is contemplating the DCL rate adjustment to take place in September of this year. I am interested to know whether or not a grace period is being considered for in-stream projects. Moreover, based on our unique situation due to the error admittedly caused by the City, we feel it would not be equitable to have this rate increase apply to our project. We are of the opinion, had we not run into the issue mentioned above, a Building Permit could have been issued for our project before the deadline of the DCL increase. What's more, I do not feel it is fair in any respect to be subject to an increase in City-related costs amounting to $1.5 million at this stage of the process. To be candid, we feel like the goal posts are being moved in the middle of the game...so to speak.

In terms of the impact of this policy initiative on the industry in general, I feel strongly that the timing of a rate increase of any kind is poor. It is true the economy is showing signs of recovery however, we are far from 2007 market conditions. Presale condominium projects are still selling at levels far below the peak three years ago and commercial-property vacancies; notably in office and industrial space are higher than we would prefer. Moreover, developer financing is not as abundant as it once was making it continuously difficult to get projects out of the ground. As a major development company, we are cautiously optimistic as we move forward in 2010. However, we are observing with a keen eye how interest rates and the Harmonized Sales Tax (HST) will impact our industry. It is with trepidation that we anticipate several policies being initiated simultaneously by all levels of government which will seemingly impact our cost of doing business.

I feel the City of Vancouver is initiating concurrent, directly related policies which are adding cost and burden to the Development Community and which are considered by many as "double dipping". I refer to the recent initiative to design and build to LEED Gold (Certified) standards on projects that require rezoning. I believe this initiative is directly related to DCLs. It is important to point out that a project designed and built to LEED Gold specifications should in theory operate with a reduced burden on the infrastructure which is supported by DCLs. For example, if a development has allocated parking stalls to some form of car-share network, and makes these stalls available to the public 24/7, then in theory this decreases the burden on transportation infrastructure. A development with a larger green-roof podium that may incorporate urban agriculture and various amenities should decrease the burden on public parks.

Based on current policy initiative, a developer will be required to build a LEED Gold project (rezoning) which costs more money to build and operates with a decreased burden on infrastructure and parks. That being said, the developer will still potentially have to pay not only DCLs at today's rate, but potentially more in DCLs come September. In our opinion the developer should really pay less DCLs to avoid the prospect of "double dipping". Not only is the City getting a project with less burden on DCL-related infrastructure, it is also collecting the same or more in DCLs. This is not equitable and

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consideration needs to be given to DCLs in general, and to the proposed increase in DCLs in relation to projects that create less burden on parks and infrastructure based on a project's design criteria.

In closing, as many in the industry are recovering and beginning to see the light at the end of the tunnel, all forms of government seem to be endeavoring to increase the cost of doing business. We encourage the City at the local level to ensure it is not placing too much of a cost burden on developers during the economic recovery. Furthermore, it is imperative the City looks at all policy initiatives that are currently being contemplated and consider the cumulative effect on the development industry.

Sincerely,

Beau Jarvis
V.P. Development
Onni Group