City of Richmond

Report to Committee

To:	Finance Select Committee	**Date:**	January 7, 2002
From:	Danley J. Yip, C.A. Director of Finance	**File:**	1070-04-03
Re:	**Development Cost Charge Review**		

Staff Recommendation

That the Report to Committee (dated January 7, 2002 from Graham Willis, Manager, Special Projects) regarding Development Cost Charges Review be received for information.

Danley J. Yip, C.A.
Director of Finance

Att. 1

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Staff Report

Origin

On November 29, 2001, in response to a report on the review of Development Cost Charges currently underway, the Finance Select Committee asked staff to prepare a report on the following:

1. Determine if there is any merit in increasing Development Cost Charges (DCC's) in relation to the Consumer Price Index (CPI)

2. Provide a comparison of the rates charged by Richmond and Delta on industrial buildings, i.e. Richmond administers its DCCs on an industrial building based on 'per square foot of the industrial building', while Delta calculates square footage on 'per square foot of the land area'.

3. Provide a comparison of the DCC rates charged by Delta, Burnaby, the District of Langley, and Surrey

4. Recommendations on how Richmond [can be] competitive with the rest of the Region.

Analysis

1. Determine if there is any merit in increasing Development Cost Charges (DCC's) in relation to the Consumer Price Index (CPI)

The undersigned has discussed this issue with the Ministry of Community, Aboriginal & Women's Services in Victoria, which agrees with the concept of updating DCC's on an annual basis. However, the CPI may not be the most appropriate index for such a purpose; instead, we would use an index of local construction prices. Secondly, we could not simply apply that index to the DCC rates annually to determine the new rates. We would also have to incorporate the actual costs of completed projects into the process. We would then apply the construction price index to the remaining DCC program projects not yet completed to update the expected costs for those projects. The following example illustrates the process required:

Completed projects	DCC budget		Actual cost
Project 1	$100,000		$125,000
Project 2	$200,000		$180,000
Subtotal	$300,000		$305,000
Outstanding projects	DCC budget	Const.Index	New budget
Project 3	$100,000	5%	$105,000
Project 4	$350,000	5%	$367,500
Project 5	$250,000	5%	$237,500
Subtotal	$700,000		$735,000
Total new program costs	$1,000,000		$1,040,000
Index to be applied to DCC rates	= 40,000/1,000,000 = 4%		

As shown, even though the construction index was 5%, only 4% can be applied to the DCC rates when actual costs of completed projects are incorporated into the process.

Carrying out such a procedure annually would be relatively straightforward and not particularly time consuming, as a spreadsheet model could be used to calculate the index to be applied. I would not recommend we update the DCC rates unless a material increase was indicated. Annual updates would require a DCC amendment bylaw rather than a complete revision, and the adoption procedure should be fairly smooth.

2. ***Provide a comparison of the rates charged by Richmond and Delta on industrial buildings, i.e. Richmond administers its DCC's on an industrial building based on 'per square foot of the industrial building', while Delta calculates square footage on 'per square foot of the land area'.***

Richmond actually has two categories of 'industrial' development for the purposes of DCC's as follows:

- 'major industry' (for which uses are specified in the current DCC Bylaw, and which basically include manufacturing and other heavy industrial uses; the uses specified in this group correspond to those uses defined as 'major industry' by the BC Assessment Authority)

- 'light industry' (all industrial uses not specified in the DCC Bylaw, including such uses as business parks and high-tech industry)

'Major industry' development is assessed DCC's on the basis of acres of land area developed. 'Light industry' is charged on the basis of square feet of building area. Delta does not differentiate between major and light industry, and all industrial uses are charged on the land area developed.

Currently, Delta charges $98,784 per hectare, or **$39,977 per acre**, on industrial development except on Annacis Island, where the rates are $68,536 per hectare, or $27,736 per acre. For 'major industry' development, Richmond charges **$65,722 per acre on Lulu Island**, $29,292 per acre on Sea Island, and $27,206 per acre on Mitchell/Twigg Islands.

For 'light industry' development, Richmond charges a base:

- $2.36 per square foot of building area, plus $11,393 per acre of land area, on Lulu Island;
- $1.06 per square foot of building, plus $6,274 per acre of land, on Sea Island;
- and $1.81 per square foot of building, plus $2,813 per acre of land, on Mitchell/Twigg Islands.

Example 1. High tech development on one acre, with average FAR of 0.75 (or building area of 32,670 square feet)

- DCC on Lulu Island is $77,101 for the building, plus $11,393 for the land; total **$88,494 per acre**
- DCC on Sea Island is $34,630 for the building, plus $6,274 for the land; total $40,904 per acre
- DCC on Mitchell/Twigg is $59,133 for the building, plus $2,813 for the land; total $61,946 per acre

Example 2. Other light industry development on one acre, with average FAR of 0.50 (or building area of 21,780 square feet)

- DCC on Lulu Island is $51,401 for the building, plus $11,393 for the land; total **$62,794 per** acre
- DCC on Sea Island is $23,087 for the building, plus $6,274 for the land; total $29,361 per acre
- DCC on Mitchell/Twigg is $39,422 for the building, plus $2,813 for the land; total $42,235 per acre

In both instances, for 'major industry' and 'light industry', Richmond's DCC's are considerably higher than Delta's. The rates on Sea Island and Mitchell/Twigg Islands are more comparable to Delta's, but industrial development there has been negligible.

