8.2(b).

REPORT FIN-2014-02

TO: Mayor and Members of Council

FROM: Mary Hasan, Director of Finance/Treasurer

SUBJECT: Development Charges Act Reform

RECOMMENDATIONS

That Report FIN-2014-02 regarding the Development Charges Act Reform be received;

That Council support the recommendations of the Municipal Finance Officers' Association position paper "Frozen in Time: Development Charges Legislation Underfunding Infrastructure 16 Years and Counting"; which supports revisions to the Development Charges Act, 1997 to eliminate barriers to cost recovery:

1. Eliminate Section 2(4), "Ineligible services," so that all services are eligible for development charges.
2. Remove Section 5(1), paragraph 8, the step in "Determination of development charges" that requires municipalities to reduce their capital costs by 10%.
3. Update Section 5(1), paragraph 4, to indicate that municipalities are permitted to adopt forward looking service levels, define the basis for service levels and broad service categories through Development Charges By-laws.

That a copy of this resolution be forwarded to the Municipal Finance Officers' Association and the Ministry of Municipal Affairs and Housing.

PURPOSE

That the Township support the Municipal Finance Officers' Association position paper on the reform of the calculations for Development Charges in Ontario.

DISCUSSION

Although the Development Charges Act, 1997 introduced some positive elements to Ontario's development charges regime, municipalities have struggled with the cost recovery restrictions it brought forward, especially provisions concerning:

1. **Ineligible services** - Section 2(4) lists services for which costs are ineligible to be recouped through a development charge. These include the following services:

    - The provision of cultural or entertainment facilities, including museums, theatres and art galleries but not including public libraries.

- The provision of tourism facilities, including convention centres.
- The acquisition of land for parks.
- The provision of a hospital as defined in the Public Hospitals Act.
- The provision of waste management services.
- The provision of headquarters for the general administration of municipalities and local boards.
- Other services prescribed in the regulations. 1997, c. 27, s. 2 (4).

It is recommended that Section 2(4), "Ineligible services," be eliminated so that all services are eligible for development charges.

2. **10% discounts** - Section 5(1), paragraph 8, indicates that a 10% discount will be applied to the development charge for a significant range of services.

    It is recommended that full cost pricing be permitted for growth-related infrastructure such that all capital costs can be included in DCs. Arbitrary 10% discounts on the DC for many services mean that 10% of the cost of delivering those services either overflows onto other rates or goes unfunded and impacts services. Better DC legislation would ensure that municipalities do not have to make these trade-offs automatically.

3. **Historic average method of calculating service levels** - Section 5(1), paragraph 4, indicates that DCs for all services will be calculated based on the average service level at which they were provided in the ten years leading up to the development charge background study.

    It is recommended that Section 5(1), paragraph 4 be updated to indicate that municipalities are permitted to adopt forward looking service levels, define the basis for service levels and broad service categories through Development Charges By-laws.

These features of the Development Charges Act, 1997 are problematic because they create funding gaps for the infrastructure needed to enable growth. It is counterproductive to limit municipalities' ability to invest in infrastructure by limiting their ability to recover capital costs through development charges at a time when governments are focused on shrinking the infrastructure deficit and stimulating economic recovery through infrastructure investment.

Significant infrastructure investments are critical to Ontario's continuing growth. Eliminating the revenue restrictions in the Development Charges Act, 1997 would make growth pay for a greater share of growth so that Ontario municipalities can get on with the timely business of investing in the maintenance, rehabilitation and renewal of local infrastructure – the bricks and mortar of local economies.

Improvements to the Development Charges Act with the recommendations from the Municipal Finance Officers' Association position paper would allow greater flexibility for the Corporation of the Township of Puslinch in the adoption of its Development Charges, which in turn will assist in funding growth related projects outlined in the Township's Long Term Asset Management Plan and the 2014 Capital Budget and Forecast.

Financial Implications

Development Charges are an important way of funding facilities and services directly related to new development in the Township of Puslinch. The Township's Development Charges By-law is undergoing review in 2014.

Applicable Legislation and Requirements

Development Charges Act, 1997

ATTACHMENTS

Discussion Reports from the MFOA:

Frozen in time: Development charges legislation underfunding infrastructure 16 years and counting.

Dispelling development charge myths and misconceptions

2013

Frozen in time: Development charges legislation underfunding infrastructure 16 years and counting

Municipal Finance Officers' Association of Ontario

8/23/2013

About MFOA

The Municipal Finance Officers' Association (MFOA) was established in 1989 to represent the interests of Municipal Finance Officers across Ontario. MFOA promotes the interests of its members in carrying out their statutory and other financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.

MFOA represents almost all of Ontario's municipalities. The membership roll features Chief Financial Officers and designates whose duties are primarily of a financial nature.

MFOA is an affiliate member of the Association of Municipalities of Ontario.

Note from MFOA

In 2011, MFOA assembled a team of municipal development charge experts from small and large municipalities across Ontario to form the Development Charges Working Group, an advisory body to the MFOA Board of Directors. The objectives of the Working Group were to:

- Share data, discuss key issues and help prepare drafts of this report.
- Mobilize support for development charge reform in light of new information about municipal infrastructure uncovered through the Provincial-Municipal Fiscal and Service Delivery Review and municipal tangible capital asset reporting.

Our intention was to submit a report to the Ontario Government containing recommendations for reforming the *Development Charges Act, 1997* that were broadly supported by the municipal finance sector. Members of the Working Group are recognized in Appendix A. MFOA is sincerely grateful for their contributions and this position paper benefitted from their views.

Executive summary

Although the *Development Charges Act, 1997* introduced some positive elements to Ontario's development charges regime, municipalities have struggled with the cost recovery restrictions it brought forward, especially provisions concerning:

1. **Ineligible services** - Section 2(4) lists services for which costs are ineligible to be recouped through a development charge.
2. **10% discounts** - Section 5(1), paragraph 8, indicates that a 10% discount will be applied to the development charge for a significant range of services (full list on page 18).
3. **Historic average method of calculating service levels** - Section 5(1), paragraph 4, indicates that DCs for all services will be calculated based on the average service level at which they were provided in the ten years leading up to the development charge background study. [1]

These features of the *Development Charges Act, 1997* are problematic because they create funding gaps for the infrastructure needed to enable growth.[2] It is counterproductive to limit municipalities' ability to invest in infrastructure by limiting their ability to recover capital costs through development charges at a time when governments are focused on shrinking the infrastructure deficit and stimulating economic recovery through infrastructure investment.

In the sixteen years since the *Development Charges Act, 1997* was passed, provincial priorities have shifted, rendering the cost recovery restrictions neither financially, nor politically, affordable. The service funding framework is a barrier to the achievement of priorities related to transit expansion and land use intensification both in terms of restricted service eligibility and service level calculation.

We were encouraged by Minister Linda Jeffrey's announcement that the Ministry of Municipal Affairs and Housing would be reviewing development financing legislation. We are, however concerned that the narrow scope for reform outlined in the development charge consultation document will not address the significant cost recovery restrictions described in this report.

Municipalities want to be a full partner in driving Ontario's prosperity through infrastructure development but they are hobbled by restrictive development charge legislation that undermines their ability to adequately invest in infrastructure and to grow in a financially sustainable manner. Three revisions to the *Development Charges Act, 1997* are recommended to eliminate barriers to cost recovery:

[1] The sequencing of the three restrictions is not in order of reform priority.

[2] Other parts of the *Development Charges Act, 1997* also create funding gaps, including the definition of capital costs and index for charges but the three provisions mentioned are the most problematic restrictions for most municipalities.

1. Eliminate Section 2(4), “Ineligible services,” so that all services are eligible for development charges.
2. Remove Section 5(1), paragraph 8, the step in “Determination of development charges” that requires municipalities to reduce their capital costs by 10%.
3. Update Section 5(1), paragraph 4, which entails that the service levels development charges are based on is an average service level for the previous ten years, with a more flexible understanding of service levels. Municipalities should be able to adopt forward looking service levels, define the basis for service levels and broad service categories.

Significant infrastructure investments are critical to Ontario’s continuing growth. Eliminating the arbitrary revenue restrictions in the *Development Charges Act, 1997* would make growth pay for a greater share of growth so that Ontario municipalities can get on with the timely business of investing in the maintenance, rehabilitation and renewal of local infrastructure – the bricks and mortar of local economies.

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1. The need for meaningful development charges reform

As the only substantial own source revenue tool Ontario municipalities have that is dedicated to infrastructure and the only tool designed to recover the cost of growth-related infrastructure, development charge (DC) policy has a significant impact on the quality and quantity of infrastructure in Ontario.

