2022 Development Cost Levy Update

Council Meeting

CITY OF VANCOUVER

June 22, 2022

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Agenda

1. Overview of DCLs
2. Background: Development Forecast & Capital Programs
3. Recommendations
   - A: Calculated DCL Rates
   - B: City-wide DCL Allocations
   - C: Amended City-wide DCL waiver for for-profit affordable rental housing
   - D-G: Other amendments
4. Stakeholder Consultation
5. Financial Implications
6. Summary of Recommendations

1. Overview

2022 DCL Update Timeline

- **Phase 1 (Aug – Dec 2021):**
  - Financing Framework
  - 10-Year Development Forecast
  - DCL Policy Review
- **Phase 2 (Jan – Jun 2022):**
  - Stakeholder Engagement #1
  - 10-Year DCL Capital Programs
  - DCL rates & DCL allocation
  - Economic Testing
  - DCL Policy & Rate Recommendations
  - Stakeholder Engagement #2
  - **Council Report – June 22, 2022** ← We are here
  - New DCL rates effective – Sept 30, 2022

External consultants to support project:

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External stakeholders:

- UDI
- NAIOP
- HAVAN
- Non-Profits
- DCL Receivers

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What are DCLs?

- One-time charge imposed on new development to fund infrastructure & amenities to support growth
- Financing Growth (2003) principle is ‘growth pays for growth’
- Metro Vancouver and TransLink also apply DCC charges on development

What are DCLs? (con't.)

- Vancouver Charter authority – section 523D
  - Development charge that partially offsets the cost of growth

- Per sq.ft. charge payable at Building Permit issuance





	Housing	Transportation	Parks	Childcare	Utilities
2017 – Current Allocation	**36%**	**25%**	**18%**	**13%**	**8%**
2003-2016 Allocation	32%	22%	41%	5%	0%

- In 2018, City-wide Utilities DCL was established

DCL Funding Eligibility

What DCLs Can Fund	What DCLs Can't Fund
Capital Costs	Operating and/or maintenance activities
Costs associated with anticipated future growth	Costs associated with works serving the existing population
Parks Childcare Housing Transportation Utilities	Libraries Fire Halls Police Stations Recreation Facilities Cultural/Social Facilities

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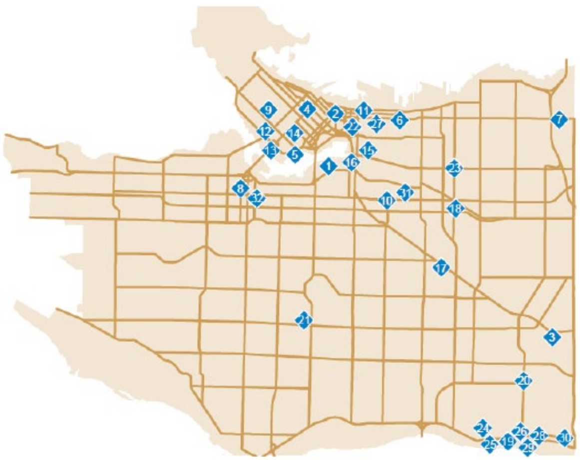
DCL Annual Reporting & Improvements

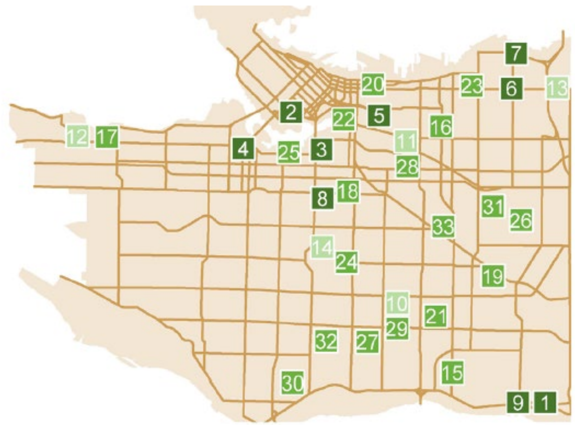
- Annual reports on DCL collections, waivers/exemptions, and investments since 2009
  - Similar annual reports exist for CACs and Density Bonusing
  - Recognized as a nation-wide leader in DCL transparency
- Over the last few years, City has gradually reduced the unallocated balance in the DCL reserve through integrated financial and capital planning
- Comprehensive DCL updates every 4 years supported by reputable consultants and synchronized with the 4-year Capital Plan

