

**REPORT TO REGIONAL WATER SUPPLY COMMISSION
MEETING OF WEDNESDAY, MARCH 20, 2024**

SUBJECT **Proposed Regional Water Supply Service Development Cost Charge Program and Bylaw Update**

ISSUE SUMMARY

To provide the Regional Water Supply Commission (Commission) with a summary of the feedback received from the municipal consultation on the proposed Development Cost Charge (DCC) program and to seek feedback on refinements based on that feedback prior to proceeding with public and stakeholder engagement.

BACKGROUND

At its May 17, 2023 meeting the Commission received a staff report (Appendix A) conceptualizing the proposed DCC program (Phase 1). The Commission directed staff to proceed with Phase 2 of developing and implementing a DCC program and bylaw.

The proposed Regional Water Service DCC program and bylaw development process has been structured into three phases:

- Phase 1 – Conceptualization (*Completed May 17, 2023*)
- Phase 2 – Refinement and Consultation (In progress)
- Phase 3 – Implementation

Phase 2 – Refinement and Consultation

Phase 2 includes further program consultation, refinement, and finalization of the DCC background report and bylaw prior to bylaw adoption by the Capital Regional District (CRD) Board and the Inspector of Municipalities.

The project team engaged relevant municipal departments between September 2023 and January 2024 to confirm growth estimates (population, development and Official Community Plan details) to be used in the proposed DCC rate calculation. The project team, comprised of CRD staff and Urban Systems Ltd. (USL), then presented the proposed DCC program and bylaw to municipal councils, apart from North Saanich, between October 2023 and March 2024, a sample of the presentation is included in Appendix B. The presentation to North Saanich is scheduled to occur on March 25. The team attended each municipality's council meetings to provide an overview of the proposed DCC program and bylaw. After the presentation the project team addressed questions and provided clarification and documented feedback provided.

With direction from the Commission, staff will undertake the remainder of the consultation phase including public and development community engagement, detailed below in Proposed Next Steps.

Phase 3 – Implementation

The implementation phase would commence after the completion of Phase 2 and the adoption of the bylaw. Phase 3 would be related to pre- and post-bylaw adoption and include assisting member municipalities with the implementation and ongoing effort to collect and remit DCC's to the CRD. Some municipalities already collect DCC's, and others do not, and therefore may require assistance.

Phase 2 - Engagement Feedback Summary (to date)

Most municipal councils were supportive of the need to support growth-driven infrastructure with a DCC program but concerns were raised about the high project costs and the potential impact of the program on housing affordability. Common questions or concerns raised during consultation include the following:

- a) Impact on Housing Affordability – the potential loss of both market and affordable housing and developers potentially focusing on larger/luxury homes.
- b) Development Viability – the proposed DCC's impact on the viability of some pending developments.
- c) Engagement – desire to see further consultation with the development community and the public.
- d) Projects and Rates – clarification on how projects are identified and how each project will affect user rates. Some councils expressed a desire to see a third-party review of the 2022 Regional Water Supply Master Plan.
- e) Addressing Equitability – consideration of more equitable rate applications across land use categories such as higher charges for low-density residential unit types.
- f) Impacts of Provincial Legislation (Bills 44, 46 and 47) – and questions on the impacts of the new legislation and how they could influence DCC rates and growth assumptions.
- g) Clarity on Alternative Funding Mechanisms – inquiries about alternative funding mechanisms, including how projects would be paid for if the DCC did not go ahead, as well as the possibility of grant funding. Suggestions of increased Municipal Assist Factor.
- h) Growth Projections and the DCC Rate - Municipal staff provided feedback on growth projections used in the development of the DCC program.
- i) DCC Collection – Questions from municipal staff and some councils on the process of collecting DCC's on behalf of the CRD and concerns related to the administrative burden this may cause.
- j) General Feedback on the DCC – municipalities that were looking to update their own DCC's raised concerns about the impact of an additional Regional DCC.

Although the intent of the council meetings was generally to inform, answer questions and obtain feedback, Central Saanich adopted a motion asking the Regional Water Supply Commission to provide an independent third-party review of the program and to consider bulk water rate supports for agricultural land users and DCC waivers for affordable and rental housing. In addition, there was a motion presented by the City of Colwood representative on the Regional Water Supply Commission to delay further action on the Regional Water Supply Master Plan until such time as the concerns raised by the Huggett report be investigated and addressed.

A full summary of the feedback has been compiled and is attached in Appendix B: *Engagement Summary*, (Volume 1) March 13, 2024.