DCs are revenues dedicated to recovering the cost of building the infrastructure required for neighbourhoods to accommodate more commercial and residential units. They are a fiscal tool created to link those who demand growth and the cost of supplying the municipal infrastructure required to grow (roads, water pipes, recreation facilities, etc.). They were born under the tagline 'growth pays for growth' and implicitly recognize that those who trigger changes to the physical structure of a community should cover the capital cost of those changes.

Ontario municipalities have a long history of charging levies for growth-related capital works. In the 1950s, municipalities collected lot levies for new lots under the *Planning Act, 1990*. The first DC legislation, *Development Charges Act, 1989* ("DCA 1989") codified many lot levy practices; it was brought forward in recognition of the fact that sustainable municipal growth and consistent service standards within a municipality depended on adequate and appropriate funding for growth. Between 1989 and 2013, the major shift in the DC landscape was the introduction of the *Development Charges Act, 1997* ("DCA 1997" or "the Act") which altered the form and effect of its predecessor legislation. The objectives driving the original legislation were not preserved in an Act that arbitrarily limits the cost recovery capacity of municipal DCs and automatically creates funding gaps for municipal infrastructure.

Shortfalls for funding growth-related capital were one inevitable consequence of the revenue restrictions brought forward in the 1997 Act. ***How much do DC restrictions cost municipalities?*** A case study of what was lost from one Development Charges Act to the next can be found in Watson & Associates' 2010 study, "Long-term Fiscal Impact Assessment of Growth: 2011-2021," for the Town of Milton. The gross cost of growth for the ten year period was $568 million; it was written down to $459 million on account of the three restrictions outlined in this report.

- $50 million was unrecoverable because certain service areas are excluded services
- $26 million was foregone through the 10% discounts
- $34 million was disallowed on account of service level reductions (Watson & Associates, 2010, p. 4-11)

After all of the various DC caps introduced in the 1997 Act, DCs can now only pay for approximately 80% of the cost of growth-related capital.

The decision about how to manage development charge funding shortfalls puts municipalities between a rock and a hard place: To maintain the same level of service that a community had before a development permit was issued, the municipality has to look to other revenue sources to fill the gap. Usually shortfalls are addressed through increases in property taxes and user fees. Committing all of the residents in the community to paying for growth through general taxes and fees may present equity issues.

If a municipality does not fill the 20% funding gap necessary to sustain existing service levels, then the level of service provided to citizens declines over time. Because services are a significant factor for people deciding where to live, work and do business, declining service levels may compromise a municipality's ability to attract future growth.

This is not a decision municipalities should be forced to make. Given the economic value of public infrastructure investment and provincial interest in transit-oriented development and other smart growth principles, provincial DC policy should be amended to enable full cost pricing for growth-related infrastructure.

This report makes the argument for DC reform. First, the report outlines the principles that guide our recommendations, which emphasize the need for financially sustainable growth. Second, the report describes the connection between growth, infrastructure and development charges, profiles DCs in Ontario, and reviews how the development funding regime has changed from the first Act to the second. Third, the report outlines the centrality of infrastructure development to economic development and how the current Act impedes provincial initiatives related to smart growth.

More information on how development charges relate to service levels in other parts of a community and why development charges increase can be found in MFOA's report "Dispelling development charge myths and misconceptions."

2. Principles to guide development charges reform

The following principles should govern the current DC review process. pave the way to a more robust DC regime.

2.1. Growth pays for 100% of growth.

Where the costs of service provision are attributable to a distinct group, legislation permits that costs be borne in full by that group through various fees and charges. Provincial legislation should consistently allow full cost pricing across municipal service areas so that municipalities can encapsulate the full cost of infrastructure related to development in DCs.

2.2. Provincial legislation related to municipal governance should be enabling and permissive.

Provincial legislation that lists what municipalities may and may not do – prescriptive and restrictive legislation – removes decision making power from local authorities, chips away at officials' ability to respond to local concerns and, as such, undermines the purpose of local governments. In keeping with the formation of municipalities as an order of Canadian government and citizens' inherent right to local self-government, the provincial government should encourage municipal innovation and flexibility in enabling legislation.

In fact, this is the extent of local decision making authority recognized in the *Municipal Act, 2001*: "The powers of a municipality under this or any other Act shall be interpreted broadly so as to confer broad authority on the municipality to enable the municipality to govern its affairs as it considers appropriate and to enhance the municipality's ability to respond to municipal issues" (s. 8(1)). In a province that contains both the largest city and the least populated township in Canada, recognizing inter-municipal diversity and respecting local decision making authority were important milestones for the new municipal-provincial partnership articulated in Municipal Act reform in 2001. Allowing these fundamentals to 'trickle down' through the breadth of provincial legislation affecting municipalities, including DC legislation, would create the enabling environment needed to realize the ideals of Municipal Act reform.

2.3. Responsibilities endowed to municipalities in one provincial Act should be respected in others.

Municipalities are given broad powers in the *Municipal Act, 2001*, related to financial management, public assets, structures, the economic, social and environmental well-being of the municipality, and the health and safety and well-being of persons. An updated DCA should breathe life into these spheres of decision making authority by giving municipalities flexibility in decision making and the resources to carry out their *Municipal Act* responsibilities.

2.4. Development charge legislation should support shared public policy objectives between the municipal and provincial spheres.

Responding to citizens' service needs and ramping up infrastructure investment are mutually held objectives between provincial and municipal governments. DC reform ushers in many opportunities to deliver on these goals, including the creation of transit options, and support for affordable housing and homes for the elderly. Robust provincial DC legislation should lay the groundwork for funding solutions to these shared priorities.

2.5. Provincial legislation should respect the relationship between municipal revenue capacity and local service outcomes.

Municipalities require revenue stability in their own fiscal house in order to pass on predictable bills to ratepayers and enable stable operating environments for businesses. If municipal revenue powers are changed, the alterations should enhance flexibility and revenue stability through diversification.

Municipal infrastructure investments build economies and communities, as well as improve people's everyday lives; given the direct downstream impacts of municipal investment, it is critical to retain the integrity of the revenue tools that make service investments possible.

3. State of the development charges regime

3.1. Primer on growth, infrastructure and development charges

As Ontario grows, some communities experience a shift from rural environments characterized by open fields, large wooded lots and farmlands to built-up neighbourhoods with more dense housing and retail outlets. Infrastructure is what makes this transition possible. Municipal infrastructure investments can be categorized into two streams:

- Building new infrastructure required to serve new residents and businesses
- Maintaining, operating and replacing existing infrastructure

Why do new residents and businesses require new infrastructure? Service levels are often based on units or inputs per capita. To maintain existing service levels amid population growth requires more inputs. If the new infrastructure requirements are not met, service levels will decline over time. For example, a transit service level might be set at one bus per 10,000 people. If 10,000 new people move into the community and no bus is added, the transit service level declines for all users, manifesting as longer lines for buses, and more crowded buses and streets. New residents and businesses require new infrastructure so that growth does not compromise service levels and quality of life.

DCs apply to the upfront infrastructure costs of a range of services, giving municipalities the financial capacity to bring new lots up to the service standard enjoyed in longer standing parts of the community. It is an enduring principle of DCs that growth pays for growth, and nothing else.

3.2 Profile of municipal development charges in Ontario: Usage and collections

More and more Ontario municipalities are using DCs to fund their growth-related infrastructure needs. In 2005, “about 170 municipalities, representing about 90 percent of the province's population, impose[d] development charges” (Development Charges Subgroup, 2007, p. 4). By 2011, this figure grew to 210 municipalities (Watson & Associates, 2011).[3] Between 1997 and 2010, Ontario municipalities collected $9,924,892,427 in DC revenue to fund all or part of a range of capital projects across a spectrum of service areas (FIR). [4]

3.3 *Development Charges Act, 1997*: Key changes and their impact

The 1997 Act’s strongest contribution to the DC regime in Ontario was providing a predictable framework for municipalities to calculate and collect DCs. [5] Section 5 of the 1997 Act, ‘Determination of development charges’, added clarity to DC calculations by

[3] DCs are less applicable in municipalities that are growing slowly, not growing or experiencing population decline.

[4] At the time of writing, not all Financial Information Returns (FIRs) had been submitted; the data for these years may be understated.

[5] References to DC legislation in this report include Ontario Regulation 82/98.

setting out a step-by-step calculation methodology not present in the 1989 DCA. MFOA supports the procedural amendments made to standardize how DCs are calculated.

