City of Richmond

Report to Committee

To:	Finance Committee	**Date:**	September 8, 2020
From:	Jerry Chong, CPA, CA Director, Finance	**File:**	03-0900-01/2020-Vol 01
Re:	**Development Cost Charges Imposition Bylaw Annual Inflationary Update (2020)**		

Staff Recommendation

That *Option 1 – Keep DCC Rates Unchanged* as outlined in the staff report titled "Development Cost Charges Imposition Bylaw Annual Inflationary Update (2020)" dated September 8, 2020 from the Director, Finance be approved by Council.

Jerry Chong, CPA, CA
Director, Finance
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REPORT CONCURRENCE		
ROUTED TO:	**CONCURRENCE**	**CONCURRENCE OF GENERAL MANAGER**
Economic Development	☑	Acting for A. Nazareth
Law	☑	
Parks Services	☑	
Engineering	☑	
Building Approvals	☑	
Development Applications	☑	
Policy Planning	☑	
Transportation	☑	
SENIOR STAFF REPORT REVIEW	**INITIALS:** CJ	**APPROVED BY CAO**

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Staff Report

Origin

Development Cost Charges (DCC's) are collected by local governments from new developments in order to fund the capital cost of infrastructures required by growth, such as parkland purchase, park development, traffic improvements and engineering infrastructures.

The Ministry's Development Finance Review Committee (DFRC), through its *Development Cost Charges Best Practice Guide*, recommends annual amendments to the DCC bylaw be made by municipalities to reflect general inflationary increase in their DCC program costs.

During the City's last major DCC update in 2017, the development industry expressed concerns with respect to the significant increase in DCC rates due to the compounding effect of cost escalation between major DCC updates. Therefore, the development industry supported the City's proposal to adjust DCC rates annually. The City has since completed two annual DCC updates in May 2018 and May 2019 that reflected the general inflationary increase of DCC program costs.

The annual DCC rate update for the current year (2020) was originally scheduled to take place in May 2020. However, due to the COVID-19 pandemic, the update that was scheduled to take place in May 2020 was put on hold. The purpose of this report is to review the current market conditions and provide recommendation on the City's 2020 annual DCC rate update.

This report supports Council's Strategic Plan 2018-2022 Strategy #5 Sound Financial Management:

> *Accountable, transparent, and responsible financial management that supports the needs of the community into the future.*
>
> *5.1 Maintain a strong and robust financial position.*
>
> *5.2 Clear accountability through transparent budgeting practices and effective public communication.*
>
> *5.4 Work cooperatively and respectfully with all levels of government and stakeholders while advocating for the best interests of Richmond.*

This report supports Council's Strategic Plan 2018-2022 Strategy #6 Strategic and Well-Planned Growth:

> *Leadership in effective and sustainable growth that supports Richmond's physical and social needs.*
>
> *6.1 Ensure an effective OCP and ensure development aligns with it.*

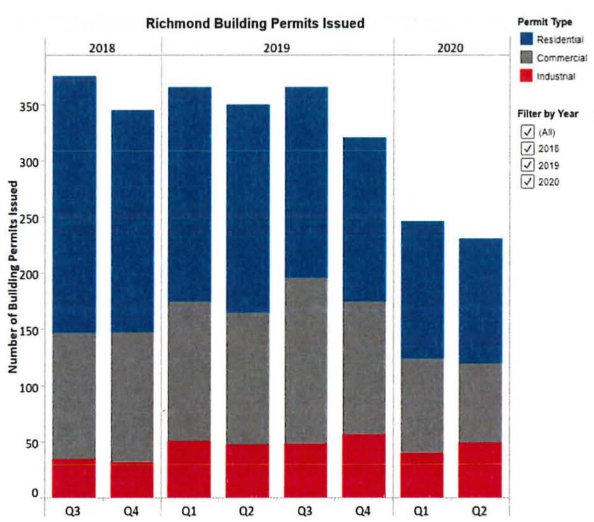
Finding of Facts

The full economic effects of COVID-19 are still very much unknown. B.C. has seen its highest unemployment rate of over 13% since 1987. Thousands of jobs were lost and consumer spending has plummeted where job losses have been concentrated in wholesale, retail, accommodation and food sectors. B.C.'s GDP is forecast to decrease by 5.4% for 2020, while Canada's is forecast to decrease by 6.6%. It is hard to predict how long it will take for the B.C. economy to fully recover.

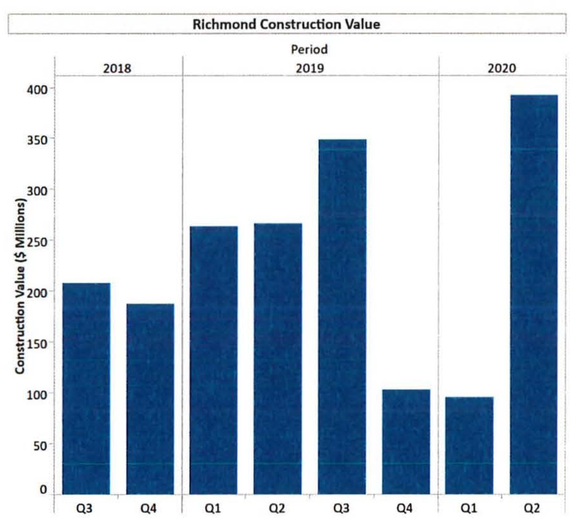
Richmond's Development Activity

Richmond's housing starts and construction activities in the recent months have remained active. Some recently published economic reports confirmed that housing starts have bounced back to pre-COVID-19 lockdown levels. Despite the fact that home sales volume fell dramatically at the onset of the pandemic, low interest rates and limited overall supply of homes for sale are creating competition resulting in housing activities rebounding quicker than expected.

