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Government of Ontario  
Development Charges  
System Review

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January 10, 2014

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**SUBMISSION**

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January 2014

John Ballantine  
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Municipal Finance Policy Branch  
Ministry of Municipal Affairs and Housing  
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**Re: EBR Registry 012-0281 - Development Charges System Review**

Dear Mr. Ballantine,

Sustainable Prosperity commends the Government of Ontario on undertaking the development charges system review, and is pleased to provide the following comments.

**About Sustainable Prosperity**

Sustainable Prosperity (SP) is a national research and policy network based at the University of Ottawa. SP focuses on market-based approaches to build a stronger, greener economy in Canada. It brings together business, policy and academic leaders to develop innovative ideas and inform policy development.

Our Sustainable Communities program focuses on analyzing and developing a broad array of market-based instruments to help municipalities address environmental concerns while boosting their economies and improving their fiscal capacity.

For further discussion of the issues outlined in this submission, please refer to Sustainable Prosperity's report "Suburban Sprawl: Exposing Hidden Costs, Identifying Innovations"<sup>1</sup> and our Policy Brief "Managing Urban Sprawl: Reconsidering Development Cost Charges in Canada."<sup>2</sup>

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<sup>1</sup> Thompson, D. "Suburban Sprawl: Exposing hidden costs, identifying innovations" (Oct 2013), Sustainable Prosperity [www.sustainableprosperity.ca/dl1045](http://www.sustainableprosperity.ca/dl1045)

<sup>2</sup> Sustainable Prosperity "Managing Urban Sprawl: Reconsidering Development Cost Charges in Canada" (Jan 2012), [www.sustainableprosperity.ca/article2364](http://www.sustainableprosperity.ca/article2364)

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## Why development charges are important

Development charges are important in helping municipalities to achieve fiscal sustainability. The charges can be structured to allow municipal governments to recover the financial costs that new developments impose on them. These costs are significant, and are imposed at several stages: prior to and during the construction of new developments (capital costs of infrastructure construction); during the lifespan of that infrastructure (operational costs); when the infrastructure first needs to be rehabilitated a few decades after construction (capital costs of rehabilitation); and permanently into the future (indefinite cycle of operational costs and capital costs of periodic rehabilitation). If development charges are inadequate to compensate for those current and future costs, new developments can erode municipalities' financial positions, resulting in either tax increases or public debt.

Development charges are also important in helping to ensure horizontal equity, and as an application of the 'benefits principle' in municipal taxation. Development charges, if set at the correct level, can ensure that those who benefit financially from new development also bear its costs.

Development charges are also important in providing a potential incentive to efficient forms of development; they can be set so as to encourage urban density, which is associated with economies of agglomeration, and lower levels of smog and climate change emissions. Development charges can provide a disincentive to inefficient forms of development - forms that externalize the costs of development and make those costs fall onto other parties.

Development charges need to be structured properly in order to have the desired effects noted above. In order to do so, a number of problems introduced by the 1997 legislative amendments need to be corrected. Key changes needed include:

- completing the list of eligible costs so that they include all costs caused by new developments;
- removing the backward-looking 10-year average service level cap; and,
- removing the 10% discount on some costs.

These corrections and others are discussed further below. The key point here is that development charges affect prices, and prices are a key influence on decisions of firms and individuals.

*"Ontario's long-term prosperity, environmental health and social well-being depend on wisely managing change and promoting efficient land use and development patterns. Efficient land use and development patterns support strong, liveable and healthy*

*communities, protect the environment and public health and safety, and facilitate economic growth.” - Ontario Ministry of Municipal Affairs and Housing<sup>3</sup>*

## Achieving policy goals related to urban form

Because prices are a strong influence on decisions, in order to achieve their policy goals governments will need to work to align prices with those goals. Where prices are pulling in the direction of policy goals, it will be much easier to achieve those goals. Where prices are pulling in the opposite direction, it will be very difficult to achieve policy goals.

Governments in Canada - and in all developed countries - already employ pricing policy to help achieve their policy goals, e.g. to promote retirement savings (RRSP tax deductions)

**Where prices are pulling in the direction of policy goals, it will be much easier to achieve those goals. Where prices are pulling in the opposite direction, it will be very difficult to achieve policy goals.**

and reduce youth tobacco consumption (tobacco taxes). The Government of Ontario could change development charge structures in order to help achieve provincial policy goals, and to help municipalities achieve their goals.

