



City of Richmond

Report to Committee

To: Public Works & Transportation Committee **Date:** October 29, 2003
From: Graham Willis
Manager, Special Projects **File:** 4105-01

Robert Gonzalez
Manager, Engineering Design and Construction

Joe Erceg
Manager, Development Applications

Re: Development and Engineering Costs Referral

Staff Recommendation

That the staff report dated October 29, 2003, prepared by staff in the Finance, Engineering and Development Application Departments in response to referrals from Committee regarding development and engineering costs, be received.

Graham Willis, Manager
Special Projects

Robert Gonzalez, Manager
Engineering Design and
Construction

Joe Erceg, Manager
Development Applications

FOR ORIGINATING DIVISION USE ONLY
CONCURRENCE OF GENERAL MANAGER

Staff Report

Origin

At the May 21, 2003 Planning Committee Meeting the following motion was passed:

“That staff undertake a review of the collection of Development and Engineering Cost Charges”.

This was followed by another motion at the June 18, 2003 Public Works & Transportation Committee Meeting:

“That the report being prepared by Urban Development staff on the cost of subdivision planning charges be expanded to include service cost charges for small lot subdivisions”.

At that time, some of the concerns that Councillors appeared to be hearing from developers and the investment community included that:

- staff were collecting the full residential Development Cost Charges (DCCs) without prior warning as opposed to the phased-in process approved by Council;
- applications in process prior to the increase in DCCs were not being grandfathered as expected;
- staff had not adequately consulted with the development community prior to implementing new development and engineering fees;
- the cost of servicing a small subdivision in Richmond was excessive and was more than other municipalities such as Surrey;
- new charges such as an addressing fee had been implemented without warning;
- etc.

Since these referral motions, it is staff's understanding that Councillors have heard other concerns regarding the cost and process involved in developing in Richmond.

In response to a memorandum from Councillor Howard, staff are preparing a separate report on the City's lane standards (which is targeted for the same Public Works & Transportation Committee Meeting as this report).

Furthermore, the Urban Development Division is reviewing and going to respond to the other concerns expressed by the development and investment community through the Project “Why Not?”.

Findings Of Fact

Development Cost Charges (DCCs)

Development Cost Charges (DCCs) are levied on builders and developers to recover the costs of providing the public works infrastructure (roads, drainage, water and sanitary sewer) and parkland (acquisition and development) related directly or indirectly to new development.

DCC rates are normally reviewed every five (5) years after a new Official Community Plan (OCP) is adopted, to incorporate the new servicing programs necessary to accommodate the new development plans outlined in the OCP. Richmond's DCC rates and servicing programs were last reviewed in 2002, and new rates were adopted on January 1, 2003.

In accordance with guidelines for adopting new DCC rates expressed in the Provincial DCC Best Practices Guide, the public was invited to attend a Public Meeting in August, 2002 on staff recommendations for the new DCC rates. In addition, the development industry, as represented by the Urban Development Institute (UDI) and the Greater Vancouver Home Builders Association (GVHBA), was invited to a Special Meeting on the proposed new rates in September, 2002. The GVHBA declined to attend.

The UDI had serious concerns about the size of the increase to the residential DCC rates proposed at the time (approximately 19.0% for single-family dwellings). As a result of this concern, and others of somewhat less importance, staff revisited the recommended rates, eliminated or reduced the scope of some of the projects included in the long-term DCC Program, and were able to reduce the proposed increase to single-family residential DCCs to 8.7%. The resulting DCC rates (as below) were recommended to Council for adoption.

<i>DCC Category</i>	<i>Bylaw 6769</i>	<i>New DCCs</i>	<i>% Change</i>
Lulu Island			
<i>Residential SFD/unit</i>	\$13,092.40	\$14,233.37	+8.7
<i>Commercial/Lt. Industry/sq.ft.</i>	\$2.36 plus \$11,393.30/ acre drainage	\$2.93 plus \$4,805.19/ acre drainage	+10.4
<i>Major Industry/acre</i>	\$65,721.83	\$64,711.80	-1.5
Sea Island			
<i>Commercial/Lt. Industry/sq.ft.</i>	\$1.06 plus \$6,273.80/ acre drainage	\$1.13	-13.5
Mitchell/Twigg Island			
<i>Major Industry/acre</i>	\$27,206.49	\$12,726.70	-53.2

The other major concern expressed by the UDI was that major increases in DCC rates should be phased in over two (2) or three (3) years. While staff had some sympathy in this regard, the staff consensus was that the reduction in the increase to residential rates for single-family from 19.0%, as originally proposed, to the more modest 8.7% increase recommended to Council, was sufficient to allay this concern. Accordingly, staff recommended that the new DCC rates be adopted all at once, without phasing.