DCL Funded Projects (2009 – 2021)

Housing

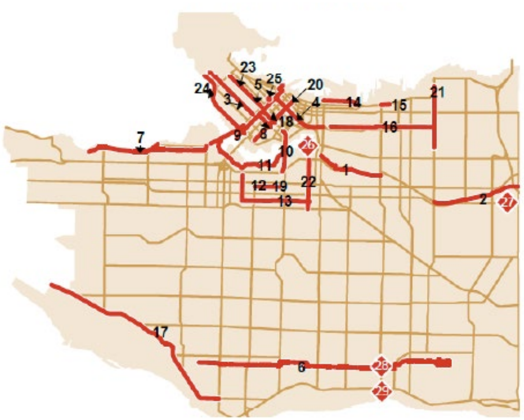


Parks

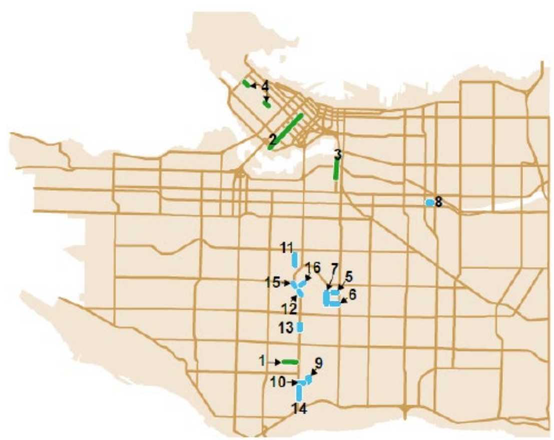


Childcare

Transportation



Utilities



*Utilities DCL introduced in 2018

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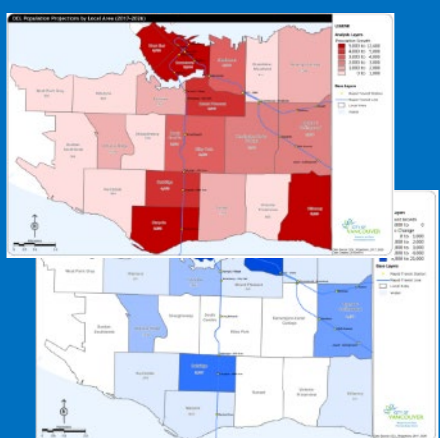
2. Background:

Development Forecast &
Capital Programs

DCL Update Process

Estimate Development Forecast

- Projects in-stream



Determine DCL Eligible Capital Costs Attributed to Growth

- DCL Programs
- Other Growth-Related Funding Sources
- Municipal Assist Factor

	DCL Eligible Growth-Related Cost (before deductions for other funding sources)
Transportation	$ 623,038,754
Housing	$ 1,000,000,000
Childcare	$ 295,561,000
Sewers	$ 180,997,127
Water	$ 11,529,850
Green Infrastructure	$ 17,144,594
Parks	$ 551,783,000
Total	**$ 2,680,054,325**

Calculate DCL Rates

- Industry Consultation
- Council Approval
- By-Law Adoption

		RESIDENTIAL AT OR BELOW 1.2 FSR AND LANEWAY HOUSE	RES IN DEVELOPMENT OVER 1.2 FSR, COMMERCIAL, AND MOST OTHER USES [1]	INDUSTRIAL [2]
City-wide	Vancouver DCL	$34.77/m² ($3.23/sf)	$149.73/m² ($13.91/sf)	$59.74/m² ($5.55/sf)
Layered [3]	False Creek Flats	n/a	$63.30/m² ($5.88/sf)	
	Grandview-Boundary		$9.78/m² ($0.91/sf)	$39.14/m² ($3.64/sf)
	South East False Creek		$206.21/m² ($19.16/sf)	$31.29/m² ($2.91/sf)
Area-specific [4]	Downtown South	n/a	$205.44/m² ($19.09/sf)	No industrial capacity