Government of Ontario policy relating to urban form is to reduce suburban sprawl,<sup>4</sup> direct growth to built-up areas,<sup>5</sup> use land efficiently,<sup>6</sup> and

thereby minimize negative impacts to air quality and climate change,<sup>7</sup> and promote energy efficiency.<sup>8</sup>

<sup>3</sup> Ontario Ministry of Municipal Affairs and Housing “Provincial Policy Statement, 2005” (2005) P.14, <http://www.mah.gov.on.ca/Asset1421.aspx>

<sup>4</sup> Ontario Ministry of Infrastructure “Growth plan for the greater golden horseshoe, 2006” (Jun 2013) P.7, <https://www.placestogrow.ca/content/ggh/2013-06-10-Growth-Plan-for-the-GGH-EN.pdf>

<sup>5</sup> Ontario Ministry of Infrastructure “Growth plan for the greater golden horseshoe, 2006” (Jun 2013) P.14, <https://www.placestogrow.ca/content/ggh/2013-06-10-Growth-Plan-for-the-GGH-EN.pdf>; The Places to Grow Act, SO 2005, c 13, s 6, [http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_05p13\\_e.htm](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_05p13_e.htm)

<sup>6</sup> Ontario Ministry of Infrastructure “Growth plan for the greater golden horseshoe, 2006” (Jun 2013) P.10, <https://www.placestogrow.ca/content/ggh/2013-06-10-Growth-Plan-for-the-GGH-EN.pdf>; Ontario Ministry of Municipal Affairs and Housing “Provincial Policy Statement, 2005” (2005) P.5, <http://www.mah.gov.on.ca/Asset1421.aspx>

<sup>7</sup> Ontario Ministry of Municipal Affairs and Housing “Provincial Policy Statement, 2005” (2005) P.14, <http://www.mah.gov.on.ca/Asset1421.aspx>

<sup>8</sup> Ontario Ministry of Infrastructure “Growth plan for the greater golden horseshoe, 2006” (Jun 2013) P.32, <https://www.placestogrow.ca/content/ggh/2013-06-10-Growth-Plan-for-the-GGH-EN.pdf>

Municipal governments across Ontario have adopted similar policy goals, e.g.:

***North Bay***

North Bay's Official Plan states that "sustainability will be achieved by concentrating urban built form within the Settlement Area and through infilling, intensification, and reclamation of brownfields." The Plan also states that development charges are to be used to ensure that "new development pays for itself and that additional capital costs do not fall on existing residents in the form of higher property taxation and user fees."<sup>9</sup>

***Toronto***

Toronto's Official Plan states that "over the next several decades the majority of the new growth will take place in the areas of the City where intensification is appropriate – in the Downtown, the Centres, and along the Avenues," and it speaks to "reducing loss of foodlands to urban sprawl."<sup>10</sup>

***Windsor***

Windsor's Brownfield Redevelopment Strategy and Community Improvement Plan includes "[promoting] Smart Growth, including the reduction of urban sprawl and its related costs... and green planning and building practices."<sup>11</sup>

***Ottawa***

Ottawa's Official Plan "promotes an efficient land-use pattern within the urban area through intensification of locations that are strategically aligned with the transportation network, particularly the rapid transit network, and [aims] to achieve higher density development in greenfield locations."<sup>12</sup>

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<sup>9</sup> City of North Bay "Official Plan" (Jan 2012) P.5

<http://www.cityofnorthbay.ca/common/pdf/CityofNorthBayOfficialPlan-2013.pdf>

<sup>10</sup> City of Toronto "Toronto Official Plan" (Dec 2010) Toronto City Planning. p. 1-5

[http://www1.toronto.ca/staticfiles/city\\_of\\_toronto/city\\_plannippng/developing\\_toronto/files/pdf/chapters1\\_5\\_dec2010.pdf](http://www1.toronto.ca/staticfiles/city_of_toronto/city_plannippng/developing_toronto/files/pdf/chapters1_5_dec2010.pdf)

<sup>11</sup> City of Windsor "Windsor Brownfield Redevelopment Strategy and Community Improvement Plan" RCI Consulting (2010), P.6 <http://www.citywindsor.ca/residents/planning/Land-Development/Planning-Policy/Documents/Brownfield%20Redevelopment%20Strategy.pdf>

