![CITY OF VANCOUVER]

ADMINISTRATIVE REPORT

Report Date:	June 10, 2014
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Meeting Date:	June 25, 2014

TO: Standing Committee on Planning, Transportation and Environment

FROM: General Manager of Planning & Development

SUBJECT: 2014 Inflationary Adjustment to Development Cost Levy Rates

RECOMMENDATION

A. THAT Council approve the inflationary adjustment of the Vancouver (City-wide) Development Cost Levy (DCL) By-law rates, with new rates to be effective September 30, 2014 as follows:

i. from \$12.67/square foot (\$136.38/m^2) to \$12.87/square foot (\$138.53/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 \$2.95/square foot (\$31.75/m^2) to \$2.99/square foot (\$32.18/m^2) for residential development with a density of 1.2 FSR or less and for a laneway house; and

iii. from \$5.07/square foot (\$54.57/m^2) to \$5.13/square foot (\$55.22/m^2) for development in an industrial zone;

FURTHER THAT Council not change the nominal Vancouver (City-wide) DCL By-law rates for school, parking garage, childcare, temporary building, and community energy centre uses.

B. THAT Council approve the inflationary rate adjustments for the Area Specific DCL By-law Districts, with new DCL rates to be effective September 30, 2014, as shown in Appendix A, which Area Specific DCL Districts are: Arbutus; Burrard Slopes; Cedar Cottage/Welwyn Street; Downtown South; Dundas/Wall; False Creek Flats; Grandview Boundary; South East False Creek; and, Triangle West.

FURTHER THAT Council not change the nominal Area Specific DCL By-law rates in all Area Specific DCL Districts for school, parking garage, surface parking lot, childcare, temporary building, works yard and community energy centre uses.

C. THAT Council instruct staff to notify the development industry and affected stakeholders regarding Council approved changes to the Vancouver (City-wide) DCL rates and all Area Specific DCL rates prior to by-law amendments.

D. THAT the Director of Legal Services be instructed to bring forward amendments to the Vancouver DCL By-law No. 9755 and the Area Specific DCL By-law No. 9418 to implement the inflation adjusted DCL rates for September 30, 2014, generally in accordance with Recommendations A and B.

REPORT SUMMARY

This report seeks Council approval for an annual inflationary adjustment to all Development Cost Levy (DCL) by-law rates, with new rates to be effective September 30, 2014.

In 2009, Council adopted an annual inflationary DCL rate adjustment system to ensure DCL rates keep pace with property and construction inflation and to maintain the City's ability to provide necessary growth-related amenities. The annual rate adjustments recommended in this report represent an average rate increase of 2.0% across all DCL Districts. The recommended DCL rate adjustment reflects local construction and property inflation and prevents creation of a gap that might otherwise be funded from property taxes and other City funding.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

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

In July 2008, Council approved adjustment of the City-wide DCL rates to reflect construction cost and property inflation and implementation of new rates to be effective in January 2010.

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 effective on September 30 of each year.

In February 2013, Council approved changes to the Oakridge Langara DCL District so that City-Wide DCL rates replaced Oakridge Langara DCL rates effective March 12, 2014.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager and General Manager of Planning and Development Services RECOMMEND approval of the foregoing.

REPORT

Background/Context

Development Cost Levies are a growth-related charge collected from most new development and a significant source of revenue for civic amenities, and relieve what would otherwise fall onto property taxes and other City funding. Since the inception of DCLs in the City, over $450 million in funds have been collected from DCLs to help pay for growth-related facilities (updated to May 2014). Approximately 60% of these funds have been generated from the City-wide DCL and the remaining 40% from 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 development and improvements;
- replacement (affordable) housing;
- childcare facilities; and,
- engineering infrastructure.

There are 10 DCL Districts within the City. The City-wide DCL District applies to most of the City and the 9 Area Specific DCL Districts apply to smaller planning areas across Vancouver. See Appendix B for more information and a map of the DCL districts.