3. *Provide a comparison of the DCC rates charged by Delta, Burnaby, the District of Langley, and Surrey*

A comparison of the current DCC's charged in Richmond, Delta, Surrey, Langley District, and Burnaby is attached as Appendix 1. Note that Burnaby charges a municipal-wide DCC only for parkland acquisition, and only on residential development. Note also that only the charges on Lulu Island are listed for Richmond. In addition, the DCC Bylaw for Surrey is fairly complicated, and the residential charges shown, in particular, are probably at the high end of the scale. Otherwise comparisons are as shown.

All municipalities in the study do not charge in the same way for given types of development. For example, Richmond charges as follows:

- Residential – per unit for all densities
- Commercial/Light Industry – per square foot of building area, plus per acre charge for drainage.
- Major Industry – per acre of land area developed

Surrey and Burnaby, on the other hand, charge multi-family residential DCC's per square foot of building area. Delta and Langley charge commercial DCC's per square metre of building area, and Delta charges industrial DCC's per hectare of land area developed. Equivalent charges have been calculated where required to allow for comparison with Richmond, subject to the notes below the table.

In addition, some municipalities have different charges for special categories. No municipality but Richmond has a category for 'light industry', for example. Others allow reduced DCC's for 'institutional' development.

Richmond appears reasonably competitive on residential DCC rates, above Delta but significantly lower than Surrey and Langley. For commercial rates, Richmond seems, again, quite competitive, comparable to Delta but much lower than Surrey and Langley. Industrial DCC's are a different matter, however, with Richmond considerably higher than Delta, Surrey, and Langley.

4. Recommendations on how Richmond [can be] competitive with the rest of the Region.

Based on limited data, Richmond appears to be competitive with other municipalities in the Region, with the exception of the industrial DCC rate. In addition, a more comprehensive look at how much high tech industry is charged in other jurisdictions seems warranted in order to determine whether Richmond DCC rates are competitive in that industry. There is also a dramatic difference between the industrial rates on Lulu Island and on Annacis Island in Delta.

On the plus side, Richmond's commercial DCC rates appear to be on the low end of the scale, and there is possibly room for an adjustment therein. A larger study would help confirm this conclusion.

Richmond is strategically located in the Lower Mainland, and has historically been an attractive place for business and industry to locate over the years. The property assessment mix of residential, business, and industrial has remained relatively constant for many years and has allowed for a reasonably low residential property tax base. Richmond could justifiably be positioned in the top third of DCC rates charged in the Region. Even so, it does seem that a closer look at industrial rates is necessary.

Conclusion

Updating DCC rates annually could be achieved using the local construction index and actual costs of completed DCC projects, and would be fairly straightforward, requiring a DCC amendment bylaw rather than a complete revision.

Richmond's DCC rates, with the exception of industrial rates, are currently competitive with other municipalities in the Lower Mainland. However, a more comprehensive review should be completed.

Industrial rates are substantially higher than comparable neighbouring municipalities, and further review is warranted, especially in how it affects the high tech industry.

FOR

N. Graham Willis
Manager, Special Projects

Appendix 1 – Comparison of DCC rates

DCC	*Richmond-Lulu Island*	*Delta*	*Delta-equiv*	*Surrey*	*Surrey-equiv*	*Langley Dist*	*Langley-Equiv*	*Burnaby*[6]	*Burnaby – equiv*
Res-SFD	**$13,092/unit**	$11,229/unit	**$11,229/unit**	$22,080/unit	**$22,080/unit**	$15,984/unit	**$15,984/unit**	$6,521/unit	**$6,521/unit**
Res-TH	**$11,511/unit**	$7,627/unit	**$7,627/unit**	$10.29/ft	**$14,406/unit**[1]	$13,406/unit	**$13,406/unit**	$3.62/ft	**$5,068/unit**[1]
Res-LR Apt	**$10,252/unit**					$10,392/unit	**$10,392/unit**	$3.84/ft	**$4,224/unit**[2]
Res-HR Apt	**$7,087/unit**	$6,008/unit	**$6,008/unit**	$10.06/ft	**$8,048/unit**[3]	$9,373/unit	**$9,373/unit**	$3.55/ft	**$2,840/unit**[3]
Congregate	**$2.46 to 2.88/ft**[4]	$2,817/unit	**$2,817/unit**	$8.56/ft	**$8.56/ft**	$50.30/m[4]	**$4.67/ft**[4]		
Commercial-Lulu*	**$2.46 to 2.88/ft**[4]	$26.81/m	**$2.51/ft**	$8.56/ft	**$8.56/ft**	$50.30/m[4]	**$4.67/ft**[4]		
Light industry	**$2.46 to 2.88/ft**[4]								
Major industry-Lulu*	**$65,722/ac**	$98,784/ha	**$39,977/ac**	$42,470/ac	**$42,470/ac**	$11.38/m[5]	**$46,053/ac**[5]		
Industry-Annacis		$68,536/ha	**$27,736/ac**						
Institutional	**$2.46 to 2.88/ft**[4]	$14.56/m	**$1.36/ft**	$4.27/ft	**$4.27/ft**	$11.10/m[5]	**$44,920/ac**[5]		
Int. Agricultural		$23,103/ha	**$9,349/ac**						

1.assumes 1400 sq ft
2.assumes 800 sq ft
3.assumes 1100 sq.ft
4.includes $11,393 per acre for drainage, which is roughly equivalent to $0.52 per square foot; allows decreased DCC rate for multiple storeys
5.charged per sq.m of development area
6.Burnaby charges a municipal-wide DCC for parks acquisition only; there are also a number of minor special-area DCCs for Metrotown, Edmonds, and an area in central Burnaby bounded by Canada Way and Hwy 1