Cities urged to reform development charges in order to discourage sprawl: Sustainable Prosperity report

Provinces should also amend legislation so cities can encourage high-density living in urban centres, says new policy document

Ottawa, January 30, 2012 – Municipalities need to reform the way they charge developers of new homes and office buildings in order to discourage sprawl, according to a new report by Sustainable Prosperity, an Ottawa-based green economy think tank.

Cities charge fees to developers to cover the additional infrastructure costs associated with new housing and commercial space. The report, *Managing Urban Sprawl: Reconsidering Development Cost Charges in Canada* recommends redesigning these charges to support smart growth management objectives to ensure that land development and community growth are more efficient and environmentally sustainable.

Though most people live in cities, there has been a trend in recent decades towards urban sprawl – low-density, automobile-dependent construction at the far edges of the city centre. This sprawl has come at a significant cost: fragmented communities, loss of agricultural land and increased greenhouse gas emissions.

"While this type of development may appear cheaper, it carries many hidden costs, including traffic congestion, duplication of infrastructure, and the decline and abandonment of downtown areas," said David Thompson, Director of Sustainable Communities with Sustainable Prosperity.

The development charge is a one-time fee to cover new infrastructure, which can include roads, sewers, fire stations, schools or community facilities. The financial burden associated with urban sprawl, though, can be enormous. Many city officials have not given sufficient consideration to the lifetime cost of the extra infrastructure, states the report.

"Development charges often don't cover future maintenance or renewal costs, but policy-makers need to be aware of the immense lifecycle costs of infrastructure and services," said Thompson.

In most cities, development charges are assessed based on the average cost of all new infrastructure required as a result of new development. They could be reformed to consider factors that impact the lifetime infrastructure cost burden, including the size of units, location and type of development. Cities need to alter development fees to factor in a home's size by square-foot or lot size, or the type of development or density, so as to encourage builders to focus more on smaller homes in the city centre, closer to existing infrastructure.

The report also states that provinces can play a role in discouraging sprawl, and recommends amending legislation – for example, to allow cities to use development charges for local transit improvements, which would benefit cities and the environment. “Given that transit is an integrated component of compact and transit-oriented communities, the ability to fund it through development charges seems crucial,” states the report.

Development charges can influence the type of development and should be used to encourage more efficient land use, states the new report. Dense development in urban areas can be beneficial for businesses, offering closer access to employees, and for residents, enabling them to live closer to work and to public transit. More compact housing and commercial development in the city centre also reduces the long-term cost to municipalities and taxpayers of maintaining the additional infrastructure that would otherwise be needed to support housing and offices in the outskirts.

Many factors influence where homes and businesses are developed, including zoning by-laws, planning policies and supply and demand. But development charges are a significant enough cost that they can influence key development decisions. They should be reformed to benefit both cities and the environment.

Sustainable Prosperity is an independent think tank made up of business, environment, policy and academic leaders. It harnesses leading-edge thinking to advance innovation in policy and markets in the pursuit of a greener, more competitive Canadian economy. Sustainable Prosperity is based at the University of Ottawa.

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View the full report *Managing Urban Sprawl: Reconsidering Development Cost Charges in Canada* and additional Sustainable Communities Reports at www.sustainableprosperity.ca

Background

Development charges are paid by developers to municipalities in order to cover the upfront costs for sewer systems, roads and other infrastructure generated by development projects. Traditionally, development charges have been seen as a way to generate much-needed revenue for municipalities. These charges are very important to cities and represent one of the few ways municipalities can pay for certain infrastructure costs.

There are, though, long-term costs of maintaining the massive infrastructure that comes with urban sprawl. A recent report by the city of Edmonton, Costs and Revenues of New Areas, concluded that 17 new residential neighbourhoods will constitute a net cost to the city of nearly $1 billion over the next 30 years, and close to another $3 billion in the following 30 years.

Infrastructure requirements for high-density development are more cost effective than for low-density development. For example, the Canada Mortgage and Housing Corporation (CMHC) found total land, building and infrastructure costs were 20% lower in a high-density community in Surrey, British Columbia than those of a less dense development, even with similar sized housing.

The overall cost of sprawling urban development is significant: reduced farmland, automobile dependency, and greater smog emissions. More suburban development and reliance on cars impacts the number of motor vehicle collisions and amount of air pollution. The Canadian Medical Association estimates the healthcare costs of air pollution at over $400 million per year. According to SmartRisk, the cost of injuries from car accidents is $3.7 billion per year.

There can be financial, legislative and administrative challenges to changing development charges. Municipalities rely on the revenue from development charges and tend to look for ways to increase, not decrease, these charges. Provinces set the rules for how development charges are calculated, and the types of services for which they can be collected, ensuring some consistency across municipalities. However, poorly designed rules can prohibit municipal governments from using development charges more effectively. For example, Ontario legislation dating from the 1990s precludes municipalities from collecting these charges for improved and expanded transit.

“Development charges can influence the type of development that occurs, and could be used to encourage more efficient land use,” states the report by Sustainable Prosperity. These development fees are an important fiscal tool for municipalities and should be reformed for the benefit of cities, and their businesses and residents.