In October 2009, Council adopted the annual inflationary DCL rate adjustment system for all DCL districts in the City. This Council direction means that all DCL rates are adjusted annually for property and construction inflation. To adjust DCL rates the system uses an annual inflation index based on property value and construction cost inflation. These are the key components that DCL revenues go toward in the provision of growth-related public facilities.

The system is implemented with a report to Council in either June or July to adjust DCL rates for inflation so that new rates will come into effect on September 30th of each year. 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 through a review of local economic indicators so that DCL rates do not get ahead of inflationary trends.

The DCL rate adjustment system commenced for all DCL Districts in 2010 and annual DCL adjustments were adopted by Council in 2010, 2011, 2012 and 2013.

The system provides more predictability to both the development industry and the City, and has been broadly supported by industry stakeholders. For more information on the Council approved annual inflationary DCL rate adjustment system, see http://vancouver.ca/home-property-development/annual-inflation-index.aspx.

Strategic Analysis

The recommendations in this report will bring all of the City's DCL districts in line with the most recent property and construction inflation. By ensuring that DCL rates and revenues keep pace with property and construction costs, DCL purchasing power is maintained and the City retains its ability to provide necessary growth-related amenities.

DCL rates were last adjusted under the annual inflationary DCL rate adjustment system on September 30, 2013.

The proposed DCL rate adjustments in this report represent an average 2.0% rate increase across all 10 DCL districts, reflecting 0.8% increase in local assessed property values and a similar 3.0% increase in local non-residential construction costs. Vancouver's inflationary index blends third-party, property inflation (BC Assessment property roll[1]) and construction cost inflation (Statistics Canada Non-Residential Construction Price Index for Vancouver[2]) based on public benefit strategies that accompany each DCL district. The overall average 2.0% inflationary rate adjustment is a result of this blended calculation.

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

- $0.20 per sq.ft. increase to higher density residential (>1.2 FSR) and commercial developments;
- $0.06 per sq.ft. increase for industrial development; and,
- $0.04 per sq.ft. increase for lower density residential (≤1.2 FSR) development.

Table #1 shows the annual inflation index values for the City-wide DCL rate from 2004 to 2014. The 1.6% annual increase for the City-wide DCL in 2014 is slightly lower than the average 2.0% annual increase across all 10 DCL districts but the overall trends are similar. Overall DCL-related inflation was negative in 2009 and 2010 reflecting the global and local economic slowdown during this period. In 2011 and 2012 inflation rebounded reflecting increased property values and construction costs. In 2013 and 2014, inflation was modest reflecting the current economic indicators and market outlook (see page 5 for details on economic indicators). Linking DCL rates to an annual inflationary index means that when annual inflation is positive DCL rates will increase, and when inflation is negative DCL rates will decrease.

[1] BC Assessment Property Roll for the City of Vancouver, 2014
[2] Statistics Canada Non-Residential Construction Price Index for Vancouver, 2014
http://www.statcan.gc.ca/daily-quotidien/140513/t140513a001-eng.htm

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

Year	Annual Inflation
2004	6.8%
2005	12.9%
2006	10.6%
2007	19.7%
2008	12.6%
2009	-3.6%
2010	-1.4%
2011	8.8%
2012	10.3%
2013	1.4%
2014	**1.6%**

Historic trends - For information only (2005–2009)

Annual inflationary rate adjustments (2010–2014)

Note: Table 1 shows an index of property and construction inflation since 2004 to allow current rate adjustments to be compared to historical trends. However, Vancouver's DCL rates have only used this index to adjust rates since 2010 as previously explained in this report.

