



CORPORATION OF THE TOWNSHIP OF ESQUIMALT

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STAFF REPORT

Date: February 7, 2011 **REPORT NO.** DEV-11-012
To: Laurie Hurst, Chief Administrative Officer
From: Barbara Snyder, Director of Development Services
Jeff Miller, Director of Engineering and Public Works
Subject: DEVELOPMENT COST CHARGES

FOR INFORMATION

In response to requests from Council for more information regarding the use of Development Cost Charges and their applicability for Esquimalt, staff engaged Fraser Smith of UrbanSystems to prepare a report on this topic.

UrbanSystems is one of the province's well regarded consulting firms and has prepared DCC bylaws and provided advice on whether DCCs are the appropriate financial tool for many BC municipalities. A copy of Mr. Smith's report is attached.

Fraser Smith will be at the February 14th, 2011 meeting of the Committee of the Whole to present his report and answer questions.

Also attached is a copy of *Development Cost Charge Guide for Elected Officials* which is designed to create an understanding among local government leaders on the use of DCCs.

Respectfully submitted,

Barbara Snyder
Director of Development Services

Jeff Miller
Director of Engineering & Public Works

Approved for Council's consideration:

Laurie Hurst, CAO

Dated: Feb 9/11



DCC Feasibility

Final Report

URBANSYSTEMS.

February 7, 2011 ~ USL File 1688.0001.01

**Township of Esquimalt
DCC Feasibility
Final Report**

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Executive Summary

The Township of Esquimalt currently does not have a development cost charge (DCC) bylaw and has commissioned this study to determine whether a DCC program is feasible to help fund growth related infrastructure. DCCs are used to assist municipalities accommodate development by providing a dedicated source of funding for the capital costs of:

- providing, constructing, altering or expanding sewage, water, drainage and transportation facilities (other than off-street parking); and
- providing and improving parkland.

The *Local Government Act* and the *Community Charter* provide municipalities with a number of tools that can be used to help fund infrastructure needed to support growth. The growth financing tools most commonly used by municipalities are: DCCs, works and services requirements, latecomer agreements, and negotiated agreements. The suitability of each of these tools depends on the local context.

Currently, the engineering infrastructure required to support growth is provided by developers on a project by project basis when development is approved by the Esquimalt Council through works and services requirements as part of the rezoning and building permit process.

For Esquimalt, DCCs are not considered to be the most suitable tool at this time because the community has relatively limited growth potential, limited availability of required infrastructure plans, and limited staff resources to administer a DCC program. Esquimalt has a well developed and extensive engineering infrastructure and parkland inventory available to service future growth. Works and services requirements and negotiated agreements, are considered to be suitable tools the Township should continue to use to fund growth related infrastructure.

Based on our understanding of the development conditions in Esquimalt, available staff resources, and existing Esquimalt bylaws and policies, we recommend the following:

- **Recommendation #1** - *The Township should not establish a DCC capital program and DCC bylaw at this time.*
- **Recommendation #2** - *The Township should continue to use the works and services provisions of its existing subdivision bylaw to ensure that the community receives the required engineering infrastructure to service development in the community.*

- **Recommendation #3** - *The Township should continue to use the provisions of its existing subdivision bylaw to ensure that the community receives the required contribution to parkland acquisition necessary to support development in the community.*
- **Recommendation #4** - *The Township should not pursue the use of latecomer agreements as alternative financial tools to help meet the community's growth related engineering infrastructure needs at this time. This tool should be considered in unique situations.*
- **Recommendation #5** - *The Township should consider the use of negotiated agreements to secure specific engineering works as a complementary tool to works and services requirements. This tool will have limited application in Esquimalt due to the type and amount of development anticipated in the community.*

The cost to develop a DCC bylaw varies depending on the amount of available information on the community's growth projections, engineering and park growth related capital plans, extent of the DCC public process, cost of the bylaw review by municipal solicitor and many other factors. It is common for DCC bylaw up-dates or new DCC bylaws to costs between \$20,000 for a minor update with very limited public process to \$50,000 for extensive reviews for all engineering services and parkland including comprehensive costing and analysis plus any legal review costs and public process.

Based on our understanding of the information available for a DCC review, the requirement for public process and given that no DCC bylaw exists in Esquimalt at this time we would estimate the initial DCC study to cost the community \$40,000.

The DCC Best Practises Guide recommends minor DCC up-dates every one to two years and major DCC up-dates every 5 years or when a significant change has occurred in either the growth projections or capital costs or program or when a major change in the DCC assumptions has occurred.

1.0 Community Background

The Township of Esquimalt is in a unique location in the Capital Regional District. Access to the community is through a number of bridges from Victoria and Saanich and one land connection through View Royal. The community is restricted to growth as the Esquimalt, Songhees First Nations and Federal Department of National Defence surround much of the community leaving little potential for greenfield development.

The Township currently does not have a development cost charge (DCC) bylaw and has commissioned this study to advise on whether introducing a DCC program is feasible to help fund growth related infrastructure. Currently, most engineering infrastructure required to support growth is provided on a project by project basis as development is approved by Esquimalt Council. The engineering infrastructure developers are required to build is specific to meet their unique needs and satisfy municipal regulations. The Township has a bylaw to regulate subdivision and development of land within the community. The bylaw includes schedules that define the standards and specification for municipal sewers, storm drains, and roadways including street lighting. Parkland for growth needs is acquired through the collection of 5% parkland dedication or cash-in-lieu at time of subdivision.

Land development in Esquimalt is regulated by the Township's Official Community Plan (Bylaw #2646), Zoning Bylaw (#2050), Building Bylaw (#2538) and Subdivision and Development Control Bylaw (#2175).

2.0 Growth

2006 Canada Census statistics state that the Township had a population of 16,840 people in 2006, which is a 4.4% increase from the 2001 Census population of 16,127 people. The BC provincial average for the same period was 5.3%. There are a total of 8,340 private dwelling units in Esquimalt, of which approximately 24% are single family units. Semi-detached house and row housing makes up an addition 12.7% units of the total housing mix. Apartments make up a significant amount of the housing at 63.4%. Stats Canada census data noted 1,270 new dwelling units were constructed between 1986 and 2006.

Esquimalt has gone through various phases of development. The community experienced rapid development during the World War periods and late 1950's. The second period of rapid growth was between 1971 and 1976 with the construction of many low rise apartment buildings. Growth in the 1980's and 1990's was modest in size and principally infill and redevelopment. The potential for growth in Esquimalt today is one of infill and densification.

With a very limited land base, growth in Esquimalt is likely to occur in a limited amount of subdivisions and mostly multi-family developments in specific pockets of the community. Recent subdivisions have been mostly single lot splits into either two lots or three. The pace of this type of the development has been on average two to three splits per year. There is the possibility of a significant cluster subdivision on the George Vale golf course but this is seen as a long term project at best as the land is in the ALR.

Residential densification of the community will likely occur in mixed use redevelopment with perhaps first floor commercial, possibly some office and the remainder apartment dwellings. It is possible that apartment buildings could exceed the more common four storey apartments as the community grows. The pockets of multi-family infill appear to be centred along Esquimalt Road and Admirals Road. The need for commercial office space is limited. There is little potential for new industrial space in the community given the current land use base. The existing industrial land is currently used by small industrial shops.

3.0 Infrastructure

The Township provides sanitary, stormwater, transportation and parkland acquisition and development to the community. Water distribution service is provided by the City of Victoria. Trunk sewer service and sewage disposal is a responsibility of the Capital Regional District. Esquimalt has not developed long range engineering servicing plans that address both the needs of existing residents and businesses and the needs of future growth. At this time the community does not have defined programs of infrastructure or parkland acquisition and development to service future growth. Growth in the community is serviced by the existing infrastructure for the most part. Any specific infrastructure required to service development is made a requirement of the subdivision or building process and typically identified in their servicing agreement with the Township.

The sanitary sewer capital program includes pipe re-lining, storm sewer disconnection program and general sewer condition replacement. The stormwater system has not been modeled to determine capacity for future growth.

The stormwater/ sanitary sewer disconnect program may result in addition capacity for growth within the community. The Township is installing stormwater measures to help in treating stormwater discharge in some locations in the community. The need for additional capacity in the storm sewers is unlikely given that the impervious area of the community is unlikely to increase by the limited growth in small infill developments and densification in the core Esquimalt. Therefore additional major stormwater works to meet the needs of growth is not likely to be required.

