Implementing the Growth Plan & Increasing Alignment with Climate Action Plans Workshop

Friday October 20th, 2017

Workshop Goals:

- explore opportunities to alignment between the new Growth Plan and Climate Action Plans; and
- explore priorities for address implementation challenges associated with the GGH Growth Plan.

Introductions

Please introduce yourself, the jurisdiction or organization you are from and what you are hoping to get out of this workshop

Development Charges, Growth Plan and Climate Action Plans….

What do they have to do with each other?




Gabriella Kalapos, Clean Air Partnership

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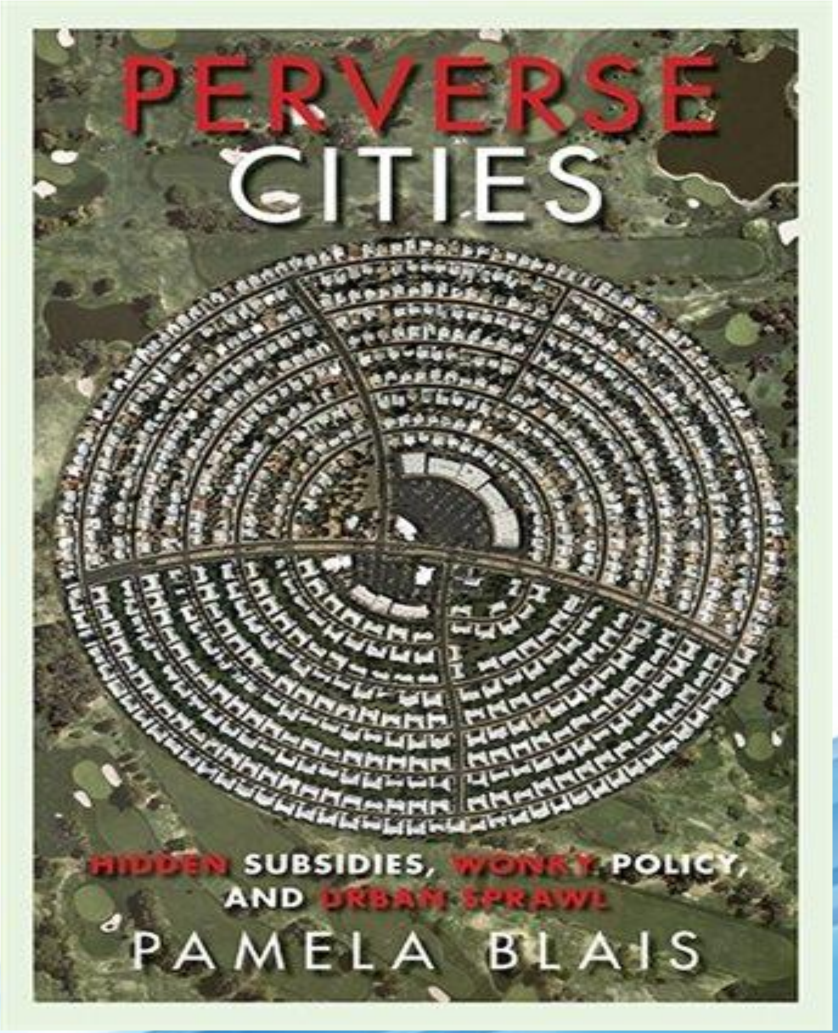
From 2016 Growth Plan Consultation

- Need to explore price signals related to Growth
- Development charges, property taxes, utility costs, transit & road investments/costs, etc.
- Where are the misalignments between fiscal instruments and growth policy goals

The Growth Plan doesn't speak strongly enough to the fact that the Growth Plan is set within an economic framework and misalignments between the two can undermine implementation.

Pamela Blais, Perverse Cities

- Hidden Subsidies, Wonky Policy and Urban Sprawl
- What are the price signals? Are they supportive of policy goals?
- If not Why? And what can be done to fix them?



What is a Market Failure?

A market failure is where free markets **fail to allocate resources efficiently**. This failure often results because total costs associated with producing a good or service are not allocated to the good or service, but are covered by the public in the form of subsidies or externality costs such as pollution, congestion, climate change, etc.