Several provisions of the, 1997 Act, however go too far, restricting municipalities from recovering 100% of their true growth-related costs. The 1997 Act:

1. Limited the number of services previously eligible for a DC.
2. Applied a 10% discount on the DC for a range of services so that only 90% of the cost is eligible to be recovered through DCs.
3. Confined the calculation methodology for DCs to a backward looking ten year average service standard.

3.3.1 Legislation limits eligible services and cost recovery

Table 1 compares the funding models outlined in the 1989 and 1997 DC legislation. The size of the funding gap left by ineligible services and mandatory discounts is clear when one sees how many services were transferred from a full cost recovery approach to a partial or zero cost recovery approach from the first DCA to the second.

Table 1: Decreasing revenue prospects from the 1989 Act to the 1997 Act

	Development Charges Act, 1989	***Development Charges Act, 1997***
Services 100% eligible for DCs (in these service areas, the full cost of providing a service could be recovered by using a DC).	Water, sewer, storm water management, police, fire, ambulance services, hospitals, roads, transit, airports, provincial offenses act administration, parking, municipal vehicles and equipment, affordable housing, child care, public health, social services, shelters, homes for the aged, acquisition of land for parks, parkland development, recreation facilities, libraries, cultural and entertainment facilities (museums, theatres and art galleries), tourism facilities (including convention centres), waste management services, municipal administration buildings and computers.	Water, sewer, storm water management, police, fire and roads.
Services partially eligible for DCs (in these service areas, only 90% of the cost of providing a service could be	None.	Ambulance services, transit, airports, provincial offenses act administration, parking, municipal vehicles and equipment, affordable housing, shelters, homes for the aged, child care, public health, social services, recreation facilities, parkland development and libraries.

recovered by using a DC).		
Services ineligible for DCs (in these service areas, none of the costs of providing a service can be recovered through a DC).	None.	Waste management services, hospitals, acquisition of land for parks, cultural and entertainment facilities (including museums, theatres and art galleries), tourism facilities (including convention centres), municipal administration buildings and computers.

Part of the reason that DCs recover a maximum of 80% of the cost of growth is because the cost of most of the services moved from being 100% recoverable in the 1989 Act to partial or ineligible recovery in the 1997 Act (see Appendix B for another visual breakdown of eligibility and discounts).

3.3.2 Collections based on past average service levels

DCs are calculated for individual services based on a service level. The 1989 Act based service levels on the highest service level a municipality reached in the ten years leading up to the DC background study; the 1997 Act bases service levels on the average service level provided throughout the ten years leading up to the background study.

Population growth and a changing demographic profile can mean changing service demands. If a municipality was consciously ramping up service levels in response, the initiative would be reflected in DCs collected under the 1989 Act but it is suppressed through averaging provisions in the 1997 Act. This is another reason DCs no longer cover the cost of growth.

After a certain population threshold, homes for the elderly, child care facilities, airport facilities and transit services become important services to provide. If a municipality has not needed, for example, a transit service in the past, it is difficult to introduce because no DC revenues are possible where the historical average service level is zero. For example, Lindsay needs its first buses, none of which are eligible for DCs because the service has not existed in past.

The backward looking service level calculation in DC legislation is problematic for three reasons:

1. **Time horizon misalignment**: DCs do not pay for existing infrastructure, yet they reflect yesterday's capital costs.
2. **Disregards evolving service preferences**: A backwards looking calculation ties the preferences of future inhabitants to those of past inhabitants.

3. **Thwarts municipal service responsiveness and relevance**: The backward looking calculation suspends services and service levels in the past through diminished funding prospects in the present.

For the same reason that no two municipalities' services, fee and tax rates are identical, even if growth is capable of paying for growth, municipalities will not all pay for it identically. It is a Council's mandate to define how its community looks, feels and operates. Provincial legislation should not limit local choices by limiting local revenues. Individual municipalities are better positioned to determine how to pay for growth in DC background studies and bylaws than the provincial government in generally applicable DC legislation.

4. Infrastructure development is critical to economic development

A cross-cutting consensus has emerged between the federal and provincial governments and building and development industry that infrastructure investment is tied to economic and employment growth. According to a Residential and Civil Construction Alliance of Ontario report on "Public Infrastructure Investment in Ontario" infrastructure investment supports GDP growth, higher wages and employment rates, corporate profits and public revenue (2011, p. 35).

The state of municipal infrastructure relates to its growth prospects in the following ways:

- Certain infrastructure attracts newcomers; for instance, amenity services – social, cultural and leisure facilities – are known to attract creative and skilled workers.
- The state of a community's infrastructure is a litmus test for its investment readiness; viable transportation corridors in particular are vital to get goods to market for 'just in time' delivery.
- Providing community and age-specific infrastructure is an important part of population retention strategies in some parts of the province.
- Investing in infrastructure is a form of job creation that produces spinoff effects in other industries, stimulating and sustaining growth.

The last point about spinoff effects was the reason the stimulus phase of the federal Economic Action Plan focused on funding infrastructure projects. According to Ontario's long term infrastructure strategy, *Building Together* (2011), "[i]nfrastructure investments will drive continued economic growth and enhanced quality of life" (Executive Summary). Given that the federal government stimulated economic growth in a recession by building infrastructure and the Ontario Government has created several capital funding programs to sustain economic growth, it is short-sighted to impinge on municipalities' ability to pay for the infrastructure that enables growth.

5. The *Development Charges Act, 1997* impedes provincial initiatives

Provincial initiatives related to transportation and smart growth are examples of some of the paradigm shifts that have taken place since 1997 about how we pay for services and how we grow. The 1997 legislation is not only inconsistent with the new thinking, it also forms a barrier to achieving the policy objectives underlying these initiatives by underfunding key services and restricting the capital revenue streams needed for them to flourish.

- In 2006, the Ontario Government made an exception to the historic average service level calculation for the transit DC on the Toronto-York Spadina Subway Extension. Ontario Regulation 192/07, s. 3, identifies the planned level of service for the Extension as the build-out period until the subway is ready for use, a methodological change made in the name of increasing municipal DC revenues. Passing a one-off regulation to circumvent the funding deficiencies in the calculation methodology concedes that a historic average is not a relevant or appropriate basis for calculating DC revenues and results in underfunding newer services. Most importantly, however the regulation sets a valuable precedent for how to strengthen the calculation methodology.

- The smart growth principles captured in the *Places to Grow Act, 2005,* including transit-oriented development, environmental protection and preservation of open spaces, highlight the criticality of transit, waste management and parkland services to sustainable development. DC legislation undermines the achievement of smart growth ideals because it underfunds services critical to accommodating more compact modes of development.
    - Transit: Whereas the capital costs of road construction can be fully recouped through DCs, only 90% of transit capital can be recovered. Thus the DC framework gives municipalities a financial incentive to de-emphasize transit.
    - Municipalities have master service plans for broad service categories, including transportation, however DCs are collected based on the specific services outlined in the Act, including roads and transit. Revenue from discounted and non-discounted services cannot be combined in reserve funds. As such, it is difficult to adjust municipal service offerings in line with changing service demands and plan an integrated service network.
    - The backwards looking average service level is another major barrier to transit development. For municipalities providing transit services for the first time, no DCs are possible because the historic service level is zero. This is problematic because the use of DCs presupposes growth, which can lead to traffic congestion, which can be managed by introducing transit services, which DCs have not been legislated to support. For municipalities with experience providing transit, the backward looking calculation financially frustrates system growth, (thus the exception for the Toronto-York Subway Extension).
    - Environmental protection: Although eliminated in the 1997 Act, waste management DCs are needed more than ever to finance activities associated with an increased number of waste producers, including increasing investment in landfill space and recycling facilities. These are significant long term expenditures and marginal growth costs need to be considered.

Restricting funding for environmental protection programs like recycling and waste diversion can imperil the provision of these crucial services.

- Preservation of open spaces: Exempting parkland acquisition costs from DCs fails to recognize that the increased population density encouraged by *Places to Grow, 2005* will require more parks and open spaces to offset the loss of private backyards associated with traditional, lower density, single family dwellings.

- The thread of land use intensification runs through the Provincial Policy Statement, 2005. Watson & Associates were retained by the City of Guelph to analyze the financial impacts of various growth scenarios from 2008-2031. A baseline, greenfield development scenario would accommodate 155,000 people in 13,613 units, 3% of which were from intensification areas. An intensification scenario would add 195,000 people in 29,613 units, of which 44% were from intensification areas. On a per capita basis, capital costs would be $5,391 in the greenfield scenario and $7,926 in the intensification scenario; the 47% increase would be reflected in DCs (Watson & Associates, 2007). Provincially designed growth funding tools should support more compact, and potentially more expensive, provincially designed modes of development.