There is no master transportation plan for the Township. Most recently the focus of capital road projects has been on traffic calming measures on Esquimalt Road. Additional upgrading work is also underway on Craigflower Road. Road works have been identified for Admirals Road and Lampson Road. None of these transportation projects are required to accommodate the projected growth in the community.

The existing Esquimalt residents are well serviced by 25 municipal parks. The Esquimalt Park and Recreation Strategic Plan was adopted by council in 2003. This document guides the Township on parks and recreation decisions. Esquimalt collects the 5% parkland dedication or cash-in-lieu as provided in the Local Government Act on new subdivisions. Parkland development is principally funded from taxation and grants when available.

4.0 Guiding Principles

The development of guiding principles and a clear philosophical approach to managing growth financing are both key elements of the development of a solid fiscal approach. The guiding principles outlined below are the basis of selected financing and cost recovery methods. Council should refer to these guiding principles as it considers its approach to development financing.

Financing and cost-recovery strategies should:

- **Foster fairness (the “user pay” principle)**

The selected financing methods should be based on fairness, which generally means that those who use the service should also pay for the service (the “user pay” principle). Costs should be allocated to reflect demands or impacts on infrastructure. For example, if a trunk sewer main requires extension solely to service a new development area, it is reasonable for the Township to require those who benefit from the extension to pay for that extension.

- **Minimize financial risk to Esquimalt**

Communities assume financial risk when they undertake capital or other projects necessary to accommodate future development. It is in the Township’s best interest to minimize its exposure to financial risk.

- **Foster certainty and sufficiency**

The selected financial tools should provide sufficient revenues to fund required infrastructure in a given timeframe. Stable funding will allow the Township to follow through with long-term infrastructure plans, and will also build confidence in the development industry.

- **Minimize administrative burden**

Fairness must be balanced with administrative efficiency to ensure that cost recovery strategies are cost effective to administer and can be implemented efficiently.

- **Reflect a “pay as you go approach” to financing capital projects.**

Recommended financing strategies should be based primarily on a “pay as you go” approach that will limit the Township’s need to incur long-term debt for capital projects, particularly in cases where projects are required exclusively to service future development. Where long-term debt is required, the term of the debt should be matched closely to the need, development phasing, and anticipated lifecycle of the project for which debt is being considered.

5.0 Financing Growth Related Infrastructure

The *Local Government Act* and *Community Charter* authorize local governments to use a wide variety of financing and cost-recovery tools to help fund growth related infrastructure. Local governments must choose which of these tools are best suited to meet their needs and the needs of the development community. As circumstances change and communities evolve, local governments may find that they use different tools at different times to best address their financing needs.

Development finance tools can be grouped into four categories as noted in the Ministry of Community Services' *Development Finance Choices Guide (2000)*. The categories are:

- cost recovery tools
- developer-build agreements
- sources of capital
- partnership agreements

Development cost recovery tools include DCCs, fees and charges, local improvements and area based charges. The developer-build agreements include DCC credits and rebates, DCC front-end agreements, latecomer charges, development works agreements, comprehensive development agreements (negotiated agreements) and density bonusing. Of these tools, we will focus our discussion on DCCs, latecomer charges, and negotiated agreements as potential tools that Esquimalt could use to address engineering infrastructure needs of growth. Some of these agreements are necessary if the Township chooses to implement DCCs or latecomer charges.

One other important way that local governments can acquire the necessary growth related engineering infrastructure is through the works and services provisions of the *Local Government Act* (Section 938). These provisions give local governments a great deal of power to require services (i.e., transportation, sanitary sewer and stormwater works) as a condition of subdivision approval or building permit issuance. These requirements are typically exercised through a local government's subdivision and development servicing bylaw. The Township of Esquimalt Subdivision Bylaw No. 2175 includes a section related to engineering works and services. The scope of these requirements will be discussed further in Section 6 of this report.

To choose the right tool for given circumstances, the Township must evaluate each of the available development financing tools against a set of evaluation criteria. The evaluation criteria are discussed in Section 7 of this report.

6.0 Cost Recovery Tools

The most commonly used tools to finance growth related engineering infrastructure include: DCCs, works and services, latecomer charges, and negotiated agreements. In this section, we will define and describe each of these tools.

6.1 Development Cost Charges (DCCs)

DCCs are special charges collected by local governments to help pay for infrastructure expenditures required to service growth. The *Local Government Act* provides the authority for local governments to levy DCCs. The purpose of a DCC is to assist the municipality with accommodating development by providing a dedicated source of funding for the capital costs of:

- providing, constructing, altering or expanding sewage, water, drainage and transportation facilities (other than off-street parking); and
- providing and improving parkland.

Municipalities wanting to collect DCCs must adopt a DCC bylaw that specifies the amount of DCCs that will be collected. The charges may vary with respect to:

- different zones or different defined or specific areas;
- different uses;
- different capital costs as they relate to different classes of development; and
- different sizes or different numbers of lots or units in a development.

Funds collected through DCCs must be deposited in a separate reserve account. These funds may only be used to pay for the capital costs of the works and short-term financing costs of a debt incurred for capital works identified in the DCC program. The costs for capital works include not only the actual construction of the works, but also the planning, engineering and legal costs that are directly related to the works, as well as improving parkland if a parkland acquisition and development DCC is established.

On May 29, 2008 the Provincial Government enacted new legislation pertaining to DCCs. The legislative changes include the option for municipalities to exempt or waive DCCs for the following classes of “eligible development”:

- not-for-profit rental housing, including supportive living housing (similar provisions were in the previous legislation, but did not require a bylaw to waive or reduce DCCs for not-for-profit rental housing);

- for-profit affordable rental housing;
- subdivisions of small lots designed to result in low greenhouse gas emissions; and
- developments designed to result in a low environmental impact.

Should a local government decide to waive or reduce DCCs under the new legislation, the local government would have to enact this authority by bylaw. The DCC bylaw would have to establish definitions for each class of “eligible development”, corresponding rates of reduction, and requirements that must be met in order to obtain a waiver or reduction. Local governments, however, are not *obligated* to adopt any of these new provisions. To make up for any foregone DCC revenue, the local government must secure alternate revenue sources.

The new legislation includes a mandatory requirement for councils to consider whether the new DCCs are excessive in relation to the capital cost of the servicing standards, will deter development, discourage the construction of reasonably priced housing on serviced land, or will discourage development designed to result in a low environmental impact.

6.1.1 Common Characteristics of DCCs

The following are common characteristics of DCC programs in British Columbia:

- Best suited for communities with high growth potential, common in communities with greenfield development
- Collection of DCCs can be a slow process based on the pace of growth in the community, funds may not be available when services are needed
- Municipalities may choose to borrow to advance DCC projects or have a developer front-end the capital costs and be reimbursed over time through the use of a DCC front-ender agreement or DCC credits or rebates
- Responsibility for construction of the DCC program rests with the municipality
- Infrastructure planning studies that reflect the needs of growth are required as the basis of the DCC program
- Municipalities must contribute a minimum of 1% to fund the DCC recoverable capital program
- Very effective tool to ensure that large engineering projects and community wide park land and park land development project costs are shared amongst development
- DCCs cannot be used to fund amenities such as civic buildings, libraries and fire halls

6.2 Works and Services

Section 938 of the *Local Government Act* gives municipalities the authority to enact subdivision and development servicing bylaws that set minimum standards for the provision of works and services within a subdivision for highways (roads), water systems, sewage systems, and drainage systems. These works and services can also be required as a condition of a building permit. Section 938 does not include any provisions for park land dedication or park land development. Other sections of the *Local Government Act* help address the need for park land dedication as a requirement of subdivision.

To a limited extent, works and services provisions can also be required for improvements outside of the subdivision. Section 938(4) allows municipalities to require water, sewer and storm drainage systems be connected to community systems, which may require off-site construction. Off-site highway works are typically only required to the centerline of the highway for highways immediately adjacent to the site being subdivided or developed. Local governments can require the provision of off-site works only if those works are directly attributable to the subdivision. This practise allow for some latitude in defining the scope of the off-site highway works required.

