

Added Item 6.1.1

Double development subsidies are not fiscally responsible

(re item 6.1 GIC February 15, 2012)

The staff proposals to expand the downtown area exempted from development charges (with some tweaking for adaptive re-use of heritage buildings and a public art fund) continue a wrong-headed policy to use taxes to subsidize growth costs instead of establishing accurate development fees. It also arbitrarily penalizes many other parts of the city that are just as deserving of fairer development fees.

The push to revitalize downtown neighbourhoods is positive, and it correctly recognizes that growth costs in built-up areas are far lower than on greenfield sites and therefore should have lower development charges. But it ignores the obvious corollary that fees for greenfield sites are too low and need to be increased. Instead we have the absurd situation where taxpayers subsidize growth in both inner city and greenfield sites.

There is a simple solution – charge fees based on actual growth costs. That would end unnecessary taxpayer subsidies currently exceeding \$10 million per year, encourage revitalization of ALL older neighbourhoods, and collect growth fees that reflect as much as possible the actual servicing costs of that growth.

The staff report explains that “much of the development which occurs within the Downtown CIPA is actually redevelopment ... which means the impact on the infrastructure is relatively limited, especially when compared to development in a Greenfield.” That’s correct. But development charges are calculated on the TOTAL growth costs. So if the actual growth costs in older areas like the downtown are lower than average, then actual growth costs for greenfield sites are higher than average.

The logic is inescapable. Current DCs are too high for older areas like the downtown, and therefore they are also too low for greenfield development sites. We subsidize both.

Why do we do this? Is council afraid of the reaction from suburban sprawl developers who certainly would oppose the implementation of fair and equitable development fees? So instead, we force taxpayers to subsidize them. This is neither fair, nor fiscally responsible.

The simple solution is using a multiple zone approach to DCs where the DC rate is determined by the actual growth costs in each zone. This can be as rudimentary as a two zone policy (such as is used in Ottawa) where the built-up area is one zone, and greenfield areas are the second zone. Or it can be enhanced with multiple zones that take account of the fact that infrastructure costs vary by location as well. For example, providing water and sewer service to far distant sites is obviously more costly than to close in ones, even when both are greenfields or both are within the built-up area.

A zone DC policy eliminates the need to subsidize redevelopment areas – or if there is still a public policy reason to do so, it drastically lowers the subsidy cost to the taxpayer. For the downtown CIP only, that subsidy has been over \$5.2 million in the last seven years – and that’s using the existing boundaries not the expanded ones being proposed. That subsidy means taxpayers are paying for growth costs. That money should have been collected from the development sites where costs are actually higher than the DCs being collected.

Financial arguments made by staff are misleading

In the report, staff argue that DC exemptions “could” lead to more development that would generate increased property taxes, and therefore “pay for” the DC exemptions. This is faulty reasoning and an apples to oranges comparison.

DCs can only legally be used for the capital costs of new infrastructure (including some soft infrastructure costs). DCs are designed to relieve property taxpayers of at least some of the costs of new growth. Once that

growth occurs, the new property taxes are required for the city's operational expenses and the longer-term maintenance and rehabilitation of infrastructure.

It is incorrectly suggested that the property taxes constitute some sort of "profit" for the municipality. If that were the case, then the property taxes being charged are too high, and the taxpayer has good reason to demand they be lowered. Reality suggests taxes are too low, if anything, because our infrastructure maintenance deficit is growing by \$195 million a year and now exceeds \$2 billion.

Comparing lost DC revenues to "found" property taxes is an inappropriate comparison. The two revenue streams have different purposes, and one can't be used to offset the other. If cutting DCs are a way to improve the city's revenues, then we should get rid of development charges entirely.

In fact, cutting DCs in one part of the city may also mean fewer DCs collected in other parts because development shifts to the lower cost location. This has no effect on total property taxes – because it's just a shift – except perhaps to lower them because the downtown development at this point in time will likely generate lower cost housing than the suburban variety. But this is not an argument for more sprawl either. We are getting financially murdered by the subsidies currently provided to that type of growth.

But at the bottom of the "profit" argument is an assumption – unproven and likely faulty – that cutting DCs will increase the total number of houses built rather than just shifting their location. I would suggest the market for new housing is the most important factor in how many new houses are built.

Recommendation: Ask staff to report back with a redesign of development charges that uses a multiple zone approach and more closely allocates actual growth costs to each zone.

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February 14, 2012