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Development Forecast Summary (2023-2032)

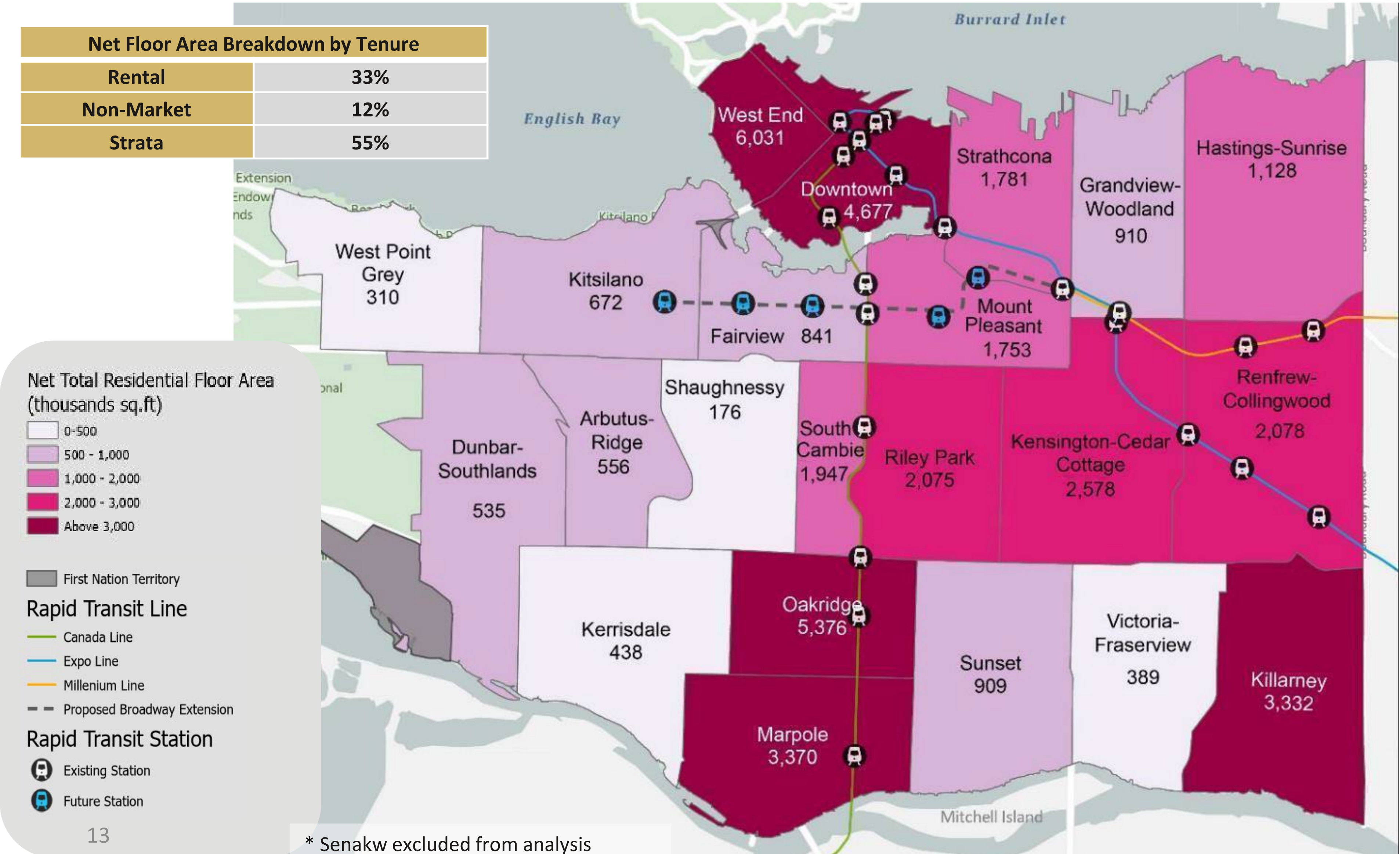
Residential Categories	Forecasted Floor Area (million sq.ft.)
Low Density Residential (Laneway, Duplex, Townhouse)	4.0
Medium Density Residential (Stacked Townhouse, Low rise apartment)	2.0
Higher Density Residential (Mid and High Rise Apartment)	35.9
Total Residential	**41.9**

Non-Residential Categories	Forecasted Floor Area (million sq.ft.)
Commercial & Other Uses (Office, Retail, Institutional, Hotel)	10.6
Mixed Employment (Light Industrial)	1.4
Industrial (Heavy Industrial)	2.3
Total Non-Residential	**14.3**

Residential Development Forecast (2023-2032)

Net Residential Floor Area (thousands sq.ft.)

