APPENDIX H

DEVELOPMENT CHARGE IMPACT POLICY PAPER
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DEVELOPMENT CHARGE IMPACT POLICY PAPER

1. Introduction

One of the most difficult policy issues which municipalities have to deal with in establishing development charge policy relates to assessing the potential impact of development charges on the rate of development, and (more recently) on municipal planning initiatives. The purpose of this paper is to provide staff, Council and the public with background information on policy issues of this type concerning development charges (DCs), and a list of considerations which Council can utilize in their deliberations (for the major policy issues) to make the best decisions for the municipality involved.

The setting of development charge rates can be viewed with two fundamentally different perspectives.

- A comparatively low (or reduced) DC rate may reflect sound policy, if municipal service levels and servicing costs are lower and the municipality wishes to signal the market of its desire for increased residential, commercial and/or industrial development.

- The second (and opposing) view is that a properly calculated (i.e. higher) DC rate does not tangibly inhibit growth, and, if not implemented, the municipality is failing to utilize fully one of its limited capital funding options. As a result, the municipal tax levy and water/sewer rates are higher for existing ratepayers than necessary.

The issues addressed in this paper generally relate to the assessment of the impact of development charges on development within the municipality as follows:

1. Will the proposed non-residential charges affect the municipality's ability to attract industrial and commercial development, and/or investment decisions of existing businesses to remain/expand within the municipality?

2. Will the proposed residential development charges affect the rate of residential development on an overall basis and by individual unit type in the municipality?
3. How effective are development charges as a tool in implementing the municipality’s **planning objectives** (eg. affordable housing, downtown revitalization, brownfield industrial)?

4. Does the uniform **municipal-wide approach** to calculating development charges (vs. a system of area-specific charges) encourage **sprawl**?

**With all four issues, there are no definitive answers which apply in every situation.** Development charges comprise one of a complex set of factors, which promote or discourage development in a given municipality. Moreover, the major options for a municipality if it wishes to use DC’s as a policy tool (i.e. via reduction of calculated DC rates and/or exemption of specific development categories), result in impact on existing ratepayers through increased tax or water and sewer rates. **The challenge is, therefore, to balance the need to be competitive with respect to new development and/or meet planning objectives in relation to the cost impact to ratepayers.**

The objective of this policy paper, therefore, is not to provide specific recommendations, but to provide Council with the results of background research which has been undertaken elsewhere, as well as guidance in the form of considerations which should be weighed in making the choice among a reduced DC rate (or exempted uses), increased taxes/user rates, and the contribution toward the achievement of other municipal policy objectives.

2. **Approach**

The initial stage in developing this policy paper was a review of the academic literature, articles, consulting studies and municipal staff reports undertaken on the issue of assessing DC impact. Many of these focussed on only one of the four issues identified above, with the most significant body of research undertaken on the impact on industrial/commercial development. An annotated bibliography is included in **Annex H1.**

The items included in Appendix H1 are of varying quality. They were produced over a period from the mid-1980’s to the present, and involve jurisdictions ranging as far afield as Florida and Arizona. In some cases, their relevance to the current Ontario situation
may be limited but have been included to produce as comprehensive a bibliography as possible.

Appendix I sets out the current development charge rates (residential single detached, residential large (2 bedrooms+) apartments, industrial, retail and other commercial/institutional) for municipalities in the Greater Toronto Area.

3. **Legislative Requirements**

The Development Charges Act, 1997 (DCA, 1997) contains specific provisions relating to the calculation of development charges for each use, as well as exemptions, reductions and phase-ins of development charge rates as follows:

**Calculation of Development Charges by Use** – If a type of development is specifically identified, the development charge quantum for that use “must not provide for the type of development to pay development charges that exceed the capital costs...that arise for the increase in need for services attributable to the type of development” (s.5(6)2.). For instance, costs associated with industrial development cannot be reallocated for DC purposes to be funded from residential development charges.

**Exemptions, Reductions, and Phase-ins** – If a DC by-law exempts a use and/or implements a charge lower than the calculated charge for that use, and/or phases-in the charges for a certain use, “development charges may not provide for any resulting shortfall to be made up through higher development charges for other development” (s.5(6)3.) If a municipality elects to reduce the calculated development charges for a specific use for policy reasons (eg. a lower industrial DC), eligible DC costs relating to the reductions must be funded from sources other than development charges (eg. taxes, water and sewer rates, other reserves).
4. **Industrial/Commercial/Institutional Development**

4.1 *Summary of Findings/Experience Elsewhere*

- Potential development charge impact on the non-residential (industrial/commercial/institutional) sector is a much more significant concern to most municipalities than impact on residential development.

- Statistical analyses have not identified any clear and direct linkage between the level of development charges and construction activity for non-residential development.

- The impact of non-residential development charges is similar to the residential sector. Increases will likely be passed forward to purchasers if possible. If market conditions are not favourable, land prices may be reduced so as to absorb the impact of the charge on the end product price. For renters, although the impact is likely to be limited, users may not accept increased rent levels, unless they are captive to the particular market.

- Research in Halton Region indicated that development charges (Regional only) had more impact on occupancy costs for industrial development than for office or retail (6.2% of total costs vs. 2.4% and 2.6% respectively), based on similar differences in land purchase and development costs.

- Research in York Region indicated that development charges (Regional + local municipality (Vaughan)) represented approximately 2% of office project costs ($4/sq.ft. out of a total of $250/sq.ft.), approximately 5% of retail project costs and 8% of industrial costs. The study noted that...“the ability of the municipality (i.e. through reductions in development charges) to manipulate market demand and supply may be limited…”.

- 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.
Factors affecting a company’s locational decisions can be grouped into two categories:

**Non-Financial** – Site or building availability; access to transportation infrastructure; cost and quality of labour; proximity of suppliers and markets; quality of life; image; amenity; municipal approval environment; other. These factors are usually of the highest importance.

**Financial** - One time costs (land, construction, development charges, planning and building fees); annual on-going costs (rents, property taxes, utility rates)

“Market optics” can play a role in a municipality’s ability to attract industrial/commercial development if that municipality gains a reputation for being a “high cost” municipality; a higher development charge than those in competing municipalities can be a factor in gaining this reputation.

Property tax rates and assessment are a component of the site selection process and are normally of much larger magnitude than DCs. Municipalities with higher property taxes on industrial/commercial properties than others in their market area, may have to limit their DC cost recovery if they are to “level the playing field” and remain competitive.

The level of DC impact varies, depending on the type of non-residential development as discussed below:

**Industrial** is the most significant concern of the three types of non-residential developments for most municipalities in DC by-law considerations, due, in large part, to the greater perceived benefits from this type of development (i.e. “basic” employment attracts additional service sector support jobs, has higher paying jobs and makes significant net tax contribution). As well, there is substantial competition among Ontario municipalities to attract new industrial investment which is frequently more “footloose” than commercial development. In addition, Ontario municipalities compete with U.S. cities who are able to provide incentives prohibited by Provincial legislation.
As well, some municipalities are concerned about DC policy affecting their ability to retain existing industries, and to encourage these industries to expand.

In general, DCs represent a higher percentage of total costs for an industrial development than for any of the other non-residential uses, as a result of their lower industrial land prices and construction costs. With respect to municipal DC practice, many municipalities have established a separate (lower) DC rate for this type of development.

Retail is a “captive” use and businesses have a limited choice of locations if they wish to serve a specific market area; the exception is Regional shopping centres which have a broader market area. In general, intermunicipal competition is not as significant a factor as with industrial development. In addition, municipalities are often concerned about the significant level of traffic generated by such uses, and the potential need for costly road and other infrastructure improvements.

DCs represent a much lower share of overall costs for retail uses (than other non-residential uses), because of their high land and construction costs. Numerous municipalities (eg. York Region, Barrie) have established higher DC rates for this use than for other non-residential uses.

Other Commercial includes office and service commercial. Most service commercial is more closely linked with retail uses, as the key location criteria is the market to be served. However, head office locations, accommodation facilities and call centres are more footloose (i.e. competitive) in their locations.

In general, DCs represent a much lower share of development costs for this use than for industrial uses.

Institutional includes hospitals, places of worship, nursing homes, private schools, day cares, etc. A significant share of institutional uses is statutorily exempt (eg. municipal and school board uses). In most municipalities, Councils have elected to exempt hospitals and places of worship. The remainder of the institutional uses are limited. However, many are non-profit (eg. Boy Scouts) or
are considered to provide a community service (eg. nursing homes), and
Councils do receive request for exemptions, often after the DC by-law is passed.

The legislation requires that the by-law define exempt uses. Council may only
exempt additional uses if it amends the by-law. The servicing costs
associated with any exempt use (statutory or non-statutory) must be
funded from sources other than the development charge reserve fund.

4.2 Considerations in Deciding Whether the Calculated Charges Should be
Implemented

1. Structure of the Non-Residential Charge

If the municipality elects to impose a non-residential charge, Council must decide
whether a single rate will be used for all types of non-residential uses or varied rates by
type of use (eg. industrial, retail). Information on rate structure in other municipalities in
the market area is shown in Appendix I (Figures 3, 4 and 5). Implementation issues
may arise in establishing the rate structure, as the by-law must define each use such
that the building official can determine the appropriate rate based on the building permit
application.

For instance, if a different rate is applicable to industrial development, the use of Official
Plan industrial designation or industrial zoning allows this identification. However, if
other uses are permitted in industrial zones (eg. some types of commercial), this would
allow the reduced DC rate to apply to them as well. Future use of the building as the
basis for determining if the DC is problematic, as uses often cannot be determined at the
time of building permit application.

