

February 16, 2016

Andrew Gaucher
Chair of UDI Okanagan
210 - 1460 Pandosy Street
Kelowna, BC
V1Y 1P3

Mr. Gaucher,

Thank you for meeting with the City on January 22, 2016. In response to your letter dated January 29th, 2016, we have addressed your questions below.

Contingencies

We believe that the level of contingency applied to the DCC projects is appropriate. The majority of project estimates would be considered Class D as they are at the concept level and do not have any design information available. These estimate classes and contingencies were defined by the Association of Consulting Engineering Companies of British Columbia in conjunction with the Association of Professional Engineers and Geoscientists of BC as part of their joint "Budget Guidelines for Consulting Engineering Services":

Class A estimate (± 10 -15%): A detailed estimate based on quantity take-off from final drawings and specifications. It is used to evaluate tenders or as a basis of cost control during day-labour construction.

Class B estimate (± 15 -25%): An estimate prepared after site investigations and studies have been completed and the major systems defined. It is based on a project brief and preliminary design. It is used for obtaining effective project approval and for budgetary control.

Class C estimate (± 25 -40%): An estimate prepared with limited site information and based on probable conditions affecting the project. It represents the summation of all identifiable project elemental costs and is used for program planning, to establish a more specific definition of client needs and to obtain preliminary project approval.

Class D estimate (± 50 %): A preliminary estimate which, due to little or no site information, indicates the approximate magnitude of cost of the proposed project, based on the client's broad requirements. This overall cost estimate may be derived from lump sum or unit costs for a similar project. It may be used in developing long term capital plans and for preliminary discussion of proposed capital projects.

A contingency of 25% was used for the Class D estimates even though this is at the low end of the suggested Class C estimate category (25-40%). Where more detailed information exists for a DCC project a lower contingency was used. The City used a contingency of 15% (Class B) when the project predesign was complete and 10% (Class A) contingency when the detailed design was complete.

With respect to the value of engineering services, the previous DCC cost estimates had 10% for Engineering design and 5% for Contract Administration for both Roads and Active Transportation projects, while the Water and Wastewater DCC projects had 8% for Engineering design, 7% for Contract Administration and 1% for City staff time. To more closely reflect the actual percentages the City receives on major projects, all DCC estimates have been revised to reflect 8% for Engineering design and 7% for Contract Administration. In

addition, the 1% for City staff time was removed from all projects, as this value should be captured within the 8% Engineering value.

Frontage

Development properties fronting most DCC arterial roads require urbanization. In urbanized areas, Developers are responsible for construction of the frontage improvements in addition to payment of their arterial roads DCC. All roads in the current DCC program have been analyzed and assumptions made regarding frontage improvements to be paid for by development. Some of these frontage costs were deducted from the associated DCC road so that the project costs were not over inflated. However, it is difficult to predict development timing. If the City proceeds with the DCC project ahead of development, the City completes the frontage at the full cost to the DCC program. For this reason the assumptions regarding frontage improvements were conservative so that they did not overstate the actual frontage improvements completed as part of development.

Airport Way

When DCC projects are completed the project cost estimate is updated to reflect actual construction and land costs and these costs remain in the program as well as all of the Development units identified in the 20 Year Servicing Plan for the purpose of calculating DCC rates. For the current update all completed projects to the end of 2015 have been updated to actual land and construction costs.

The land acquisition cost estimate for Airport Way assumed the City acquired the requisite lands at fair market value. It appears these lands were acquired as part of the redevelopment at below market value.

The project construction and land costs have not been updated as this project is not complete. Once the Airport Way project is complete the City will be update all costs including land to actual. This will reflect the project cost savings of any additional dedicated lands or lands acquired at \$10.76 per square meter which were not previously accounted for in the program.

Sexsmith 5

DCC credits are not issued for frontage improvements because Developers are responsible for these costs in addition to payment of their arterial roads DCC. As noted above, all roads in the current DCC program have been analyzed and assumptions made regarding frontage improvements to be paid for by development. Some of the frontage costs were deducted from the associated DCC road so that the project costs were not over inflated.

Similar to Airport Way, the land acquisition cost estimate for Sexsmith assumed the City acquired the requisite lands at fair market value. The City may acquire these lands as part of redevelopment of the property at below market value.

Once the Sexsmith 5 project is complete all construction and land costs will be updated to actual costs. This will reflect project cost savings of any additional dedicated lands or lands acquired at \$10.76 per square meter which were not previously accounted for in the program.

Hollywood 8

Similar to Airport Way and Sexsmith 5, once the Hollywood 8 project is complete all construction and land costs will be updated to actual costs. This will reflect the project cost savings of any additional dedicated lands or lands acquired at \$10.76 per square meter which were not previously accounted for in the program.

The DCC model assumes 60% or approximately \$6 million of this project is funded from development through frontage improvements. The DCC share of this \$10 million project is \$3.7 million.

DCC Update Process Timeline

The timeline for the DCC Update is as follows:

1. First Reading of DCC Bylaw by Council (targeting February 29th Council Meeting),
2. Public Open House (early March),
3. Bylaw Revisions by Staff (if any) based on stakeholder input (March),
4. Second/Third Reading of DCC Bylaw by Council (targeting early April),
5. Submission of DCC Bylaw to Ministry of Community Services for approval (early April),
6. Fourth Reading of DCC Bylaw (TBD pending ministry approval).