According to the City's Building Approvals Department, although the overall scope of building activity over the spectrum of building types is reduced from previous years, the level of activity in construction is higher than the annual average of the past six years with much of the current activity concentrated in larger, more complex projects such as mixed-used residential and commercial construction. These applications may result in lower permit issuance in certain periods, but will ultimately result in more housing units and higher constructions value, as shown in the charts below.



Source: City of Richmond



Source: City of Richmond

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Home Sales Activity

Volatility in the housing market was seen at the onset of the COVID-19 pandemic. However, recent data suggests that there has been a quick rebound in the home sales activity in Metro Vancouver. Recent home sales data released by the Real Estate Board of Greater Vancouver (REBGV) suggested that home buying and selling activities are strong and active across Metro Vancouver, with home sale and new listing activities outpacing the region's historical averages.

In its latest August 2020 market report, REBGV highlighted that that residential home sales in the region totaled 3,047 in August 2020, a 36.6 % increase from the 2,231 sales recorded in August 2019. The August 2020 sales were 19.9% above the 10-year August sales average.

Cost Inflation Trends

The COVID-19 pandemic continued to have a visible impact on consumer prices. Consumer Price Index (CPI) for B.C. has been on a continuous decline since the start of the pandemic, with the latest 12-month average of 1.4% last being reported by Statistics B.C. for up to July 2020.

While CPI measures the cost inflation of consumer products (e.g. food, shelter, transportation, household costs, clothing etc.), the Building Construction Price Index (BCPI) is used by government agencies undertaking economic analyses and other users that are interested in evaluating the impact of price changes on capital expenditures. Statistics Canada publishes the BCPI for each major metropolitan areas in Canada on a quarterly basis. The latest year-to-year data shows that the Vancouver BCPI increased by 2.0% between Q2 2019 and Q2 2020. Escalation in construction costs was mainly due to costs of commodities, raw materials and wages that continue to rise despite of the slowdown of the economic activities.

Analysis

The presented market statistics are based on a snapshot in time while the future trends and projection are largely unknown. Due to the uncertainty of the full impact of COVID-19, including the possibility of future outbreaks in B.C. or elsewhere, evolutions in public health responses, and the timing of the development of a vaccine, the City has to take these variables into consideration when determining the course of action to take for the current year's annual DCC update. Staff propose the following two options for Council's consideration:

Development Type	Unit	Option 1 Keep DCC Rates Unchanged **(Recommended)**	Option 2 Increase DCC Rates by VCPI of 2.3%	Difference ($)
Single Family	per lot	$41,533.50	$42,488.77	$955.27
Townhouse	per ft^2	$22.59	$23.11	$0.52
Apartment	per ft^2	$23.78	$24.33	$0.55
Commercial/Institutional	per ft^2	$15.27	$15.62	$0.35
Light Industrial	per ft^2	$11.92	$12.19	$0.27
Major Industrial	per acre	$102,762.27	$105,125.80	$2,363.53

Option 1 – Keep DCC rates Unchanged (Recommended)

Pros:

- This option provides relief to the development industry during this time of uncertainty.
- By keeping the DCC rates unchanged, it could prevent imposing unintended consequences to the development industry if the health crisis continues or worsens.

Cons:

- By skipping the current year's annual DCC rate update, it could result in the development industry's expressed unwanted outcome of the compounding effect of DCC rate increases in the next major DCC update (scheduled to be completed in 2022, being five years from the last major DCC update in 2017) due to the cumulative effect of multi-year cost escalation adjustment.
- By keeping the DCC rate unchanged in 2020, DCC revenue collection is estimated to be $1 million less based on an average of $40 million in annual DCC collection. The inflationary adjustments would be added to the future DCC rates which will be borne by future developments. Any potential shortfall in funding the required DCC infrastructure costs may need to be funded by rate payers through property tax or utility, depending on the funding source.

Option 2 – Increase DCC rates by 2.3% (Not Recommended)

Pros:

- The proposed inflationary increase adjustment of 2.3% is based on the 2019 Vancouver Consumer Price Index (VCPI) as published by Statistics Canada, which is an approach consistent with the DFRC's *Development Cost Charges Best Practice Guide's* recommendation on annual inflationary DCC rate updates.
- This approach is consistent with the allowable annual increase under the *Development Cost Charges Bylaw Approval Exemption Regulation, B.C. Reg. 130/2010.*
- By continuing to adjust the DCC rates annually to reflect general inflationary increase, it mitigates large rate increases at the next major DCC update, which is an approach supported by the development industry.
- The level of proposed increase is consistent with the latest published BCPI which is a relevant measurement in providing a reasonable estimate in the inflationary increase in costs in delivering the City's DCC Program which supports capital infrastructures resulting from growth.

Cons:

- The development industry may raise concerns about the rising development fees imposed by the City during this time of uncertainty.
- Higher DCC rates may discourage development and/or business activities in Richmond.

To support the recovery of the local economy from the unprecedented effect from the COVID-19 health and economic crisis, Option 1 is recommended where the 2020 DCC rates are proposed to remain unchanged. As new information becomes available, staff will continue to review and assess the market conditions and its impacts to the City.

Financial Impact

By keeping the DCC rate unchanged, the annual DCC revenue collection is estimated to be $1 million less than the overall DCC revenue collection had an inflationary rate increase been imposed.

Conclusion

Due to the unknown impact of COVID-19 on the local economy and development activities, it is recommended that the current year annual inflationary DCC update be put on hold, thereby keeping the DCC rates unchanged until the next annual DCC update in 2021.

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