2. Quantum of Other Municipalities’ Non-Residential Charges

Comparative non-residential DC rates for competing municipalities are set out in
Appendix I (GTA municipalities). These figures include upper tier, lower tier and school
board charges (if relevant) for each municipality. Note that most municipalities will be
replacing their 1999 DC by-laws in 2004, and accordingly the DC rates shown in
Appendix I are unlikely to represent the new 2004 by-law rates. The charges do include new 2003 DCs for several municipalities, as well as proposed 2004 by-law rates in other cases, where available, but these may be revised prior to implementation.

The municipality should identify its major competitor municipalities, and review their DC charges to identify a “range of comfort.” There may, however, be other factors which require a municipality to be above this range (eg. a major water or sanitary sewer plant expansion is required) to provide the financing necessary to allow growth to proceed, or a lower charge in order to promote a competitive position in the land market.

Further, part of this consideration is the property tax differential among the competing municipalities. If the differential is significant, the municipality may have difficulty in implementing full DC cost recovery as well, without affecting its competitive position.

3. Economic Development/Industry Association Input on the Business Location Process

The literature does not address directly how development charges impact on the decision process undertaken by an individual business (industrial, retail or office) in selecting a new location. To the extent that the Economic Development Department or other sources can provide information on the reasons why companies chose to locate (or not locate) in the municipality, this would be helpful to the DC decision process.

4. Market Considerations

If the development market for a particular use is buoyant and demand is strong, a reasonable charge is likely to have limited effect. If demand is weak, the impact of the charge could be much greater. With more sensitive uses such as industrial, collection of data and monitoring of the real estate market during the interim period between DC by-laws is necessary to ensure the charge levels remain appropriate.

5. Non-Financial Considerations

The municipality should consider its strengths and weaknesses with respect to the non-financial factors in competing municipalities (eg. 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.

6. **Transitional Arrangements**

If the increase over the current DC rate is substantial, Council should consider a form of transition to ensure that the market has an opportunity to adjust to the increased charges. Transitional arrangements include:

- Allowing a period of time prior to implementation of the new charge (taking into consideration, of course, the expiry date of the current charges);

- Providing for units at a defined point in the development approvals process (e.g. complete building permit application) to pay the existing DC rate;

- Using optional rather than compulsory indexing which allows Council to make the decision each year to implement the increase in the charge;

- Phasing in the increase in the charge over a period of months or years.

Some municipalities have phased in the non-residential charge (in whole or in part) over the full by-law period, on the basis that the charge could be reviewed periodically, if economic conditions change. If necessary, a DC amendment could be passed to eliminate the next scheduled increase in the DC rate included in the by-law.¹

7. **Discounts/Exemptions for Types of Non-Residential Developments**

If discounts, phase-ins, or exemptions are being considered to moderate the impact of development charges, the cost to existing ratepayers of providing such DC reductions should form part of Council’s consideration in making a decision about the appropriate DC rates, in the context of balancing the competitiveness factor and cost to existing ratepayers.

¹ Note that the same legislated approval process to pass a new DC by-law is required to amend a DC by-law for any purpose. However, an OMB appeal is limited to the subject of the amendment only, and thus, the entire by-law is not exposed to an appeal at that point.
Another consideration if the DC rates for non-residential development are to be discounted/phased in, is the identification, in the by-law, of the services for which the collected funds should be utilized. Many municipalities assign the DC collections to priority services (usually water, sanitary sewer, roads), while others share the revenue over all of the services included in the DC calculation. For instance, if 50% of the calculated non-residential DC rate is implemented, the rates for each service are included in the by-law at 50% of the calculated rate (with each service receiving 50% of their growth-related costs through DCs, and the remaining 50% from taxes/user rates).

5. **Residential Development**

5.1 **Summary of Findings/Experience Elsewhere**

- The potential impact of residential development charges on the rate of development is affected by a number of variables including:
  
  - The nature of the development involved;
  
  - The state of the economy and local development markets, in terms of price changes;
  
  - The transition arrangements made in putting the charge or increases in the charge in place;
  
  - Comparative development charges in surrounding municipalities and related development costs in competitive locations;
  
  - Size of land holdings by developers and others, and the functioning of the real estate market for land.

- Development charges represent a minor component of overall housing costs when compared to land and construction costs.
• Similar to the non-residential sector, increases in residential development charges will likely be passed forward to purchaser, if possible. Land prices may also absorb some of the impact in the long run.

• The academic literature provides some assessments of the impact of the implementation of residential DCs on house prices, land prices and property taxes, using various multiple regression models. In a few cases, the DC is found to result in impacts greater than its incremental value. However, issues have been raised as to the general applicability of these conclusions, due to differences in local housing markets; the assumption in one case of full market elasticity, as well as the use of older (pre-1990) data for analysis. The additional DC impact is attributable mainly to financing costs and uncertainty concerning the timing and quantum of increases in the charge, a factor that is not as significant in Ontario where the legislative regime is much more rigorous.

• However, no direct correlation has been established between the level of residential development charges and the rate of development in municipalities over the longer term due to market dynamics. In strong markets, house prices reflect demand pressures more than a simple cost recovery formula.

• However, in certain markets outside of the GTA where incomes are lower and general economic conditions are not as favourable, housing demand tends to be more sensitive to price (i.e. “elastic”). In these situations, a residential DC which is significantly higher than those of municipalities in the same market area may impact profits and/or construction activity. Over the longer term, DC increases may result in compensating land price decreases, where the selling prices of the final product cannot be increased sufficiently.

• The primary determinants of the amount of residential development in a municipality relate more to availability of zoned and serviced land, amenity/lifestyle, access to job opportunities and development industry focus, etc.

• Development charges are likely to have a greater impact on higher density residential development (and on affordable housing discussed in Section 6). Development charges were estimated to represent 6% of total development costs for high density in York Region. Although a reduction in DCs would improve development feasibility, it was not
considered to be sufficient, in the absence of other incentives, to spur increased apartment development.

5.2 Considerations in Deciding Whether the Calculated Charge Should be Implemented

1. Quantum of Other Municipalities’ Residential Charges in the Market Area

Comparative residential development charge rates for all municipalities in the GTA municipalities are included in Appendix I (Figure 1 for single detached units and Figure 2 for larger apartment units). These figures show the most up-to-date information on upper tier, lower tier and school board charges (where relevant) for each municipality.

In addition, in comparing development charges among municipalities, it should be noted that the services included in each DC by-law may not be identical (eg. some uniform by-laws include storm water management while other municipalities handle this service on a site-specific basis).

As well, municipalities define development charge hard service works differently. Some include in the DC only the largest trunks/mains/pumping stations. Other municipalities define “local service” (the direct developer responsibility) to include only the most localized mains/trunks (eg. less than 250 mm in diameter). The size of the municipality and the type of development community are major factors in establishing the approach used. The DC rates are affected by the number (and level) of hard service works included in the calculation.

2. Quantum of the Proposed Increase in the Municipal Residential DC

Since the current DCs, which have been in effect for some years, have already been absorbed into the housing market (through impacts on land/house prices), the focus of Council consideration should be on the increment in the proposed charge. Is the proposed DC significantly higher than that in other municipalities in the same market area? Is the level of increase likely to impact on the overall housing market? Or specific segments of the housing market (eg. higher density development, affordable housing)?
3. **Structure of the Residential Charge**

Municipal residential charge structures are normally comprised of four types of development: single and semi detached; small apartments (bachelor and one bedroom); large apartments (two+ bedrooms); and all other multiple units. In some jurisdictions, issues have arisen relating to small single detached and townhouse units, marketed as either starter homes or to empty nesters. In response to this, a few municipalities have further delineated their development charge categories to include small and large single and semi detached and multiple unit rates (total of six residential categories). The differential is based on number of bedrooms, since data is not available on average occupancy by house size.

4. **Transitional Arrangements**

As noted in the Non-Residential impact analysis (Section 4(6)), if the DC increase is substantial, some form of transition may be required.

5. **Discounts/Exemptions for Types of Residential Development**

If discounts or exemptions are being considered to moderate the impact of development charges, the cost of providing such DC reductions should be determined. An assessment of the impact on existing ratepayers who will bear the cost through increased taxes and/or user rates, needs to be part of the consideration.\(^1\) Granting a DC discount or exemption is equivalent to authorizing a municipal expenditure to pay for the servicing of such development and should therefore receive appropriate scrutiny.

6. **Development Charges as a Tool to Implement Planning Policies**

6.1 **Summary of Findings/Experience Elsewhere**

- The issue of the role of development charges in implementing planning objectives has received more attention recently. The use of DC reductions or exemptions to encourage

\(^1\) Note that the comments concerning the allocation of funds to specific services categories for the discounted or phased-in non-residential charges apply to residential discounted charges as well.
affordable housing, downtown revitalization and brownfield industrial development has been considered (and in a few cases, implemented) by a number of urban municipalities, with older core areas.

- The literature on this issue does note that while development charges (along with other revenue policy) may be a “blunt instrument” for achieving land use objectives, they should, at least, be “neutral”, and not hinder the achievement of such objectives.

- A Durham study, which examined the impact of DC reductions/exemptions on development in downtown core areas through a survey, identified that there were approximately two dozen Ontario municipalities which provided DC assistance in the downtown area. The study concluded that reduced DCs alone are unlikely to be sufficient to stimulate construction or redevelopment activity, although they may play a role as part of an overall incentive package.

- A marginal impact can make the difference between an acceptable financial return and a development not proceeding. For instance, a development charge increase of $5,000 per unit may represent only 2.5% of a $200,000 unit, but the impact may prevent the development from going ahead.
6.2 Considerations in Deciding Whether Exemptions/Discounts Related to Planning Objectives Should Be Implemented

1. Quantum of the Calculated DC Rate and Likely Impact

How significant is the proposed charge likely to be in achieving the planning objective? For instance, if a decision has already been made to discount the calculated DC (or phase it in), there may not be a requirement to provide for a further discount.