For more information on the annual inflation index: http://vancouver.ca/home-property-development/annual-inflation-index.aspx

As part of the annual DCL inflationary adjustment process, current economic indicators are reviewed to verify that the proposed rate adjustments are in line with current local market trends and forecasts. Current trends and forecasts indicate the following:

- The Conference Board of Canada is forecasting 2.7% and 3.3% growth in Vancouver CMA's Real Gross Domestic Product (GDP) for 2014 and 2015 respectively.
- According to City of Vancouver data, year-to-date building permits issued (as of March 2014) are in line with historical averages and are slightly higher than last year's pace[3]; and,
- Year-to-date housing starts in the City (as of April 2014) are also in line with recent historical averages and were 10% higher than last year at this time with most of this year's activity occurring in multiple family starts (semi-detached, townhouse and apartment units).[4]
- City has increased capacity for redevelopment through new community plans, new district schedules and rezonings. The increase in capacity is greater than the demand to build new residential units and non-residential space.

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[3] City of Vancouver, Statement of Building Permits Issued, April 2014 http://vancouver.ca/files/cov/building-permit-stats-march-2014.pdf

[4] CMHC, Housing Starts, April 2014 http://www.cmhc-schl.gc.ca/en/corp/nero/nere/2014/2014-05-08-0816b.cfm

These indicators suggest that the recommended inflation adjusted DCL rates for Vancouver are in-step with the overall direction of the economy and the real estate development industry.

The City-wide and Area Specific DCL By-laws include a number of uses that have nominal DCL rates such as childcare, and elementary and secondary schools. Consistent with Council practice, Recommendations A and B in this report propose that the rates for these uses not be adjusted for inflation.

In-Stream DCL Rate Protection

On May 29, 2014, the Province amended the Vancouver Charter to extend DCL rate protection to rezoning applications and development permit applications (in addition to building permit applications). The Vancouver Charter now provides 12 months of protection against DCL inflationary rate increases for building permit or other associated applications currently in progress. When a DCL By-law with higher rates is enacted, building permit or other associated applications may be at various stages in the approval process. To ensure fairness to applications that have been submitted prior to the adoption of new DCL By-law rates, applications in progress are exempt from DCL rate increases for a period of 12 months provided the application has been submitted in a form satisfactory to the City.

Implications/Related Issues/Risk

Financial

Adjustment of DCL rates has financial implications for both the City and development.

Financial Implications for the City

DCLs are an important funding source for the City's growth-related amenities and capital priorities, and help relieve what would otherwise fall onto property taxes and other City funding. From the inception of DCLs in 1993 to May 2014, over $450 million have been collected with approximately 60% from City-wide DCLs and 40% from Area-specific DCLs. In the adjusted 2012-2014 Capital Plan, DCLs account for approximately 12% ($97 million) of the City's overall capital program expenditures.

If Council approves the recommended DCL rates presented in this report, and assuming that development activity remains steady, an additional $0.7 million DCLs could be generated before the next inflationary rate adjustment. These adjustments would align DCL rates with local construction and property inflation on an annual basis and prevent the need for using property taxes and other City revenues to fund the gap caused by inflation.

The Province recently amended the *Vancouver Charter* to extend in-stream DCL rate protection to development permit and rezoning applications. The financial impact, if any, of this change will be reported in next year's annual report on DCLs.

Financial Implications for Development

The City's Financing Growth policies are based upon the principle that DCL rates should not deter development or harm housing affordability. Independent review of the market impacts of DCLs found the primary impact of DCLs in Vancouver is to put downward pressure on the value of properties for redevelopment. – Affordability should not be negatively affected as long as DCL rates are set so they do not interfere with an adequate continuing supply of development sites.

The proposed DCL rate adjustments in this report represent an average 2.0% rate increase across all 10 DCL districts. The magnitude of the recommended DCL rate adjustments are in line with current and forecast economic conditions and, these adjustments represent a relatively small percentage of overall development costs today.

Based on a review of comparable regional municipalities, Vancouver's proposed City-wide DCL rates continue to be in-line with development cost charges in the Metro Vancouver region. For example, if Vancouver's proposed City-wide DCL rate for higher density residential is approved, it would still be lower than the comparable category in both Richmond and Surrey. Vancouver's commercial DCL rates are at the higher end of regional rates while the industrial rate is substantially lower than Richmond.