Corrections to Market Failure

- A price mechanism can allocate more of the total/true costs of producing or using that good or service to those buying or using that good or service.
- Laws or regulations can change behaviour or more accurately account for total/true costs.

❖ In the majority of cases of market failure, a combination of remedies is most likely to succeed.

What Does the Research Say?

Studies exploring the economics of urban form have found that the costs of growth can vary based on the following factors:

- If the growth can use existing infrastructure; if it requires upgrades to existing infrastructure; if it requires new infrastructure (greenfield);
- How far the development is from existing infrastructure; and/or
- The growth scenario in terms of land area and density.

What Are Development Charges?

A financial mechanism used to cover the upfront capital costs of growth including “hard” infrastructure (water, sewage, stormwater, roads, transit) as well as “soft” infrastructure costs for police, fire, parks, libraries, community centres, etc.

- In Ontario, development charges for the above are calculated and then divided across the growth based on population/unit for the residential sector and by square metre of floor space for the commercial and industrial sector.
- This allocation of charges does not account for how the costs (especially the hard infrastructure costs) vary based on the location and urban form of the development.

How Much are We Talking About?

- Florida study conducted by (Duncan, 1989) found that compact development **reduced capital costs by 60%, schools by 7% and utilities by 40%.**
- (Burchell et al, 1998) found that compact growth results in a public/private capital and operating **costs savings of between 12-26% for local roads and between 7-14% for water and sewer infrastructure costs.**
- Champaign, IL, found that a smart growth approach to future city development could **cut the upfront cost of infrastructure from $123 million to $71 million**—a savings of $52 million, or 42 percent over 20 years and would cut service costs by 23 percent, or $19 million, over those 20 years (TischlerBise, 2010).

Some Canadian Studies

- A study of the Toronto area of growth alternatives undertaken by (Blais, 2013) found **savings of between 18-29% on capital and operating costs for transportation and utilities** depending on how compact the growth.
- The City of Edmonton estimated that, for 17 of the 40 new developments underway or planned in Edmonton, the net costs for the City will **exceed revenues by nearly $4 billion over a 60 year period** (Sustainable Prosperity, 2013).
- The City of Calgary found that a more dense urban form, would use 25% less land, cost 33% less to build, and **save the City more than $11 billion in capital costs alone** (Sustainable Cities, 2012).

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Stage 1

- Prior to and during the construction of new developments (capital costs of infrastructure construction).

Stage 1 Costs

- Development charges are the financial mechanism used to help ensure that the costs resulting from Stage 1 are calculated and collected from those who create the need and do not impose a financial burden on existing residents.

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Stage 2:

- During the lifespan of that infrastructure (operational costs).

Stage 3:

- When the infrastructure first needs to be rehabilitated a few decades after construction (capital costs of rehabilitation).

Stage 4:

- Permanently into the future (indefinite cycle of operational costs and capital costs of periodic rehabilitation).