Both municipal governments and the provincial government understand the need for unprecedented infrastructure investment; major spending changes are, however unlikely without greater access to revenue.

6. What reforms are needed

The driving rationale for instituting lot levies and the 1989 DCA was that 'growth pays for growth.' Meaningful DC reform is imperative to reflect the original intentions of DC legislation – to provide a framework for recovering all growth-related infrastructure costs across Ontario. Municipalities urge the Ontario Government to make the following legislative repairs as the key outcomes of the current DC review:

1. Eliminate Section 2(4), "Ineligible services," so that all services are eligible for development charges.
2. Remove Section 5(1), paragraph 8, the step in "Determination of development charges" that requires municipalities to reduce their capital costs by 10%.
3. Update Section 5(1), paragraph 4, which entails that the service levels development charges are based on is an average service level for the previous ten years, with a more flexible understanding of service levels. Municipalities should be able to adopt forward looking service levels, define the basis for service levels (inputs, outcomes, etc.) and broad service categories.

Table 2: MFOA's recommendations for reforming the DC Act, 1997

Areas for reform	Existing legislation	Recommendation
Ineligible services	Section 2 (4), "Ineligible services," is a list of services to which development charges	Eliminate Section 2(4).

	may not be applied.	
10% discounts	Section 5 (1), paragraph 8, requires municipalities to reduce their capital costs by 10%.	Eliminate Section 5(1), paragraph 8.
Backwards looking average service level	Section 5(1), paragraph 4, entails that the service levels development charges are based on is an average service level for the previous ten years.	Section 5(1), paragraph 4 should indicate that municipalities are permitted to adopt forward looking service levels, define the basis for service levels and broad service categories themselves in DC bylaws.

6.1. Remove the list of ineligible services

The range of services provided in a community are a significant consideration for people thinking about where to live and do business. People do not decide to settle in a community because of roads and sewers; however, the 1997 Act eliminated many of the services that make communities unique – parks, cultural, entertainment and tourism facilities – from being included in the cost of growth. All infrastructure services should be eligible for DCs so that newcomers can fully contribute back to the service fabric that drew them into a particular community.

6.2. Remove mandatory discounts

Full cost pricing should be permitted for growth-related infrastructure such that all capital costs can be included in DCs. Arbitrary 10% discounts on the DC for many services mean that 10% of the cost of delivering those services either overflows onto other rates or goes unfunded and impacts services. Better DC legislation would ensure that municipalities do not have to make these tradeoffs automatically.

6.3. Change the service level standard

The DC levied for one service should reflect the cost of providing that service in the time horizon in which it will be provided and be based on a municipality's service plans.[6] Knowing that new technology, growth and citizen demands will change how and which services are provided in the future, flexible service definitions and service categories should be established in DC legislation to permit maximum adaptability and responsiveness.

Recommendation 3 endows municipalities with the power to:

I. **Adopt forward looking service levels**: For 'service firsts,' the time horizon for the service standard could be the build-out period of an asset, the standard piloted in 2006 for the Toronto-York Spadina Subway Extension.

[6] Service levels anchored in council commitments are expressed in master plans, capital budgets or other similarly formal public documents.

II. **Define the basis for service levels**: Rather than a historic average service level, a more dynamic service level for transport services, for example, might be trip times.

III. **Define service categories:** For example, a municipality might combine roads, Provincial Offenses Act administration, parking, airport and transit services in a transport services category or police, fire, emergency medical and public health services into a health and safety category.

It should be noted that, in Volume One of his 2012 report, "Building Momentum," the Environmental Commissioner of Ontario expressed support for the second and third recommendation.

> "[B]oth the 10 per cent discount and the historic 10-year average service level standard should be closely examined and changed. The [Toronto-York Spadina Expansion Subway Extension Project] example...where the government offered an exemption from the 10-year averaging and 10 per cent reduction rules is essentially an admission that the current framework is flawed and must be amended" (2012, p. 35).

Metrolinx has also cited the easing of DC caps as one of four transit investment strategies.

> "By removing the provincially legislated 10 percent discount and 10 year historical cap, municipalities could implement additional development charges and dedicate the revenue to support the implementation of Next Wave projects within their communities (2013, p. 70).

While the release of the Metrolinx investment strategy for transit in the Greater Toronto and Hamilton Area has garnered widespread support for eliminating DC restrictions as they pertain to transit, amendments are required for a wider spectrum of services in a wider range of municipalities.

7. Conclusion

Given the inability of current DCs to fund the infrastructure needed for economic growth, and their inconsistency with provincial initiatives relating to smart growth, MFOA is duly concerned about the compromised state of Ontario's DC regime under the 1997 Act alongside the Toronto Board of Trade, Ontario Provincial Planners Institute, the Association of Municipalities of Ontario, Environmental Defense and the Pembina Institute.

Despite provincial and public pressure on municipalities to re-think their role in infrastructure – to re-prioritize services, manage assets and increase investment levels – municipalities are still tied to an outdated funding model for critical growth-related infrastructure. The sixteen year old DC legislation needs to be modernized to reflect what it could not at its inception – the growing consensus on the economic benefits of infrastructure investment as well as new service priorities. We look forward to working with the Ontario Government and Ontario municipalities to update the 1997 Act in the months ahead.

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Appendix A: MFOA's Development Charges Working Group

The members of MFOA's Development Charges Working Group are recognized below.

Ed Archer
City of Barrie

Calvin Barrett
Region of Waterloo

Lori Beecroft
Town of Huntsville

Sara Beukeboom
City of Kawartha Lakes

Ferrucio Castellarin
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Jonathan Janzen
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City of North Bay

