

Economic Impact Analysis of Major Development Projects in Peachland

FINAL REPORT: EXECUTIVE SUMMARY

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District of Peachland



EXECUTIVE SUMMARY

Peachland is on the verge of significant change.

Over the last 15 years, the community's population grew by an average of less than 50 people annually. Based on current development plans, Peachland could grow by more than 500 people per year over the next 15 years.

The purpose of this study is to determine what this level of growth means for Peachland, looking especially closely at municipal finances. The community's property tax base will be growing substantially, but so will the need to provide services for all of the new residents. The study also considers the impact on Peachland's retail market, employment, and various social factors, including education, health care, policing and social cohesion. It does not evaluate the viability of any single project or compare the projects to each other. Rather, it examines the cumulative impacts.

Before getting to the results, it is important to acknowledge the difficulty in making accurate projections about what will happen next year, let alone 20 years into the future. The analysis therefore relies on many assumptions about how things will change, all of which have been carefully documented. The consulting team worked closely with District of Peachland staff and asked many questions of the project developers, especially of the two largest projects, Ponderosa and New Monaco. Other organizations in the region from the Regional District of Central Okanagan to Interior Health to the School District to neighbouring municipalities, as well as many others, were also consulted on specific issues.

In addition to Ponderosa and New Monaco, the study also includes future development in the downtown and in a series of smaller developments currently planned throughout the community. The study looks at two scenarios for growth over the next 20 years (from 2012 through 2031), both of which assume a significant rate of growth, ranging from 230 to 270 new housing units per year, on average. Of note, the projected growth includes a far higher rate of apartment development than has historically been the case in Peachland and in the region.

The description of the impacts to follow is based on this high level of growth as that leads to the greatest impacts in the next two decades. It is possible that Peachland's housing market will not be as strong as expected and that growth will be slower, in which case the impacts described here would take longer than 20 years to be realized. But most will be reached eventually.

MUNICIPAL FINANCES

Over the next 20 years, Peachland's municipal finances are expected to be roughly in balance between revenues and costs. But the financial picture would be far worse without the new growth.



This is because the most significant financial challenges facing Peachland in the next few years are not related to new growth. Most important is the transition to full life-cycle costing for municipal infrastructure and other assets (like buildings). This costing approach means that the District has to save more money each year so that when it is time to do maintenance or replace an asset, the required funds are already in place.

Peachland also needs to make some very large investments in new water infrastructure in the next few years, including a new water treatment plant. This is also required even without new growth. And Peachland officially surpassed the 5,000 population mark in the 2011 Census and is now responsible for much higher policing costs.

The reason that new growth makes the situation better is that these large new costs are relatively fixed. So adding more households and businesses to the local tax roll means that the fixed costs can be shared among more taxpayers.

Of course some new infrastructure is required to service the new developments, but the upfront costs are almost always paid for by the project developers. Peachland becomes responsible for maintaining and eventually replacing these new assets, but there are enough new taxpayers to more than cover these costs.

But even though new growth will bring financial benefits, the District will still be challenged to balance its budget each year. The analysis suggests an approximate balance between revenues and costs over the next 20 years, but that means that any unexpected negative conditions could lead to shortfalls. If growth is slower than expected, the extra revenue that is generated from development fees and permits will be less (and these revenues are a big help in improving the District's finances over the next 20 years). Higher-than-expected increases in municipal costs and downloading of more services to local government are other possible challenges that need to be managed on a continual basis.

COMMUNITY AMENITIES

The District has passed an Amenity Contributions Policy that requires developers to contribute a set amount of money for each new housing or commercial unit toward the construction of community amenities. These amenities include the primary school rehabilitation, a new Fire Hall, new civic offices, a waterfront enhancement project along Beach Avenue, an upgraded Community Centre and Museum, new trail development and a multi-purpose arena.

The analysis suggests that it will take more than 20 years before sufficient funds are accumulated to build all of these amenities, but few if any of them would be possible without the support of major new development projects (unless another substantial source of alternative funding could be found). The amenities also create a financial responsibility for the District as their long-term operation, maintenance and eventual replacement costs need to be accounted for.