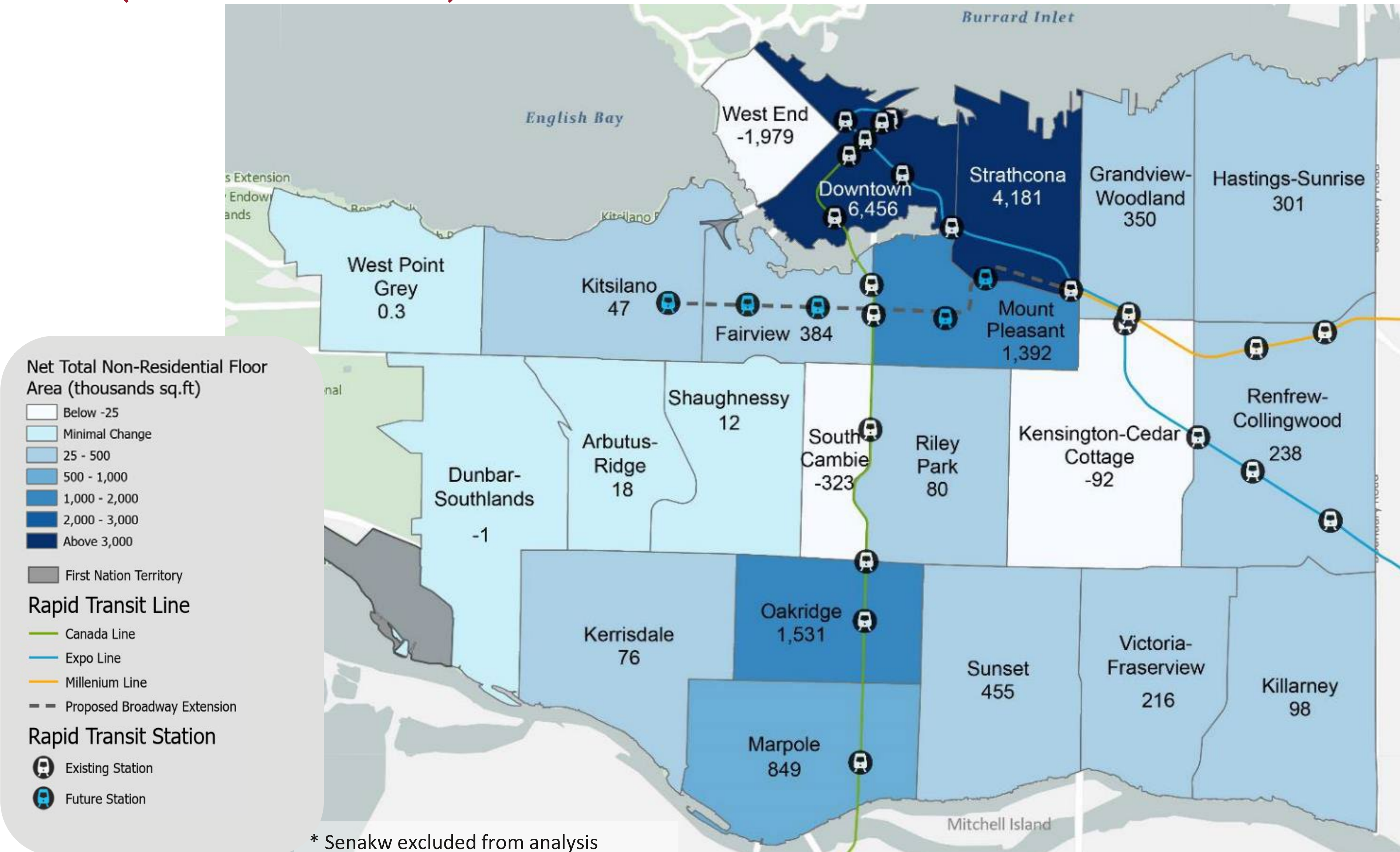
Net Floor Area Breakdown by Tenure	
Rental	33%
Non-Market	12%
Strata	55%



* Senakw excluded from analysis

Non-Residential Development Forecast (2023-2032)

Net Non-Residential Floor Area (thousands sq.ft.)



