

## Background Paper #5: Development Cost Charges

Development cost charges (DCC's) have been implemented in many municipalities across Canada. DCC's provide municipalities with the opportunity to recover potential new municipal costs associated with new development. For instance, municipalities may experience additional off-site costs, such as road wear and tear, associated with a new development. DCC's permit the municipality to 'charge' the new development with costs related to those off-site impacts. Many municipalities in British Columbia have applied DCC's as permitted in the Local Government Act, Division 10 – Development Costs Recovery. Bowen Island has not adopted a bylaw under Division 10 that would permit the application of DCC's.

This background paper examines DCC's and how they could be applied to Bowen Island.

### 1. Legal context

The Local Government Act (LGA) sets out the opportunity and requirements for the imposition of DCC's. As noted in Section 933:

- (1) A local government may, by bylaw, for the purpose described in subsection (2) or (2.1), impose development cost charges on every person who obtains
  - (a) approval of a subdivision, or
  - (b) a building permit authorizing the construction, alteration or extension of a building or structure.

- (2) Development cost charges may be imposed under subsection (1) for the purpose of providing funds to assist the local government or pay the capital costs of

- (a) providing, constructing, altering or expanding sewage, water, drainage and highway facilities, other than off-street parking facilities, and
- (b) providing and improving park land

to service directly or indirectly, the development for which the charge is being imposed.

Section 933 also identifies development for which DCC's "may be waived or reduced", including "non-for-profit rental housing", "not-for-profit affordable rental housing", "subdivision of small lots that is designed to result in low greenhouse gas emissions" and "a development that is designed to result in a low environmental impact."

### 2. Potential use

DCC's provide a municipality with the opportunity to apportion costs (as identified in Section 933 (2) above) for the purpose of ensuring that new development 'carries its weight' in relation to the full cost or concurrent costs (full cost accounting) associated with the development of land. In many instances, municipalities face additional costs as a result of development. But, frequently, those costs are not attributed to development in a normal pro forma. Such costs typically are off-site costs accrued in support of the development (e.g., increased road or bridge width to accommodate the new development, additional parkland needed to meet new population demand, increase in the community's waste treatment facilities, increased burden upon existing municipal

facilities). Through DCC's municipalities are able to collect offsetting revenue and apply it to those other costs. In fact, Section 935 of the LGA states that:

- (1) A development cost charge paid to a local government must be deposited by the local government in a separate special development cost charge reserve fund established for each purpose for which the local government imposes the development cost charge.

Further, Section 935 restricts the use of DCC's to those items noted in Section 933 (2) and sets out the management of those funds.

In a report, Urban Development Charges: Who Pays?, (2002), completed for the City of Vancouver, it was determined that, "the impact of levies (such as DCC's) is almost always transferred to others through market mechanism" (p.2). That transfer occurs in the form of lower land costs (i.e., land purchasers pay less for land to cover the costs of the DCC) or higher prices for completed development (p.2). That increase may occur because of straight transfer of the DCC cost to the sale cost of a unit or because the DCC has created a desirable amenity that attracts competing buyers who escalate the base price as they compete for the available unit(s) (p.4). The study also concluded that, "there are several factors that can minimize the likelihood that a new levy or increased levy will lead to a diminished supply of available residential development sites." (p.4). Therefore, experience has shown that DCC's do not detrimentally affect affordability. Further, "the impacts of small levies (considered to be 10% or less of land value) can be almost impossible to distinguish from the effects of many other variables in the development process" (p.5).

The Canadian Home Builders Association, however, believes that development cost charges affect affordability (<http://www.thestar.com/article/604605>). That view has been taken as a result of the recent recession. Generally, however, DCC's have been accepted as 'part of doing business' in the development community. Perhaps, that explains the lack of conflicting data in the literature about the utility of DCCs' and the general focus upon the management of DCC's, rather than their actual use as a municipal financial tool.

### **3. Implications for the OCP Update**

DCC's have been a long accepted form of apportioning development costs between new and existing development. DCC's are a way of removing all of the burden of off-site costs from the property tax rolls to a sharing of those costs with new development as a one-time charge for specific regulated acceptable items; namely: "providing, constructing, altering or expanding sewage, water, drainage and highway facilities, other than off-street parking facilities and providing and improving park land to service directly or indirectly, the development for which the charge is being imposed" (Local Government Act: Section 933 (2)).

The OCP Update could:

1. explore Development Cost Charges to determine if DCC's should be approved by way of a bylaw so that future development shares in the associated off-site costs attributable to such development; and
2. if applicable, explore whether DCC's apply to new development over a certain number of units, to all new development and/or renovations or additions (as per LGA, Section 933 (1)).

Bibliography:

1. Thestar.com (<http://www.thestar.com/article/604605>).
2. Urban Development Charges: Who pays?, Coriolis Consulting Group, 2002
3. Local Government Act, Government of British Columbia. 2010