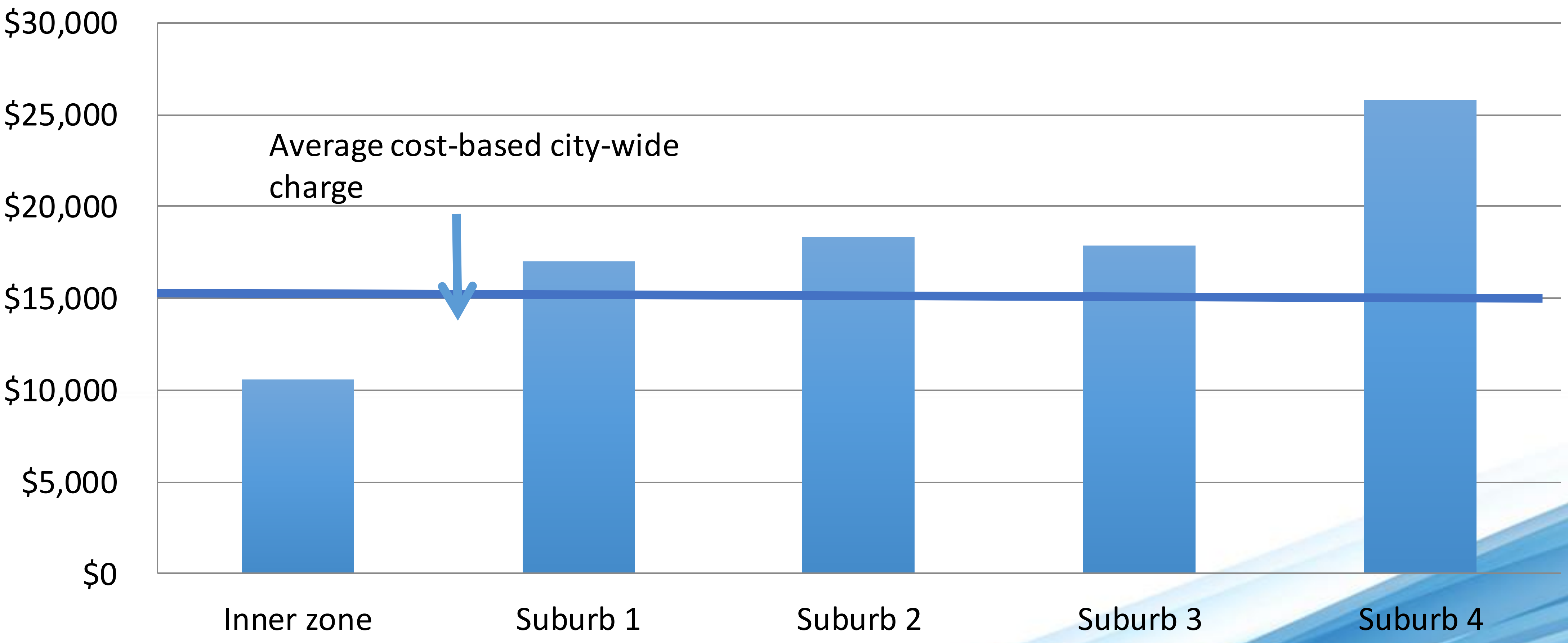
Stage 2 -4 Costs

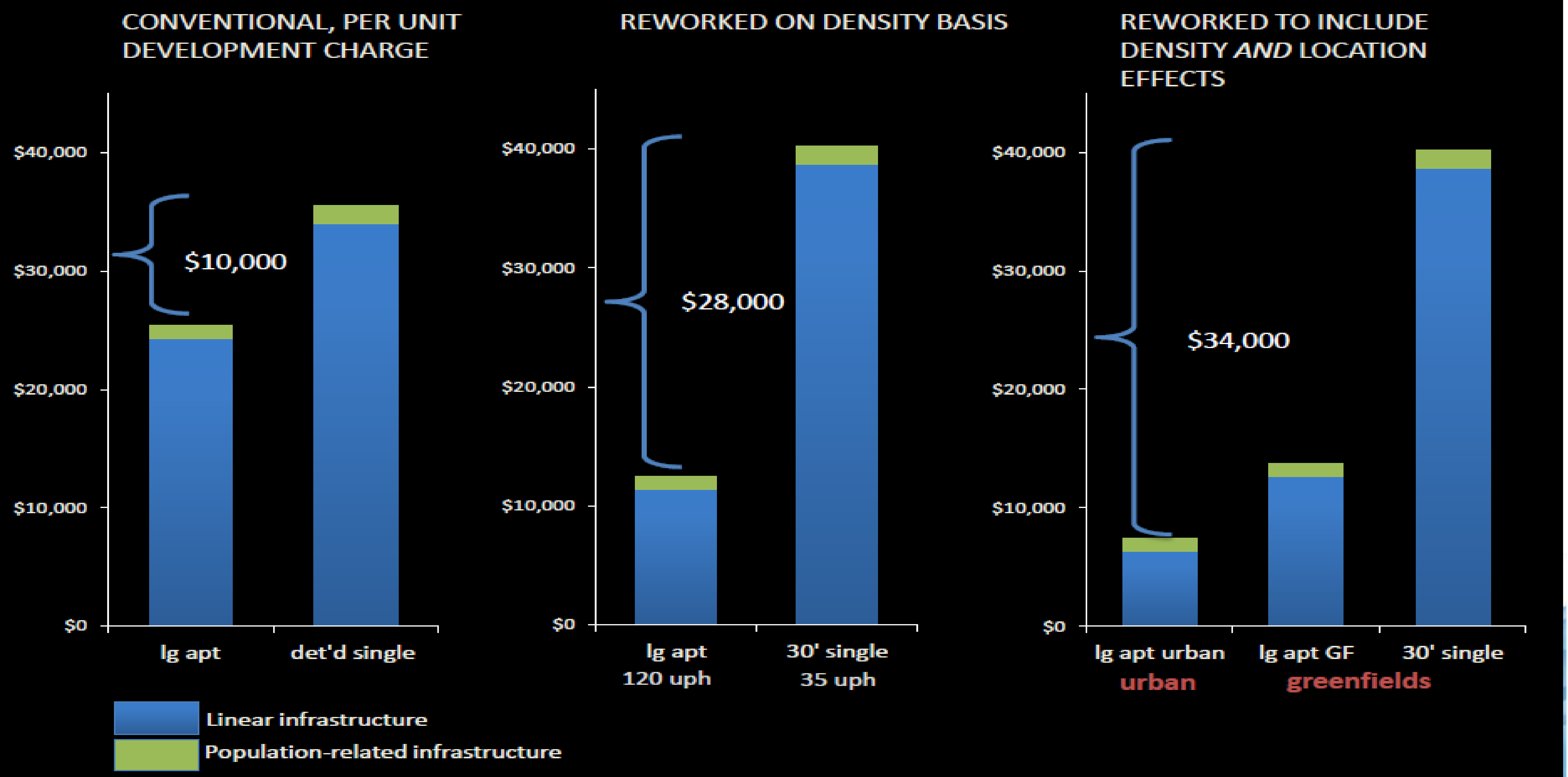
- Costs related to Stage 2 – 4 are not calculated within the development charge calculation, however costs at those later stages are impacted by the growth related decisions and actions undertaken during Stage 1 and as such there have been calls for increased consideration of stage 2 – 4 costs being better integrated, or at a minimum considered, within Stage 1 calculation of costs (SP, 2014).