Communications Plan

The following steps have been taken to ensure broad notification of proposed rate changes since late-May 2014:

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

At the time of finalizing this report, no responses from stakeholders were received.

CONCLUSION

This report seeks Council approval for an annual inflationary adjustment to all Development Cost Levy (DCL) by-law rates with new rates to be effective September 30, 2014. This process which has been ongoing since 2009 continues to align DCL rates with local construction and property inflation while maintaining a favourable rate comparison with other municipalities.

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Appendix A:

Proposed Area Specific Development Cost Levy (DCL) Rates
Effective September 30, 2014

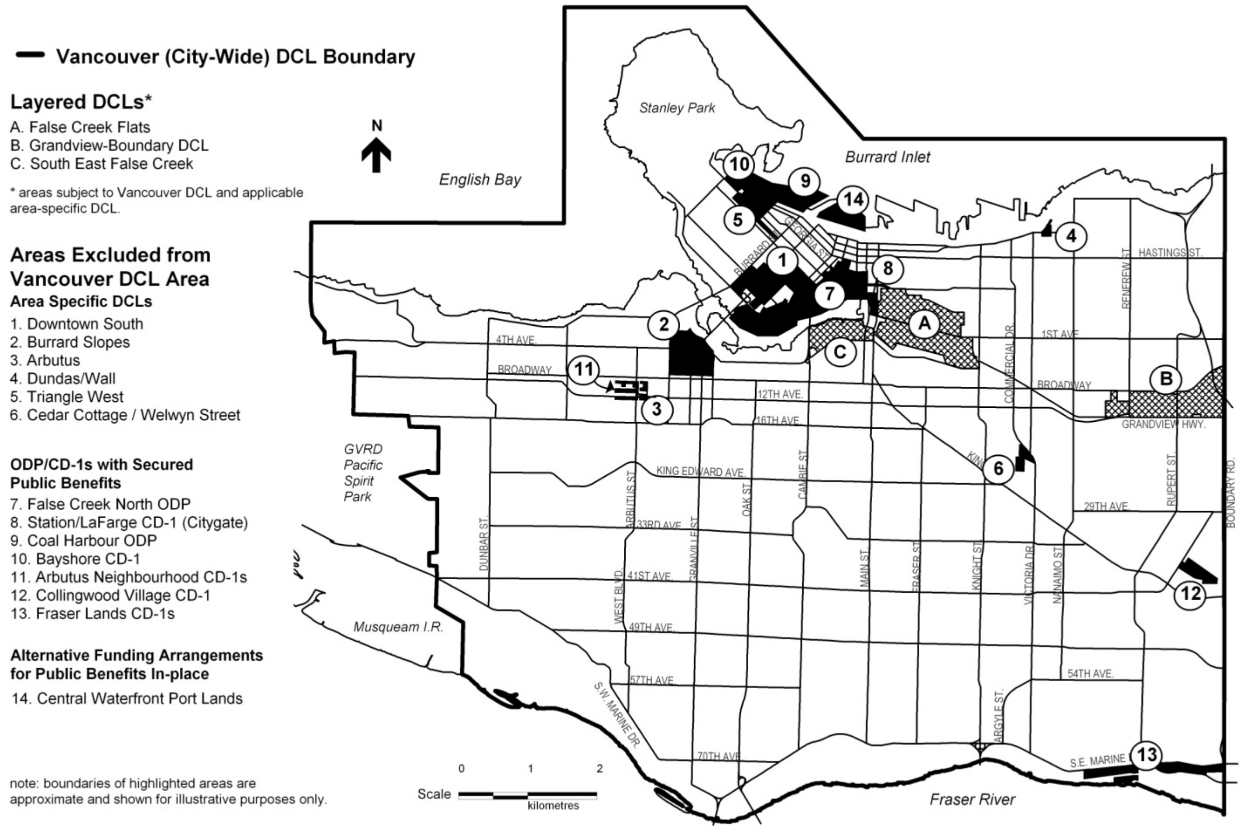
	DCL Area	RESIDENTIAL OVER 1.2 FSR, COMMERCIAL, AND MOST OTHER USES		INDUSTRIAL		RESIDENTIAL AT OR BELOW 1.2 FSR; AND LANEWAY HOUSE	
		Current Rate	*Proposed Rate Effective Sept 30th*	Current Rate	*Proposed Rate Effective Sept 30th*	Current Rate	*Proposed Rate Effective Sept 30th*
Layered	False Creek Flats	\$57.27/m^2 (\$5.32/sf)	*\$58.61/m^2 (\$5.45/sf)*	\$57.27/m^2 (\$5.32/sf)	*\$58.61/m^2 (\$5.45/sf)*	Not Applicable	
	Grandview-Boundary	\$8.82/m^2 (\$0.82/sf)	*\$9.05/m^2 (\$0.84/sf)*	\$35.28/m^2 (\$3.28/sf)	*\$36.18/m^2 (\$3.36/sf)*		
	South East False Creek	\$185.10/m^2 (\$17.20/sf)	*\$190.66/m^2 (\$17.71/sf)*	\$28.08/m^2 (\$2.61/sf)	*\$28.93/m^2 (\$2.69/sf)*		
Area-specific	Downtown South	\$186.61/m^2 (\$17.34/sf)	*\$189.95/m^2 (\$17.65/sf)*	No industrial capacity	*No industrial capacity*	Not Applicable	
	Burrard Slopes	\$124.71/m^2 (\$11.59/sf)	*\$126.53/m^2 (\$11.76/sf)*	\$49.88/m^2 (\$4.63/sf)	*\$50.61/m^2 (\$4.70/sf)*		
