Document 4A: Financial report – ‘development pays for development’

Financial Implications of Urban Expansion

Instigating Motion from July 21, 2021 Council:

That staff be directed to provide an estimate of the relative costs for intensification versus urban boundary expansion over the time horizon of the new Official Plan using information currently available from Planning, Infrastructure and Economic Development and Finance, along with an explanation of how the costs will be refined in the Infrastructure Master Plan and the Transportation Master Plan, and that this information be presented to the joint Committee and Council as part of the report back on the final draft of the New Official Plan in the fall of 2022.

This document responds to a motion from the July 21, 2021 meeting of City Council. The motion, provided in Document 2, directed City staff to provide the relative costs of intensification versus urban boundary expansion, as well as how those costs will be refined through the forthcoming updates to the Infrastructure and Transportation Master Plans. Staff have prepared this response using a newly commissioned Summary Update by Hemson Consulting (2021), attached as Document 4B of the new Official Plan staff report, that expands on their 2013 Comparative Municipal Fiscal Impact Analysis. The Summary Update assesses assumptions in the ‘2013 Growth Estimates Extrapolation’ prepared by City staff in support of the 2021 Growth Management Strategy (GMS) previously approved by Council on February 10, 2021. This memo should be read in conjunction with a memorandum from the General Manager PIED to Council on May 26,2020, attached as Document 4C of the new Official Plan staff report.

Context on the costs and financial obligations relating to urban growth are provided below, followed by elaboration on the land evaluation criteria used in the previously approved GMS Report, and its approximation of relative costs.

Expanding the urban boundary involves adding formerly undeveloped rural lands into the settlement boundary of the City of Ottawa, where intensive publicly-serviced development can occur. To develop the land with employment, amenities, and housing for a growing population, infrastructure and services provided by the City must be expanded to these new areas. The City levies many growth-related costs from private developers when they undertake projects. Development-funded growth costs include

Development Charges, Cash in-Lieu of Parkland payments, various conditions of approval imposed on private developments, and user fees.

What do Development Charges pay for?

It is important to emphasize that many growth-related costs are provided by private developers when they undertake projects. The City's Development Charges By-law establishes the framework for levying funds to provide for growth-related costs. The Development Charges By-law will be updated following adoption of the new Official Plan along with the Infrastructure and Transportation Master Plans. Those new Master Plans will also provide updated, detailed construction costing and project timing for the projects needed to incorporate the new expansion lands into the urban boundary.

Development Charges are generally levied by the City on any development that proposes a net increase to the number of residential units or non-residential floor area above that which existed on a lot prior to redevelopment. Development Charges are re-assessed every five years and increase yearly with inflation to attempt to provide for increasing City costs. Many, but not all components of physical infrastructure are covered under Development Charges. Because these charges are levied at the end stages of land development, with the issuance of permits for construction of buildings, the City's ability to provide the necessary infrastructure that is funded by Development Charges is limited in the earlier stages of development. Front-ending agreements may be used to advance construction of some components.

In the case of suburban greenfield development, each new dwelling unit pays a portion of growth-related costs relating to:

- Roads & related services
- Sanitary sewer
- Water
- Stormwater drainage
- Protection (Police)
- Public Transit
- Parks development
- Recreation facilities
- Libraries
- Paramedic services
- Affordable housing

- Corporate studies

Important services also provided by the City, such as cultural and tourist facilities, are not covered by development charge levies. Similarly, City services provided through user fees (like garbage collection) are not funded by Development Charges. Therefore, the incremental cost of growth, from a capital expenditure, operations and maintenance perspective, is borne by the rates.

Because Development Charges do not provide full cost-recovery of growth-related costs to municipalities, there is typically a pressure for municipalities to increase their development charge rates. However, doing so is also constrained by regulatory limitations. Inflating costs of infrastructure construction beyond what is prescribed in the development charge index is one such limitation. Costs for services and infrastructure that exceed the historical service level cap, or which also benefit existing development (such as roads and other infrastructures that benefit users of a wider network, not exclusively the newly developed areas) are also difficult to recover through the current provincial development charges framework. Variances between the projected number of new units and the actual pace of development, which is often lower, impacts the actual development charge revenues available for planned projects.

What are paid for directly by developers as conditions of approval?

Various conditions are imposed on private developments as part of the development approval process, to be fulfilled before the full development is permitted to proceed. These include costs such parkland levies or cash in-lieu of parkland, along with other costs such as area-specific DCs and cost-sharing agreements between developers in secondary plan and community design plan areas for the construction of streets and infrastructure.

What does a Parkland Levy or Cash in-Lieu of Parkland pay for?