Samuel Malvea
City of Toronto

Warren Marshall
The Regional Municipality of York

Ken Nix
Town of Whitby

Lloyd Noronha
City of Brampton

Keshwer Patel
City of Mississauga

Jay Pausner
Town of Saugeen Shores

Sylvia Rammelaere
Town of Lakeshore

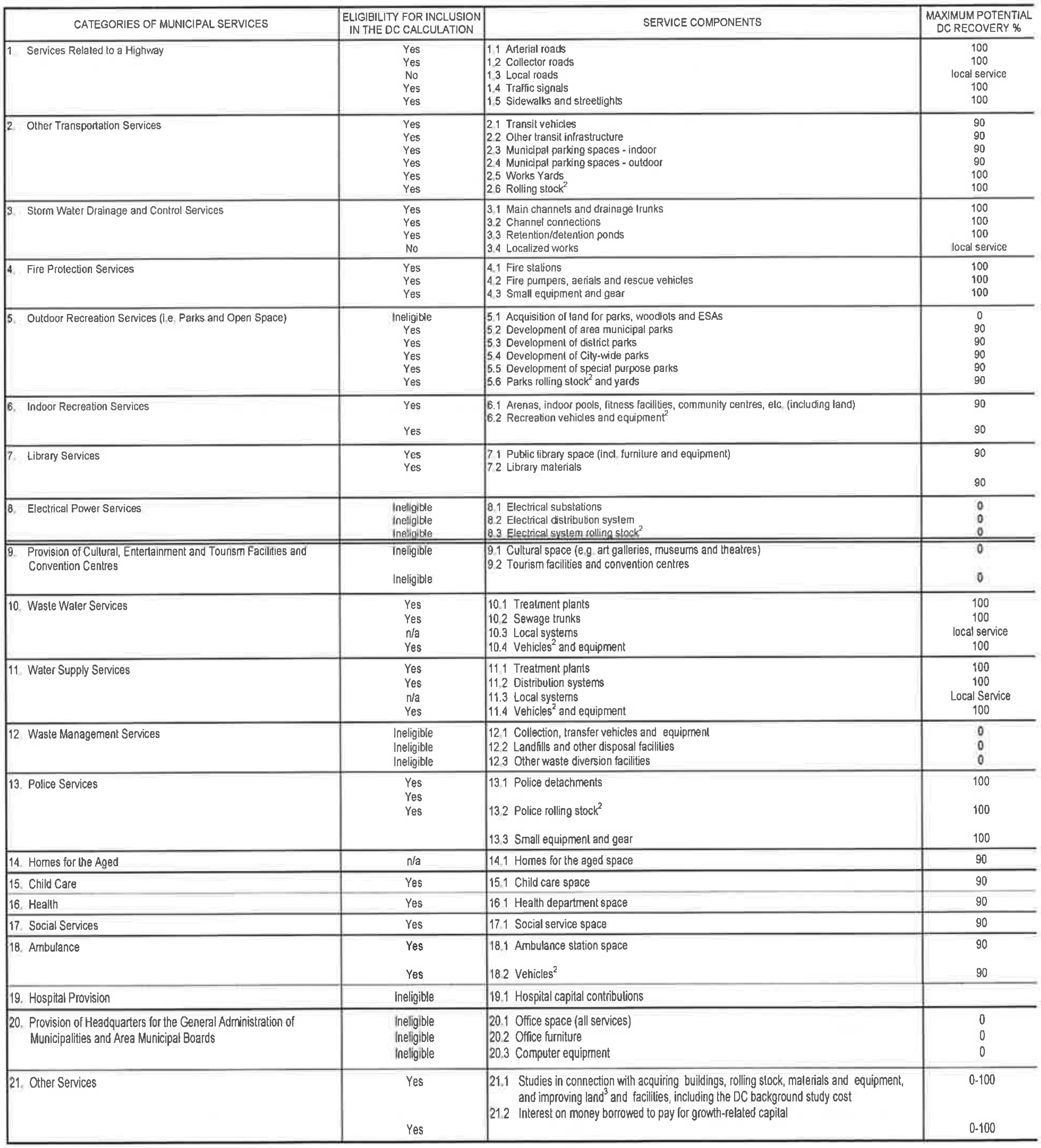
Shirley Siu
City of Toronto

Kelly Struby
The Regional Municipality of York

Ed Zamparo
Regional Municipality of Peel

Appendix B: Municipal services' development charges eligibility

This table lists types of municipal services and gives a 'yes/no' indication about whether or not its costs are eligible to be recovered in DCs. It further breaks the service categories down into individual services and gives the rate at which DCs can be recovered (0%, 90% or 100%).



CATEGORIES OF MUNICIPAL SERVICES	ELIGIBILITY FOR INCLUSION IN THE DC CALCULATION	SERVICE COMPONENTS	MAXIMUM POTENTIAL DC RECOVERY %
1. Services Related to a Highway	Yes	1.1 Arterial roads	100
	Yes	1.2 Collector roads	100
	No	1.3 Local roads	local service
	Yes	1.4 Traffic signals	100
	Yes	1.5 Sidewalks and streetlights	100
2. Other Transportation Services	Yes	2.1 Transit vehicles	90
	Yes	2.2 Other transit infrastructure	90
	Yes	2.3 Municipal parking spaces - indoor	90
	Yes	2.4 Municipal parking spaces - outdoor	90
	Yes	2.5 Works Yards	100
	Yes	2.6 Rolling stock[2]	100
3. Storm Water Drainage and Control Services	Yes	3.1 Main channels and drainage trunks	100
	Yes	3.2 Channel connections	100
	Yes	3.3 Retention/detention ponds	100
	No	3.4 Localized works	local service
4. Fire Protection Services	Yes	4.1 Fire stations	100
	Yes	4.2 Fire pumpers, aerials and rescue vehicles	100
	Yes	4.3 Small equipment and gear	100
5. Outdoor Recreation Services (i.e. Parks and Open Space)	Ineligible	5.1 Acquisition of land for parks, woodlots and ESAs	0
	Yes	5.2 Development of area municipal parks	90
	Yes	5.3 Development of district parks	90
	Yes	5.4 Development of City-wide parks	90
	Yes	5.5 Development of special purpose parks	90
	Yes	5.6 Parks rolling stock[2] and yards	90
6. Indoor Recreation Services	Yes	6.1 Arenas, indoor pools, fitness facilities, community centres, etc. (including land)	90
	Yes	6.2 Recreation vehicles and equipment[2]	90
7. Library Services	Yes	7.1 Public library space (incl. furniture and equipment)	90
	Yes	7.2 Library materials	90
8. Electrical Power Services	Ineligible	8.1 Electrical substations	0
	Ineligible	8.2 Electrical distribution system	0
	Ineligible	8.3 Electrical system rolling stock[2]	0
9. Provision of Cultural, Entertainment and Tourism Facilities and Convention Centres	Ineligible	9.1 Cultural space (e.g. art galleries, museums and theatres)	0
	Ineligible	9.2 Tourism facilities and convention centres	0
10. Waste Water Services	Yes	10.1 Treatment plants	100
	Yes	10.2 Sewage trunks	100
	n/a	10.3 Local systems	local service
	Yes	10.4 Vehicles[2] and equipment	100
11. Water Supply Services	Yes	11.1 Treatment plants	100
	Yes	11.2 Distribution systems	100
	n/a	11.3 Local systems	Local Service
	Yes	11.4 Vehicles[2] and equipment	100
12. Waste Management Services	Ineligible	12.1 Collection, transfer vehicles and equipment	0
	Ineligible	12.2 Landfills and other disposal facilities	0
	Ineligible	12.3 Other waste diversion facilities	0
13. Police Services	Yes	13.1 Police detachments	100
	Yes	13.2 Police rolling stock[2]	100
	Yes	13.3 Small equipment and gear	100
14. Homes for the Aged	n/a	14.1 Homes for the aged space	90
15. Child Care	Yes	15.1 Child care space	90
16. Health	Yes	16.1 Health department space	90
17. Social Services	Yes	17.1 Social service space	90
18. Ambulance	Yes	18.1 Ambulance station space	90
	Yes	18.2 Vehicles[2]	90
19. Hospital Provision	Ineligible	19.1 Hospital capital contributions	
20. Provision of Headquarters for the General Administration of Municipalities and Area Municipal Boards	Ineligible	20.1 Office space (all services)	0
	Ineligible	20.2 Office furniture	0
	Ineligible	20.3 Computer equipment	0
21. Other Services	Yes	21.1 Studies in connection with acquiring buildings, rolling stock, materials and equipment, and improving land[3] and facilities, including the DC background study cost	0-100
	Yes	21.2 Interest on money borrowed to pay for growth-related capital	0-100

Source: Watson & Associates Economists Ltd., 2009.

Dispelling development charge myths and misconceptions

A few myths and misconceptions about municipal development charges (DCs) have held up the pressing matter of DC reform in Ontario. This is a companion piece to MFOA's report "Frozen in time: Development charges legislation still underfunding infrastructure 16 years and counting." That report articulates the case for reforming the *Development Charges Act, 1997.* In this discussion paper, we unpack the following misconceptions:

1. DCs are 'high' because municipalities provide services at "gold plated" service levels that were not provided to existing residents.
2. Residential DCs can increase the price of some kinds of housing.
3. Non-residential and industrial DCs can make municipalities less economically competitive than they would be without DCs.
4. Some growth-related capital should be paid for through property taxes.

1. Development Charges are 'high' because municipalities provide services at 'gold plated' service levels that were not provided to existing residents.

DC critics suggest that municipalities use DCs to increase service levels in newly developed areas of a community. They suggest that these 'gold plated' service standards are higher than those provided in established communities. The *Development Charges Act, 1997* ("DCA 1997" or "the Act") prevents gold plating.[1] If 'gold plating' is suspected, a DC bylaw can be appealed to the Ontario Municipal Board. The ten year average service standard articulated in the 1997 Act depresses, not inflates, service levels.

DC increases are driven by general cost escalation, elimination of conditional grants for infrastructure and new provincial legislation and regulations.

General cost escalation

Significant capital cost increases have forced many municipalities to update their DC rates early to ensure that they are collecting enough revenue to fund the works identified in their DC background studies. Table 1 compares the capital costs for works identified in the Town of Oakville's 2003 DC background study with the identical works in the 2008 study. The table shows an average cost increase of 67% with a number of projects showing over 100% cost increases within the five year period.[2]

Table 1: Comparison of Roads Costs for Projects Carried Forward from 2004 to

[1] References to DC legislation in this report include Ontario Regulation 82/98.

[2] Table 1 also highlights the inability of the development charge index to reflect this steep level of price escalation. As demonstrated by column six, 19% of the cost escalation from 2003-2008 is not captured by the index.