* Senakw excluded from analysis

DCL Program 2023-2032 ($M)

Service Category	Gross Costs	Post Period Benefit	Partner Contrib.	Non-Growth	Net Growth-Related	Other Funding[1]	Net DCL Share
Housing	$5,220	$0	$3,383	$36	$1,801	$1,506	$295
Childcare	$348	$0	$64	$19	$265	$167	$98
Parks	$539	$0	$0	$39	$500	$83	$417
Transportation	$1,515	$0	$363	$700	$453	$53	$400
Utilities	$2,099	$611	$19	$738	$731	$81	$650
Sewer/Drainage	*$2,060*	*$605*	*$19*	*$738*	*$699*	*$62*	*$637*
Water	*$39*	*$6*	*$0*	*$0.5*	*$32*	*$19*	*$13*
Total	**$9,721**	**$611**	**$3,828**	**$1,531**	**$3,751**	**$1,891**	**$1,860**

(1) Other funding sources include CACs / density bonusing, engineering conditions, Empty Homes Tax (Housing), layered DCL shares, municipal assist share (1%), and available DCL reserves

Replacement Housing Program (2023-2032)

Program Area	Description	City Growth Costs (Developer cash contributions)
New Social/Supportive Housing – Land Acquisition	1,750 units* ($150k/unit)	$287M
New Social/Supportive Housing – Capital Grants	5,125 units ($60k/unit)	$313M
New Social/Supportive Housing Replacement Units – In-kinds	2,250 units	*$1.2B** **Land Dedication (Cost =$0)*
Emerging Priorities		$25M
Total City Growth Costs		**$1.8B**
Deduction: CACs, Empty Homes Tax & DCL Reserves		($1.5B)
Deduction: Municipal Assist (1%)		($3M)
Net Cost for DCL Recovery		**$295M**

Key Projects:

- 1,750 units supported through land acquisition
- Portion of 5,125 units supported through NPO capital grants

*DCL capital program is calculated by considering the direct loss of affordable rental units displaced as a result of development city-wide.

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Childcare Program (2023-2032)

Program Area	Description	City Growth Costs (Developer cash contributions)
City-led Full-day childcare for 0-4 years old	900 spaces ($210k/space for new, $10k/space for conversion)	$109M
Partner-led Full-day / Part-day childcare for 0-4 years old *(In-kind or Capital Grant)*	900 spaces	$147M
School age childcare for 5-12 years old	100 spaces ($50k/space)	$1M
Emerging Priorities		$8M
Total City Growth Costs		**$265M**
Deduction: Cash CACs, Density Bonusing & DCL reserves		($166M)
Deduction: Municipal Assist (1%)		($1M)
Net Cost for DCL Recovery		**$98M**

*Project delivery dependent on senior government funding commitments

Key Projects:

- 715 additional spaces in community facilities
  - Ray-Cam
  - Britannia
  - Marpole Civic Centre
  - Kensington
- 180 spaces converted from part-time to full-time
- 75 Indigenous-led spaces supported by capital grants

Parks Program (2023-2032)

Program Area	Description	City Growth Costs (Developer cash contributions)
New parkland acquisition	5.3 ha	$165M
New parkland dedicated from major projects	9.6 ha	*Dedication (Cost =$0)*
Seawall and Waterfront	54% growth	$14M
Urban Forest & Natural Areas	100% growth	$108M
Park amenities	87% growth	$150M
Buildings & Infrastructure/Vehicles	87% growth	$35M
Emerging Priorities		$28M
Total City Growth Costs		**$500M**
Deduction: Cash CACs & DCL reserves		($79M)
Deduction: Municipal Assist (1%)		($4M)
Net Cost for DCL Recovery		**$417M**

Key Projects:

- 5.3 ha of parkland acquisition
- Park Developments:
  - East Park (SEFC)
  - EFL Parks
  - Pearson Dogwood
  - Burrard Slopes
- 20 park washrooms

Transportation Program (2023-2032)

Program Area	Description	City Growth Costs (Developer cash contributions)
Bridges	10% growth	$25M
Signals and Street Lights	18% growth	$51M
Transit Integration	88% growth	$27M
Active Transportation/Complete Streets	100% growth	$189M
Safety/Accessibility	81% growth	$71M
Public Life	100% growth	$63M
Emerging Priorities		$27M
Total City Growth Costs		**$453M**
Deduction: Cash CAC, Dev't Conditions* & DCL reserves		($49M)
Deduction: Municipal Assist (1%)		($4M)
Net Cost for DCL Recovery		**$400M**

Key Projects:

- Up to 80km of new/upgraded AAA bikeways
- False Creek Bridge Upgrades
- Prior St underpass
- New signals

* Development Conditions forecasted for anticipated major project site only

Utilities Program (2023-2032)

Program Area	Description	City Growth Costs (Developer cash contributions)
Sewer & Drainage	34% growth	$699M
Water	83% growth	$32M
Total City Growth Costs		**$731M**
Deduction: Dev't Conditions* & DCL reserves		($75M)
Deduction: Municipal Assist (1%)		($7M)
Net Cost for UDCL Recovery		**$650M**

* Development Conditions forecasted for anticipated major project site only

Key Projects:

- 22.5km of sanitary & drainage upgrades, including portions of:
    - Manitoba trunk
    - Willow trunk
- Sewer modeling
- Alberta St Greenway
- ~6 km of water upgrades

3. Recommendations

Key Factors contributing to DCL Rate Increase

- DCLs last updated in 2017 & 2018
- Continued growth through residential and non-residential (commercial/industrial/institutional) development
- Significant Cost Escalation
  - Land Acquisition (2017-2022): +50%
  - Construction (2017-2022): +30%
- Updated infrastructure / amenity needs and capital costs

Recommended DCL Rates (Combined)

Development Type	Curent DCL Rates[1] Charge / Sq.Ft.	Calculated DCL Rates Charge / Sq.Ft.	Difference in Charge
Residential Development			
Low Density *Below 1.2 FSR & Laneway*	$6.56	$8.23	$1.67
Medium Density *Development between 1.2 & 1.5 FSR*	$14.17	$17.72	$3.55
High Density *Development Above 1.5 FSR*	$28.37	$35.46	$7.09
Non-Residential Development			
Industrial	$8.28	$11.45	$3.17
Mixed Employment	$15.55	$21.46	$5.91
Commercial & Other	$20.71	$28.63	$7.92

1) Rates effective September 30, 2021

Notes:

- Industrial applies to I-2, M-1, M-1A, M-1B, M-2 zoning districts
- Mixed Employment (Light Industrial) applies to IC-1, IC-2, I-1, I-3, I-4, I-1A, I-1B, and I-1C zoning districts
- DCLs are applied on the gross floor area

DCL Rate Phase-in (con't)

- The proposed DCL rate adjustment is significant (from about \$2 to \$8/sf increase) reflecting cost escalation and growth needs
- For in-stream projects, increased DCL costs cannot be easily absorbed by development after land acquisition. A rate phase-in benefits active projects that do not qualify for in-stream rate protection
- To address project impacts and reflect stakeholder feedback, staff recommend:
  - 50% of rate increase - Sept 30, 2022
  - Remaining 50% rate increase (100% total) - Sept 30, 2023

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DCL In-stream Rate Protection