In practise, local governments commonly use works and services requirements to obtain engineering infrastructure needed to support new development. A local government's subdivision and development servicing bylaw, which establishes servicing standards, ensures that these works are obtained from developers in a consistent and fair manner. Since these bylaws are readily available and relatively consistent throughout British Columbia, the development industry is accustomed to works and services requirements. Developers are able to review works and services requirements, ask questions for clarification from municipal staff and build these costs into their development cost proforma.

The Township of Esquimalt Subdivision Bylaw No. 2175 outlines the works and services requirements for development approval. The bylaw focuses on establishing minimum engineering servicing requirements and relies on the developer's engineer to design, inspect and certify the quality of the design and construction. We assume that the Approving Officer requires all developers to provide works and services to meet good engineering practise and ensure consistency with typical industry design standards.

6.2.1 Common Characteristics of Works and Services Requirements

The following are common characteristics of works and services requirements throughout British Columbia:

- Common and effective tool for communities of all sizes to require engineering works from developers

- Requirements are often found in the subdivision and development servicing bylaw of the community
- Standards are readily available for the development community to consider and use in estimating the cost of development
- Engineering standards are based on life cycle requirements and good engineering practice
- Minimal staff administration required once bylaw is in place

6.3 Excess or Extended Services - Latecomer Charges

In addition to the works and services provisions of the *Local Government Act*, there is a broader ability for a municipality to impose requirements for off-site servicing. Excess or extended services for off-site works are defined under section 939 of the *Local Government Act*. If a developer is required to construct excess or extended services for water, sewage, drainage, or highway systems that will serve land other than the land being subdivided or developed or provide access to land other than the land being subdivided or developed, the developer is entitled to compensation in the form of a latecomer agreement. The portion of the excess or extended service that benefits third party developers is calculated and the latecomer charge is established.

The municipality is required to develop the latecomer charge and collect the latecomer monies on behalf of the front-ending developer. The conditions of the latecomer charge, collection area and remittance formula between the municipality and the front-ending developer are contained in a latecomer agreement and are often referenced in the servicing agreement between the municipality and the developer. Latecomer agreements are limited to a 15 year period, after which the latecomer charge is no longer applicable on third party lands. The municipality can apply to have this period extended through a legislative amendment.

Most latecomer agreements occur on greenfield sites that are not adjacent to urban development. Services generally have to be extended in front of lands other than those owned by the initial developer, or the municipality may require the developer to increase the capacity of the service to meet the needs of others beyond the current development application. Latecomer agreements do require administration by the municipality to ensure that monies are collected to repay the front-ending developer.

6.3.1 Common Characteristics of Latecomer Charges

The following are common characteristics of latecomer charge policies throughout British Columbia:

- Requires municipal staff time to administer and ensure funds are returned to the front-ending developer
- Requires developers with significant financial resources to be able to front-end excess or extended service costs
- Municipalities and developers are often unclear about what qualifies as an extended or excess service
- Development of a latecomer policy, implementation manual and process can take time and cost to create

6.4 Negotiated Agreements

Many communities with limited growth potential will negotiate infrastructure requirements on a project by project basis. Council has the authority to withhold rezoning approval based on its judgement of the community's best interests. Municipal councils often require developers to build engineering infrastructure necessary to service the development at whatever cost and for whatever off-site services are required. If additional excess or extended services are required and the council does not want to administer a latecomer agreement, they will have the developer sign a waiver to eliminate the need for the latecomer. In this manner, council will get the servicing they and the developer need without the administration and staff burden of either a DCC program or latecomer agreements.

With the exception of the use of negotiated agreements for master planned communities, the practise of using negotiated agreements is becoming less common. Communities that have subdivision and development servicing bylaws and latecomer policies may also enter into negotiated agreements as well, but may choose not to use latecomer agreements and/or to vary the works and services provisions to meet specific needs of the planned community.

6.4.1 Common Characteristics of Negotiated Agreements

The following are common characteristics of negotiated agreements:

- Often used in master planned communities to achieve a wide variety of needs including engineering infrastructure and amenities
- Does not preclude the use of DCCs, latecomer charges or works and services requirements
- Useful when development is limited and the needs of the development site are unique
- To help local governments minimize their use of negotiated agreements, Provincial legislation provides local governments with several other tools (e.g., works and services, DCCs, latecomer agreements, phased development agreements, and bonus density policies) that can be used in most situations

6.5 Other Tools

Municipalities have used other tools to help address the financial impact of development, including: fees and charges and local service taxes for local improvements. Of these two broad classes, fees and charges are the most popular at this time. Many communities establish connection fees to recover the cost of new development connecting to existing municipal services. Typical examples include sanitary and water connection fees. Communities may also establish charges for water meter installations, sidewalk repairs following development, and engineering administration and inspection fees for land development and building construction.

7.0 Financial Tool Evaluation

To decide which financing tool or group of tools are best suited for Esquimalt, the Township should consider the following questions:

- What level of growth is anticipated throughout the community?
- What level of infrastructure planning for future growth is available at this time?
- Are the staff resources available to learn, develop and administer various development finance tools?
- Are the local developers large enough to finance works beyond their site (off-site works)?
- Are the complexities of the financial tool worth the investment of time and effort for the cost to develop?
- Is this the right time to bring in new development finance tools into the community?

Answers to these questions will help the Township decide which tools to investigate further.

The following evaluation matrix shown in Table 1 provides a summary of the basic considerations raised by the questions noted above and other items often discussed when evaluating the usefulness of various development finance tools. For each of the possible tools available we have listed items for discussion and consideration. The table has been populated based on our understanding of the typical conditions for the successful application of each tool. Esquimalt staff is best positioned to confirm their own situation for each of the considerations. The following sections of this report include our evaluation of the suitability of various development financing tools based on our understanding of the Esquimalt situation.

Table 1: Financial Tool Evaluation Matrix

Considerations	DCCs	Works & Services	Latecomer	Negotiated Agreements
Level of Anticipated Growth is Required	High	Any level	High	Any Level
Extensive infrastructure Planning Required	Yes	Not necessary	Desirable	Desirable
Implementation Complexity	High	Low	Moderate to High	Moderate to High
Staff Resource Requirements	High	Low Once Created	High	Moderate to High
Bylaw Required	Yes	Exists	No	No
Level of Developer Involvement	Limited	Moderate	High	High
Level of Financial Risk to the Community	Low (provided the Township does not borrow to front-end costs)	Low	Low	Low to Moderate

Based on our knowledge of the Township's current context and characteristics, we propose the following evaluation of the suitability of DCCs, works and services, and latecomer agreements:

1. **DCCs** - As shown in Table 2, there are several reasons why DCCs may not be the most suitable tool for Esquimalt to use at this time. With limited growth potential, limited availability of required infrastructure plans, and limited staff resources to administer a DCC program, we expect that the Township would find it quite challenging to establish and implement a DCC Bylaw.

Overall Rating of DCCs as a Suitable Financial Tool for Esquimalt: Low

Table 2: Suitability of DCCs

Reasons why DCCs may not be suitable for Esquimalt	Reasons why DCCs may be suitable for Esquimalt
<ul style="list-style-type: none"> • limited growth potential in Esquimalt both through subdivision and building permits • limited availability of engineering & parkland infrastructure planning studies based on needs of future growth • existing major infrastructure (typical DCC works) likely meets the densification needs of growth • limited staff resources to administer a DCC program • it is unknown if local developers would be receptive to front-ending DCC works • it is unknown if the development community is knowledgeable of DCCs 	<ul style="list-style-type: none"> • DCCs would expose the community to only minimal financial risk • bylaw development costs are modest (\$25,000 - \$50,000)

2. **Works and Services** - As noted previously, works and services requirements (as established through subdivision and development servicing bylaws) are used by local governments across British Columbia, and are well understood and accepted by the development community. Table 3 provides a summary of the reasons why works and services may or may not be suitable for use by Esquimalt. Given that works and services requirements are so widely used, that these requirements expose the community to minimal risk, and that they are not dependent on growth or the availability of extensive infrastructure planning studies, this tool is considered to be suitable for use by the Township and should be enhanced as required.