<sup>12</sup> City of Ottawa "City of Ottawa Official Plan, 2003" (2003) City of Ottawa By-Law No. 2003-203, <http://ottawa.ca/en/official-plan-0/volume-1-official-plan>

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***Hamilton***

Hamilton's Official Plan endorses the concept of residential intensification, and aims for a downtown core density of, at minimum "250 people and jobs per hectare by 2031" By 2015, Hamilton "is required to plan to achieve a minimum of 40% of all residential development occurring annually within its built-up area."<sup>13</sup>

***Thunder Bay***

Thunder Bay's Official Plan includes direction to "encourage efficient residential land use within the City by facilitating the creation of new residential accommodations within existing buildings or on previously developed and serviced land." Thunder Bay "recognizes that compact urban form results in efficient transit systems and shall support the intensification of the City's existing and developing urban areas."<sup>14</sup>

***Niagara Falls***

Niagara Falls' Community Improvement Plan aims to "[limit] sprawl in the City and promote infill and downtown redevelopment."<sup>15</sup> Their Brownfields Community Improvement Plan states that they will use "brownfield development to reduce the amount of greenfield land being consumed... thereby reducing urban sprawl and its associated negative environmental impacts, including air and water pollution and the loss of prime agricultural land."<sup>16</sup>

***Guelph***

For Guelph, "by 2015 at least 40% of residential growth must be occurring within the city's built boundary, through redevelopment and intensification. A significant portion of this growth will occur in the downtown... The growth that occurs on greenfield sites

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<sup>13</sup> Hamilton "Urban Hamilton Official Plan" (30 Oct 2013)  
<http://www.hamilton.ca/NR/rdonlyres/0A939735-8827-4D79-8C54-B01970515106/0/UHOPVol1PoliciesrevOct2013.pdf>

<sup>14</sup> City of Thunder Bay "Official Plan" (Oct 2000) By-law 189-2000. P6.6,  
<http://www.thunderbay.ca/Assets/thunderbayassets/docs/planning/1721.pdf>

<sup>15</sup> The City of Niagara Falls Canada "Downtown Niagara Falls Community Improvement Plan" (Nov 2004). RCI Consulting and GSP Group, Inc. P.34, <http://www.niagarafalls.ca/pdf/business/cip/downtown/downtown-niagara-falls-CIP-november-2004.pdf>

<sup>16</sup> The City of Niagara Falls "Brownfields Community Improvement Plan" (Feb 2006). RCI Consulting and GSP Group, Inc, and Acres International. P.2,  
<http://www.niagarafalls.ca/pdf/business/cip/brownfield/brownfield-community-improvement-plan.pdf>

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outside the built boundary must be denser and have a broader mix of uses than typical post-war suburban development...”<sup>17</sup>

### ***London***

London’s Community Improvement Plan for Brownfield Incentives notes that redevelopment will provide “a public benefit by reducing urban sprawl and taking advantage of the City’s existing servicing infrastructure.”<sup>18</sup>

### ***Barrie***

Barrie’s Official Plan identifies the need “to provide residential densities which are higher, more cost effective, energy efficient, and more environmentally sustainable than previous development in the City.” Housing intensification will “minimize the infrastructure requirements of new development and... utilize existing services including transit, schools, and open space.”<sup>19</sup>

### ***Brampton***

Brampton’s Official Plan states: “to ensure that Brampton will grow in a sustainable manner, the City is committed to plan for compact and transit supportive communities that use resources efficiently and are sensitive to the natural environment.”<sup>20</sup>

### ***Greater Sudbury***

Greater Sudbury’s Official Plan recognizes the need for “increased residential intensification, the need to provide municipal services in an efficient and responsible manner, and the necessity of promoting sound environmental planning policies consistent with provincial directives.”<sup>21</sup>

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<sup>17</sup> City of Guelph “Urban Design Action Plan” (4 May 2009) Urban Strategies Inc. P.4 <http://guelph.ca/wp-content/uploads/UrbanDesignActionPlan.pdf>

<sup>18</sup> City of London “Community Improvement Plan for Brownfield Incentives” By-law C.P.-1451-70, P.14 <http://www.london.ca/business/Planning-Development/fees-incentives/Documents/Brownfield-CIP.pdf>