2009 DC Study: Town of Oakville

Project	Gross Cost 31/12/2008 $Mil	Gross Cost 31/12/2003 $Mil	Nominal Change %	Adjusted for DC Index 40.2% $Mil	Change Beyond Index %
Chartwell Road	$ 5.058	$ 2.553	98%	$ 3.579	41%
Cornwall Road	$ 5.299	$ 2.483	113%	$ 3.480	52%
Eighth Line	$ 1.208	$ 0.550	119%	$ 0.771	57%
Eighth Line	$ 1.123	$ 0.588	91%	$ 0.824	36%
Fourth Line	$ 3.439	$ 2.682	28%	$ 3.760	-9%
Fourth Line	$ 28.164	$ 12.942	118%	$ 18.144	55%
Great Lakes Boulevard	$ 2.957	$ 1.897	56%	$ 2.660	11%
Iroquois Shore Road	$ 2.230	$ 0.883	152%	$ 1.238	80%
Iroquois Shore Road Exten. (Part A mid-town)	$ 6.153	$ 2.760	123%	$ 3.870	59%
Lakeshore Road West	$ 4.693	$ 2.287	105%	$ 3.207	46%
Lower Base Line	$ 9.430	$ 8.706	8%	$ 12.206	-23%
North Service Road	$ 1.345	$ 0.759	77%	$ 1.065	26%
North Service Road (Part C - Mid-Town)	$ 4.202	$ 2.041	106%	$ 2.861	47%
Sixth Line	$ 1.336	$ 0.563	137%	$ 0.789	69%
Sixth Line	$ 1.211	$ 0.506	139%	$ 0.709	71%
South Service Road	$ 1.643	$ 0.754	118%	$ 1.057	55%
South Service Road	$ 5.185	$ 2.261	129%	$ 3.169	64%
South Service Road	$ 13.790	$ 5.805	138%	$ 8.137	69%
South Service Road (Part B - Mid-Town)	$ 5.379	$ 2.660	102%	$ 3.728	44%
Speers Road	$ 0.474	$ 0.517	-8%	$ 0.724	-34%
Third Line	$ 0.491	$ 0.401	22%	$ 0.563	-13%
Third Line	$ 0.503	$ 0.401	25%	$ 0.563	-11%
Third Line	$ 0.411	$ 0.226	82%	$ 0.317	30%
Third Line	$ 3.661	$ 3.567	3%	$ 5.001	-27%

Wyecroft Road	$ 11.937	$ 4.531	163%	$ 6.352	88%
Wyecroft Road	$ 52.863	$ 41.494	27%	$ 58.171	-9%
Wyecroft Road	$ 3.538	$ 1.835	93%	$ 2.572	38%
TOTAL	**$ 177.725**	**$ 106.652**	**67%**	**$ 149.516**	**19%**

Source: *Hemson Consulting. Comparison of roads costs for projects carried forward from 2004 to 2009 development charge study: Town of Oakville. Unpublished raw data. Toronto, ON*

Elimination of conditional grants

There is a broad consensus that "upward pressure on development charge revenue is a result of fiscal pressure that municipalities face due to reduction in funding from senior levels of government" (Amborski, 2011, p. 5). Conditional grants reduced DCs because the 1997 Act requires that they be applied to the total, gross cost of a project, lowering the project costs to which DCs would apply. The loss of growth-related capital grants meant that more of the cost of growth-related works is paid for by DCs.

New legislation and regulations

New provincial legislation and regulations can increase municipalities' infrastructure costs by mandating the provision of new services or increasing the standards at which existing services are provided. Because most municipal services involve infrastructure, the 'cost of compliance' to new requirements often manifests in the cost of infrastructure. The infrastructure costs associated with new legislation and regulations will continue to be reflected in DC rates.[3]

The DC regulations recognize that, in many cases, the service levels prescribed in the 1997 DCA fall below the service levels required in other legislation.

> "If the average level of service determined is lower than the standard level of service required under another Act, the standard level of service required under the other Act may be deemed for the purposes of paragraph 4 of subsection 5 (1) of the Act to be the average level of service" (O. Reg. 82/98, s. 4 (3)).

In other words, there is one instance in which the 1997 DCA permits municipalities to exceed the backward looking average service standard for calculating DCs: where other provincial legislation requires a higher service standard to be met.

2. Residential DCs can increase the price of some kinds of housing.

Some critics suggest that DCs make newly built housing (new builds) less affordable. The premise of this argument is that DCs are fully captured in the price of new builds and thus paid by new home buyers. The extent to which developers can pass on DCs

[3] See pages 8-9 in the MFOA report 'Frozen in time: Development charges legislation underfunding infrastructure 16 years and counting' for specific examples of provincial policies that increase municipal infrastructure costs.

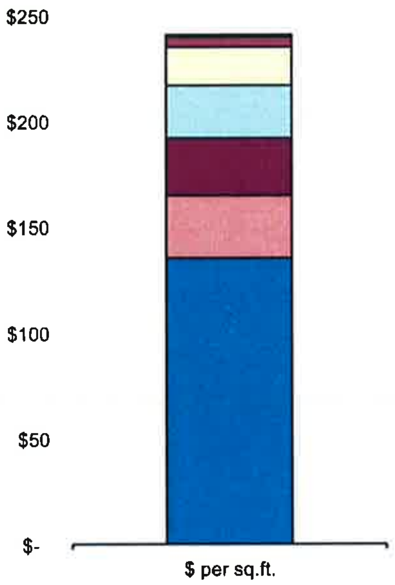
depends on a number of factors that vary over time, place and housing market (Nowlan, 2004; Huffman, Nelson, Smith, & Stegman, 1988; Ihlanfeldt & Shaughnessy, 2004; Skaburskis, 1990). Many studies question the assumption that 100% of a DC will be passed on to 100% of unit purchasers.

Many factors influence the cost of housing. Land costs (supply and demand), construction costs, housing demand by type, real interest rates, availability of mortgage financing, speculation, income levels, consumer confidence, government regulations and broader economic conditions can all be significant drivers of house prices. One study that looked at a broad range of factors driving housing costs concluded that "development charges represent a minor component of overall housing costs when compared to land and construction costs" (Watson & Associates, 2004, p. 12).

Graph 1 is a pro forma of development costs for apartments in York Region. DCs represent approximately 6% of the total cost per square foot.

Graph 1: Apartment condominium pro forma

Apartment Condominium Proforma



	$ per sq.ft.	%
Municipal fees	$ 2	0.5%
Development charges	$ 14	6%
Land purchase	$ 18	7%
Tenant/leasing costs	$ 23	9%
Underground parking	$ 27	11%
Soft construction costs	$ 31	13%
Hard construction costs	$ 135	54%
Total cost per sq.ft.	$ 251	100.0%

Source: Royal LePage Advisors

Source: *"Making It Happen! The York Region Centres and Corridors Study" prepared by The Planning Partnership for the Region of York, November, 2002.*

Other critics argue that significant fluctuations in DC rates have affordability implications. Table 2 shows the variation in house prices and DC amounts in certain high growth areas over fourteen years. As a percentage of new house prices, DCs increased 0.2% in Ottawa, 2.1% in Durham, 4% in Waterloo, 1.8% in York, 1.8% in Peel and 2.2% in Halton from 1996 to 2010.

Table 2: Summary of development charges as a percentage of housing price for a single detached executive two-storey (in current dollars)

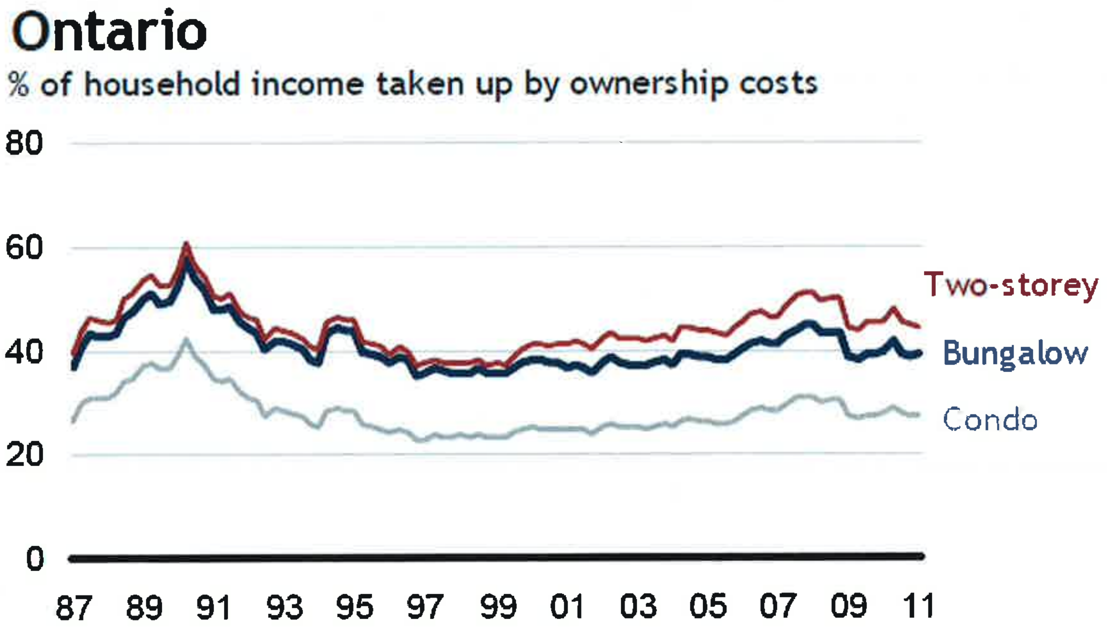
Municipality/ Year	Housing Price	Development Charge	DC as a % of Housing Price
Ottawa (Nepean) - 1996	230,000	11,477	5.0%
Ottawa (Nepean) - 1999	240,000	12,265	5.1%
Ottawa (Nepean) - 2004	339,000	18,941	5.6%
Ottawa (Nepean) - 2007	380,000	20,985	5.5%