Overall Rating of Works and Services Requirements as a Suitable Financial Tool for Township: High

Table 3: Suitability of Works and Services

Reasons why works and services may not be suitable for Esquimalt	Reasons why works and services is suitable for Esquimalt
<ul style="list-style-type: none"> • would likely require external resources to produce the to enhance/ expand the existing subdivision bylaw • enhancement/ expansion of the subdivision bylaw may require additional resources to implement 	<ul style="list-style-type: none"> • not dependent on anticipated growth • not dependent on extensive engineering planning studies • no risk to the community to have such a bylaw and continuing improve • low involvement of the development community • establishes a common set of standards for the development community, equitable for developers

3. **Latecomer Agreements** - As summarized in Table 4, there are several reasons why latecomer agreements may or may not be suitable for use by the Township. With limited growth, there is likely to be limited need for latecomer agreements; however, if latecomer agreements are required, it is not expected to be costly for the Township to develop required policies and agreements. Furthermore, the use of latecomers minimizes the community's exposure to financial risk. On the downside, Esquimalt would have to allocate resources to administer latecomer agreements and involve the development community throughout the process.

Overall Rating of Latecomer Policy as a Suitable Financial Tool for Esquimalt: Low

Table 4: Suitability of Latecomer Agreements

Reasons why latecomer agreements may not be suitable for Esquimalt	Reasons why latecomer agreements may be suitable for Esquimalt
<ul style="list-style-type: none"> • limited need for latecomer agreements due to limited growth potential in Esquimalt and type of development likely not require significant engineering works • limited staff resources available to administer a latecomer policy • it is unknown if the development community is knowledgeable of latecomer agreements • require a high level of developer involvement to execute • unknown if the local developers would be receptive to front-end works that could form the basis of a latecomer agreement 	<ul style="list-style-type: none"> • would require minimal external resources to develop a latecomer policy • minimal financial risk for the community in the development and implementation of latecomer policies and agreements

4. **Negotiated Agreements** - Negotiated agreements provide communities with a great deal of flexibility to acquire infrastructure and amenities from development and are suitable for all growth scenarios; however, negotiations can involve significant staff resources. Table 5 summarizes the main reasons why negotiated agreements may or may not be suitable for the Village.

Overall Rating of Negotiated Agreements as a Financial Tool for Esquimalt: Low to Moderate

Table 5: Suitability of Negotiated Agreements

Reasons why negotiated agreements may not be suitable for Esquimalt	Reasons why negotiated agreements may be suitable for Esquimalt
<ul style="list-style-type: none"> desirable to have engineering infrastructure plans in place to ensure what is negotiated meets future needs as well as specific needs of the development application in negotiation it is complex to negotiate the right items and requires staff to have a broad knowledge to reach the best agreement Provincial legislation contains many tools that have been developed as alternatives to negotiating agreements (DCC, latecomer agreements, phased development agreements, etc.) requires a high level of involvement by the developer 	<ul style="list-style-type: none"> can be used in all growth scenarios low to moderate level of risk to the community provides flexibility

In summary, DCCs are unlikely to be the best tool to help finance growth in Esquimalt and complete the infrastructure requirements of growth. Given the limited growth potential in Esquimalt, the type of development anticipated in Esquimalt, limited long range infrastructure planning, and staff resources needed to establish and maintain a DCC program, the benefits of a DCC will not be realized. Using the works and services requirements of the Township's Subdivision Bylaw and enhancing/expanding these provisions as required will ensure that the infrastructure needs of growth are built to a high standard and in a consistent manner. Esquimalt may also use latecomer agreements and negotiated agreements where appropriate to supplement its works and services requirements.

8.0 Recommendations

Based on our understanding of the development conditions in Esquimalt, available staff resources, and existing Esquimalt bylaws and policies, we recommend the following:

- Recommendation #1 - *The Township should not establish a DCC capital program and DCC bylaw at this time.*
- Recommendation #2 - *The Township should continue to use the works and services provisions of its existing subdivision bylaw to ensure that the community receives the required engineering infrastructure to service development in the community*
- Recommendation #3 - *The Township should continue to use the provisions of its existing subdivision bylaw to ensure that the community receives the required contribution to parkland acquisition necessary to support development in the community.*
- Recommendation #4 - *The Township should not pursue the use of latecomer agreements as alternative financial tools to help meet the community's growth related engineering infrastructure needs at this time. This tool should be considered in unique situations.*
- Recommendation #5 - *The Township could consider the use of negotiated agreements to secure specific engineering works as a complementary tool to works and services requirements. This tool will have limited application in Esquimalt due to the type and amount of development anticipated in the community.*

Should Esquimalt want to move forward with this recommendation, we have identified the following next steps:

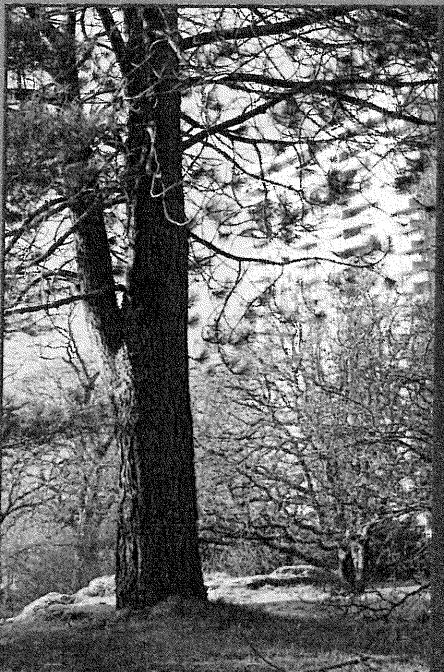
- Review how other communities use negotiated agreements and identify key components that are typically included in these agreements
- Identify the implications to staff and the development community of using negotiated agreements
- Develop a process for negotiating agreements if needed
- Develop an agreement template if needed

9.0 DCC Reviews Costs and Frequency

To assist municipalities and consultants in development of a Development Cost Charge (DCC) bylaw the Ministry of Community, Sport and Cultural Development has created a DCC Best Practises Guide. The document identifies acceptable practises to calculate DCC rates and insight on how the Ministry interprets the Local Government Act legislation pertaining to DCCs. The cost to develop a DCC bylaw varies depending on the amount of available information on the community's growth projections, engineering and park growth related capital plans, extent of public process, cost of the bylaw review by municipal solicitor and many other factors. It is common for DCC bylaw up-dates or new DCC bylaws to costs between \$20,000 for a minor update with limited public process to \$50,000 for extensive reviews for all engineering services and parkland including comprehensive costing and analysis plus any legal review costs. It is common to use a consultant to complete the major DCC review or establish a new DCC bylaw due to the unique nature of the study and often the limitations of staff availability.

Based on our understanding of the information available for a DCC review, the requirement for public process and given that no DCC bylaw exists in Esquimalt at this time we would estimate the initial DCC study to cost the community \$40,000.

The DCC Best Practises Guide recommends minor DCC up-dates every one to two years and major DCC up-dates every 5 years or when a significant change has occurred in either the growth projections or capital costs or program. Minor DCC reviews are often completed to reflect changes in construction costs, land values and changes in grants. Minor amendments do require the adoption of a new DCC bylaw and approval of the Inspector of Municipalities. Major DCC amendments using involve a full review of the DCC assumptions, policy considerations, DCC program costs, new growth projections or a significant change in the OCP and introduction of new projects and deletion of completed projects. Major DCC reviews do require the adoption of a new DCC bylaw and approval of the Inspector of Municipalities. Following the introduction of the DCC bylaw subsequent minor reviews can often be done by the municipality or consultant for \$15,000 to \$25,000 and major reviews by consultants can cost \$40,000 to \$60,000.



Development Cost Charge

GUIDE FOR ELECTED
OFFICIALS



Ministry of Community Services

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Introduction

It is widely accepted that growth, when facilitated by good planning, benefits communities and their economies.

Local governments have come to recognize, however, that the accommodation of growth is not a cost-free exercise.

Growth creates demands for the construction of new infrastructure, and the expansion of existing local services. The cost of meeting these demands is often substantial and, at times, beyond the ability of local governments to fund using existing financial resources.

The development industry understands that growth creates new demand for local government infrastructure and services. The industry also understands that local governments are not able to directly absorb all growth-related service costs, and that growth itself should assist in funding service needs. A range of development finance tools has been created to enable local governments to collect from development a portion of growth-related expenditures. Development cost charges (DCCs) represent one such tool.