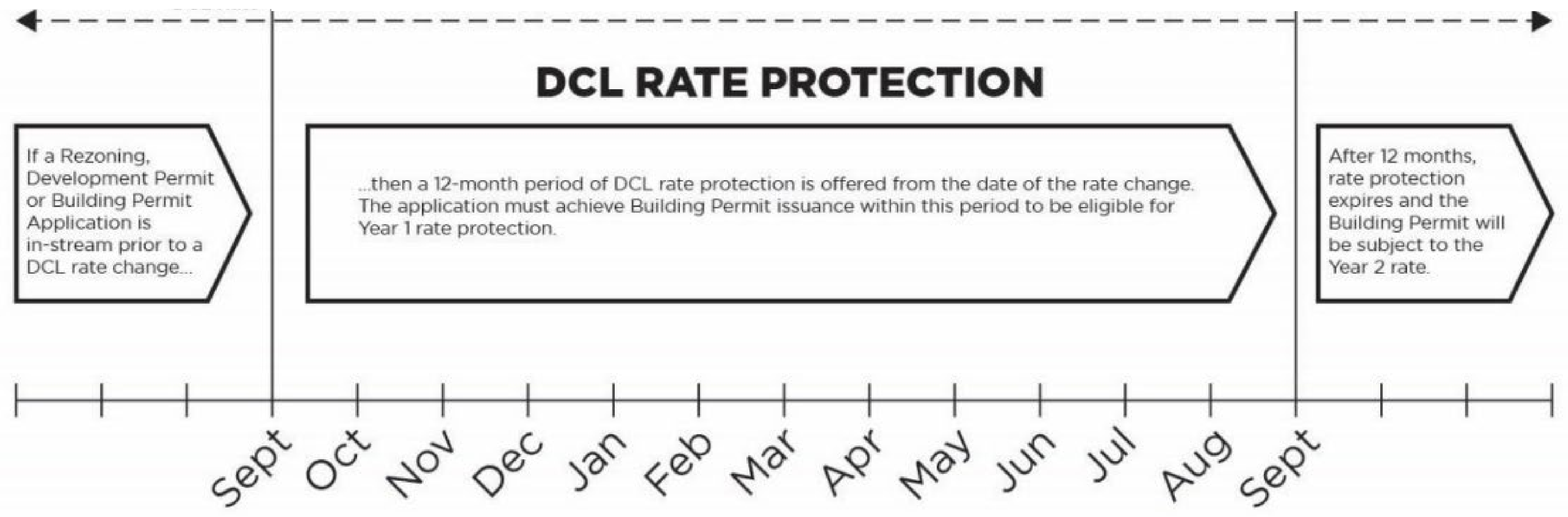
New DCL Rates
Sept 30, 2022

In-stream Rate Protection ends
Sept 30, 2023

App submitted

Applications submitted prior to Sept 30, 2022 can avoid paying the DCL Rate increase if BP is issued prior to Sept 30, 2023

Projects now pay increased DCL



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DCC Updates in Other Jurisdictions

City	Year	Rate Adjustment
City of Toronto	Proposed	+ 49%
Metro Vancouver Sewerage	Proposed	+85%
Regional District of Nanaimo	Proposed	+39%
City of Coquitlam	Proposed	+33%
City of Markham, ON	2022	+44%
District of Langley	2020	+80%
City of Toronto, ON	2018	+85%
District of North Vancouver	2018	+40% to +80%
City of Vancouver	2017	+25%

Economic Testing: Impact of Increased DCL

- Like other development costs, increased DCL reduces amount a developer can afford to pay for a site (or reduces profit if site already acquired)
- If DCL too high, can change development sites into holding properties
- Fewer development sites ➔ reduced pace of new construction
- Reduced new supply with continued demand ➔ market-wide price increase
- Economic testing shows the proposed increased DCL rate has minimal impact on project viability

City-wide DCL Allocations

Category	2017-2026	2023-2032*	Rationale for changes
Housing	36% ($377M)	24.5% ($295M) ↓	• Empty Homes tax (~$20M/yr) did not exist in 2017 • Affordable Housing reserve has ~$104M unallocated balance • Increased senior gov't funding anticipated in the near term • High proportion of in-kind (turnkey) CACs
Childcare	13% ($133M)	8.0% ($98M) ↓	• Increased senior gov't funding anticipated in the near term • Childcare DCL/CAC reserves have +$20M unallocated balance • Many spaces to be delivered as in-kind CACs
Parks	18% ($195M)	34.5% ($417M) ↑	• Large (~$100M) unallocated CW-DCL balance in 2017 has been committed/spent • Supports climate mitigation efforts
Transportation	25% ($265M)	33.0% ($400M) ↑	• Critical infrastructure to support growth, supports climate mitigation efforts
Utilities**	New UDCL ($543M)	Moved to UDCL ($650M) ↑	• Increased emphasis on critical underground infrastructure required for growth
TOTAL (2017/2018)	**$1,513M**	**$1,860M**	