<sup>19</sup> City of Barrie “City of Barrie Official Plan” (March 2011) City of Barrie Planning Services Department. P.2-7 <http://www.barrie.ca/Doing%20Business/PlanningandDevelopment/Documents/Official%20Plan%20-%20Office%20Consolidation%20March%202011.pdf>

<sup>20</sup> City of Brampton “Official Plan” (Oct 2008) p.3-1 <http://www.brampton.ca/EN/Business/planning-development/Documents/PLD/officialplan358-2006.pdf>

<sup>21</sup> City of Greater Sudbury “Official Plan” (14 June 2006) City of Greater Sudbury Planning Services Division P.18 <http://www.greatersudbury.ca/?LinkServID=75012515-928F-6F71-E9FF1FF1CEE6E6AB>



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**Mississauga**

Mississauga's Official Plan states that "projected growth will be directed to appropriate locations to ensure that resources and assets are managed in a sustainable manner to:

- a. protect ecological functions, public health and safety;
- b. utilize existing and proposed services and infrastructure such as transit and community infrastructure;
- c. minimize environmental and social impacts."<sup>22</sup>

Municipalities are echoing Ontario's policy goals of restraining sprawl and creating denser and more vibrant communities. Ontario's development charge system needs to be reformed to enable municipalities to achieve those goals

**The Consultation Document**

The Consultation Document<sup>23</sup> is informative and points to important problems with Ontario's existing development charge system. Overall, the system offloads too much of the costs of new developments onto municipalities, and thus municipal taxpayers, and it promotes inefficient sprawling-type development. The system needs to be amended to ensure that growth actually does pay for growth, and to improve economic efficiency.

*"Growth must pay for growth. Development charges are important to ensuring tax equity among property taxpayers."*  
- Association of Municipalities of Ontario<sup>24</sup>

As an OECD report put it, Ontario's development charge system is currently "clearly inefficient" and "likely to result in overdevelopment of low-density housing and under-development of high-density housing relative to what is economically efficient."<sup>25</sup>

We believe that the development charge system can - and should - be reformed to address these concerns, and to help municipalities and the Government of Ontario achieve their

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<sup>22</sup> City of Mississauga "Mississauga Official Plan" (Sept 2011) p.5-2

[http://www6.mississauga.ca/onlinemaps/planbldg/OfficialDocs/MOP\\_5.pdf](http://www6.mississauga.ca/onlinemaps/planbldg/OfficialDocs/MOP_5.pdf)

<sup>23</sup> Development Charges in Ontario Consultation Document. (2013) Ministry of Municipal Affairs and Housing, Municipal Finance Policy Branch. <http://www.mah.gov.on.ca/AssetFactory.aspx?did=10253>

<sup>24</sup> Association of Municipalities Ontario "Development Charges- Make Municipal Voice Heard" (24 Oct 2013) <http://www.amo.on.ca/AMO-Content/Policy-Updates/2013/Development-Charges-%E2%80%93-Make-the-Municipal-Voice-Heard.aspx#>

<sup>25</sup> Merk, O., Saussier, S., Staropoli, C., Slack, E., Kim, J-H. "Financing Green Urban Infrastructure", (2012) OECD Regional Development Working Papers 2012/10, OECD Publishing; <http://dc.doi.org/10.1787/5k92p0c6j6r0-en> p40



policy goals related to urban form. Below we provide input on some of the specific questions asked in the Consultation Document.

## The Development Charges Process

### ***1. Does the development charge methodology support the right level of investment in growth-related infrastructure?***

No, the existing development charge methodology does not support the right level of investment. The calculation methodology required by the Act since 1997 makes some services ineligible, requires a 10% discount for “soft services,” and imposes a ten-year historical service average cap. These policies restrict municipal recovery of development costs. Without adequate cost recovery, investment is deterred.

The Consultation Document states that the Act was created with the core principle of growth paying for growth. However, because the calculation methodology prevents municipalities from recovering all growth-related costs, it fails to support the right level of investment in growth-related infrastructure. Growth does not pay for growth, and the result is an added cost on existing taxpayers. Existing citizens and businesses end up paying through taxes and user fees to support new growth that does not necessarily provide them with benefits, and could end up imposing costs on them (e.g. residents of existing areas that become burdened with emissions and congestion due to motor vehicle traffic from new growth areas).