The *DCC Guide for Elected Officials* is designed to increase understanding about DCCs among local government leaders. The *Guide* uses a “question & answer” format, which addresses important questions on DCCs and their use. The questions are grouped under the following headings:

- DCCs Defined;
- Establishing DCCs;
- When to Use DCCs;
- DCCs in the Broader Context;
- DCCs and Development; and,
- DCCs across British Columbia.

The *Guide* deals with the basics, or fundamentals, of DCCs.

For a more detailed review and information about the technical aspects of DCCs, please refer to the *Development Cost Charge Best Practices Guide*, a Ministry of Community Services publication available electronically through the search function of the British Columbia Government website at www.gov.bc.ca

DCCs Defined

What are development cost charges?

Development cost charges are fees that municipalities and regional districts choose to collect from new development to help pay the cost of off-site infrastructure services that are needed to accommodate growth.

Local governments are limited in the types of services they may fund using DCC revenues. Specifically, DCCs may be used to help offset costs associated with the provision, construction, alteration or expansion of:

- roads, other than off-street parking;
- sewer trunks, treatment plants and related infrastructure;
- waterworks; and,
- drainage works.

DCCs may also be collected to assist in the acquisition and development of parkland, but may not be used to pay for other types of services, such as recreation, policing, fire and library, that are affected by growth.

DCCs are applied as one-time charges against residential, commercial, industrial and institutional developments. DCCs are usually collected from developers at the time of subdivision approval in cases where such approval is required. Where subdivision approval is not required, the charges are applied at the building permit approval stage.

DCCs may be imposed on most, but not all, development that occurs in a community. The *Local Government Act* specifies that DCCs may not be levied against:

- any building which is used solely for public worship;
- developments that are subject to a land-use contract;
- a residential building which contains fewer than

four units, unless otherwise specified by the local government; and,

- developments of less than \$50,000 in value, unless otherwise specified by the local government.

What is the history of DCCs in British Columbia?

The history of DCCs in British Columbia began in 1958. In that year, amendments to the *Municipal Act* were made to address the growing inability of local governments to fund growth-related works. The amendments empowered the approving officer in each municipality to reject a subdivision plan if, in the opinion of the officer, the cost to the municipality of providing the related off-site infrastructure services was excessive.

Prior to these changes, municipalities were expected to provide off-site infrastructure services to all subdivisions using tax revenues and other sources of funding. Approving officers were not permitted to reject applications on the basis of servicing costs. With the changes to the *Municipal Act*, municipalities introduced Excessive Subdivision Cost Bylaws or Impost Fees to try to recover servicing costs for new development.

Court challenges in the early 1960s resulted in impost fees being rendered invalid. Municipalities, it turned out, had the authority to reject subdivision plans on the basis of service costs, but had no authority to tie the approval of plans to the payment of impost fees. The court rulings returned municipalities to the difficult position they occupied prior to 1958. To capture the benefits from growth, municipalities had to fund, on their own, the off-site infrastructure required to accommodate the growth. If municipalities were unable to fund the infrastructure, development applications were rejected, and the benefits from growth were lost.

Further amendments to the *Municipal Act* were introduced to overcome this dilemma. In 1971, local governments were given the power to enter into land use contracts with developers. These contracts became the vehicle for imposing off-site infrastructure servicing requirements and impost fees on development within the specified contract area. The validity of imposing fees under these contracts was upheld by the courts.

Land use contracts often involved protracted negotiations and produced a patchwork of contracts, each with its own requirements and fees for development. In 1977, land use contract powers were eliminated, and the current authority to impose development cost charges was introduced.

Using DCCs, local governments (municipalities and regional districts) can apply a common set of rules and charges to all development within a community.

Over the past twenty-five years, court rulings and legislative changes have refined DCCs and their application in British Columbia. The fundamental principle and structure of DCCs, however, remains unchanged.

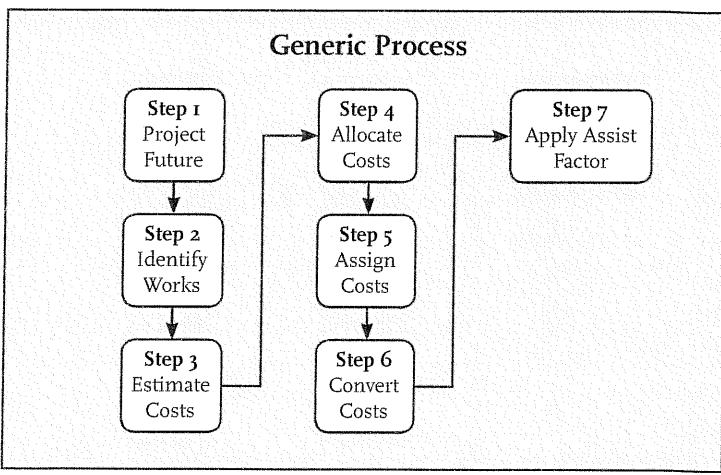
Establishing DCCs

How are DCC rates calculated?

The calculation of DCCs brings together a number of pieces of information, including the:

- types, locations and amounts of growth that are projected to occur over a specified future period;
- infrastructure services required over the same period to accommodate the growth;
- estimated cost of the services;
- portion of the total cost to be paid by the existing population (which benefit from new infrastructure);
- relative impact of each type of growth on the services; and,
- degree to which the existing users assist growth in paying its share of costs.

Approaches to calculating DCCs will vary to some extent by community. It is possible, however, to outline a set of generic steps that are important to developing a DCC program. The accompanying flowchart presents a generic seven-step process. The text below the chart describes each individual step in detail.



- **STEP 1 – Project Future Growth**

A local government begins the process by determining the amount of growth that is projected to occur over a specified future period of time (e.g., 5 years, 10 years, and 20 years). Because DCCs are applied to actual development instead of new population, the amounts of the different types of development that are expected to occur are projected. Most local governments project figures for various types of residential development (e.g., single family, townhouses, apartment), as well as commercial, industrial and institutional growth.

- **STEP 2 – Identify Required Works**

Once growth has been projected, the local government determines the specific infrastructure works that will be required to accommodate the growth. As noted earlier, DCCs can only be collected to help fund waterworks, wastewater projects, drainage works, major roads, and acquisition and development of parkland. Other infrastructure services cannot be funded, in whole or in part, using DCC revenues, and are, therefore, not identified in the calculation.

- **STEP 3 – Estimate Infrastructure Costs**

The infrastructure projects identified in Step 2 are costed in Step 3 of the process. For DCC purposes, the total cost estimate for each project can include a variety of separate costs that will be incurred by the local government in providing the infrastructure. Project costs related to the following activities may be included.

- Planning
- Engineering design
- Land acquisition
- Contract administration
- Contingencies
- Remittance of net GST
- Public consultation
- Right of way
- Interim debt financing
- Construction
- Legal review

Long-term debt financing costs cannot be included in cost estimates for DCC projects.

- **STEP 4 – Allocate Costs to Growth/Existing Users**

Not every project identified for DCC purposes will be required solely to accommodate growth. Most, if not all, of the identified works will be deemed to benefit, and will be required by, both growth and the existing population. Growth is expected to pay only for the portion of the works that it requires. The existing population is expected to pay for the remaining portion using other sources, such as tax and utility revenues.

The costs of the DCC works are allocated between growth and the existing population on the basis of benefit.

- **STEP 5 – Assign Costs to Land Use Types**

Once the infrastructure costs have been allocated between the existing population and growth, the portion attributable to growth is assigned to the various types of growth – residential, commercial, industrial, institutional – that are projected to occur. Costs are assigned in a way that reflects the relative impact of each type of development on the works required.

- **STEP 6 – Convert Costs into DCC Rates**

The assigned infrastructure costs are converted into actual DCC rates that can be charged to individual development projects. The total cost assigned to each development type is divided by the number of development units (e.g., number of dwellings, square metres, hectares) expected over the DCC program time frame. The result is a per-unit charge that can be easily applied to individual developments as they occur.

- **STEP 7 – Apply Assist Factor**

The final step in calculating DCCs is to apply the assist factor. The assist factor is the contribution that the existing population must provide to assist future growth in paying its portion of the DCC infrastructure costs. The assist factor is over-and-above the portion of the total infrastructure cost that is allocated to existing users in Step 4.

The assist factor reduces the DCC rates by the specific level of assist chosen. Under the *Local Government Act*, the level chosen must be at least one percent.