2. Development Charges as Part of a “Suite of Tools”

The research indicates that development charges are not likely to provide an adequate incentive for development on their own. Does the municipality have a program in which a DC reduction could play a useful role? The status of DC’s might better be determined through the development of such a program (with implementation of a reduction or exemption taking place through a later DC by-law amendment).

3. Cost of Discounts/Exemptions

The cost to existing ratepayers of providing such DC reductions should form part of Council’s consideration in making decisions about discounts/exemptions, in the context of balancing the achievement of the planning objectives and the increased taxes/user rates which will result.

7. Municipal-wide Development Charges and Sprawl

- Virtually all municipalities in Ontario have established uniform, municipal-wide development charges. Where area specific DCs are used, it is generally to underpin master servicing agreements and front-end financing arrangements, particularly in the case of stormwater management, collector/minor arterial roads and/or water and sanitary feeders and related works, usually in greenfield situations.

- No municipality has utilized area specific development charges for all services, including soft services. Where area specific charges are used, the municipal-wide by-law often
contains a charge for the same service (i.e. the uniform by-law deals with major municipal-wide infrastructure, while the area specific by-law deals with more local area infrastructure).

- A number of articles included in Annex H1 deal with the issue of whether development charges can be used to encourage intensification and reduce urban sprawl (e.g. Slack, Tomalty, Skaburski).

- The academic literature indicates that development charges can be used to encourage development in the inner city and discourage development in the outer areas by using area specific instead of uniform development charges. Three reasons are cited as to why costs may differ by area:

  1) distance from major facilities (e.g. length of trunk to sewage treatment plants will vary)
  2) capacity may already be available in existing infrastructure
  3) service standards may vary among developments (e.g. per household water use, reduced automobile use)

- However, in order to make higher density development attractive, one of the studies noted that there must be a sufficient differential between the low density and high density development charges. It is questionable whether these three factors could achieve that goal.

- Most services are delivered using municipal-wide levels of service on a per capita basis (e.g. recreation, parks, libraries, police, sewage and water treatment). Costs do not vary by location and accordingly, there is no opportunity to differentiate the DC for a large share of the charge.

- Further, although existing capacity may already exist for an infill development site, development should contribute toward the costs and reimburse the ratepayers who have funded the capacity so that there would be a charge associated with this. With respect to varying levels of services among developments, no data is available to support it and in most cases, these service level differentials would not become evident until after the
development is occupied for some period of time, far too late to utilize in a DC calculation, based on the current legislation.

- The York Region study concluded that the use of area specific DCs would, by itself, not be sufficient to attract higher density development to the centres and corridor areas “or spur wholesale changes to urban structure on their own”. The study identified only one service (roads) for which varying the rate might be possible, but further noted several methodological issues which would have to be overcome under the current DC legislation to implement such a charge. This would include determining the need for service of system-wide road infrastructure by specific defined areas (as required under s. 5(1) of the DCA, 1997).

- An overview analysis of the Durham DC (regional and local) indicated that use of an area specific DC approach had the potential to affect only a small portion of the overall DC rate (i.e. about 15%), relating to sewer trunks and watermains. The remaining DC costs related to population growth, and this was already reflected in the municipal-wide DC calculations through the use of average persons per unit assumptions in calculating the variable rates for single detached, multiple and apartment units (an approach used by virtually all municipalities).

- These findings indicate that development charges, as presently constituted by most Ontario municipalities, are relatively “neutral” with respect to urban sprawl, and that area specific development charge by-laws under the current legislation are unlikely to play any major role in increasing development density. This, combined with the complexity associated with the calculation and administration of multiple area specific DC by-law regime, favours continued use of uniform DC by-laws.
The purpose of this study was to quantify the economic impacts that would accompany the imposition of an impact fee of $2,000-$5,000 per single detached unit and $1,152-$3,000 per multi-family unit in Durham County. The impact on three types of housing of varying price levels was analysed, examining factors such as employment, personal income, tax revenues and housing affordability.

The analysis assumes that the price of housing will increase by 125% of the additional impact fee due to financing costs, commissions, uncertainty in future charge levels, etc.

**Findings**

- The paper concluded that, with the imposition of this new fee, the County would experience an increase in house prices ranging from 0.94% to 2.97% depending on the type of home, with lower priced homes experiencing larger percentage increases due to the regressive nature of the flat fee.

- Further, the analysis projected, depending on the impact fee rate implemented, a reduction in new home construction of 120-250 units and of jobs of 220-470, as well a loss of $1 million in property and sales tax revenue over a ten year period.

- The paper also noted that there would be an impact on general housing affordability, since the imposition of the fee will increase general price and rent levels in the municipality. Since minorities in the County tend to have lower income levels and to be renters, this group will be disproportionately affected.
This paper addresses one of the major controversies around impact fees, specifically what is the relationship between impact fees and local economic development. The paper summarizes the opposing views that, on the one hand, impact fees constrain local economic development “serving as a de-facto ‘tax’ on capital, stifling investment, and driving job growth to other fee-free jurisdictions”. The alternative perspective noted is 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” (page vi).

The analysis area consisted of the Counties in the state of Florida, an area described as having the most extensive history in the U.S. of using development impact fees and therefore the most likely “to reveal an observable cause-and-effect relationship between impact fees and tangible economic benefits” (page 10). Data was analysed for the period 1993 to 1999. A regression analysis was utilized to separate the effect of numerous factors on job growth and impact fees.

Findings

- The statistical analysis found a positive relationship between impact fees collected per building permit in one year and job growth over the next two years. The finding held even when controlling for base year employment growth, prior decade employment growth, property taxes per capita, the value of local building permit activity, regional, temporal and other factors. The authors cautioned that this conclusion may not be universally applicable in that it might not hold for counties experiencing low or declining growth, or an oversupply of infrastructure.

- The major conclusions of the paper were summarized as follows:
  - 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.
  - Impact fees increase the supply of buildable land.
  - Impact fees have complex effects on housing prices.
  - Impact fees do not slow job growth.
  - “...impact fees are a practical and valuable tool for financing local infrastructure needs. Without them, growing communities may not be able to sustain growth.” (page vii)

and

“Negotiating Development Charges in Ontario: Average versus Marginal Cost Pricing of Services” by Ray Tomalty and Andrejs Skaburskis, School of Urban and Regional Planning, Queen’s University, Undated

These papers explored the question: “why do so many municipalities adopt average cost approaches to calculating development charges when it is widely assumed that a marginal cost approach is superior from an infrastructure and land use efficiency perspective?” More specifically, the paper attempts to determine “how the interplay of stakeholders in a larger economic and political context influences the design of development charge regimes in a particular jurisdiction”. (page 1)

A case study approach, interviewing municipal and other officials, was utilized focusing on eight municipalities in the GTA.

Findings

- The pragmatic explanation of why uniform municipal development charges are favoured by municipalities over area-specific charges (i.e. administrative simplicity, easier to explain to the public and defend before the OMB, provides predictability to developers, ensures that growth-related costs are fully funded) is challenged. **The municipal-wide approach is not equitable to infill development**, and was reported to be difficult to explain to infill developers.

- In addition, the authors could find no evidence that **the municipal-wide approach to calculating development charges was more efficient in terms of administrative resources** (compared to the pre-1989 period, where, in the main, site by site negotiations of developer contributions were used).

- The author then explored other reasons for the use of uniform DCs.

- During the discussions leading up to the passage of the Development Charges Act, 1989, **no major stakeholders** (eg. environmental, transit, agricultural) **who might have promoted development charges as a means of more efficient infrastructure provision and development patterns was involved** (i.e. use of area specific DCs or individually negotiated contributions).

- As well, the author concluded that the Province failed to “use its legislative authority to link land use goals with development charges in designing the legislation” …

- The initial by-laws under the DCA, 1989 for the GTA municipalities showed that 31 municipalities used municipal-wide by-laws only, and four used combined area specific

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1 emphasis added in quotations
and uniform by-laws, with no municipalities using exclusively area specific. Further, no municipalities reduced charges on high density housing or exempted affordable housing.

- Two municipalities in York Region (Markham and Richmond Hill) use the area specific by-laws extensively. Their officials did not agree that they were administratively more cumbersome. As well, their developers favoured this approach, although it was noted that their development community comprised very large developers.

- Further, the authors postulated that municipalities with more fragmented development communities may favour municipal-wide charges as politicians in those municipalities may wish to distribute growth opportunities across the municipality, and area specific charges may be considered a “threat to the political coherence of the jurisdiction”.

- Even where area specific DCs were used, neither municipality applied them to infill development, or varied the municipal-wide standards in their calculations, and thus, excluding a potential opportunity to promote more efficient land use.

- According to the authors, the calculation methodology for development charges in the GTA does not take into account the differential service costs for high density developments. Municipal interview respondents indicated that only on-site service costs (which are not included in DCs, and are paid for directly by developers) are sensitive to density. As well, they noted that there was little interest in attracting high density development, particularly geared to low income households. Developer interview respondents also indicated that there was no public support for higher density housing, and feared that reduced charges on high density would be made up by higher charges on low density units.

- The interviews also revealed that municipal planning departments had limited role in the design, administration or implementation of DC by-laws, indicating that the purpose of such by-laws was “to raise funds for growth-related infrastructure, not to influence development patterns or the production of different types of housing”.

- In summary, the authors concluded:
  1. “The burden of proof was consistently placed on those advocating a marginal cost approach. Where empirical evidence was blurry or unavailable, it was assumed to favour the average cost approach.”
  2. Stakeholders with an interest in promoting the marginal cost (area specific DC) approach were usually not included in the legislative or by-law discussions.
  3. The use of the average cost approach gives municipalities the greatest flexibility in the administration of the charge and “reduces their exposure to financial risk and minimizes need for financial accountability”.
  4. “Provincial and municipal institutions within which development charges are negotiated have been structured so as to minimize spatial variables.” The objectives of all residents receiving the same level of service and spreading growth throughout the jurisdiction favour an average cost approach to DCs.
Further, the high mobility of the suburban society undermines the “belief that the need for and the use of municipal services is related to geographical factors such as location and density”.