*“Discounted development charges can drive up property taxes for all residents.”  
- Association of Municipalities of Ontario<sup>26</sup>*

Second, the methodology allows municipalities to charge flat rates that do not vary by area or by density. Rates are not calculated by the actual costs of providing infrastructure to these areas.<sup>27</sup> Doing so can result in far-flung areas and low-density developments having charges that are too low to cover the costs of “hard services.” Hard services are generally more expensive to provide in areas distant from the urban-core, such as greenfield and lower density suburban developments.

The methodology effectively provides subsidies to new developments in greenfield areas, and to low-density developments. This results in excessive demand and production of those types of developments - at the expense of higher density developments and developments in established areas (e.g. downtowns, brownfields,

<sup>26</sup> Association of Municipalities Ontario “Development Charges- Make Municipal Voice Heard” (24 Oct 2013)

<sup>27</sup> Miller, Gord. “Building Momentum Provincial Policies for Municipal Energy and Carbon Reductions: Annual Energy Conservation Progress Report-2012 (Volume One).” (2012) Environmental Commissioner of Ontario. p32 <http://www.eco.on.ca/uploads/Reports-Energy-Conservation/2013v1/13CDMv1.pdf>

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and greyfields). Thus the methodology not only provides the wrong level of investment, but it also encourages private investment (and consequent induced public investment) in the wrong locations.

***2. Should the Development Charges Act, 1997 more clearly define how municipalities determine the growth-related capital costs recoverable from development charges? For example, should the Act explicitly define what is meant by benefit to existing development?***

Yes, the Act should more clearly define how municipalities determine the growth-related capital costs recoverable from development charges, specifically to ensure that all growth-related capital costs are recoverable, and none are excluded.

(To briefly address the example provided, there should be no reduction for infrastructure that benefits existing developments. New developments impose costs on existing developments and their occupants, which already offsets the benefits and thereby removes the rationale for the reduction. If there is to be any reduction due to benefits to existing development, then that reduction should be limited to cases where the infrastructure would have been constructed to service the existing development regardless of the advent of the new development.)

***3. Is there enough rigour around the methodology by which municipalities calculate the maximum allowable development charges?***

There is not enough rigour in the methodology prescribed by the Act. It is important that municipalities carry out the background study to calculate the costs of growth. However, the costs calculated under the Act omit important categories, and a rigorous calculation is one that is complete. The costs calculated should include not only all of the initial capital costs imposed directly by new developments, but also the operational costs, infrastructure renewal costs, and externality costs, e.g. due to motor vehicle smog emissions and climate change emissions, vehicle collisions and associated emergency response costs, etc.<sup>28</sup>

Furthermore, the 10-year averaging limit and the 10% discount should be removed from the calculation.

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<sup>28</sup> Thompson, D. "Suburban Sprawl: Exposing hidden costs, identifying innovations" (Oct 2013), Sustainable Prosperity [www.sustainableprosperity.ca/dl1045](http://www.sustainableprosperity.ca/dl1045).

## Eligible Services

### ***4. The Development Charges Act, 1997 prevents municipalities from collecting development charges for specific services, such as hospitals and tourism facilities. Is the current list of ineligible services appropriate?***

No, the list of ineligible services is not appropriate. There should be no growth-related services exempt from development charges. Growth should pay for growth.

Furthermore, the Act should set a consistent standard requiring all municipalities to determine the full range of growth-related costs, to make the calculations public, and to collect development charges to cover all of those costs.

### ***5. The Development Charges Act, 1997, allows municipalities to collect 100% of growth-related capital costs for specific services. All other eligible services are subject to a 10% discount. Should the list of services subject to a 10% discount be re-examined?***

The list of services subject to a 10% discount should be eliminated. There should be no services subject to a discount. Most other Canadian jurisdictions do not apply this discount.<sup>29</sup> Such a discount means that new growth does not pay for itself, but instead enjoys a subsidy from existing residents and businesses. New developments should pay their own way; growth should pay for growth. The city of Brampton estimated that between 2004 and 2009 \$42 million dollars of general revenue was used to cover transit costs due to the discount. In Ottawa, between 2004 and 2007, the cost was \$26 million from general revenue for transit.<sup>30</sup>

Furthermore, the operation of the 10% discount has meant that reserve funds have been depleted of funds over a 16-year period since the discount was imposed. In order to raise reserves and enable much-needed municipal investment in infrastructure, municipalities should be enabled to collect an additional percentage for services that were previously subjected to the 10% discount, until reserve levels recover to baseline levels that they would have been at if the discount had not been applied.