RETAIL MARKET

Peachland is significantly underserved in terms of local retail. The estimated household spending of Peachland residents would support about 135,000 sq. ft. of retail floorspace, but there is currently only an estimated 72,000 sq. ft. in the community (and some of this is oriented toward serving highway travelers and other tourists).

The new developments will roughly triple the number of households in Peachland and will create demand for an additional 275,000 sq. ft. of retail floorspace. Only part of this demand will be met by new retail development in Ponderosa and New Monaco (about 145,000 sq. ft. is planned, including restaurants and other non-retail uses). So the major new developments will be creating a substantial amount of new spending that can be captured by retailers elsewhere in Peachland (such as the downtown) as well as those elsewhere in the region (Kelowna, West Kelowna, Penticton, etc.).

The new retail developments will expand the range of local shopping options, but rather than competing with existing Peachland retailers for a fixed local market, the size of the local market is expanding at an even faster rate and providing the opportunity for all Peachland retailers to grow.

EMPLOYMENT

As of the 2006 Census (most results from 2011 are not yet available), only 27% of employed Peachland residents had a regular place of work in Peachland. The rest either commuted to other communities or had a job (like construction) that had no fixed place of work. Even if every working Peachland resident wanted to work in Peachland, there would only be enough jobs for about 40% of them.

The major new developments in Peachland will generate substantial new employment opportunities. New commercial developments, including offices, retail space, hotels and the golf course, will support more than 1,900 jobs. As many as 500 to 550 new home-based jobs will be created, depending on the amount of population growth. Between 30 and 35 new jobs will be created in local government (including policing). And construction jobs, while not permanent, will be concentrated in Peachland for many years as the major developments are built. The peak construction employment will be 350 to 375 full-time equivalent jobs (projected to occur in 2016) while the average construction employment will be 165 to 175 FTE positions per year over the next 20 years.

By 2031 there will be a projected 2,500 to 2,600 new permanent jobs in Peachland, roughly quadrupling the current total of about 840 Peachland-based jobs (as of the 2006 Census). Exactly which industries and occupations will grow the most is difficult to tell, but the 800+ office-based jobs, in particular, have the potential to be higher-skill, higher-paying jobs than many of the current jobs in the community.



SOCIAL IMPACTS

The projected rapid increase in Peachland's population will naturally include an increase in the number of school-age children. By 2031 there could be more than 1,300 school-age residents, an increase from the current estimate of less than 500.

What exactly this means for Peachland will be influenced by many factors, including enrollment numbers in other parts of the School District and which schools, if any, in proximity to Peachland have excess capacity. There are no plans for new schools through at least 2018 based on the findings of a recent School District analysis (which assumed a much lower level of growth in Peachland). If enrollment at Peachland Elementary School reaches capacity, which would be some years out under any scenario, the School District might consider expanding the existing school, building a second elementary school in Peachland, or busing some students to an under capacity elementary school in close proximity to Peachland, if there is one. The School District does not foresee sufficient demand coming from Peachland, even under the maximum impact scenario, to justify a middle school.

With respect to health services, Peachland has one walk-in medical clinic, a dental centre and a pharmacy. The closest community health centre is in West Kelowna and the closest hospitals are in Kelowna and Penticton. Interior Health has reviewed the population projections presented in this report and concluded that Peachland's secondary and tertiary medical care needs will continue to be met in the larger communities for the foreseeable future. Where there is most likely to be more services provided locally is in the areas of primary and community care.

There are a variety of factors that will influence how and when a community might attract more health care services, but it is anticipated that a larger population will draw new physicians and other health care professionals to set up practices over time. Regarding the potential development of a community health care centre in Peachland, it is a long-term possibility only and would come about only if local physicians would be interested in co-locating services within a single primary care site.

It is not really possible to make definitive statements about the impacts of the new development on social cohesion. Some people will like being part of a larger, growing community while others will prefer a smaller community changing at a slower pace. One thing that is worth noting is that Peachland has not been a static community. The 2006 Census indicated that the percentage of Peachland residents who had recently moved to the community from elsewhere was fairly typical for most BC communities. One of the planning challenges for the future will be to ensure that the new developments are integrated into the existing fabric of the community.