Another concern expressed by the UDI was the issue of allowing grace periods for new applications and 'grand fathering' in-stream development applications. Specifically, the concern (and staff response as reported to the General Purposes Committee in November, 2002) was as follows:

"Grace period of 120 days should be allowed for new applications and one-year for in stream applications to permit the development industry to adjust its cost projections for decision-making.

Grace periods for new applications have not been permitted by City in past. In any event, the fact that the City was reviewing development charges, and the proposals for new DCC rates were made available to the public in August, 2002. With an anticipated effective date for the new rates of January 1, 2003, the development industry has already had considerable foreknowledge of the changes. Staff does not recommend a grace period for new applications.

Current DCC legislation allows for a one-year grace period on in stream applications. However, the City currently requires 'waiver' of that right to process applications. TAG has agreed that the requirement for the waiver be eliminated."

At this point, it should be clarified that the one-year grace period in the Provincial legislation only applies to subdivision applications (not Building Permits). However, as is common practice with other municipalities, the City requires all subdivision applicants to sign a "waiver form" (basically agreeing to comply with any new bylaws that are adopted within one year of their application). In other words, every in-stream subdivision application agreed to waive their right to the one-year grace period for the payment of the new DCC rates. Since the phased approach that was ultimately adopted by Council introducing the new residential DCC rates produced a similar effect to providing a one-year grace period for in-stream and new subdivision applications, the intention to eliminate the waiver form was not pursued further. This issue was not raised or discussed at the November 25, 2002 Council Meeting when the phased approach for introducing the new DCC rates was decided. Accordingly, the issue was dropped and waiver form has continued to be used for subdivision applications only.

At the meeting of Council on November 25, 2002, in response to concerns from the development industry that the proposed increase to the residential rates, in particular, was too high to adopt all at once, Council took the following phased approach to implementing the new DCC rates:

- January 1, 2003 - adopted full changes to DCC rates on Lulu Island for commercial/light industry (increase of 10.4%) and major industry development (decrease of 1.5%); adopted full changes to DCC Rates on Sea Island commercial/light industry (decrease of 13.5%), and on Mitchell/Twigg Islands major industry (decrease of 53.2%);

- April 1, 2003 - adopted ½ of the proposed changes to DCC rates for residential development (increase of 4.35% on single-family residential)*; and
 - April 1, 2004 - will adopt second ½ of the proposed changes to DCC rates for residential development (further increase of 4.35% on single-family residential)*.
- * changes to rates varied; residential development is charged by density, and higher-density DCC rates were, in fact, reduced by up to 4.0%.

Current DCC rates for residential development are about average in the region and higher than other Lower Mainland municipalities for commercial/industrial development. Major industry rates on Lulu Island are considerably higher in Richmond than in other jurisdictions; however, Richmond's major industry property tax rates compare quite favourably with other municipalities, especially with those of our nearest neighbour, the Corporation of Delta.

The development industry also voiced concerns that DCC rates should be reviewed more frequently than every five (5) years to avoid implementing large increases at one time. In response, staff have developed a methodology to amend DCC rates annually for inflation and for actual project cost experience, without a wholesale review of the long range development plan and servicing programs ordinarily required with DCC rates reviews. The methodology has been endorsed by Ministry officials and has been reviewed by the Finance Select Committee. Accordingly, the next mini-amendment of DCC rates is planned for January, 2004.

Engineering and Public Works Costs

Neighbourhood Improvement Charges (NICs) allow the City to collect funds from developers as a contribution towards infrastructure improvements, which are not part of the DCC program. Collecting NICs enables a developer to pay a one time fee rather than construct the infrastructure when it is not financially feasible or technically possible. Smaller developments may not be able to construct the infrastructure in isolation and in most cases, would not be able to afford further off-site improvements. Furthermore, the developer is not required to design off-site improvements required by the NIC program, thereby saving the developer time and money.

Neither Delta nor Surrey use the NIC program. Instead, Delta and Surrey use "cash-in-lieu" of construction on a case by case basis from developers. Cash-in-lieu works must be designed and estimated by the developer's engineering consultant. Should Delta or Surrey believe the engineering consultant's estimated cost to be too low to cover the proposed works, three (3) construction quotes may be required.