<sup>29</sup> Baumeister, M. "Development charges across Canada: An underutilized growth management tool?" (2012) IMFG. P.12 [http://www.munkschool.utoronto.ca/imfg/uploads/201/imfg\\_no.9\\_online\\_june25.pdf](http://www.munkschool.utoronto.ca/imfg/uploads/201/imfg_no.9_online_june25.pdf)

<sup>30</sup> Miller, G. "Building Momentum Provincial Policies for Municipal Energy and Carbon Reductions: Annual Energy Conservation Progress Report- 2012 (Volume One)." (2012) Environmental Commissioner of Ontario. p32 <http://www.eco.on.ca/uploads/Reports-Energy-Conservation/2013v1/13CDMv1.pdf>

**6. Amendments to the Development Charges Act, 1997 provided Toronto and York Region an exemption from the 10 year historical service level average and the 10% discount for growth-related capital costs for the Toronto-York subway extension. Should the targeted amendments enacted for the Toronto-York Subway Extension be applied to all transit projects in Ontario or only high-order (e.g. subways, light rail) transit projects?**

Yes, the amendments enacted for the Toronto-York subway extension should be applied to all transit projects at all levels. The 10% discount should be eliminated not only on transit but entirely. New development should pay for itself, as noted elsewhere in this submission.

Moreover, the 10-year historical service level average should be eliminated. The 10-year historical service level average restricts municipalities' ability to cover costs involved in expanding services, as the Region of Waterloo has pointed out.<sup>31</sup> In place of the 10-year historical service level average, municipalities should be required to plan future transit service levels for at least a 10-year period, and allowed to collect development charges that would enable them to provide those levels of service.

## Reserve Funds

**7. Is the requirement to submit a detailed reserve fund statement sufficient to determine how municipalities are spending reserves and whether the funds are being spent on the projects for they were collected?**

Yes, the requirement to report in detail on expenditures of development charge funds is sufficient to determine spending, but the regime governing what municipalities can spend reserves on is too restrictive. Municipalities should be able to collect development charges and spend the funds on a wider range of projects and services.

There are two mechanisms that provide more than adequate accountability for spending of development charge funds: market discipline; and democratic governance. Each is a traditional and powerful mechanism controlling municipal use of funds.

- The market imposes a discipline on municipalities, and can ensure developers are getting an adequate, competitive return on development charges that they pay. If developers don't like what a municipality spends its development charge funds on, they can vote with their feet and take their developments to other municipalities. Capital is mobile.

<sup>31</sup> Office of the Chief Administrator "Memorandum to Area MPPs - Development Charges Act Amendment - Transit" (19 Apr 2013) Region of Waterloo. P.32  
<http://www.regionofwaterloo.ca/en/regionalGovernment/resources/CA2013-0426.pdf>

- Municipalities, like other governments in Canada, have accountability mechanisms and are democratically governed. If voters are not pleased with what a municipality has spent funds on, they can replace the mayor and councillors.

With the discipline of the market, and the capacity of voters to replace council, municipalities will self-govern on their use of development funds, and will spend them in the way that the market and the voters prefer. The restrictions on what municipalities can spend development charge funds on are unnecessary, and should be removed.

***8. Should the development charge reserve funds statements be more broadly available to the public, for example, requiring mandatory posting on a municipal website?***

Yes, reserve fund statements should be easily available to the public. They should be presented and provided with context so that they are easy to understand.

In order to provide greater consistency and comparability, as well as avoid higher municipal costs, they could be provided on the Ontario Government website, with links from each municipality's website.

***9. Should the reporting requirements of the reserve funds be more prescriptive, if so, how?***

No, reserve fund reporting requirements need not be any more prescriptive than they already are. If individual municipalities wish to provide additional information, they can do so.

***[Sustainable Prosperity is not providing comments on questions 10 through 14 at this time.]***

## **Growth and Housing Affordability Questions**

***15. How can the impacts of development charges on housing affordability be mitigated in the future?***

The development charge changes proposed in this submission will have a positive overall impact on housing affordability.