During the municipal consultation process, Councils and CRD staff received a letter from Urban Development Institute (UDI), outlining their concerns with the basis and assumptions for the program and the impact the addition of the DCC program would have on development. This letter is included in Appendix B within the engagement summary. In addition, there has been further media interest related to the DCC program and Master Plan. Reports have raised concerns over the implication of the additional fees on developments and have questioned the rationale for the projects included in the DCC program. Generally, this feedback provides insight into the concerns of the development community. Further “development community consultation” is included as a key component of the established process and is included in the proposed next steps section below.

Program Refinement

The DCC project team has received valuable feedback during the initial consultation phase and are committed to refining the DCC program, as required. The DCC program has been proceeding in accordance with the DCC best practices guideline and as outlined in USL Development Cost Charge Policy Memorandum, dated May 3, 2021 included as Appendix C. The Municipal Assist Factor represents the most significant policy decision to be made for the DCC program and is described in more detail below.

Municipal Assist Factor (MAF)

The Local Government Act (LGA) requires local governments to provide a level of financial assistance to a DCC program through MAF. In this case, the CRD is the local government and is required to provide assistance. The MAF is a discretionary tool and is applied across the entire DCC program. The MAF can vary between a minimum of 1% (least amount of assistance) and a maximum of 99% (highest amount of assistance). Typically, growing communities in British Columbia select a MAF between 1% and 10%, many communities also introduce a higher MAF at the introduction of a new DCC program before reducing to 1%. The MAF should reflect the community’s support towards the financing of infrastructure required to serve development.

A summary of potential MAF’s and their effect on the DCC and conceptual water rate is listed in Table 1, in addition further details on MAF options are included as Appendix D.

Table 1 – Municipal Assist Factors effects on DCC rates and Conceptual water rates

Development Category	Collection Unit	1% MAF	25% MAF	50% MAF	No DCC
Single Family	Per unit	\$9,044	\$6,852	\$4,568	\$0
Multi Family	Per unit	\$7,914	\$5,995	\$3,997	\$0
Apartment	Per unit	\$5,087	\$3,854	\$2,569	\$0
Commercial	Per GFA in m ²	\$33.92	\$25.69	\$17.13	\$0
Industrial	Per GFA in m ²	\$16.96	\$12.85	\$8.56	\$0
Institutional	Per GFA in m ²	\$73.48	\$55.67	\$37.11	\$0
Projected Water Rate					
Conceptual Maximum 30-year Bulk Water Rate**	per cubic metre	\$2.84	\$3.02	\$3.22	\$3.61

*GFA = Gross Floor Area

** The rate is based on the 2022 Master Plan projects and only considered a change to the MAF for the 30yr term of the DCC. This conceptual water rate does not consider other changes to the capital plan or operating budgets in future years or other funding sources that could influence the rate, such as grant funding.

Additional information obtained from each municipality related to population and/or development growth will be used to update the proposed DCC rates. Any revisions to the rates will likely be nominal as any increase in units will increase the proposed population and benefit allocation but also increase the number of units contributing to the proposed cost sharing. Feedback will continue to be collected and the rates will be refined until the public engagement period is closed and the program is brought to Commission for approval.

ALTERNATIVES

Alternative 1

That Capital Regional District staff be directed to proceed with a 25% Municipal Assist Factor for public and development community engagement.

Alternative 2

That Capital Regional District staff be directed to proceed with a 1% Municipal Assist Factor for public and development community engagement.

Alternative 3

That this report be referred back to staff for additional information.

IMPLICATIONS

Regulatory and Policy

The implementation of the proposed Regional Water Supply DCC program and bylaw aligns with the CRD 2023-2026 Corporate Plan, and the Regional Water Supply 2017 Strategic Plan. Without a DCC bylaw and related revenue due to growth, the existing users of the service are burdened with the cost of growth including infrastructure upsizing and water supply expansion.

Financial Implications

Without a DCC program and bylaw, the existing users of the service will continue to be burdened with the infrastructure costs related to growth and as growth occurs, remaining system capacity will be depleted. Many pending growth driven capital expenditures have been identified in the Capital Plan and the Regional Water Supply 2022 Master Plan.

Any MAF above 1% would reduce the proposed DCC rates and would have to be covered by existing rate payers. A proposed MAF of 25%, which would be applied for the first five years of the program, would reduce the burden on new development while still reducing future water rates to existing users. The proposed 30-year DCC program will be refreshed every five years, when applicable projects will be reviewed, new costing information will be included and the MAF can be adjusted. It is common for new DCC programs to include a higher MAF initially before being reduced to 1%.