	Arbutus	\$91.71/m^2 (\$8.52/sf)	*\$93.25/m^2 (\$8.66/sf)*	\$36.68/m^2 (\$3.41/sf)	*\$37.30/m^2 (\$3.47/sf)*		
	Dundas/Wall	\$35.93/m^2 (\$3.34/sf)	*\$36.85/m^2 (\$3.42/sf)*	No industrial capacity	*No industrial capacity*		
	Triangle West	\$136.38/m^2 (\$12.67/sf)	*\$138.53/m^2 (\$12.87/sf)*	No industrial capacity	*No industrial capacity*		
	Cedar Cottage/ Welwyn Street	\$70.72/m^2 (\$6.57/sf)	*\$71.98/m^2 (\$6.69/sf)*	\$43.52/m^2 (\$4.04/sf)	*\$44.30/m^2 (\$4.12/sf)*	\$29.27/m^2 (\$2.72/sf)	*\$29.80/m^2 (\$2.77/sf)*

Note: On March 12, 2014, City-Wide DCL rates replaced Oakridge Langara DCL rates.

Appendix B:

DCL Background Information

Map 1: DCL Areas in Vancouver



DCL By-laws establish area boundaries of each DCL district. Levies collected within each district must be spent within the area boundary, except for DCLs collected for replacement housing which can be spent city-wide. There are 10 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 numbered #1 through #6 on the map.
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, Grandview-Boundary, and Southeast False Creek). 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 1-6 on the map. Developments in these districts are subject to the Area Specific DCL and are exempt from paying the Vancouver DCL. Vancouver's DCL system evolved over time. The City first applied DCLs to specific areas undergoing redevelopment planning that would bring significant, localized growth impacts. In 2003, Council approved the Financing Growth Policy, which recognized the significant growth capacity in the rest of the City and created the City-wide DCL District to collect DCL revenue from all areas of the City to support the provision of city-wide growth-related capital projects.

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