Similar to Development Charges, Cash in-lieu of Parkland (CIL) is a charge that municipalities may levy, for development applications that involve increases in density. The purpose of CIL is to pay for additional parks and recreation costs associated with rising demand due to increased populations through development.

CIL in the City of Ottawa is administered as a condition of various forms of development approvals. Where it is not practical or suitable to take actual land for parks (at the rate of up to 10% of the land area of a development), payment of cash-in-lieu of parkland for local and city-wide recreation funds is an alternate option. Unlike Development Charges, CIL is paid earlier in the planning process.

Relative versus exact costs of urban expansion:

When the revised Workplan for the Official Plan was presented to Committee and Council in 2019, no direction or recommendation was provided to undertake a preliminary analysis of all expansion costs. Instead, direction was provided to advance the Official Plan project timelines. Within the Council-approved timelines for the Official Plan, there would not have been sufficient time and resources available to have completed this work. Barring additional investment of resources and time, any financial analysis would have resulted in conceptual determinations with a high margin of error.

Detailed financial analysis of the costs of growth will follow adoption of the Official Plan, through the Infrastructure and Transportation Master Plans (IMP and TMP). This is because financial modelling with any accuracy requires both a total accounting of all lands to be added to the built-up area as new communities and a time-consuming technical and engineering analysis.

A detailed costing of all possible urban expansion options was not provided with the 2021 Growth Management Strategy (GMS) report given the direction and timelines approved by Council in 2019. Nonetheless, the evaluation criteria used in the staff-recommended ‘Balanced’ Scenario for urban expansion lands approximated ultimate City costs through: the initial inclusion or exclusion criteria for lands and subsequent scoring. Through that, the relative costs of expansion for each of the candidate expansion areas was assessed and compared using proximity to existing services as an indicator of how they would compare to each other to provide service.

The GMS relied upon inclusion criteria for possible urban expansion lands to determine which lands should be scored. The inclusion criteria captured lands with proximity to rapid transit or transit priority areas (1.9 km distance, up to 2.5 km on roads). This requirement ensured that any land that was even considered for detailed analysis and scoring would be close enough to a station to support the City’s ongoing transit investments and not require costly extensions, which are challenging to provide in advance of development.

The expansion lands recommended by staff represented the areas that are easiest (and therefore cheapest) to service with water, wastewater and storm water facilities; accommodating additional development, with the minimum need for upgrades to the existing trunk systems or downstream watercourses. Scoring of individual parcels able to meet the basic inclusion criteria included such proxies for City cost of servicing the development area as follows:

- Adequate residual wastewater and water capacity in the local system
- Distance to major city facilities
- Adequate stormwater capacity and an appropriate outlet
- Connectivity to the existing transportation network (transit, roads, pedestrian or cycling paths)
- Presence of natural heritage features (that would be disrupted)
- Adequacy of local infrastructure without costly upgrades or extension
- Proximity to employment
- Proximity to retail and commercial resources
- Adequate distance from agricultural resource areas
- Geotechnical conditions (due to implications affecting potential long-term liabilities and asset management burden for the City).

These criteria ensure that expansion decisions make the best and most cost-effective use of existing infrastructure, result in compact communities to reduce sprawl and create 15-minute neighbourhoods by prioritizing new residences close to existing commercial areas, existing places of employment and most importantly close to existing or already-planned rapid transit.

In the Growth Management Strategy, lands were considered for addition to a cluster if they had a servicing score of 8 to 14 (moderate to lowest cost and feasibility of servicing) or a transit score of greater than zero (within 2.5 km to 1.9 km radius of a transit station or transit priority). Because of the structure of the evaluation, parcels that make up a cluster were generally within the same servicing area and therefore tended to have similar (lower) servicing scores. Though a dollar figure was not associated with the costs of any possible expansion area, by scoring parcels on their overall infrastructure burden that would be required to develop, Staff were able to determine the relative adequacy of an area to supply the typical needs of future residents, while minimizing City costs.

Relative cost of intensification vs greenfield growth

As the City has emphasized during this and the last Official Plan process, by building more housing in existing developed areas of the City through intensification, the City is able to make more efficient use of existing infrastructure and resources of all kinds. Intensification uses existing excess capacity of systems (transportation, waste and water) before the incremental addition of new units leads to additional demand beyond that covered by existing infrastructures. This is why provincial policy provides clear direction to attempt to provide growth through intensification where possible.