5. Development charges are a revenue-raising tool, and are disconnected from planning goals. In order to increase political flexibility to consider planning issues in development charge schedules, the Province should provide subsidies so that charges can be discounted on socially desirable development patterns.
“Making It Happen! The York Region Centres and Corridors Study” prepared by The Planning Partnership et al for the Region of York, November, 2002

The 1994 Official Plan called for the implementation of a planned urban structure focussed on “centres and corridors” within York Region. However, success has been mixed and progress “on the ground” has been slow. The report noted that “issues of location, accessibility, timing, economics, aesthetics and market acceptance are difficult to overcome, especially when substantial, lower intensity greenfield opportunities continue to compete for developer and consumer attention”. (page 2) The Region “has advocated four cornerstone action areas for centres and corridors: Infrastructure Investment; Financial Planning; Land Use Planning; and Supportive Programs.”

The purpose of the report was “to establish an economic and ‘public interest’ case for the establishment of a far reaching and comprehensive set of planning and financial tools that will facilitate the achievement of the planned urban structure”. (page 3) There are two subject areas investigated in this report which are relevant to the development charge impact considerations. These are: market and development realities; and fiscal framework. The findings relating to these subject areas are set out below.

**Findings**

*Market and Development Realities*

In order to implement a compact urban form and associated higher order transit, higher density development forms of housing must be demanded by the market and built by the development industry. Further, the ability to attract major office users to centres is essential to achieving the densities required to make these areas successful.

The report indicated “while the ability of the municipality to manipulate market demand and supply may be limited, there are certain measures or “tools” that can influence or accelerate the location decisions of developers, residents, and employees towards centres and corridors”. (page 22)

The report then reviewed the economics of higher density development required to implement the planning and transit objectives, through development of pro formas for a typical office building and apartment condo. The results are included in the following figure. Respective costs on a per square foot basis are: **$240 per sf for the office building and $251 per sf for the apartment condo.** The cost components are summarized below.

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1 emphasis added to quotations
Office Building Proforma

<table>
<thead>
<tr>
<th>Item</th>
<th>$ per sq.ft.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal fees</td>
<td>$ 1</td>
<td>0.5%</td>
</tr>
<tr>
<td>Development charges</td>
<td>$ 4</td>
<td>2%</td>
</tr>
<tr>
<td>Land purchase</td>
<td>$ 18</td>
<td>8%</td>
</tr>
<tr>
<td>Tenant/leasing costs</td>
<td>$ 25</td>
<td>10%</td>
</tr>
<tr>
<td>Underground parking</td>
<td>$ 27</td>
<td>11%</td>
</tr>
<tr>
<td>Soft construction costs</td>
<td>$ 30</td>
<td>13%</td>
</tr>
<tr>
<td>Hard construction costs</td>
<td>$ 135</td>
<td>56%</td>
</tr>
<tr>
<td><strong>Total cost per sq.ft.</strong></td>
<td><strong>$ 240</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Royal LePage Advisors

Apartment Condominium Proforma

<table>
<thead>
<tr>
<th>Item</th>
<th>$ per sq.ft.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal fees</td>
<td>$ 2</td>
<td>0.5%</td>
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<tr>
<td>Development charges</td>
<td>$ 14</td>
<td>6%</td>
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<tr>
<td>Land purchase</td>
<td>$ 18</td>
<td>7%</td>
</tr>
<tr>
<td>Tenant/leasing costs</td>
<td>$ 23</td>
<td>9%</td>
</tr>
<tr>
<td>Underground parking</td>
<td>$ 27</td>
<td>11%</td>
</tr>
<tr>
<td>Soft construction costs</td>
<td>$ 31</td>
<td>13%</td>
</tr>
<tr>
<td>Hard construction costs</td>
<td>$ 135</td>
<td>54%</td>
</tr>
<tr>
<td><strong>Total cost per sq.ft.</strong></td>
<td><strong>$ 251</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Royal LePage Advisors
<table>
<thead>
<tr>
<th></th>
<th>Office Building</th>
<th>Apartment Condominium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hard and soft construction costs</td>
<td>80%</td>
<td>77%</td>
</tr>
<tr>
<td>(including underground parking)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land purchase</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Tenant/Leasing Costs</td>
<td>10%</td>
<td>n/a</td>
</tr>
<tr>
<td>Builder profit</td>
<td>-</td>
<td>9%</td>
</tr>
<tr>
<td>Municipal Fees/Development Charges</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The report noted that the municipality cannot influence the most significant cost element, construction costs, with the exception of reduced parking requirements.

With respect to municipal fees and development charges, these are clearly under the control of the municipality. However, for the two building pro formas, the fees/charges represented only 7% of the apartment project costs and less than 3% of the office costs. The report further noted that for retail projects, the fees/charges represented about 5% of the project costs and for industrial, about 8%. With respect to fees and development charges, the report concluded that:

“While not insignificant (the profit margin on the development can be lower than 10 percent for example), these charges are, in themselves, not the critical stumbling block to higher density development in centres and corridors (especially considering almost all other locations face similar charges). While a reduction in municipal fees and charges can undoubtedly improve development feasibility, it does not appear that this alone, will result in substantially increased private sector development of higher density forms of development in centres and corridors.”

(“While a reduction in municipal costs might slightly accelerate the development of centres and corridors, an LRT system and its beneficial impact on demand and the likelihood of tenants paying higher rents would be considerably more beneficial.”

For the high density residential development, the impact of the municipal fees/charges is greater (6% of the total). The report concluded that elimination of the latter “could have a significant impact on lowering the required sale price and enhancing development feasibility. An even more significant benefit would be the building of an LRT system, and other public infrastructure, to create a more livable urban residential environment...”.

Finally, with respect to housing affordability, the report concludes that multi-level government intervention and assistance is required to achieve the substantial level of higher density

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1 City of Vaughan fees and development charges, along with those of York Region, were used in the pro formas.
housing. “The inclusion of housing as a “municipal capital facility” in the Municipal Act would allow municipal financing and potentially even direct construction of affordable rental housing”. (page 31)

Fiscal Framework

The importance of ensuring that the municipal fiscal framework supports the implementation of planning goals (eg. centres and corridors (compact) development) is the focus of this chapter. The report noted that “currently, uniform charges and taxes distort the real costs of providing services. However, there is very little quantitative evidence on the degree to which the use of fiscal tools can influence development patterns” (page 57). It appears that they can play a supporting role only to planning mechanisms.

With respect to development charges, York Region uses uniform per household charges for residential development and per square metre of gross floor area for non-residential development. The charges are levied uniformly throughout the Region, with no adjustments for density or other considerations.

The York Region development charge rates were reviewed, and the analysis concluded that engineered services (sanitary sewer, water, roads) represent a significant 90% of the total. The report then evaluated the three main alternatives for varying DC policy to reflect service sensitivity to development patterns:

- **Area specific DC by-laws** – This approach would involve dividing the Region into several cost areas and implementing DC by-laws which incorporate the cost differentials. This approach is used mainly for water, sanitary sewer, storm and to a lesser extent roads, with the remaining services dealt with in a separate municipal-wide uniform by-law. The premise is that where hard services are sensitive to the linear distance over which the service is provided (eg. watermains), higher density development occupying a smaller land area should generate lower per unit capital costs. However, water supply and sewage treatment, which comprise the vast majority of York’s water and sewer DC rates are based on demand (per capita and per employee), and therefore, are not sensitive to development location and density. The report also noted that the portion of these services most sensitive to location are the responsibility of the local municipalities in York Region.

*Roads* comprise the single largest service of the Regional DC (35% of the residential charge and 50% of the non-residential charges). The report notes that “a strong argument can be made that higher density development requires less road infrastructure, especially when combined with a comprehensive transit program. Additional engineering analysis may be able to establish a strong rationale for allocating a lower proportionate share...to the centre and corridors, resulting in a lower development charge rate in these areas.” (page 64-65, emphasis added)

- **Alternative Development Charge Rate Expressions** – The report noted that land based charges ($/acre) would benefit higher density development due to the reduced land area required to accommodate a given population. “The Region could consider

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1 CNWA note—An increased transit DC, due to greater transit service needs related to the centres and corridors development, may in whole or in part, offset reductions in the road DC.
using a land area based expression for hard services” (page 65) but stresses that the determination of the rate must meet the following DC legislative requirement:

“The increase in need for service attributable to the anticipated development must be estimated for each service to which the development charge by-law would relate.” (DCA, s.5(1))

Further, higher density development generates a greater need for water and sewer based on increased levels of population and employment on a land area basis. Accordingly, the per acre costs would be higher than in the lower density (suburban) areas, which may not achieve the overall goal of lower DCs in the centres and corridor areas.

- **Full or Partial DC Exemptions** - Full or partial exemptions would reduce building costs. However, the DCA, 1997 is specific in prohibiting revenue shortfalls from DC reductions on one type of development being funded through DCs on other types of development. The Region would experience increased requirements for tax and user rate funding (and potentially higher debenture requirements) if this option were utilized.

**Summary of Findings**

- Area-specific DC’s or use of land area as the basis for the hard service DC calculation (i.e. $/acre) would not likely result in significantly lower DC’s in centres and corridors (high density) areas as currently modelled. However, more detailed engineering analysis, especially for transportation, may provide additional support for differentiating the DC between low and high density.

- Reduction or elimination of DC’s is unlikely “to spur wholesale changes in urban structure on their own” (page 68), but they can be part of a larger “suite of tools”.