What are some of the decisions that need to be made?

Over the course of the DCC establishment process, local governments are required to make certain decisions. Individually and together, these decisions give shape to the DCC program, and help to determine the specific DCC rates. Some examples of the types of decisions local governments need to make are provided below.

Time period for the DCC program

A local government must choose a future period of time over which to apply its DCC program. This choice will be influenced by the time period that has been established for the community's broader growth management framework, particularly its Official Community Plan (OCP) and servicing plans.

The OCP projects the amount and types of growth that are expected in the community over a specified future period of time. The servicing plans identify the servicing efforts that the community needs to undertake in order to provide for, and to shape, the growth that is projected to occur.

In many communities, the OCPs and servicing plans cover only a short- or medium-term future period of five to ten years. Local governments in these places are limited to the same period for their DCC programs (the required growth and infrastructure projections for longer DCC programs are not available). An increasing number of local governments are now, however, beginning to conduct detailed growth and capital planning exercises for longer periods of time, in some cases twenty years. The data available from the long-term planning efforts enable these local governments to create equally long-term DCC programs.

For a number of reasons, long-term DCC programs are considered preferable to short-term programs. Long-term programs tend to provide greater flexibility to governments in the scheduling of works, since specific works can be delayed or brought forward without upsetting the overall rate structure. Developers know that the rates charged today will remain relatively stable over a longer period of time. Longer time frames provide greater certainty to developers who wish to invest in communities.

It should be noted that local governments that extend their DCC programs over a long-term period are not "locked in" to the set of DCC rates and the specific infrastructure projects for the entire duration of the program. Like all long-term planning documents, DCC programs are regularly updated to account for changes in trends, policy objectives, inflation and other inputs. These updates provide local governments the opportunity to modify DCC programs and rates.

Use of DCC sectors

By default, a local government's DCC program applies to all new development throughout the entire community. Local governments may choose, however, to divide the community into different DCC sectors, and develop a separate DCC program for each one. Local governments may even choose to have different sets of sectors for different types of works. For example, three sectors for roads, five sectors for drainage, and so on.

The decision to establish DCC sectors will reflect, in part, a community's planning goals. A community that wishes to encourage efficient, higher density development in a town centre, for example, may create a separate town centre DCC sector for roads. The roads DCC program for this sector would allow the local government to take into account the low impact that high density housing has on roads, relative to that of additional road requirements for low density, suburban housing. The lower road DCC rates in the town sector would acknowledge the differences in impact.

The decision to establish sectors may reflect, in addition, the infrastructure projects to be developed. Some works, such as wastewater collectors, pump stations and water mains may be deemed to have a specific benefit to a defined area. The creation of DCC sectors for the funding of these works would promote the principle of equity by enabling the local government to apply the project costs directly, and solely, to the project beneficiaries. Other works, such as wastewater and water treatment plants, tend to provide a broad and equal benefit to the entire community. Separate DCC sectors would probably not be appropriate for these works.

Method of allocating costs

As noted earlier, off-site infrastructure services required to accommodate growth will often provide some benefit to the existing population. Where a dual benefit is deemed to exist, growth should not be expected to fund the entire cost of the DCC works. The existing population should, through its local government, pay its fair share, using tax or other financing sources.

Calculating the existing population's share of costs is, in some cases, an exact process. Consider a new wastewater treatment plant. Existing users will represent an exact percentage of the total number of users (including newcomers) that will ultimately be connected to the system. The actual percentage can be used to represent the existing population's share of costs.

In other cases, the local government may choose to take a different approach to allocating costs. Consider a major, 20-year road program. Any attempt to precisely determine the existing population's benefit may prove difficult. The local government may determine that the major road program will equally benefit growth and the existing population, and decide the cost for the program be split 50-50.

The decision on how to allocate costs between growth and the existing population is a choice over which a local government has considerable discretion. However, the decision should be defendable on the basis of sound and well-reasoned arguments, because it will be scrutinized by the public, development industry and reviewed by the Ministry of Community Services.

Assigning costs to land use types

Each type of development has a different impact on the off-site infrastructure services being provided. The impact of each type, relative to that of others, needs to be considered when assigning the portion of total infrastructure costs attributable to growth - costs need to be assigned to development types on the basis of relative impact.

Local governments express relative impacts in terms of "equivalent units." Equivalent units express the impact of each type of development on a service relative to that of a single-family house. The relative impacts of the different development types will vary, as might be expected, by type of service.

Different sets of equivalent units, therefore, need to be developed for each service being included in a DCC program. Various sources of data are used by local governments to help establish equivalent units. Trip generation manuals published by traffic engineering associations are often used to determine relative impacts on road networks. Water usage data, collected from water metres, can be used to help determine relative impacts on waterworks.

Assist factor

The assist factor is the contribution that the existing municipality and/or regional district must provide to help growth in meeting its service cost obligations. The assist factor is over-and-above the portion of the infrastructure cost that is allocated to the existing population. Under the *Local Government Act*, the assist factor must be at least one percent.

The assist factor may vary by type of infrastructure, but not by type of development, or by DCC sector.

For example, the assist factor applied to roads may differ from the factor applied to waterworks. A common roads assist factor, however, must be applied to all types of development throughout the entire community.

The setting of the assist factor is a policy decision made by elected officials. Decision-making should take into consideration the local government's objectives in addressing issues of land efficiency, housing affordability, and community sustainability. In some communities the assist factor is used as a tool to promote certain goals, such as the development of affordable housing.

Who is involved in determining the rates?

Elected officials, staff and stakeholders have important roles to play in determining DCC rates.

Elected Officials

Municipal councils and regional district boards are responsible for the DCCs that are imposed on new development in their communities. Given this responsibility, it is important for elected officials to be involved in setting the rates.

Councils and regional district boards have some specific responsibilities. They must make decisions on a wide variety of issues – some of which have been discussed already – that arise during the DCC establishing process. In making decisions, the elected officials rely on staff to identify options, outline implications and provide recommendations.

Elected officials are also responsible for ensuring that the DCCs reflect important best practices, as well as key principles such as fairness and equity. Are the DCCs fair to both growth and existing ratepayers?

Finally, elected officials need to remain aware of their statutory obligation to consider the impact of the DCCs on development and, in particular, the development of reasonably-priced housing and serviced land.

Staff

Staff have two key responsibilities in the DCC rate-setting process. First, staff are responsible for undertaking all of the technical work required to produce, collect and assemble the data. Second, staff are responsible for advising the elected officials on the full range of issues that need to be considered. Examples of such issues include:

- the possible use of DCC sectors in place of area-wide charges;
- the time frame for the DCC program;
- the types of development to be charged under different DCC categories (e.g., should all types of development pay parkland DCCs?);
- the development units on which to base charges (e.g., dwelling unit or size of built floor space);
- the eligibility of projects and the cost components to include in determining total project cost;
- the allocation of project costs between new and existing growth; and,
- the size of the assist factor.

Staff need to bring each of these issues, along with options and recommendations, to elected officials.

An additional role for staff in the rate-setting process is to help elected officials understand DCCs. In some communities, staff begin each DCC review with a detailed briefing on the purpose of DCCs, and the issues that need to be considered by council or the regional district board.

Stakeholders

It is important for local governments to involve key stakeholders in setting DCC rates. As explained in the *DCC Best Practices Guide*, stakeholders include “all persons, groups or organizations that have a perceived, actual or potential stake or interest in the results of the decision-making process.” The list of stakeholders in developing DCCs should include:

- development industry groups, such as the Urban Development Institute, the Canadian Home Builders Association, and the British Columbia Real Estate Association;
- local private sector developers;
- public sector developers such as the local School District and Health Authority;
- business groups such as the Chamber of Commerce;
- local ratepayers groups and neighbourhood associations; and,
- the general public.

Each of these stakeholders will be impacted, to some degree, by the DCC rates established. Some will be impacted directly, in that they will have to pay the rates in order to proceed with development. Others will be impacted indirectly. Existing ratepayers, for example, will be required to pay the share of infrastructure costs that is not applied to growth.

During the DCC rate-setting process, the local government needs to provide opportunities for stakeholders to become informed of the issues and options, and to participate in the decisions that are made by the elected officials. At a minimum, the local government should hold a general public information meeting to present a draft DCC bylaw. The local government could also ask interested parties to review and comment on a draft DCC program. Stakeholder forums are another method of involvement to consider.