In-Stream Protection and Grace Period

The grace period should not be confused with in-stream protection. A grace period is a length of time offered at the discretion of the Municipality as notification that new DCC's will be in effect at a future date. In-stream protection is a requirement of the Local Government Act that provides protection of one year from the new DCC rates for subdivision and building permit applications provided the applications are complete and application fees have been paid. In other words, given a scenario where the proposed DCC's have increased from the existing charges, an in-stream application will be exempt from the increased DCC's for one year from the date of adoption of the new bylaw.

Request for Postponement of Bylaw Amendment or Two Year Grandfather Term

The DCC Bylaw has not been updated in 5 years and a cost update is required so the City can deliver the infrastructure needed to support growth. Both land and construction costs have increased in the last 5 years. A recent example of this is John Hindle Dr. The 2011 DCC cost estimate for this project is \$7.8 million compared to recent 50% detailed design estimate of \$12.2 million.

Postponing or deferring the update will only compound the rate increase making it much larger and less palatable sometime in the future. If the update proceeds as scheduled, the amended DCC Bylaw will likely not be adopted until late April of this year. At that time all in-stream applications would be protected from the rate increase for 1 year from adoption of the bylaw as noted above.

The City appreciates UDI's concerns about the current economic conditions and will commit to updating DCC cost estimates in 2016 should construction or land costs change appreciably.

Regards,

A handwritten signature in black ink, appearing to read 'Joel Shaw', with a stylized flourish at the end.

Joel Shaw, P.Eng.
Infrastructure Planning Manager



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January 29, 2016

City of Kelowna
1435 Water Street
Kelowna, BC V1Y 1J4

Attention: Joel Shaw and Doug Gilchrist

Subject: Follow-up from DCC Meeting

The Urban Development Institute (UDI) is a national association (with international affiliations) of the development industry and its related professions. The corporate members of the UDI - Okanagan Chapter represent hundreds of individuals involved in all facets of land development and planning, including: developers, property managers, financial lenders, lawyers, engineers, planners, architects, appraisers, real estate professionals, local governments and government agencies.

As a Partner in Community Building, the UDI Okanagan Chapter is committed to working with communities and governments to create and achieve the vision of balanced, well-planned, sustainable and affordable communities.

Thank you for meeting with representatives of UDI Okanagan on January 22, 2016 to discuss the City's proposed DCC increase. We also appreciate the City's prompt response in providing us with the additional information that we requested in advance of our meeting to help us better understand the City's approach and rationale for the current DCC program.

Upon further review of the DCC Unit Costs, they are generally within 10% of tender unit rates that our members are receiving. There are a few exceptions and comments to that however, as follows:

- With regards to the current contingency of 25%, we believe that this is excessive, as the projects that are in the DCC bylaw have been scoped and detailed to a level where a 25% contingency is unnecessary. A cost estimate that has evolved to the level of detail where preliminary design is known and unit rates can be determined is a Class B estimate, and should carry a 15-25% contingency. Where design has been undertaken, it should be Class A at 10-15%. In light of this and taking into consideration our shared concerns relating to the negative impact on housing affordability and the market in general that this DCC rate increase will have, UDI Okanagan recommends that the City revise its contingency from 25% to 15%. We also request that that the City provide clarification as to the value of the Engineering carried.

- It appears that the DCC Projects fronting development properties are all based on Full Urbanization.
- Airport Way is in at \$1,169,000 construction cost. Much of the work is completed, yet the full amount remains in for DCC's.
 - Airport Way also includes a land purchase of \$245,000 for 1872 sq. m/ \$130/sq. m dedication which is already completed. Land compensation was at \$10.76/sq. m, for only a small area.
- Sexsmith Road #5, where properties undergoing rezoning are required to urbanize, including Curb/Gutter, S/W and street lighting, the developer only receives reimbursement for the over width fillet, not all works charged/collected.
 - Land Acquisition is 10,424 sq. m/\$371.00/sq. m yet the City only pays \$10.76/sq. m for over-width dedication.
- Hollywood Road #8 where the total length of the road is 4775m, of which 3000m has already been dedicated with little or no compensation. About 600m will be dedicated by UBCO with compensation of the extra 5m equal to 3000 sq. m and assuming full dedication through Serwa's 29,500 sq. m. The DCC suggests 65,000 sq. m double the actual. Based on the assumption that the DCC will have to pay for the construction of 2,200m, our calculations are that works out to be \$4500.00/m not including contingency and assuming UBCO and Serwa's do not pay for any of the road.

We would appreciate details responding to our questions and concerns stated herein.

As we have discussed, a thorough and high level joint-review of the historical approach to DCC's is pending this spring. We would like to reiterate our request to postpone and add this minor amendment into that review which may answer and possibly correct some of the concerns we have raised.

If the City team will not consider postponing the adoption of this minor amendment, we would request that a two year grandfather term be applied to the adoption of these increased DCC rates. The Kelowna market needs this time to adjust to the turbulent global economic environment, and prepare for these cost increases.

Thank you for continuing to engage us in this important process and for your consideration of our feedback today. We look forward to continuing to work with the City of Kelowna on this matter.

Sincerely,

URBAN DEVELOPMENT INSTITUTE OKANAGAN CHAPTER



Per: Andrew Gaucher, Chair of UDI Okanagan