The NIC that is collected for future lane construction (e.g. on the subdivision of three (3) or less single-family residential lots) is based on a 2003 estimate that the City did based on real costs. As reported to and approved by the Planning Committee on February 18, 2003, the cost for a full lane (pavement, storm drainage, street lighting and rolled over curb and gutter) is \$838 per linear meter (up from the \$412.38 that had been charged for a ½ lane up to that point). Should the Public Works & Transportation Committee decide to revisit the current lane standard, the NIC would have to be amended accordingly.

NICs that are collected in lieu of other infrastructure improvements (e.g. frontage works such as a sidewalk, storm sewer, etc.) are based the Local Improvement Projects Charges Bylaw No. 6259, Amendment Bylaw No. 6878 (1998) that was last updated in 1998.

Flat rate fees charged by the City for installing service connections, and completing tie ins to existing mainlines are set in Bylaw No. 5637 – Waterworks and Water Rates Bylaw and Bylaw No. 7551 – Sanitary Sewer System and Drainage System.

Generally, developers have the choice of retaining City forces to install services or entering into a Servicing Agreement with the City for a typical subdivision. Particularly with small developments (i.e. two-lot subdivisions), developers frequently choose to pay flat rates to have City forces install all services in order to expedite the project and to avoid the Servicing Agreement process. In contrast, through the Servicing Agreement process, developers generally retain private contractors to construct civil works and retain City forces to tie sewer and water mainlines into existing systems. Furthermore, on larger more complex projects, developers are permitted upon request to have private contractors undertake storm and sanitary sewer tie ins to reduce costs and expedite the project.

When the developer chooses to have City forces install services or complete tie ins, flat rate fee schedules as provided in the foregoing bylaws allow staff to provide an immediate cost for the most common work items. This saves the developer time. The flat rate fees are based upon a historical average cost for these work items. Work items not covered in the bylaw fee schedule require detailed estimates. In these cases, the developer pays a deposit based upon the estimated cost and subsequently receives a refund or is required to pay any shortfall.

In comparison to other municipalities, both the Cities of Surrey and Burnaby base fees for similar work on actual cost, while the District of Delta uses flat rate schedules similar to that of Richmond. Recently, Delta revised its approach from providing estimates similar to Surrey to the system similar to that of Richmond. The most significant drawback to estimating each project as Surrey does, is the time required to provide the estimate. Both Surrey and Delta staff confirmed that the delay in providing estimates occasionally results in customer complaints.

The Engineering and Public Works staff are undertaking a review of service methodologies and respective costs with a focus on streamlining service to developers.

Development Application Fees

As part of the 2002 budgetary process, Council agreed that City staff should examine all revenue sources and that the Development Applications Department work towards becoming more "self sufficient" (i.e. revenues = expenditures). On this basis, Development Application fees were increased last year for the first time since 1997.

In doing so, the approval of the UDI and input of the GVHBA and NAIOP was received. Based on this, the proposed new Development Application fees were lowered in certain instances and their implementation was delayed until October 1, 2002 in order to give the development community additional warning of the changes.

As reported to the Planning Committee, in many instances Richmond's Development Application fees are significantly lower than comparable municipalities such as Surrey, Delta, Burnaby, Coquitlam and Vancouver.

Development Application Fees Bylaw No. 7276 was adopted by Council on June 24, 2002. This bylaw implemented the following changes to a typical small lot subdivision and gave the development community until October 1, 2002 as a phase-in period:

- increased the rezoning application fee by \$425 (from \$1,525 to \$2,000) for a standard application and by \$925 (from \$1,525 to \$2,500) if a Single-Family Lot Size Policy required amendment;
- increased the subdivision application fee by \$417 (from \$333 to \$750) and started collecting this at the time of application as opposed to the final approval stage;
- introduced a new \$1,000 processing fee for Servicing Agreements; and
- added a new \$250 fee for assigning another address on a two-lot subdivision.

Staff are proposing to review the City's Development Application fees to include an "inflation" increase and to examine any other potential revenue sources in order to reduce the potential increase to tax payers.

Urban Development Division Review

The Urban Development Division is currently undergoing a major review entitled Project "Why Not?". One of the goals of this review is to make continuous process improvement (CPI) by:

- maximizing quality service delivery and efficiency;
- clarifying roles, responsibilities and accountabilities;
- increasing effectiveness and contribution; and
- reducing process timelines and related costs.