Ottawa (Nepean) - 2010	440,000	22,693	5.2%
Durham (Whitby) - 1996	185,000	12,739	6.9%
Durham (Whitby) - 1999	215,000	15,917	7.4%
Durham (Whitby) - 2004	275,000	20,921	7.6%
Durham (Whitby) - 2007	281,611	23,737	8.4%
Durham (Whitby) - 2010	341,200	30,873	9.0%
Waterloo (Cambridge)- 1996	183,000	6,610	3.6%
Waterloo (Cambridge)- 1999	198,000	10,179	5.1%
Waterloo (Cambridge)- 2004	274,500	14,286	5.2%
Waterloo (Cambridge)- 2007	349,020	15,343	4.4%
Waterloo (Cambridge)- 2010	313,669	23,890	7.6%
York (Vaughan) - 1996	280,000	19,631	7.0%
York (Vaughan) - 1999	320,000	18,886	5.9%
York (Vaughan) - 2004	416,000	23,213	5.6%
York (Vaughan) - 2007	470,500	27,010	5.7%
York (Vaughan) - 2010	475,000	41,749	8.8%
Peel (Missisauga) - 1996	220,000	12,078	5.5%
Peel (Missisauga) - 1999	270,000	15,776	5.8%
Peel (Missisauga) - 2004	415,645	20,411	4.9%
Peel (Missisauga) - 2007	396,200	25,728	6.5%
Peel (Missisauga) - 2010	465,000	34,164	7.3%
Halton (Oakville) - 1996	248,000	14,889	6.0%
Halton (Oakville) - 1999	275,000	14,431	5.2%
Halton (Oakville) - 2004	350,000	21,652	6.2%
Halton (Oakville) - 2007	425,000	25,127	5.9%
Halton (Oakville) - 2010	614,250	50,495	8.2%

Source: *Development Charges Subgroup. (2007). Report to the PMFSDR Infrastructure Table. Toronto, ON: Government of Ontario; municipal development charge bylaws; "Housing Now" CMA reports from Canada Housing and Mortgage Corporation.*

Graph 2 illustrates the percentage of household income allocated to home ownership, one measure of housing affordability, in Ontario as of May 2011. Notwithstanding recessionary spikes in the early 1990s and late 2000s, the cost of home ownership as a percentage of income has remained relatively stable, averaging approximately 35% of household income from 1987 to 2011. Under the 1989 DCA's full cost recovery regime for DCs, house prices, as a percentage of income, fell almost 20% across three housing types.

Graph 2: Affordability of housing in Ontario



Source: *RBC Economics & Research, Housing Trends and Affordability, May 2011*

Many factors influence the affordability of new housing; it is not productive to isolate DC rates from the larger context of the economy, housing market and other influences on affordability.

Further, suggesting that DCs make new builds less affordable obscures homebuyers' choice about which kind of housing to purchase, which municipality to live in as well as the financial impact of not levying DCs on other municipal tax and fee rates charged to all tax and ratepayers.

3. Non-residential and industrial DCs can make municipalities less economically competitive than they would be without DCs.

Critics argue that DCs impact economic development prospects directly and indirectly. According to critics, DCs on employment lands, (non-residential DCs) impact location decisions for employers and, consequently, relatively high DCs may put a municipality at a competitive disadvantage to attract non-residential development. The indirect impact builds on the premise that residential DCs increase house prices. Critics argue that higher house prices lead to a lack of affordable housing for people in lower paying jobs. They argue that employers may not want to settle in areas where they do not have access to an appropriate labour force (Amborski, 2011).[4]

Regarding the argument that DCs impact economic development directly, a large body of literature is devoted to investigating how firms make locational and business expansion decisions. While DCs could be one of many factors influencing a firm's decision to locate or expand in a particular community, it does not appear that current non-residential DCs are a barrier to economic development.

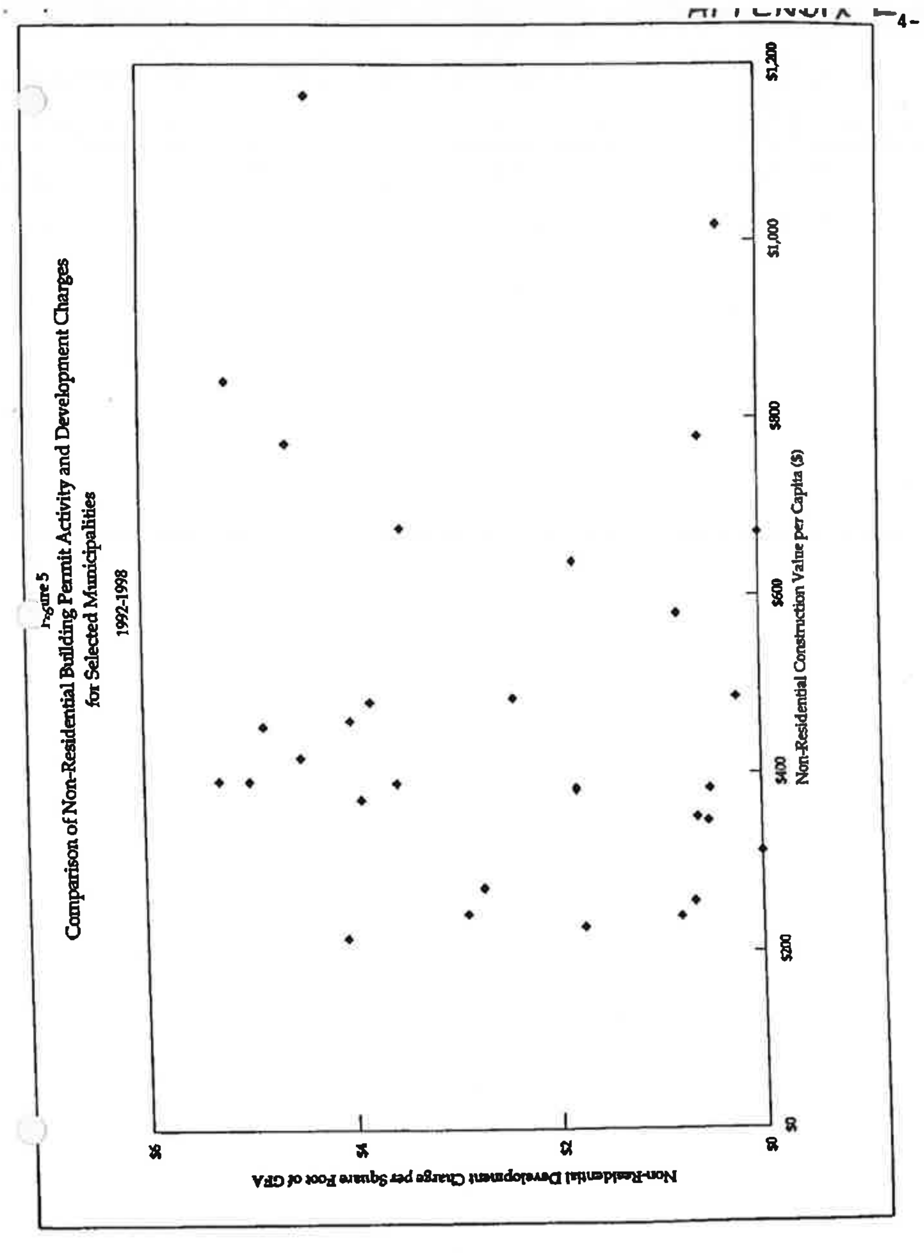
In her paper, "Does the Imposition of an Industrial Development Charge Affect Site Selection," Dean argued that

> "There does not appear to be any correlation between industrial construction activity and the development charge. An examination of the cost of land in selected municipalities does not seem to suggest any relationship to the development charge amount. The information gathered thus far would suggest that there is no correlation between the amount of development charges and location decisions" (Dean, p. 13).