Some local governments have developed, in conjunction with the Urban Development Institute, local government liaison committees. These committees provide a forum for government officials to meet regularly with development industry representatives to discuss important issues, including DCCs.

The appropriate degree of stakeholder involvement will depend on a number of factors, including the size of the DCC program, the potential impact of the DCC rates, the level of interest expressed by stakeholders to participate and the local government's policy with respect to stakeholder involvement in governance. In all cases, some effort to provide meaningful opportunities for participation should be made. The opportunities should be available early in the DCC setting process, before any final decisions have been made.

The *DCC Best Practices Guide* recommends at least three opportunities for stakeholder involvement in the DCC rate-setting process:

- during the development of draft DCC rates by staff;
- immediately following first reading of the DCC bylaw by council or regional district board; and,
- during the revision of the bylaw, before second reading.

How are DCCs implemented?

DCCs are implemented by bylaw. Council or the regional district board initiates the bylaw process by instructing staff, often in response to a staff recommendation, to develop a DCC bylaw or amend an existing DCC bylaw. Staff develop the bylaw with input from the elected body and stakeholders, then forwards the bylaw to council or the regional district board for first reading. After first reading, more consultation with stakeholders and the governing body is undertaken to obtain input and to determine if amendments are required. Council or the regional district board then gives the bylaw second and third reading.

After third reading, the local government forwards the bylaw and all supporting information to the Ministry of Community Services, for the review of the Inspector of Municipalities, who is required under the *Local Government Act* to review and give approval to the bylaw before fourth reading. The bylaw and supporting documents are reviewed to ensure that:

- the methodology used to determine the rates is sound and complies with all legislative requirements;
- stakeholders have been consulted; and,
- the impacts of the rates on development have been considered.

If there are no issues with the bylaw, the Inspector of Municipalities grants statutory approval and returns it to the local government. Council or the regional district board gives fourth reading to the bylaw, after which it is ready to be implemented.

There are some specific policy issues related to implementation that the local government needs to consider. One issue concerns when to collect DCCs from growth. The *Local Government Act* states that DCCs are payable either at the time of subdivision approval, or at the issuance of a building permit. For single family residential developments, local governments typically choose to collect payments at subdivision approval in order to avoid having to front-end any infrastructure costs.

For non-residential development, local governments usually collect DCCs at the time of building permit issuance. DCCs for these developments are often based on built floor space rather than dwelling unit (the total floor space to be charged can be difficult to determine at subdivision approval). With respect to multi-family development, local governments often have no choice but to collect payments at the building permit stage, since multi-family housing subdivisions are relatively infrequent, compared to single family development subdivisions.

Another policy decision for elected officials relates to the notion of a “grace period.” A grace period is the period of time between the approval of the DCC bylaw and the bylaw’s effective date of application. If the rates in the bylaw are significantly higher than those that were previously charged, the local government may wish to grant a substantial grace period (e.g., up to one year) to allow developers to expedite projects for which financing has already been arranged.

Finally, it should be noted that the *Local Government Act* gives some protection to “in-stream” developments. Developments that have submitted complete subdivision applications, and that have paid their subdivision

application fees, are given a 12 month exemption from new DCC rates. These developments are entitled to pay the lower existing DCCs as long as they receive final subdivision approval during the 12 month period. This in-stream protection is distinct from any grace period that the local government may choose to offer.

When to use DCCs

When are DCCs a good idea?

DCCs are best suited to situations in which expenditures on works can be delayed until the DCC funds required to help pay for the works have been collected. As growth occurs, a local government begins collecting DCCs to help fund the necessary infrastructure. If possible, the local government will choose to delay the construction of the works until sufficient DCC funds have been collected. By treating DCC funds as a source of capital for the works, the local government can avoid having to front-end construction using borrowed funds.

Infill and mixed infill-greenfield developments that can benefit from a certain level of servicing already in place are considered to be particularly well-suited to DCCs. In these situations, the local government can postpone the construction of infrastructure until growth has materialized, and sufficient DCC revenues have been collected.

When should alternatives to DCCs be considered?

Greenfield developments, which typically do not have any level of servicing in place prior to growth occurring, are not always suited to DCCs. Greenfield sites can often require a significant up-front investment in infrastructure before development occurs and before DCCs can be collected. If the required works are part of the DCC program, it is the local government that is expected to front-end the works, and then recover up-front costs from growth as it occurs.

This reliance on DCCs as a method of cost-recovery can be difficult for local government. If growth does not occur as projected, the local government may not be able to recover all of its sunk costs.

What alternatives to DCCs exist?

It is important to recognize that DCCs are not the only development finance tool available to local governments in British Columbia. The *Development Finance Choices Guide*, published by the Ministry of Community Services, identifies and provides advice on other development finance tools that local governments can use to help fund the cost of infrastructure required by growth.

The complete list of tools includes:

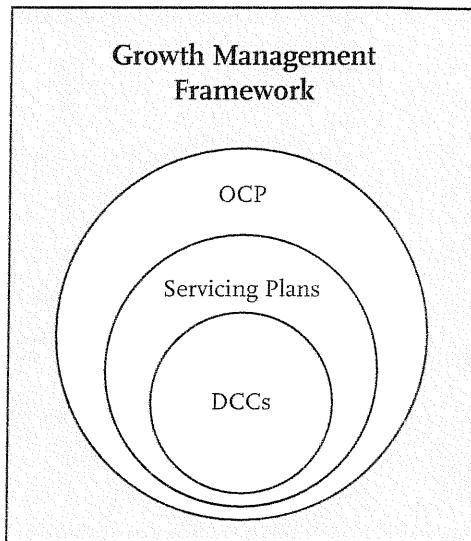
- Comprehensive development agreements
- Local improvements
- Specified areas
- User fees and charges
- Short-term borrowing
- Long-term borrowing
- Latecomer charges
- Development works agreements
- DCC credits and rebates
- Density bonusing
- DCCs
- Public-private partnerships
- Public-public partnerships

DCCs are probably the most popular tool in use today, but are clearly not the only one available. The key for local governments is to determine which tool, or set of tools, should be used at any given time. Different tools are both well-suited and poorly-suited to different types of situations. Chapter 6 of the *Development Finance Choices Guide* is designed to assist local governments in choosing the right approach for any given situation.

DCCs and the Broader Context

How do DCCs fit into a local government's growth management framework?

A local government's DCC program does not exist in isolation to the community's growth management framework. On the contrary, the DCC program is a critical element of the broader planning context that includes the local government's OCP and servicing plans. The accompanying figure illustrates how these key components fit together.



The OCP presents the local government's preferred long-term development pattern, which describes:

- where future growth will be encouraged;
- where growth will not be encouraged;
- what types of development (e.g., mixed-use, high density residential) will be encouraged; and,
- what types of development (e.g., low density residential) will not be encouraged.

The local government's servicing plans identify the specific types and amounts of infrastructure that are required to bring the preferred development pattern to fruition. Servicing plans are normally created for

all major types of local infrastructure, such as roads, waterworks, sewerage and drainage systems, as well as for parkland.

The local government's DCC program contains the individual works, identified in the servicing plans that are required to accommodate growth. The cost of each of the works is allocated in the program between growth and the existing population. The portion allocated to growth forms the basis of the DCC rates.

What is the importance of good planning to DCCs?

The OCP's preferred development pattern is a direct reflection of the local government's growth management objectives. Many local governments have adopted what are typically referred to as "smart growth" objectives. Smart growth emphasizes the importance of environmentally-sustainable and economically-efficient development, characterized by compact urban forms, high density, mixed-use developments and an increased reliance on alternative modes of transportation.

Development patterns that are based on smart growth objectives are less expensive to service than patterns which encourage low density, spatially-dispersed growth. The higher servicing costs associated with traditional low density "sprawl" result in higher DCCs.

How can DCCs be structured to promote smart growth objectives?

DCCs are collected from growth to help pay the cost of services required to accommodate the growth. Existing data demonstrate that the overall cost of providing services to compact, medium, or high density, mixed-use development is lower than the cost of servicing traditional low density, suburban development. DCCs can be structured to recognize the differences in service

costs, and to provide an incentive for smart growth developments. DCC sectors and density gradients are two mechanisms that can be used to achieve the desired effect.