- Municipal fees and charges are not the critical factors blocking high density development, and therefore reducing these fees will not substantially impact on the rate of high density development.

- Additional municipal infrastructure, mainly the building of the LRT system, is considered to have a much bigger benefit to encouraging high density development, along with a reduction in parking standards.
“Region of Halton Development Charge Background Study for the Review of Non-Residential Development Charges Discount Policies” prepared by Finance Department Staff, October 29, 2002

This study supported the DC By-law Amendment 3-03 passed on February 1, 2003, eliminating the 25% discount on retail DCs, and reducing the 50% discount to 25% on industrial/institutional DCs (among other actions). The Competitive Analysis prepared by Hemson and the Fiscal Impact Evaluation prepared by CNWA (both described elsewhere) formed part of the background for this study.

Findings

- The analysis on non-residential development charge revenue recoveries over a 28 month period, with the discount policy in effect, showed that **only 36% of growth-related costs were recovered through DCs**. Approximately **25% was not recovered due to mandatory exemptions under the Act**, with a further **39% not recovered due to the discretionary exemption policies adopted by Council**.

- Halton’s competitive position with respect to total development costs in the GTA/Hamilton area would not be significantly impacted by reducing the DC discounts. However, it **would make the Halton non-residential rates the highest charged in the area**. Economic Development staff expressed concerns with respect to a perception of Halton as “**high cost**”.

- Several members of the Steering Committee considered it was not in the Region’s interest to have the highest DCs, due to the risk of losing development opportunities, as the non-residential market is extremely competitive. However, the Steering Committee was split, with other members supporting the elimination of all discretionary non-residential discounts, as the effectiveness of development charge discounts in attracting economic activity is unproven.

- The report, which recommended elimination of the discount on retail and a reduced discount on all other non-residential (to 25%) concluded that “**the challenge is balancing the need for Halton to be competitive in attracting non-residential development and the cost impact on ratepayers**”…Halton is very competitive with respect to non-financial factors such as access to transportation, skilled workforce, proximity to major markets and quality of life. **Non-financial factors significantly influence the economic activity of a municipality**”. (page 18)

The purpose of the report was to utilize a fiscal impact model to estimate the cost of providing services in Halton to various types of residential and non-residential development and by representative type of anticipated uses within those two broad classes. This involved assessing anticipated revenues from taxes, water/wastewater rates and development charges, in comparison with the average cost (capital and operating) of providing services by development type.

This analysis formed part of a Region of Halton work plan which was examining the fiscal/economic benefits of providing reductions/exemptions for non-residential development charges. The analysis incorporated the DC reductions in effect at that time (including a 25% reduction for retail/service uses and 50% reduction for industrial and institutional uses, with the exception of water and wastewater charges in the HUSP area).

The analysis was based on a representative sample of residential single detached, semi detached, townhouse and apartment units, as well as sample properties with manufacturing, retail, warehouse and light industrial uses.

Findings

- The report provided an estimate of the extent to which different land uses can be expected to generate annual operating surpluses or deficits specific to the assessment, development charge and other policies of Halton Region, with respect to taxation, water and wastewater rate revenue, and discretionary, annualized development charge reductions.

- Of the nine land uses examined, four produced conclusive results. **Condo apartments and offices consistently produced surpluses, while semi-detached dwellings and townhouses produced deficits.**

- The results for the remaining five land uses were as follows:
  
  **Single Detached Dwellings** – units assessed over $235,000 produced surpluses while those under that level showed deficits.

  **Manufacturing Uses** – predominately generated surpluses with a few exceptions

  **Retail, Warehouse and Light Industrial Uses** – were split with approximately half of the sample surplus-producing and half deficit-producing properties.
“The Effect of Development Charge Discount Policies on Competitiveness of the Halton Market” prepared by Hemson Consulting Ltd. for the Region of Halton, April, 2002

This study was intended to provide a comprehensive review of DCs and other factors that affect non-residential development activity, and the location choices of space users in the GTA. The review examined both financial and non-financial factors, with specific consideration given to new employment areas in Halton.

The analysis formed part of a Region of Halton work program examining the fiscal/economic benefits of providing reductions/exemptions for non-residential DCs.

Findings

- The report noted that “each space user’s decision about where to locate is the result of the interplay at the time of the decision between the unique requirements of the user and prevailing market conditions” (page 2). The major factors identified were:

  Non-Financial

  - Availability of sites or buildings
  - Access to transportation infrastructure
  - Proximity of labour, suppliers and markets
  - Other (e.g. quality of life, proximity to specific requirements (e.g. telecommunications), image, amenity, municipal approval environment, community incentives (not applicable in Ontario)

  Financial Factors

  - One Time Costs (land, construction, development charges, planning and building permit fees)
  - Annual Ongoing Costs (rent, property taxes, utility rates)
  - The analysis also reviewed the relationship between economic development activity and DCs levels and concluded that there “is no apparent relationship between the level of DCs and economic activity” (page 17). The report also noted that a common characteristic of the most successful municipalities is an abundant supply of well located vacant land.
  - DCs had more impact on occupancy costs for industrial development than office or retail (6.2% of total costs vs 2.4% and 2.6% respectively).

1 emphasis added in quotations
**Overall Conclusions**

“While the impact on rents of higher DCs might be comparatively small, there is no reason to assume that tenants would automatically pay the difference... *space users which are to a greater degree captive to the Halton market ...would be more likely to tolerate an adjustment. (in DC rate).*”

“On the cost side, land price might adjust to compensate for increased DCs. However, in the short run, the impacts are unlikely to be seen...some owners might choose to withhold land from the market until price increases in the future...”

“...it is our view that were Halton to establish DCs that were noticeably higher than the rates in competing municipalities, from an economic development perspective, it might develop a reputation as a high cost region”. (page 31)
“Municipal Finance and the Pattern of Urban Growth” prepared by Enid Slack for the C.D. Howe Institute, February, 2002

The paper addressed the issue of how the instruments which cities use to raise revenues affect the nature and location of development. “In some cases, municipal finance tools work in tandem with planning tools, but in other cases the two have the opposite effects”. (page 1). The paper noted that the literature is limited on “how changes in the municipal finance regime can change the profitability of different types of development and influence the way a region develops” (page 1).

Several current and potential financing tools are explored in this paper, including property taxation, user fees, site-value taxation, municipal fuel taxes, etc. Consistent with the purpose of this policy paper, the Findings below relate only to development charges.

Findings¹

- **Urban sprawl** is a major policy issue, and “it is important that residents and businesses who enjoy its benefits be aware of the costs associated with it and be required to pay them”. (page 3)

- Engineering studies provide estimates of the cost of infrastructure using various urban forms, usually by analysing hypothetical settlements. The costs considered generally relate to “local streets, sewage collection lines, water distribution pipes, storm drainage systems, and local schools” (page 4).

- The paper cited a 1990 report prepared by the IBI Group for the Greater Toronto Coordinating Committee (GTCC) which analysed three models of development (spread, central concept and nodal), and concluded that there would be no significant difference in capital costs for transportation, but for trunk water and sewer systems, and solid waste disposal, the differential, on average was more than 50%, with the central model having the lowest costs and the spread modal, the highest costs. An updated study by the GTA Task Force (1996) showed significant variation in cost (including transportation) among the three scenarios (central scenario 29% lower than the spread scenario).

- Development charges can be useful in encouraging efficient land use and infrastructure. However, they must be structured on an area specific basis. **The paper cited three reasons why costs may differ:**

  1. **Development’s distance from major facilities** (eg. sewage treatment plants)

  2. **Existing infrastructure may be available** (for nodal or infill development).

  3. **Service standards may vary among developments** (eg. per household water use, reduced automobile use).

- “If a development charge reflects full costs and benefits, private and social, of the development, then developers are likely to make efficient location choices” (page 16)...higher charges on the outer edge of a community can stimulate development in the inner city and reduce urban sprawl...alternatively, a uniform charge levied across the

¹ emphasis added to quotations
city, regardless of variations in actual cost of providing services, can be seen as encouraging sprawl.” (page 17)

- Toronto development charges are much lower than those of the suburban GTA municipalities reflecting the fact that the City already has infrastructure in place. “This differential between city and suburbs is efficient overall, even though the costs associated with locations within each municipality are not adequately reflected in the charge.” (page 17)

- “Mechanisms for levying development charges that vary by location already exist. What is needed is for cities to recognize the advantages of area-specific over uniform development charges and to apply them…Municipal financial tools should not be working against planning objectives and tools.” (page 22)
This paper was prepared as part of the MAG Regional Growing Smarter Implementation Project which was designed to assist local governments in the Metro Phoenix region in their general plan updates to meet legislative requirements related to Smart Growth. The paper surveyed existing development fees in Metro Phoenix, explored the various ways that infrastructure costs for growth are recovered (citing the difficulties in making comparisons of the development fees of various municipalities), and compared the Phoenix fees with those of other U.S. jurisdictions.

In the final sections, the paper dealt with the market effects of impact fees and alternatives for infrastructure financing.

**Findings**

- **The major direct economic impacts of development impact fees**, as based on a 1990 study prepared by Coopers & Lybrand for the City of San Diego\(^2\), were higher construction costs, reduced supply, lower demand for new housing, and higher business costs associated with higher building costs.

- Further, based on the C&L study, the report concluded that for “basic employers, who do not sell to a local metro Phoenix market and who do not have to be in Metro Phoenix, the location decision will be based on the importance of occupancy costs in comparison to other operating costs...larger space users usually search of lower space costs”. (page 21) Non-basic employers, which must locate near their customers, may shift to another municipality within the market area, and will more likely pass any increased costs forward to their customers.