The scatter graph below plots the non-residential DC rate per square foot and the value of non-residential building permits per capita. The dispersion of the data points suggests that the correlation between DC rates and economic development, seen through the lens of non-residential building permit value, is not statistically significant.

[4] As the issue of whether or not DCs impact the affordability of new builds was addressed in section 2, this section will focus on the first claim about competitive disadvantage.

Graph 3: Scatter graph correlating non-residential DC rates and the value of non-residential DC permits



Source: *Dean, Linda. Does the Imposition of an Industrial Development Charge Affect Site Selection? Term Paper: Public Administration 913A Economics and Policy Development.*

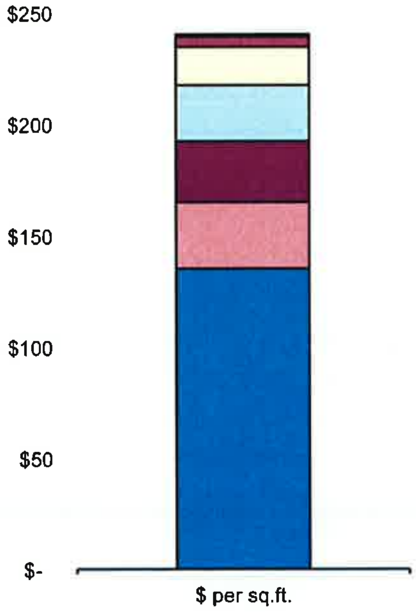
Rather, factors such as the quality of services and infrastructure, among others, appear to be much more significant when firms make locational decisions, as the following quote echoes,

> "Statistical analyses have not identified any clear and direct linkage between the level of development charges and construction activity for non-residential development... Development charges are part of the overall project cost and locational decision, but rarely appear to be critical to the decision to locate in one municipality vs. another. Each company's decision is the result of an interplay of their own unique requirements, and market conditions... The municipality should consider its strengths and weaknesses with respect to the non-financial factors in competing municipalities (e.g. available well located serviced land, access to transportation, quality of life, cost and quality of labour), as these are often the most significant considerations in business location decisions" (Watson & Associates, 2004, p. 5, 9-10).

Graph 4, below, shows a pro forma of the costs of building new office space in York Region. Development charges account for 2% of total costs.

Graph 4: DCs as a percentage of costs for office space

Office Building Proforma



	$ per sq.ft.	%
Municipal fees	$ 1	0.5%
Development charges	$ 4	2%
Land purchase	$ 18	8%
Tenant/leasing costs	$ 25	10%
Underground parking	$ 27	11%
Soft construction costs	$ 30	13%
Hard construction costs	$ 135	56%
Total cost per sq.ft.	$ 240	100.0%

Source: Royal LePage Advisors

Source: *"Making It Happen! The York Region Centres and Corridors Study" prepared by The Planning Partnership for the Region of York, November, 2002.*

Many Ontario Government funding programs and capital plans have articulated the economic value of infrastructure investment. In regard to impact fees, the American version of DCs, sources note that "impact fees act as an investment in the community, spurring economic growth through the timely provision of new infrastructure and the expansion of buildable land" (Nelson & Moody, 2003, p. vi).

Relatively high DCs can be positively correlated to high growth. An example was given in Phase 1 of Metropolitan Toronto's Industrial Land Strategy Study. It was based on:

> "[a] compendium of official plan industrial and related policies summarizing industrial land use policies in the 43 local and seven regional municipalities in the study area ...The analysis suggests that while development charges may have a modest impact on the distribution of industrial activities within the study area, the impact on location decisions is moderated by a number of more important criteria including: the relative location of customers, suppliers and employees, access to inter-regional expressways, local roads that can easily accommodate truck traffic, public transit access for employees, proximity to similar firms, attractive and visible sites, room for on-site expansion, and proximity to business services, restaurants and ancillary retail activities. The municipalities with lower development charges only benefit when there is a virtual saw-off among the other factors affecting industrial development decision making. Since development charges are a one time charge they have little impact on the decision making of many industrial tenants except to the extent that the development charge may be capitalized in a tenant's rent. The pattern of recent industrial development activity bears this out since some municipalities with high development charges have also had high values of industrial building permits issued in recent years" (Metro Planning, 1996, p. iii, 29).

There are costs of doing business in any community. If DCs were a major barrier, then we would expect to see higher rates of development in the communities that do not use DCs. The proposition that DCs could be a competitive disadvantage for a municipality can also be tested against non-residential building permit data for Ontario municipalities. The provincial Financial Information Return houses data on the number and value of building permits issued by municipality per year. Many municipalities with comparatively high non-residential charges issued many high value building permits for both residential and non-residential development in 2010. Brampton, for example, has the second highest charge in Peel Region and it has the fourth highest number of permits issued and third highest permit value in the Region (FIR data).

Overall, we could not find evidence indicating that current non-residential DCs are a barrier to economic development.

4. Some growth-related capital should be paid for through property taxes.

Groups concerned by DC amounts often cite 'alternative' financing sources for growth-related capital that could be employed to reduce the DC amount. One of the most common 'alternatives' considered is property taxes. DC critics phrase this argument in terms of funding certain services through property taxes and others through DCs. "If we consider property versus people-related services, it is the people-related services that may be most appropriately financed via property taxes rather than property-related services" (Amborski, 2011, p. 37). According to this perspective, property taxes are more appropriate to pay for people related services because there are broad and indirect community benefits associated with people-related services.

Attempts to divide services into people-related and property-related service categories are contested. In 1977, the Blair Commission on Taxation reached the following conclusion:

> "[I]t is evident that the differentiation between so-called services to land and services to people is wholly irrelevant: there is, in any perspective whatsoever, no such thing as "services to land"; there are only services demanded by people. While the nature of these services may require digging or other similar activity, it is the presence of people and their concomitant demands that give rise to an expenditure" (Blair Commission, 1977, p. 3).

The use of property taxes to fund growth-related capital was an issue the implementation of lot levies and DCs was meant to resolve. "The adoption of DCs was intended, in part, to be an improvement upon the old way of doing things, when growth-related infrastructure was paid for out of general municipal taxation revenues" (Blais, 2010, p. 92). The pre-lot levy regime was seen as unfair to existing ratepayers, who could neither choose nor control growth, but had to pay for it through taxes and other municipal rates. Unit purchasers in newly developed areas, on the other hand, choose to locate in newly developed areas in full view of the costs.

American research has found impact fees to be more appropriate tools to fund growth-related capital than property taxes. "Property tax revenues increasingly fail to cover the full costs of the infrastructure needed to service new development...Impact fees, like user fees, offer a more efficient way to pay for infrastructure than general taxes, and ensure benefits to those who pay them" (Nelson and Moody, 2003, p. vi).

The Region of Waterloo determined that current taxpayers will replace $6 billion of existing assets over the next fifty years. The Region also needs to add $1 billion of assets for growth over the next ten years. While DCs will be used to implant the $1 billion of growth-related capital, it will need another $1 billion for replacement through the property tax base. Existing ratepayers may not be able to pay a greater share of growth-related capital because they have large bills already; they are paying the operating, maintenance repair and replacement costs of the first round of growth-related capital, the full lifecycle costs of the municipal asset base and 1997 DCA restrictions, including ineligible and discounted services and a backward looking service level calculation for growth-related infrastructure.

Conclusion

This report has dispelled several DC myths, including

1) DCs foster "gold plated" service standards that were not provided to existing residents, thereby inflating DCs,

2) Residential DCs increase the price of some kinds of housing,

3) Non-residential and industrial DCs can make municipalities less economically competitive, and

4) Growth-related capital should be paid for through property taxes instead of growth itself.

The development industry has conveyed the need for sustained investment in infrastructure and the economic benefits of construction and development to the Ontario Government. Municipalities are in agreement about the need and the benefits; it is with the financial sustainability of growth in mind that we now urge the provincial government to view DC reform as the middle ground to satisfying the need for investment with the need for sustainability.

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