Total housing affordability is comprised of several elements:

1. the up-front price paid for the house by the buyer ("sticker price")
2. the subsequent housing costs paid by the buyer ("additional private costs")

3. public costs, which are comprised of two elements:
  - a. financial costs paid by governments and passed on to taxpayers
  - b. non-financial costs absorbed by individuals and businesses

The sticker price paid for a house is often confused with housing affordability, but it omits significant private costs faced by the homeowner. The largest omitted cost is that of transportation. If a house is located in an area that requires the household to own one more automobile than it would otherwise need to own (due to poor transit service, distance from amenities and services, etc.) then the effective cost of that home will be increased by hundreds of thousands of dollars - thus greatly reducing affordability. There are US and Canadian versions of a Housing + Transportation Index that provide a more accurate picture of housing affordability than sticker price provides.

**Development charge structures that subsidize house construction in areas that are automobile dependent do not foster housing affordability; they hide housing costs.**

Public costs of housing include financial subsidies and non-financial subsidies. Failure to have new developments pay their own way on infrastructure, operations and renewal requires that tax revenues subsidize those developments, with the cost being passed on to taxpayers. Housing types that require additional automobile transportation impose additional costs of smog, collisions, climate change emissions, policing, emergency response and other costs. Such public costs raise the total costs of housing that are borne by individuals and communities, and thereby reduce affordability.

In a nutshell, development charge structures that subsidize house construction in areas that are automobile dependent do not foster housing affordability; they hide housing costs.

Adjusting development charges to reduce the relative financial burden placed on infill developments, secondary suites, laneway housing, redevelopment of underutilized greyfields and brownfields, and higher density in central areas generally will result in more truly affordable housing.<sup>32</sup>

<sup>32</sup> See Thompson's 2013 write up here for a more in depth analysis of how housing affordability is linked to sprawl: Thompson, David. "Suburban Sprawl: exposing hidden costs, identifying innovations." (2013). Sustainable Prosperity. [http://www.thecostofsprawl.com/report/SP\\_SuburbanSprawl\\_Oct2013\\_opt.pdf](http://www.thecostofsprawl.com/report/SP_SuburbanSprawl_Oct2013_opt.pdf)

## ***16. How can development charges better support economic growth and job creation in Ontario?***

By reducing the subsidization of inefficient land uses, the proposals in this submission would reduce economic distortions and boost economic efficiency. Improved economic efficiency leads to higher levels of economic growth.

The proposals in this submission, in helping to develop greater levels of density in established areas, would also enhance economies of agglomeration:

- Higher urban density results in spreading the fixed costs of infrastructure over more businesses and households, reducing costs on a per-unit basis.
- Density also improves the access of firms to workers and vice versa. Firms have more potential workers to choose from, resulting in better employment fit and higher labour productivity.
- Job seekers also have more employers to choose from, reducing unemployment.
- Greater density of firms and employees results in productivity-enhancing knowledge spillovers, both within sectors and between sectors.
- Urban density also improves the access of firms to suppliers and markets.
- Proximity of firms in related or complementary industries allows for productivity gains through specialization and outsourcing.