*Note that DCL allocations are updated every 4 years, next update in 2026

**Under separate Utilities DCL By-law

City-wide DCL Waiver for For-Profit Affordable Rental Housing: Background context

- Social housing exempt as per Vancouver Charter. Rental Waiver in place since 2009
- In 2019, waiver removed on UDCL. Waiver still offered on City-wide DCL
- From 2010-2021, waiver has resulted in $60M in foregone DCL (2021 = $30M)
- Vancouver is the only city that offers a full DCL/DCC waiver for for-profit affordable rental housing
- All development should contribute towards growth. Strata and rental have similar growth impacts & demands for public benefits
- Rental development has increased in recent years, 1/3 of forecasted residential floor space over the next decade is anticipated to be rental
- Dec 2021: Council directed staff to report back on feasibility of a nominal target CAC on rental rezonings

Evaluation of Rental Waiver: Key Findings

- Viability of rental development is often marginal. DCL waiver increases the estimated profit and annual yield of rental projects (2 to 3% impact), tips some projects from not viable to viable

- MIRHPP and east side rental projects rely on waiver most

- Maintaining a large waiver (i.e. 90%) provides contributions towards growth costs as well as supporting viability of rental development

- Lowering the waiver to 75% or 50% not advisable as testing shows 1/3 of projects no longer viable, remaining 2/3 had reduced viability

City-wide DCL Waiver for For-Profit Affordable Rental Housing Recommendation

- **Reduce City-wide DCL waiver for for-profit affordable rental housing at market rents from 100% to 86%,** resulting in a nominal rate of $3/sf
- **Maintain 100% City-wide DCL waiver for for-profit affordable rental housing that has a 20% below-market component** (MIR, BMR)
  - Economic testing shows this type of rental is more reliant on the DCL waiver to support the delivery of more affordable rental units

Other DCL By-law Amendments

D. Amend Reduced Rates:
  - Remove Parking Garage (above ground parking)
  - Expand Community Energy Centre, Works Yard to all DCL districts
  - Add Cultural Facility

E. Remove Payment of Levy by Installments

F. Add/amend definitions in DCL By-laws

G. Adjust micro-dwelling unit size for DCL exemption

4. Stakeholder Consultation

Stakeholder Feedback

- Engaged with the following key membership groups:
  - Industry (UDI, NAIOP, HAVAN, Landlord BC)
  - DCL Receivers (Non-profits, Government Agencies)
  - Park Board
- Held stakeholder consultations in Jan/Feb 2022 as well as May 2022 sessions on draft DCL rates & policies
- Industry Stakeholder Feedback:
  - Raised issue of cost increases impacting projects
  - Concern around the economic viability of projects in progress that cannot adjust their land value, requested a phase-in of any increased DCL rates
  - UDI/Landlord BC did not support recommended change to the City-wide DCL rental waiver

5. Financial Implications

Financial Implications

- DCL revenue implications:
  - Annual average over past 5 years = $100M/year*
  - Anticipated annual average with recommended changes = $150-175M/year**
- Foregone DCL revenue implications:
  - DCL rate phase in = $15-20M (in years 1 and 2)

* Utilities DCL introduced in late 2018 and in full effect in 2020
**Note that additional DCL revenue from future annual inflationary adjustments has not been included in this forecast. Annual revenue estimate takes into account DCL rate phase in, in-stream rate protection, waiver for for-profit affordable rental housing, and foregone revenue from reduced rates

6. Summary of Recommendations

Summary of Recommendations

- A: Recommended DCL Rates with 2-year phase-in
- B: Updated City-wide DCL Allocations
- C: Amended City-wide DCL waiver for for-profit affordable rental housing
- D-G: Other amendments
  - Amending reduced rates
  - Removing payments by installments
  - Amending definitions
  - Adjusting micro-dwelling unit size exemption
- Note that all recommendations take effect September 30, 2022, with Recommendation B taking effect upon Council approval

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Questions / Discussion