- With respect to the issue of funding regional transportation facilities, the study concluded that a development impact fee would generate a significant impact on most types of industrial and commercial development, compared to residential development. Fees which encompass regional areas should consider the resulting economic impact in addition to the provision of adequate infrastructure.

\(^1\) emphasis added to quotations

\(^2\) the basis for these conclusions (which were developed on pre-1990 data) was not included in the study
This paper comprises a major empirical study on the effects of impact fees on the residential real estate market. The focus is on who actually bears the fees—developers, new homebuyers, or owners of undeveloped land—and to what degree. The analysis utilizes unique sets of time-series data for Dade County Florida (which includes Miami). The initial fee was implemented in 1989 for roads and now includes fees for parks, education, and fire and police protection.

The methodology relates “the growth in fees to changes in constant-quality new and existing house price indices and indices of the value of undeveloped land by estimating stock-flow models of the housing and land markets”. (page 2) As well, the approach incorporates the impact of property tax capitalization on the incidence of the fees, and thus, considers the impact of the fees on existing homeowners.

The model assumes that consumer demand across communities is perfectly elastic, and that purchasers will pay the increased price associated with a new/increased impact fee only if the community becomes more desirable through improved amenities/services or lower taxes.

Findings

- The paper concluded that for every $1.00 of impact fee increase, the price of both new and existing housing increased by about $1.60 and the price of land reduced by $1.00.

- “The uniform effects of impact fees found for new and existing housing and (the) finding that the magnitude of these effects are roughly in line with property tax savings experienced by homeowners are consistent with the (authors’) new view theory of impact incidence” (page 2).

- This new theory postulated that impact fees are a win-win-win proposition because developers do not pay but simply pass through the fees by increasing prices to new homebuyers and/or paying less for raw land. The existing homeowner benefits because property taxes are reduced or services increased. The new homeowner benefits because they can purchase homes.

- While the analysis found that the increase in house prices was sufficient to cover the current fees, developers purchasing land have no guarantees about future fee levels. This uncertainty discounted the price they were willing to pay for land.

- The authors noted that impact fees may have different consequences in different locations, with the most significant variable being the expectations which homeowners have in property tax savings. As well, in slower growth municipalities, the savings are likely to be less, and as a result, the fees will have a lower impact on house prices and a higher impact on land values.
“Durham Revitalization Incentive Study: Phase 1-Development Charge Policy”, prepared for the Region of Durham and the Area Municipalities by C.N. Watson and Associates Ltd. in association with Macauley Shiomi Howson, June, 2001

This report was undertaken as a component of a larger study designed to assist in the promotion of redevelopment in renaissance, downtown and/or brownfield sites within Durham. Of particular relevance to this policy paper is the survey of development charge reductions/exemptions elsewhere for downtown core areas, and the conclusions drawn from that survey.

Findings

• In 2001, approximately two dozen municipalities provided DC exemptions/reductions in their central areas to promote downtown (re)development.

• Eight municipalities were surveyed to determine the success of the policy, as well as details of any other incentives offered. Four of the municipalities surveyed reported no significant development activity since the policy was initiated, although the implementation period was short. Some development interest had been expressed and the municipalities were generally optimistic that the policy would help to stimulate new development.

• In the majority of municipalities where new development projects had taken advantage of the DC exemption in the downtown core, a comprehensive package of incentives was offered (including waiving of building permit and planning fees, exemption from parking or parkland cash-in-lieu requirements, interest free loans or matching grants, tax rebate incentives through a Community Improvement Plan designation). This makes the impact of the DC exemption/reduction impossible to isolate, although it was noted that the value of the exemption to commercial development is usually limited (due to the lower DC rates), as compared to residential development which tend to have higher DC rates.

• In virtually all cases surveyed, the significant new projects in the downtown area were residential (including conversions of commercial/industrial uses).

• In summary, the report concluded that a DC exemption for commercial development in the downtown area, “when offered as the only incentive to development, may generally not be sufficient to stimulate new construction or redevelopment project activity. This observation was reinforced by interviews with individuals involved in the real estate and development industry in Durham Region. The conclusion is less applicable to residential development where the DC is proportionately higher…” (page 3-5).
“How Property Taxes and Development Charges Can be Used to Shape Cities: The Views of Ottawa and Toronto Area Developers” by Andrejs Skaburskis and Ray Tomalty, Plan Canada, March, 2001

The article seeks to increase understanding of the spatial impacts of property taxes and development cost charges through a questionnaire survey of 112 developers in the Ottawa and Toronto market areas. The response rate was 32% (36 responses). The methodology involved providing a series of statements and seeking the extent to which the respondent agreed/disagreed. The relevant findings are set out below.

Findings

Impact of property taxes and development charges on project location

Property taxes were not a major consideration. However, development charges were considered much more frequently according to respondents, providing evidence that they might be an effective planning tool in steering development to specific locations.

Existing development charges encourage low-density development

This statement generated a mixed reaction with Toronto-area developers tending to agree that suburban municipalities discriminated against high density land uses, and Ottawa developers disagreeing. Development charge schedules were viewed by Toronto developers as favouring large lot subdivisions, while the Ottawa developers did not share that view.

Development charges impact on City form by delaying development

The developer respondents overwhelmingly agreed with this statement. However, a related question asked if an increase in development charges would depress land costs. Developers strongly agreed with this, and as such, the author concluded that “reduction in land prices (rather than increased housing costs) reduces the ability of development charge policy to influence developer behaviour” (page 29).

Summary of Conclusions

- “Taxes and development charge differentials can be used to direct development toward the parts of the urban region deemed more suitable for development”. However, large differentials are required “to matter deeply to developers”.

- “When raw land prices are low to start with, as in the Ottawa area, higher development cost charges cannot be absorbed by reducing land prices. Thus, they force housing prices upward and make lower density less affordable...Development cost charges can make cities more compact when the initial price of land is low, or when large fee differences are established to reflect the difference in full social cost of low- and high-density projects” (page 30)

The design of fee differentials can help city planners deal with the costs of urban growth, through the use of area-specific fees.

1 This analysis was completed before the amalgamation of Ottawa-Carleton Region into a single tier municipality.

This article discusses the prospect for using property taxes and development cost charges to affect urban development. These financial instruments can have environmental impacts “by changing the extent to which developers substitute land for buildings and thereby, the density of built form, the spread of cities, and the mix of land uses.” (page 303) Rates and fees are considered to have the potential to favour lower density development.

“The substitution, timing and fiscalisation consequences of property taxes and development cost charges” are examined in this article by (telephone) interviews with municipal finance and planning officials, and developers in the Toronto and Ottawa areas in 1995. Selected municipalities were interviewed representing a mix of central, mature suburban, newly urbanizing and rural municipalities.

Interviewees were asked, in a semi-structured process, about the factors which influenced development approval decisions over the past five years, and the role that property taxes and development charges played in their timing and density decisions.

Findings

Property Taxes

- The vast majority of developers indicated that property taxes had very little impact on project densities or timing of development.

- However, the authors concluded that property taxes favour the spread of cities as many municipalities oversupply industrial land, much of which remains vacant.

- Further, the authors concluded that “probing questions” suggested that property taxes encouraged lower density development and a more spread-out urban area.

- The authors recommended that the regulators reduce property taxes on high density development, underused commercial land, and industrial land as the most effective way of using tax policy to influence development patterns.¹

Development Charges

- On an overall basis, respondents were more aware of the effects of development charges. Where the ratio between the high and low density rates was large enough, development charges encouraged higher density development. Otherwise, they were perceived to encourage low density development.

¹ Note that this article was based on research undertaken before the changes in assessment legislation in 1997 which implemented some of the recommended provisions, at least on an optional basis.
• Further, the authors concluded that development charges have not reduced or added certainty to the approvals process, but remain a source of intense conflict between the municipalities and the development industry.
“Effects of Impact Fees on the Suburban Chicago Housing Market” prepared for the Heartland Institute by Brett M. Baden, Don L. Coursey, and Jeannine M. Kannegiesser, November, 1999

This paper studied eight Chicago suburbs which levied impact fees, to address key questions including impact, fairness, and whether the fees represent “good public policy”. The paper summarized the history of impact fees, the structure of the fees in the eight municipalities, the effect of the fees, as well as case studies on the fees and development issues.

The economic analysis “allowed an assessment of the short-term housing market, where impact fees represent variable costs of construction due to frequency of changes in the fee structure and the uncertainty of when changes would occur”. The paper noted that the imposition of fees is complex. “Market are not perfectly competitive and all houses are not equal substitutes. More importantly, as this analysis demonstrates, imposition of impact fees can cause other associated costs of construction to rise”. (page 13)

The econometric model used is based on the assumption that there is volatility and uncertainty in the fee structure (for the sample municipalities) over time and as a result, they would not be capitalized as a decreased value of the land sold for development. The analysis also assumed that the demand for housing was somewhat inelastic, in that buyer’s preferences could be not be satisfied in every municipality, making them imperfect substitutes. Also, the paper noted that using house prices for both new and existing homes poses methodological issues as the homes and lots between the two groups are unlikely to be identical.

Findings

- The empirical results of the study showed that fees increased the price on new and existing homes by a range between 70 and 210% of the actual amount of the fee imposed, although this increase included impacts of “substantial uncertainty and delay costs, as well as other fee and regulatory costs that are not explicitly defined in the fee variable”(i.e. in addition to development impact fees) (page 46)

- The study also found that the price of existing homes was significantly affected by impact fee taxation. For existing homes which sold for greater than or equal to the price of new homes, the price increases were similar to new homes. “This indicates that impact fees raise the costs of better substitutes for new homes relatively more”. (page 47) For lower priced existing homes, there was less upward impact on prices. The study concluded that these price increases may result in existing homeowners supporting higher impact fees.

- The paper also noted that higher house prices were likely to reduce housing supply, further increasing prices.