Costs & Implications

- At present, costs related to Stages 2 – 4 are paid for via revenue sources such as property taxes, user fees and provincial and federal funds. If revenue sources are inadequate to compensate for growth's current and future costs, development can erode a municipality's financial position and result in either tax increases and/or public debt (UCLG, 2007).

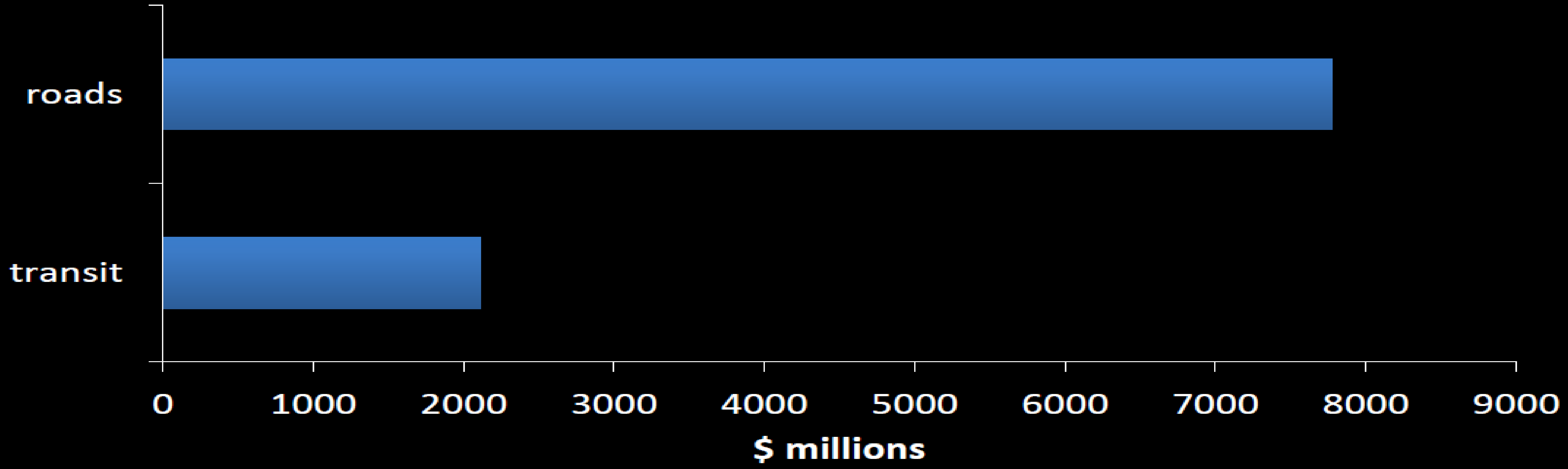
Averaging of Growth Costs/ Development Fees





Reflect the effects of density and location on costs

Duelling subsidies: spending on roads and transit



York Region Growth-Related Capital Spending

total development-related capital program to 2031
($2012)

What Now?