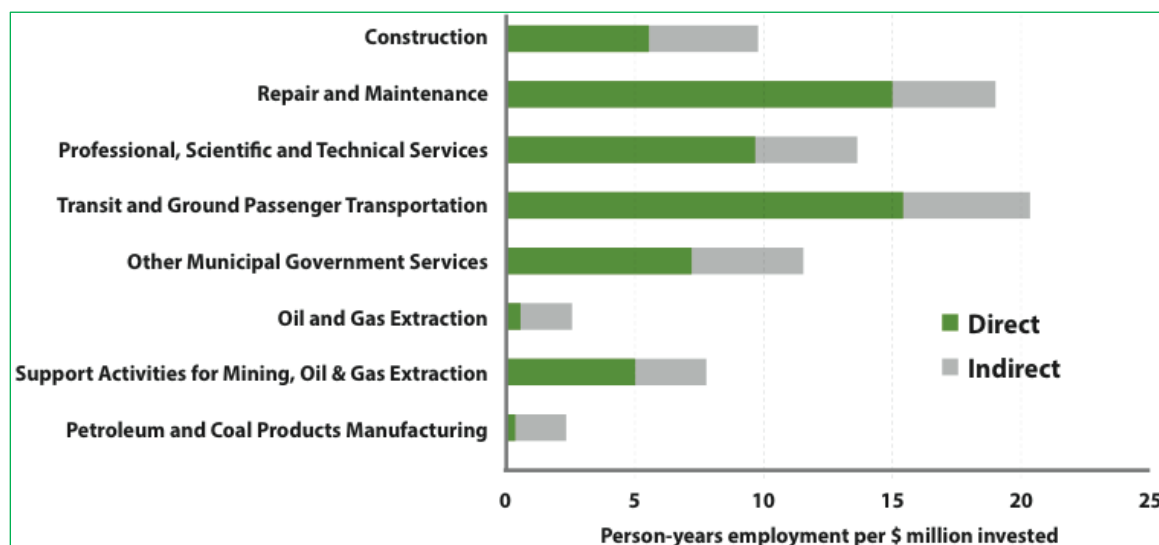
Such economies of agglomeration boost economic growth, and as the economy continues becoming more information-based, that association will grow stronger.

Using the proposals in this submission to stoke downtown improvements can help attract knowledge workers and firms that employ them. For example, younger and well-educated Torontonians report that being close to work and public transit are their top two reasons for living downtown. Employers are moving to downtown to attract this workforce and access the market.

Boosting employment is a top priority among all governments, and it is important to target sectors that can provide a lot of jobs per dollar invested. The construction sector is commonly cited as creating ten to eleven jobs per million dollars of spending. Because it is fairly labour intensive, it creates far more jobs per dollar spent than capital-intensive sectors (e.g. oil and gas extraction). See figure 1 below. Money spent on wages ends up being recirculated in the local economy. The proposals in this submission would help support the construction of transit infrastructure. And transit operations provide even higher levels of employment per dollar spent.



**Figure 1 - Canadian employment multipliers for selected industries**



## High Density Growth Objectives

### ***17. How can the Development Charges Act, 1997 better support enhanced intensification and densities to meet both local and provincial objectives?***

The changes proposed in this submission would result in the Act better supporting enhanced intensification and densities, and meeting local and provincial objectives relating to urban form.

Reducing or even eliminating the subsidies to sprawling, low-density greenfield development provided by the existing development charge system will help to level the playing field and enable a more balanced and economically efficient development pattern.

### ***18. How prescriptive should the framework be in mandating tools like area-rating and marginal cost pricing?***

Marginal cost pricing would be the most accurate, fair, and economically efficient method of setting development charges. This said, depending on how the system is set up, pure marginal cost pricing could have high administrative costs. Area rating, if set up properly, can be an acceptable second-best policy.

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The framework should establish a requirement that all municipalities employ area rating in development charges in order to ensure fairness and efficiency. The comprehensive study should be required to include accurate determination of cost variations by area. Area delineation should be standardized in order to avoid lower-cost areas being lumped in with higher-cost areas.

***19. What is the best way to offset the development charge incentives related to densities?***

The Consultation Document points out that development charges can deter growth in areas that municipalities have targeted for intensification, and that waiving development charges in these areas should be considered to stimulate development. We agree that targeted reductions in development charges for priority areas are an appropriate policy response. Some municipalities have reduced or waived development charges or provided credits in downtown and brownfield areas.

The framework should establish which areas are eligible for such targeted reductions. Downtowns, brownfields, and areas around transit nodes and corridors are appropriate for reductions. Greyfield redevelopments, where the proposed new density is comparable to the denser areas of the municipality, would also be appropriate, as would infill developments in older neighbourhoods.

Such reductions would need to be offset by allowing municipalities to increase overall development charge rates in order to cover the overall costs of development across the municipality.

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## Conclusion

Again we commend the Ontario Government for conducting this review and inviting submissions.

The development charge system needs to be improved to help support the achievement of provincial and municipal policy goals related to urban form. Such improvements can help to restrain urban sprawl, with its consequent traffic congestion and productivity losses. By reducing economic distortions and capitalizing on economies of agglomeration, Ontario's economic potential and competitiveness would be enhanced.

We regard this consultation as a very positive step toward the creation of communities that are healthier, more livable and vibrant, and more environmentally, fiscally and economically sustainable.

Yours truly,

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