- As well, impact fees may encourage developers to produce more expensive housing, pricing lower income buyers out of the market. Due to their regressive nature, the lower and middle income buyers will bear a disproportionate burden.

1 emphasis added in quotations
“Development Charges Survey and Analysis” prepared by CNWA for the Region of Waterloo, May 4, 1999

This firm was retained to provide comparative development charge information designed to assist the Region in selecting the appropriate cost recovery percentage (full or partial) for its 1999 residential and non-residential development charges. In addition to surveying DC rates and analysing changes in DC rates (1991-1999) for 30 selected municipalities (mainly in the GTA, Waterloo, Niagara, Ottawa-Carleton Regions), development charges and building activity (both residential and non-residential) were correlated to establish the extent of the relationship between the two (if any), and to provide comments on possible cause and effect. The technique used was to compare the rankings and graph the distribution of average annual construction value (1992-1998) for residential and non-residential development with (respective) March, 1999 DC rates.

Findings

The results of the DC/building activity correlation analysis were as follows:

- **Non-residential** – The analysis indicated that there is no apparent correlation between construction activity and non-residential development quantum. Development charges are part of project cost and locational decision, but appear to be rarely critical to the decision to locate in one municipality vs. another. Other site selection and investment factors such as transportation infrastructure, site characteristics and location, market accessibility and access to labour force and suppliers were considered to be the most important considerations.

- **Residential** – The analysis indicated that unexpectedly, there does appear to be a more direct relationship between development charge quantum and residential development activity (i.e. the higher the DC, the greater the development activity). However, the relationship was not considered to be causal, indeed the reverse was considered more likely. Municipalities with higher levels of construction activity are able to justify higher levels of service (and higher charges), and, as a result of the strength of the market, the development is less sensitive to higher DCs.

The analysis concluded that “increased residential development charges are likely to impact on a combination of: reduced land values; developer/builder profits; project feasibility; and incentive to service land and competitive position, depending on the market circumstances. They can also be expected to facilitate municipal servicing arrangements, thereby expanding the land supply and competition”.

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1 emphasis added in quotations

This paper investigates the incidence of development fees (also called impact fees or exactions) and special assessments as ways to finance public infrastructure for residential development. The methodological approach provides a framework to analyse the impact of these tools on a more formal basis.

The major component of the analysis is a model of household bids for housing in alternative locations. In the bidding framework, a household selects the highest bid per unit of housing services (taking into consideration property taxes and special assessments), consistent with its budget constraints and its level of utility.

Findings

- For development fees, the analysis concluded that “new home purchasers bear a large share of the burden of the fee in the form of higher housing prices”. However, part of the fee is borne by reductions in undeveloped land prices (estimated at 25% or more).

- “Development fees not only insulate existing residents from the costs of infrastructure for new development but also give them (a small) capital gain”. (page 29) As well, to the extent that house construction is competitive, development fees do not place a burden on developers. (page 37)

- For special assessments, the entire burden of the additional payment falls on the new resident, who benefits from the infrastructure, as the increased house price associated with the improved infrastructure offsets the decrease generated by the special assessment.

- The use of property taxes to fund infrastructure for new development results in a capital gain for owners of undeveloped land and a capital loss for existing homeowners who are required to pay higher taxes.
This study compiled information on municipal fees and charges that are imposed on new housing by municipalities, local utilities and school boards in the GTA. Costs were grouped into four categories: infrastructure charges; land dedications; development application and processing fees; and building permit fees.

**Findings**

- **Municipal levies, fees and charges represent a significant cost for new development**, with the “905” municipality figures averaging approximately $22,000 or 9.6% of the average house price.

- The majority of these fees relate to infrastructure costs (77% or $17,000) which include development charges.

- Total levies, fees and charges for townhouses and apartments in the 905 area averaged just over $18,000 and $13,000 respectively. The *townhouse fees* represented a higher share of the average price than that of *single detached units* (11.7%), while the *apartment figure* was very similar to the single detached relationship (9.4%).

The purpose of this report was to provide a context for the development of regional industrial land strategies. One of the research components in this first phase report was “a review of industrial property taxes and other municipal charges”.

Findings¹

- Metro Toronto area municipalities have the highest industrial property taxes² in the study area (the GTA, Hamilton-Wentworth and Waterloo). “High property taxes are contributing to the further de-industrialization of Metro and are seen as a barrier to new industrial investment within the municipality”, to the benefit of the surrounding suburban municipalities (page 24). The report notes that if no change occurs, this could lead to more vacant industrial land and buildings in mature areas and increased demand for the extension of services to greenfield areas.

- Development charges vary considerably across the study area in magnitude, spatial distribution (area specific vs. uniform), and basis (land area vs building area). The report notes that a “number of municipalities have chosen, at least for the time being, to waive the development charge”. (page26)

- “There is no direct relationship between high development charges and low property taxes or conversely low development charges and high property taxes” (page 26) A present value analysis comparing annual tax payments vs a one time DC payment for typical industrial project(s) concluded that taxes represent a much more significant cost than DCs.

- The analysis suggested that DCs may have a modest impact on industrial location, as some municipalities with high development charges also had high building permit values. More important industrial location criteria included: “relative location of customers, suppliers, and employees, access to inter-regional expressways, local roads that can easily accommodate truck traffic, public transit access to business services, restaurants, and ancillary retail activities” (page 27). The report concluded that municipalities with lower DCs only benefit when other factors are virtually equal.

¹ emphasis added to quotations
² Note that this study was undertaken prior to the implementation of Current Value Assessment, although the conclusions are still relevant in the current situation.
“Taxes, Development Charges and Fees in Major GTA Municipalities” prepared by C.N. Watson and Associates Ltd. January, 1993 for the City of North York

This research report provided data on development charge rates, timing of payment, property taxes, building permit fees, planning fees and parkland cash-in-lieu policies. Analysis was also included on the linkage between development activity and development charges, as some municipalities had recently reduced or eliminated their DC rates for industrial/commercial. The period analysed was January, 1990 to October, 1992 for the following municipalities: Toronto (former City); Etobicoke; York; Mississauga; Hamilton.

Findings

- The analysis indicated that the time period was too short to permit a proper observation of any impacts of reduced/eliminated DCs on building permit values for Etobicoke, Mississauga and York. It was noted that Hamilton’s industrial/commercial building permits declined by $10 million over the first ten months of 1992 compared to the similar period in the previous year, despite a 40% reduction in the DC. Similarly, industrial/commercial permits in the former City of Toronto declined in 1992 despite the elimination of the charge.

- The report notes that “caution should be exercised in interpreting these graphs in that it is quite erroneous to conclude from this data that there is a direct causal link between DC quantum and building permit activity...The overriding influence on building activity is likely to be the economy, as it affects business growth, the real estate marketplace, outlooks, investor capital, etc…”(page 18).

also,

“Development Charges in Canadian Municipalities: An Analysis” prepared for the Intergovernmental Committee on Urban and Regional Research (ICURR) by Enid Slack, 1994

This paper presented a summary of legislature by Province, and development charge issues and the survey of practice, as well as a discussion of the economic effects of development charges.

Findings

Incidence

- The analysis that exists does not provide a consensus on who bears the burden of lot levies: new homebuyers, all homebuyers, developers or predevelopment landowners. However, it is clear that the answer to that question depends on a number of factors including: whether the levy is uniform or non-uniform across municipalities, the demand and supply conditions in the market for new housing and whether the existence and magnitude of the levy are known to the developer prior to his undertaking the development. (p.37)

- Where development charges are non-uniform, a developer will be unable to raise the price of new housing in a municipality that imposes development charges, as a result of competition from municipalities where they are not imposed.

- For a developer to be able to pass a levy to new homebuyers, the demand for housing in those locations has to be fairly inelastic (i.e. homebuyers would have to be relatively insensitive to price). This occurs in highly desirable markets such as the GTA and Greater Vancouver, where there are few close substitutes.

- There is some agreement among researchers that the type of market most often encountered is one characterized by a rather elastic supply and an inelastic demand, existing in a community of unique characteristics within a larger market area. Where the charge is uniform, given a fairly inelastic demand for new housing, the levy will generally be passed on to the new homebuyer. Where this is not possible, the developer at the margin will not develop the land.

- To the extent that the price of new housing is increased by development charges and there is a reduction in its production, the price of existing housing will also increase in the long run.

- Where the charge is geographically non-uniform, the developer will be unable to pass the differential forward to new homebuyers and the charge will be taken into account in

1 emphasis added to quotations
the reduced market value of the land. Thus, the charge would be passed back to the landowner. Whoever owns the land at the time the charge is anticipated will bear the burden.

**Planning Tool or Revenue Tool**

- "As a source of revenue to local governments, development charges do provide funds to pay for needed infrastructure created by growth. They are probably borne by new homebuyers (and renters) and they provide a windfall gain for existing residents." (page 48)

- "While development charges do have land-use impacts, it is not clear that they should be used as a tool to achieve land-use objectives. Revenue policy generally is a blunt instrument for achieving land-use objectives. In the case of development charges, setting the appropriate magnitude of the charge to result in a specific land-use pattern can be extremely difficult." (page 49)

- "While it is probably difficult to use development charges to encourage higher densities and discourage urban sprawl, development charges should not do the reverse. Development charges should be neutral with respect to land use decisions..." (page 49)
“The Incidence of Development Charges” A Brief to Metro Toronto Task Force on Financing Infrastructure prepared by David A. Amborski, February 23, 1990

Findings¹

- “In the short run the incidence of a new development charge in Metro (Toronto) could only be borne by the existing developer/builders who currently own developable land or the final purchaser/renter.

- Given current and anticipated market conditions in virtually all submarkets, it is unlikely that much of the burden can be passed forward to the final purchaser/renter.