There are Gaps in the Research on the Economics of Urban Form

- Most economics of urban form studies focus on the up-front capital costs.
- Increased knowledge of the implications of urban form on operations and rehabilitation costs of infrastructure and revenue would be of great value.
- These scenarios would better enable municipalities to understand the correlation between urban form and municipal costs and revenue on a longer term basis; especially when considering how best to ensure that the needed revenue is available to cover the costs for rehabilitation of infrastructure a few decades after installation.

Development Charges Were Created to Achieve Cost Recovery

- Development charges are meant to ensure that "growth pays for growth" and does not impose a financial strain on existing residents. They were not originally designed to serve as a growth management tool.
- Increasing alignment between development charge structures and growth management goals is important; ensuring the development charge structure achieves its full cost recovery goal is also very important.

At present there are gaps in the development charge legislation that do not allow for the growth pays for growth policy to be put into practice.

❖ The denominator of growth costs needs to incorporate density, land area and other factors that impact actual growth costs.

The Province of Ontario Should also be Required to Conform to the Growth Plan

- The Province of Ontario has required municipalities to conform to and achieve targets set by the Provincial Growth Plan.
- **Implementation of the Growth Plan would likely be improved if Provincial infrastructure decisions were also required to conform to the Growth Plan.**
- This would increase alignment between municipal and provincial investments (siting and timing of hospitals, public institutions and infrastructure investments such as 400 series highway & GO transit).
- These decisions are likely to have a significant impact on the ability or inability of municipalities to achieve the Growth Plan targets.

Evaluating & Improving the Growth Plan *is Imperative to* Advancing Growth Management Goals

Thank You, Thank You Neptis!!!

Marcy Will be joining us this afternoon to speak to this topic!

Housing Affordability is a Problem

The connection between higher development fees and increased costs for home purchasers is often cited as a barrier and inevitable consequence of increased development charges.

- These development charges are actual costs related to servicing that development that need to be paid for by someone.
- If the funds are not recouped from the actual growth that caused those costs; then they would need to be covered in some other manner such as the property tax base, utility user fees, provincial or federal tax transfers, and/or public debt.

House Prices and Incomes in the Greater Toronto Area

Year	Average house price	Median Household Income	Ratio of house price to income
1953	$ 14,000	$ 5,400	2.6:1
1963	$ 16,000	$ 6,542	2.5:1
1971	$ 30,426		2.6:1
1981	$ 90,203	$ 31,238	2.9:1
1991	$ 234,313	$ 55,000	4.3:1
2000	$ 258,000	$ 59,000	4.4:1
2005	$ 384,000	$ 60,000	6.4:1
2015	$ 627,395	$ 76,219	8.2:1

Source: (Sewell, 2009 from 1953-2005, 2013 from http://www.theglobeandmail.com/real-estate/mortgages-and-rates/canadas-old-standards-of-housing-affordability-need-an-update/article27126408/.

Affordability Continued…

- There are many factors that enter into the home pricing equation and no single factor will be able to explain the complete picture on housing prices and affordability of home ownership.
- Other market factors are likely to place a far stronger upward pressure on the cost of new housing than development charges do. Especially when one considers that development charges account for between 2% (Toronto), 6% in York Region on average and up to a maximum of 9% (Vaughan) of total housing costs (CMHC, 2005).
- As such, **reducing development charges is not a solution**, but increasing housing diversity & more accurate allocation of development costs could provide support for the housing affordability problem.

Economic & Growth Plans?

1. What are the primary economic misalignments that people see as a priority?

2. What suggestions do you have for how they can be addressed?

3. Who should be involved in advancing this effort?

Thank You!

Questions?