Intergovernmental Implications

The administration, collection, and remittance of DCC's requires involvement by both the CRD and the member municipalities and the roles and responsibilities can vary. It is recognized that a new DCC bylaw would be an increase in administrative effort for municipalities and some municipalities do not have existing DCC programs to build upon. The CRD would work with each member municipality to ensure they are resourced and prepared to administer the DCC program and bylaw. Many member municipalities were concerned with the proposed high rates of the proposed DCC program, a higher initial MAF rate would reduce the costs to new development.

Social Implications

The cost of housing has increased significantly over time, including social housing, and a proposed DCC would be another financial burden to the cost of development. The Local Government Act allows for local governments to waive or reduce DCC charges for certain types of developments including not-for-profit rental housing, supportive living housing, for-profit affordable rental housing, subdivision of small lots designed to result in low greenhouse gas emissions and developments designed to result in low environmental impact.

The implementation of DCC waivers and reductions requires the adoption of an additional bylaw which further defines the categories of eligible development and specifies the degree to which the charges will be waived or exempted. If a DCC waivers and reductions bylaw is desired it is recommended to proceed after adoption of the DCC bylaw under a separate process as a waivers and reductions bylaw does not need the Inspector of Municipalities approval and only requires CRD board approval.

Should a waiver and reductions bylaw be imposed, the Regional Water Supply service would be responsible to make up any foregone DCC revenue from water rates.

First Nation Implications

The proposed DCC bylaw would not apply to development on First Nations reserve lands as local municipal and regional district bylaws are not valid on First Nation lands. Staff propose sending a letter to First Nations advising them of the DCC program and to indicate that the program would not apply to First Nations reserve lands.

The introduction of a DCC program would benefit First Nations that receive water from the Regional Water Service, similar to existing municipal residents, the DCC program would mitigate future bulk water rates increases for the First Nations.

Proposed Next Steps

Public and Development Community Engagement

The CRD has prepared and posted a public webpage that has been available to the public since November 2023. The webpage content includes relevant background information, and details on the proposed DCC program including next steps. It will continue to be updated as the project progresses (<https://www.crd.bc.ca/project/proposed-regional-water-supply-development-cost-charge-program>).

Subject to Commission approval, CRD staff will undertake consultation with the public and the development community. It is proposed to hold both in-person and virtual sessions with the development community and conduct virtual engagement with the public starting in the spring of 2024. It is proposed to utilize the CRD's public online engagement platform "Get Involved" which has been used successfully to gain public input for various CRD initiatives. In this case, the "Get Involved" platform would include background information (consistent with the existing public DCC website) and seek feedback from the public and development community regarding the proposed DCC's. A response period of 45 days would allow for the receipt of public responses which will be included in the Engagement Summary to be brought back to the Commission at a future meeting. Engagement opportunities would be advertised via social media, the CRD website, media releases and paid advertising.

CONCLUSION

Capital Regional District (CRD) staff and its consultant Urban System Ltd. (USL) have been proceeding with Phase 2 of the Regional Water Development Cost Charges (DCC) program which includes refinement and consultation. To date municipal staff, Mayors and Councils have been informed of the proposed program. Feedback from most councils were supportive of the need to support growth-driven infrastructure with a DCC program but many were concerned about the high project costs and the potential impact of the program on housing affordability. Most new DCC programs include a higher Municipal Assist Factor initially before being reduced to 1%. The CRD is recommending to proceed with incorporating a 25% Municipal Assist Factor prior to proceeding with public and development community engagement.

A summary of the public and development community engagement will be provided to the Regional Water Supply Commission once it is completed.

RECOMMENDATION

That Capital Regional District staff be directed to proceed with a 25% Municipal Assist Factor for public and development community engagement.

Submitted:	Joseph Marr, P.Eng., Senior Manager, Infrastructure Engineering
Concurrence:	Alicia Fraser, P.Eng., General Manager, Integrated Water Services
Concurrence:	Kristen Morley, J.D., General Manager, Corporate Services & Corporate Officer
Concurrence:	Ted Robbins, B.Sc., C.Tech., Chief Administrative Officer

ATTACHMENTS

- Appendix A: May 17, 2023 Regional Water Supply Commission Staff Report
- Appendix B: USL Engagement Summary (Vol. 1) Including Sample Letter and Council Presentation - March 13, 2024
- Appendix C: USL – RWS Development Cost Charge Policy Memorandum – May 3, 2021
- Appendix D: CRD - Supplementary Memo: Municipal Assist Factor – March 12, 2024
- Appendix E: Summary of Proposed RWS DCC Program and Bylaw Development Phase 2 Process