- The burden of the charge will be borne by obtaining reduced profits on projects which are undertaken and must pay the new charge, as well as lost profits from not undertaking additional projects.

- In the longer run, part of the incidence may be borne by predevelopment land owners in the form of lower prices they receive for their land.

- The imposition of a new charge will tend to decrease activity in the markets affected. The impact on the rate of new development will be less when the market demand is strong. This is not currently the situation.

- Given the other charges/taxes that have recently been imposed or proposed upon the commercial office sector, it is necessary to analyze the cumulative effect of those initiatives in conjunction with a new development charge. It is necessary to assess what the impact will be on the rate of development in this sector under current market conditions. If the charge has the effect of slowing or deflecting growth in this sector elsewhere, how does the development charge revenue stream compare to the loss in assessment and income stream from property taxes?” (p.6 and 7)

¹ emphasis added in quotations

This paper reports on research on the price effects of impact fees on new, single-family dwellings in Pinellas County, Florida. The data represented more than 5,800 new home sales in four cities, including St. Petersburg, Clearwater and Dunedin. The county’s peninsular location defines it as a single, independent housing market. “The county's rapid recent growth, density of development and low vacancy rates in single-family housing stock imply a market with inelastic demand, a market in which impact fees would be expected to be capitalized into the sale price.” (page 44)

The analysis utilized a multiple regression model. Development charges were imposed by Dunedin only, commencing in 1972. House sales data for the period from 1971 to 1982 was used.

Findings

- The study concluded that builders were able to pass forward the total cost of impact fees to new homebuyers. However, the price differential between Dunedin and the other three cities (with no impact fees) disappeared within a six year period.

- The rationale for these longer term results included: the limited impact fee did not produce the higher anticipated benefits in Dunedin (and therefore, the price differential was not sustained); the market may have adjusted to the fees through reduced land prices in Dunedin and increases in house prices elsewhere; and the impact fee was unchanged over the period and therefore represented a declining share of total house prices over time.
Findings¹

• “An important conclusion is that there is a general misconception regarding the incidence of development charges. Most people believe that they simply are added to the purchase price of a new home. Recent literature which has examined these charges in light of tax incidence theory has shed some light on the complexity of this issue, specifically regarding the capitalization of the charge in the longer run ...”

• “.... what do we know about the incidence of development charges in Ontario? Evidence of the historical application of these charges suggests that they have been used in most high growth municipalities for at least the past seven to ten years. If land purchasers are reasonably sophisticated in their decision regarding how much they are willing to pay for a parcel of land, the historical or original level of these charges should be mostly capitalized into predevelopment land values.

• However, (in the case of lands currently held by developers and builders), any changes or increases in charges will at least be borne by home purchasers to the extent that these charges can be passed forward. Our general knowledge of the prevailing conditions in these markets suggests that the burden will be passed forward. The magnitude of these increases however, may represent a relatively small percentage of the total charge.

• To completely understand the incidence question in each municipality, it is necessary to undertake a detailed analysis of the history of the charges, the nature of the actors, and the prevailing market conditions in the specific submarket.

• Generally we might expect that development charges are capitalized in the long run, and attempts are made to pass them forward in the short run. The ability to pass on new or increased charges will depend upon prevailing market conditions.” (p.18 and 19)

¹ emphasis added in quotations
This study examined the alternatives for financing new infrastructure to service development, as well as legal, equity and impact issues.

Findings

- If development charges (termed “private financing”) are used by only a few communities in a regional housing market, it is likely that some of the costs are capitalized into lower undeveloped land prices.

- When most communities in a market area set development charges at a similar rate, they are likely incorporated into higher house prices and rental rates. This will benefit current homeowners who will receive a windfall capital gain, but current renters will not receive this benefit.

- The use of DC may impact on the municipal budget process, since municipalities lose their ability to shift revenues among different areas (due to the rational nexus requirements in U.S. fees). Also, new residents may resist long term (tax) funding of replacement infrastructure that will serve established residents.

- DCs do not promote efficient use of resources, as the elimination of the capital component in user fees leads to underpricing and over consumption.

- The report concludes however, that there is a role for private financing where, due to rapid and sustained growth, “established populations (would) bear disproportionately large financial burdens”. (page 128)

1 emphasis added in quotations

This section of the CMHC website sets out advantages and issues, strategy, effectiveness, sources and case studies for development charges.

Findings

• “An obvious way in which development charges could be used to promote more affordable housing is for municipalities to waive them for developments that include ‘affordable’ housing.... The most direct way municipalities can use development cost is to ensure that their fee schedules for market housing do not discriminate against rental or against higher density housing regardless of the price of that housing...Replacing development cost charges with user charges when possible helps reduce housing prices and favours renters and first time buyers.”

• “Development charges disproportionately affect the cost of smaller, more affordable housing units because charges are usually applied to residential units on the basis of the type of dwelling, rather than the size of dwelling...Such development charges could be lessened if charges were based on the size of housing unit (i.e. the square feet in the floor area, and/or the lot acreage or the front foot of the lot).”

• “Planners who institute development levies must be sensitive to and knowledgeable about the real estate market and be ready to amend/revise development levies if and when they are having a negative impact on the local economy or an unintended, negative impact such as driving investment from the downtown area.”

• “Estimating the true cost of new development is very difficult and attempts to develop marginal cost fee schedules are often arbitrary...True costs are always project specific and their assessment leads to a negotiated type of exaction that has created difficulties in the past...”

Development charges represent an opportunity to encourage a more compact urban form by charging higher fees on greenfield development and lower rates on higher density infill projects (i.e. marginal costing). The paper explored the reasons why Ontario municipalities have used an average cost approach that ignores “density and location issues”.

**Findings**

- Several studies were cited to establish the principle that development charges could be a tool to encourage the efficient use of municipal services, and as well, that the current approach to calculating development charges in the Province (i.e. average costing) results in “an oversupply of low-density housing and other inefficiencies in urban development pattern”. (page 1)

- The major reason cited as to why the *average cost approach to DCs* was utilized by all municipalities was *“administrative convenience”*. The author’s research disputed this assumption as interviews with municipal officials experienced with site-specific and municipal-wide approaches to the calculation, revealed that the latter required more consulting studies and extensive negotiation with the development community; no municipality “reported a reduction in administrative load with the new system”(page 2).

- This finding led to a more in-depth analysis to seek a better understanding of why municipal-wide DC are the predominate approach used:

  1. **The DCA, 1989 essentially outlawed a site-specific marginal approach to DC calculation.**¹ At the time that this legislation was under consideration, the Province was seeking to download some of the responsibility for infrastructure financing to the municipalities, and the municipalities favoured the average cost approach.

  2. The debate between municipalities and developers had been on-going for many years, with the development industry taking the position that charges should relate only to those infrastructure services which are directly attributable to their developments. Developers had no interest in funding soft services or major hard services (eg. treatment plants).

  3. Municipalities considered that development charges should include all costs required to service growth, particularly in light of the fact that developers “routinely promised soft services to prospective homebuyers as a marketing technique…” (page 3). Thus, the “population-based” approach to calculating DCs (which included soft services) competed with the “land-based” (or site specific) approach.

  4. The author stated that these findings provide the major reason why municipalities prefer municipal-wide DCs.

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¹ CNWA note: Area specific development charge by-laws were passed under the DCA, 1989, based on the provisions in s.3(3) and O.Reg. 267, s.3(3).
5. The final question addressed was why municipalities did not exempt low cost housing (presumably high density housing, according to the author), even though the legislation permitted it. It was noted that this would not amount to full marginal cost pricing since all development of this type across the municipalities would be exempt rather than specific (affordable) housing projects. The author concluded that this reflected a wider prejudice against higher-density, low income housing.

- “Overall, our findings suggest that development charges in Ontario have been designed to finance low-density growth while reducing financial risk to municipalities. The notion that these charges might be used to shape growth to meet environmental and social objectives in the efficient use of land is only beginning to dawn on public officials...Making progress on this front will require that convincing evidence be brought to public attention that compact urban form is financially more efficient and socially more sustainable than sprawling low-density communities.” (page 4)
This paper examined the impact of development impact fees on residential house prices and demand using an econometric model. Data was collected for two suburbs of Charleston, South Carolina. One of the cities implemented development impact fees in 1988; data between 1986 and 1991 was analysed. A number of variables potentially affecting house prices were analysed through the modelling process in an attempt to explain house price changes.

Findings

- For the areas being studied, the analysis did not identify that the imposition of development impact fees had any impact on house prices.

- Despite this conclusion, there was a significant shift in the quantity of development from the area imposing the fee to competing nearby areas. Although there was continued strong demand locally and regionally, house sales in the City with the new impact fee decreased by 10% in the year the fee was imposed, and remained low for an additional year. Demand in the control City increased by 40%. The author stated that this implied that either characteristics of the housing market had changed or developers moved to other locations due to reduced profit margins.

- Further, the City which imposed the development fee was able to lower its property tax rate, although the role of the fee in achieving this was not determinable (since property reassessment had occurred during the same period).

The analysis considered the total development costs for a new serviced industrial building of 20,000 sf in the four municipalities as well as the annualized impact, including development costs in taxes. This analysis formed part of the Council consideration in setting a new DC policy for industrial development.

**Findings**

- Development costs, included land value, construction costs (hard and soft), development charges, site plan fees and building permit fees ranged from $79 to $87 per sf in the four municipalities. Of these totals, land costs represented 12-20% of the total costs, construction costs, 73-80%, development charges, 6-8%, and building permit/site plan fees, less than 1%, depending on the municipality.

- On an annualized basis, costs showed very limited variation, ranging from $10.25 to $10.64 per sf in the four municipalities. Of this total, taxes represented 29-33% of the total, with annualized development costs (the annualized total of the cost components set out above) comprised the remainder.