DCC sectors can be established to separate compact, high density development areas from other parts of the community.

Infrastructure projects that are deemed to have no benefit to the growth within these sectors can be excluded from the sectors' DCC programs. The exclusion of such projects results in lower DCC rates.

Major (costly) trunk extensions and arterial roads required to service outlying development areas are examples of the types of projects that can be excluded from smart growth DCC sectors. Development that occurs in these sectors is not required to pay toward the cost of these projects.

Density gradients differentiate among developments on the basis of density rather than type of growth. Gradients are created to take advantage of the inverse relationship that exists between the density of a development and its impact on key services. In general, the lower the density of a development, the higher the impact of that development on the cost of providing water, wastewater and road infrastructure. Applying density gradients to growth serves to lower the DCC rates payable by higher density projects.

Most local governments with DCCs make use of a two-level residential density gradient that differentiates between single family and multi-family developments. Some local governments have four-level residential gradients that account for the different impacts of large- and small-lot single family dwellings, and of low-rise and high-rise apartment buildings.

DCCs and Development

Do DCCs deter development?

The total cost of developing a piece of land in a community can be broken into various individual components. The price of the land is one component, as is the cost of construction materials, the price of labour and the developer's return on investment, or the development's profit. DCCs – the cost of providing off-site infrastructure services to the land – represent another component. As the individual cost components change, so does the total cost of the development. Steep increases in individual costs can result in an overall cost that the market is unwilling to support. In such cases, development will be deterred.

DCCs, as one cost component, do affect the overall cost of development. A significant increase in DCCs could push the total cost above the level that the market is willing to pay, and could discourage development. The size of the DCC increase required to generate this result depends, in large part, on the magnitude of the other cost components. In markets where DCCs comprise a relatively large part of the total cost, changes in rates may have a considerable impact on development decisions.

The potential for DCCs to deter development is an important point for local governments to consider. In setting DCC rates, local governments need to recognize that the decisions they make will influence the overall cost of development in the community. Careful consideration needs to be given to the:

- amount of future infrastructure required (is it reasonable?);
- infrastructure cost projections (are they fair?);
- methods of allocating costs between growth and the existing population (is the split equitable?);

- rates charged to different sectors (do smart growth and infill developments pay in accordance with their lower relative impact on works, or do they subsidize greenfield projects?);
- need for a grace period (do developers need time to adjust to new rates?); and,
- assist factor (do the final rates need to be adjusted?).

The potential for DCCs to deter development should focus a local government's attention on the need to establish DCCs that are fair and reasonable. If DCCs have the potential to adversely impact development, local officials should consider the wider range of development finance tools that may be used in place of, or in addition to, DCCs. These are described in the *Development Finance Choices Guide*.

DCCs Across British Columbia

Who uses DCCs in British Columbia?

DCCs are a popular development finance tool in British Columbia. In high growth areas, such as the Lower Mainland, parts of Vancouver Island and the Central Okanagan, DCCs are quite common. The widespread use of DCCs in these regions reflects the strong demand for infrastructure to accommodate ongoing development. In regions characterized by more modest growth, DCCs are slightly less popular, but are still used. For example, several local governments in the Central Interior and Kootenay regions of the province have DCC bylaws in place.

Who charges what?

Comparisons of rates across communities are inherently problematic, in part because of differences in growth pressures and infrastructure needs, but also because of differences in the way that individual DCC programs are constructed. Local governments have considerable flexibility in setting DCC rates. The rates that are ultimately determined in any one jurisdiction will reflect that local government's decisions related to a wide variety of inputs, including the costing of works, the existing population's share of total infrastructure costs, the use of DCC sectors, the assignment of costs among development types, the units on which to base charges and the municipal assist factor. The rates will also reflect the local government's decision to use other development finance tools in place of, or in addition to, DCCs.

Notwithstanding the problems inherent with cross-jurisdictional DCC comparisons, elected officials may appreciate the opportunity to review the approaches taken in other communities. The table on the following page provides a general sense of current DCCs across British Columbia, specifically for residential development.

It should be noted that the figures presented in the table have been rounded-off, and certain assumptions have been made (see “comments” column) in order to generate comparable data.

For a list of detailed rates, as they apply to all types of development throughout each of the centres listed, the local government should be contacted directly. The Ministry of Community Services can also provide a list of DCCs being applied throughout the province.

Residential DCCs across BC – January 2004

Jurisdiction	SFR*	MFR*	Comments
Abbotsford	\$ 13,700	\$ 7,600	
Burnaby	\$ 7,450 - \$ 7,850	\$ 5,000 - \$ 5,400	both include GVS&DD charge; assumes room ² MFR unit; high rate in Edmonds Town Centre
Castlegar	\$ 4,800	\$ 3,620	
Coquitlam	\$ 14,500	\$ 10,400	both include GVS&DD charge; assumes medium density MFR
Kelowna	\$ 9,900 - \$ 17,300	\$ 7,500 - \$ 13,000	lower rates are for City Centre; higher rates for outlying area
Langford	\$ 6,100	\$ 4,800	includes CRD water DCC; assumes medium density MFR
Nanaimo	\$ 9,000	\$ 6,000	assumes room ² MFR unit; DCCs recently eliminated for City Centre
Parksville	\$ 2,800 - \$ 7,000	\$ 5,000 - \$ 5,500	ranges over sectors; assumes room ² MFR unit
Prince George	\$ 3,410	\$ 1,900	core area; medium density MFR
Richmond	\$ 14,300	\$ 11,400	both include GVS&DD charge; assumes medium density MFR
Sidney	\$ 970 - \$ 3,225	\$ 970 - \$ 3,225	range for both types over sectors
Surrey	\$ 21,000	\$ 6,000 - \$ 13,200	both include GVS&DD charge; medium density room ² MFR unit assumed; low rate in City Centre

*Figures provided are per dwelling unit. SFR – Single Family Residential, MFR – Multi-family Residential. GVS&DD – Greater Vancouver Sewerage and Drainage District, CRD – Capital Regional District

Closing Comments

DCCs are a popular tool of development finance that can help a local government achieve its growth management and financial objectives, while at the same time promoting and supporting growth.

When considering DCCs, local government officials are encouraged to keep in mind certain guiding principles that have been addressed in this *Guide*. These principles are summarized below.

- **DCCs represent one choice.**

DCCs represent one of the tools available to local governments in the provision of growth-related infrastructure. The *Development Finance Choices Guide* introduces and provides advice on other development finance tools. Certain tools are better suited than others to different development situations. Local government officials need to explore all options before choosing which tools to use.

- **DCCs should support broader growth management objectives.**

DCCs are an integral component of the local government's growth management framework. They should be developed and applied in ways that support, rather than undermine, the broader growth management objectives.

- **Fairness and equity are critical in a DCC program.**

Those who require and benefit from municipal infrastructure should pay their fair share of the cost of providing the infrastructure. DCC rates, and the decisions on which they are based, need to be fair and equitable to the various types of growth that are projected to occur, and to existing taxpayers.

- **Transparency in the rate-setting process is required.**
DCCs will be scrutinized by the public, the development industry and reviewed by the Ministry of Community Services. Local government decisions related to project costs, allocation of costs, use of sectors, the assist factor and other issues should be well-reasoned and explained.
- **DCCs should be current.**
Local governments should regularly update their DCC bylaws to ensure that the rates reflect changes to infrastructure needs and project costs, as well as changes to important growth management objectives. At the same time, notwithstanding the need for regular updates, developers do expect a certain degree of stability in rates over time. Major changes to DCC programs may create uncertainty and discourage development.
- **Stakeholder input is important.**
DCCs impact many different organizations and individuals, including the development industry and existing ratepayers. All parties that may be affected by a DCC program should be afforded meaningful opportunities to participate in the DCC decision-making process.

For More Detailed Information

Ministry Best Practice Guides

Development Cost Charges Best Practices Guide

Development Finance Choices Guide

Available electronically through the search function of the British Columbia Government website at: www.gov.bc.ca

Or call

Ministry of Community Services
Intergovernmental Relations
and Planning Division

1-250-387-3394

Ministry of Community Services
Infrastructure and Finance Division

1-250-387-4060

Toll Free through Enquiry BC

In Vancouver call:

1-604-660-2421

Elsewhere in BC call:

1-800-663-7867