The financial benefits of intensifying are also clear. A detailed 2013 Comparative Municipal Financial Impact Assessment by Hemson Consulting indicated that intensification is a net benefit to City coffers, while greenfield development in previously undeveloped areas results in a net cost. In other words, new suburban greenfield development does not pay for itself, or at minimum, is less advantageous than infill development. While it has benefits, the challenges associated with intensifying are well known to Councillors, residents, and anyone who has participated in the planning process for new infill. When the 2013 Hemson report was prepared, the Greater Ottawa Homebuilders Association disputed its findings, and presented a contrary opinion from their consultant MGP that the gap between infill and greenfield was not as great as the Hemson report concluded.

The ‘Balanced’ scenario that underpins the Council-adopted growth management strategy for the new Official Plan gradually increases the rate of intensification versus greenfield developments over time. From 2018 to 2046, the rates of intensification in the existing built-up areas of the City will gradually increase to produce a rate of 51% growth through intensification over the life of the new Official Plan to 2046. This recognizes the benefits of intensification, while proposing realistically increasing rates of intensification over time. This strategy fulfills provincial obligations to be able to accommodate forecast population and jobs growth, maintaining the 15-year land supply and providing a range of housing types and levels of affordability.

Updated costs of intensification

A 2021 update to the 2013 Hemson Report provides an update to the costs of growth as they have evolved over the last 8 years (2012 to 2020). The 2013 report analyzed in detail the costs of four categories of development (higher-density urban; lower-density urban greenfield; low-density villages and scattered estate and low-density rural). The current report has reassessed the City's "2013 Growth Estimates Extrapolation" and adopts three categories from that report: high-density urban infill, low-density urban greenfield, and low-density rural village development as points of comparison.

The Hemson analysis still indicates that high-density urban infill development produces a net financial benefit to the City. It also concludes that the relative relationship between urban intensification compared to lower-density urban greenfield development has held steady over the last 8 years, though the surplus from higher-density urban intensification has increased ($455/capita to $606/capita) as has the negative value of greenfield development (-$409/capita to -$465/capita). The analysis cautions that these numbers are best understood in general relationship to one another, as the detailed costing , as has been discussed, would require a rigorous, time-consuming analysis with necessary inputs from yet-to-be-updated infrastructure and transportation master plans. The analysis by the City and Hemson also updated the results from the MGP analysis in 2013 in the same manner, so the information provided in the update associated with this review gives Council current estimates for both methodologies. Nevertheless, both updated analyses still conclude that infill is more financially beneficial to the City.

With a majority (51%) of new dwelling units to be provided through intensification over the 25-year planning horizon of the new Official Plan, and given the overall tendency of costs summarized above, the growth management strategy approved by Council should provide for a net benefit through intensification. There are many factors that influence the rate of development, not least market demand, so the actual costs will vary from the conceptual details above.

While the influence of intensification on municipal finances may be more positive in comparison with new suburban greenfield development, there are still other costs associated with intensifying land, many of which are challenging to quantify. The expansions of existing infrastructure (such as stormwater facilities) in a neighbourhood are difficult to quantify. New development in such an area may benefit from expansions to existing infrastructure, but it is difficult to establish what the benefit to existing development is. Further, provision of new infrastructure or services in more established areas is associated with higher land and construction costs. Providing a new protected bike lane on an existing street is difficult to compare directly to the installation of the same, new bike lane, in a new subdivision.

Mitigating the costs of infill and urban expansion

The fan-shape of the built-up portions of Ottawa result in increasing marginal costs to provide services with increasing distances from the centre, regardless of which growth option the City pursues in any urban expansion. Costs can be minimized in a number of ways through revisions to the Development Charges framework, and by the design of new communities themselves.

As indicated in the May 26, 2020 memo, the City cannot recover all growth-related costs from new development in infill areas, since there are limitations in Provincial law, requiring the City to pay directly for all aspects that are lifecycle replacement, any improvements to level of service, and deducting from any development charges a factor for the benefit to existing residents. However, as the City regularly reviews policies for Development Charges, Cash in Lieu of Parkland and the new Community Benefits Charge framework that will replace Section 37, we strive to capture costs of growth wherever possible.

Following approval of the new Official Plan, Transportation and Infrastructure Master Plans, a new Development Charges Study and By-law will be developed reflecting the City’s capital project priorities using updated growth projections for employment and population, revised cost projections and through determining the prioritization of growth-related works necessary to support future growth in urban expansion areas within affordable levels. Measures such as reassessing the existing city-wide charges or establishing new local Development Charges, along with a review of exemptions, credits, and definitions built into the by-law can all help to better capture the costs of development and ensure it ‘pays for itself’ to the greatest degree possible consistent with the Council approved Financial Framework to ensure that as much as possible, growth pays for growth.