Specific projects the Division is undertaking include:

- a baseline study examining the processing time for a wide variety of Urban Development Division applications in 1998 and 2002 (e.g. rezoning applications; Development Permits; subdivisions; Building Permits; Plumbing Permits; House Moving Permits; etc.);
- report to the Planning Committee on a “fast tracking” process and fee as directed by Council’s term priorities;
- a comprehensive review of the Servicing Agreement process;
- upgrading the “Amanda” review process for development applications and Building Permits;
- streamlining Front of the House and Urban Development Division processes; and
- setting up customer service benchmarks and performance standards.

Project “Why Not” is another opportunity for the City to address other concerns Councillors have heard regarding the cost and process involved in developing in Richmond.

Analysis

The following table provides a comparison of the development and engineering costs between Richmond, Delta, Surrey, Burnaby and Vancouver for a two-lot single-family residential development without a servicing agreement.

The table does not include the cost of a lane since:

- this will be reported on in a separate report on the City’s lane standards;
- Delta does not have a lane policy;
- Surrey and Burnaby base the lane cost on the actual cost (similar to Richmond so there should be no or little difference between the two municipalities); and
- Vancouver does not have that many subdivisions where a new lane is required.

Description of Service	Richmond Fees	Delta Fees	Surrey Fees	Burnaby Fees	Vancouver Fees
Rezoning Application	\$2,000 - \$2,500	\$1,800	\$2,485 ¹	\$1,260	\$5,000 plus \$1,500 to \$4,200 for Development Permit
Subdivision Application	\$750	\$425	\$1,375	\$1,525	\$2,525
Addressing Fee	\$250	\$100	\$500	\$525	\$470
School Site Acquisition Fee	\$231	\$0	\$647	\$1,000	\$0
Development Cost Charges	\$14,233	\$11,229	\$19,680	\$6,521 + \$944 - \$1,731 GVRD sewer	\$1,900 GVRD sewer
Water Service Connection	\$2,500 x 2 + \$750 ²	\$3,570	\$3,715*	\$2,000* to \$4,000* x 2	\$2,825 x 2
Storm Service Connection	\$500 to \$3,000 ³	\$3,350	\$3,500*	\$3,000* x 2	\$1,130 to \$2,560
Sanitary Sewer Service Connection	\$3,000 to \$6,000 ⁴	\$7,040	\$5,000*	\$3,500* to \$5,500* x 2	\$5,260
Driveway Crossing	\$3,000 existing curb & sidewalk (approximately)	\$1,564	\$3,000*	\$700* to \$5,000*	\$3,980
Estimated Total Cost	\$29,714 to \$35,714	\$29,078	\$39,165	\$29,205 to \$42,562	\$27,415 to \$31,545

Notes: * Developer pays estimated costs of any works.

1. Includes \$50 Site Profile review fee.
2. Includes disconnect two services, install new service and tie in, and road restoration.
3. Includes installation of new storm service, tie in, and road restoration. Cost varies depending on depth and length, which are itemized in the respective bylaw.
4. Includes installation of new sanitary service, tie in, inspection chamber, and road restoration. Cost varies depending on depth and length, which are itemized in the respective bylaw.

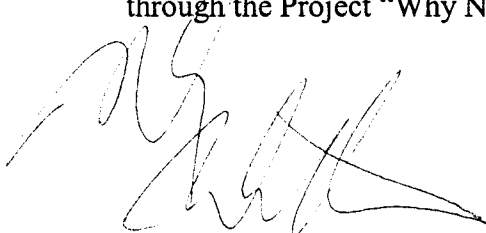
Financial Impact

Developers and the investment community argue that development and engineering costs are passed onto the consumer and add to cost of housing in Richmond.

On the other hand, if these costs are lowered, the taxpayer will probably have to pay more, especially if the municipality is subsidizing the actual cost of development (unless other sources of revenue are found to compensate for any changes).

Conclusion

Both the Planning Committee and the Public Works & Transportation Committee have asked staff to report back on development and engineering cost charges, particularly as they relate to small lot subdivisions. This report has endeavoured to answer the questions Councillors have and to respond to some of concerns from the development or investment community. Staff do not believe that Richmond's development and engineering costs are excessive, especially when compared to Surrey, Delta, Burnaby and Vancouver. A separate report is being prepared for the same Public Works & Transportation Committee as this report dealing with the City's lane standards. Furthermore, the Urban Development Division is going to respond to other concerns the development or investment community has on the process of developing in Richmond through the Project "Why Not?".



Graham Willis
Manager, Special Projects
(4175)



Robert Gonzalez
Manager, Engineering Design
and Construction
(4150)



Holger Burke
Development
Coordinator
(4164)

GW/RG/HB:blg