Crime data in recent years shows that Peachland has fewer Criminal Code offences and fewer calls for police service than other areas of the Kelowna Provincial Unit (which covers the unincorporated areas and small communities in the region). As the community grows, there will likely be some increase in criminal activity - construction sites, for example, are often a target for theft. A larger population is likely



to have a higher volume of crime simply due to the larger number of people, but there is no reason to expect that crime will increase on a per-capita basis or will become a significant social problem for Peachland simply as a result of growth and change.

The Okanagan region is a major tourism destination within British Columbia and many tourists already visit Peachland or pass through on the highway. Ponderosa and New Monaco will add to the community's appeal to tourists through the creation of new destinations (e.g., Ponderosa golf course, New Monaco urban village) and by substantially increasing the amount of tourist accommodation. This is positive from an economic development perspective, but from a social perspective there may be some residents who view the additional tourists less favourably since they bring additional vehicle traffic and may cause crowding in areas that Peachland residents also frequent, such as the waterfront. To some extent these impacts are already being felt and will continue as the Okanagan continues to grow and attract more residents and tourists. The major developments in Peachland are simply increasing the pace of tourism growth.

With respect to the long-term impact on residential housing prices in Peachland, the interaction of housing demand and supply in the growing Okanagan region suggest that prices are much more likely to go up than down. While the increase in housing supply will help to moderate prices, neither individual homeowners nor developers have an incentive to sell a lot of homes when prices are flat or falling. There is also no evidence from fast-growing regions elsewhere that rapid population growth leads to depressed housing prices. The most likely outcome is that housing prices will continue to rise, sometimes quickly and sometimes very slowly or not at all for a period of time, as housing demand and supply fluctuate over time in relation to each other.

CONCLUDING STATEMENT

The planned major developments in Peachland will generate many positive benefits for the community. From a municipal finance perspective, the future looks far better with the developments than without them. But District Council and staff will also face many challenges in the coming years, some related to managing and accommodating the rapid pace of growth and others related to pre-existing issues.

Some of the key implications and next steps include the following (in no particular order):

- **Develop strategies to mitigate short-term cost increases.** Over the next 20 years the General Fund will be roughly in balance, but the negative years are concentrated in the short-term and strategies will be required to deal with these short-term pressures.
- **Constrain growth in municipal expenditures.** The financial analysis assumed that municipal costs will increase only at the rate of inflation, even though costs have actually increased more rapidly in recent years. If the recent pattern of municipal cost increases continues, the financial projections in this study will not be achieved.



- **Support growth.** From a financial perspective it is clear that faster growth is better. Peachland has large costs for supporting new and existing infrastructure and assets, so new growth provides additional taxpayers to share these costs. In addition, revenue from development-related fees and permits will be an important part of total municipal revenue during the transition to a much larger and more diversified tax base.
- **Support expanded retail and other commercial development throughout Peachland, especially the downtown.** Supporting expanded commercial development through Peachland would capture more of the new household spending generated in the new developments, thereby enhancing the commercial tax base and improving the range of shopping and services available locally.
- **Do not become overly reliant on development-related revenue.** These revenues will be important in supporting the increased costs associated with managing development, as well as helping to bridge the transition to a larger and more diversified tax base. But they are temporary and the District should avoid excessive reliance on them over the long term.
- **Consider long-term implications of major investment and expenditure decisions.** This long-term perspective is important in, for example, considering the public amenities that would be funded by the Amenity Contributions Policy. Even if the up-front cost to the District for something like a multi-purpose arena is very modest, it will create very significant ongoing operation and maintenance costs.
- **Adopt an outward-looking perspective.** This is a more general point, but it is important to remember that Peachland is part of a growing metropolitan region and shares a common housing market, retail market, labour market and economy with the rest of the Central Okanagan and the communities to the south.
- **Avoid unnecessary manipulation of the housing market.** Decisions about the exact timing and amount of new development on a year-by-year basis are best made by developers responding to the housing market. No one can predict how the market will change but the strongest incentive to get the timing right lies with those putting their own capital at risk. There is very little downside risk for the District as almost all up-front costs of new development are borne by the developers.