

# TECHNICAL BULLETIN

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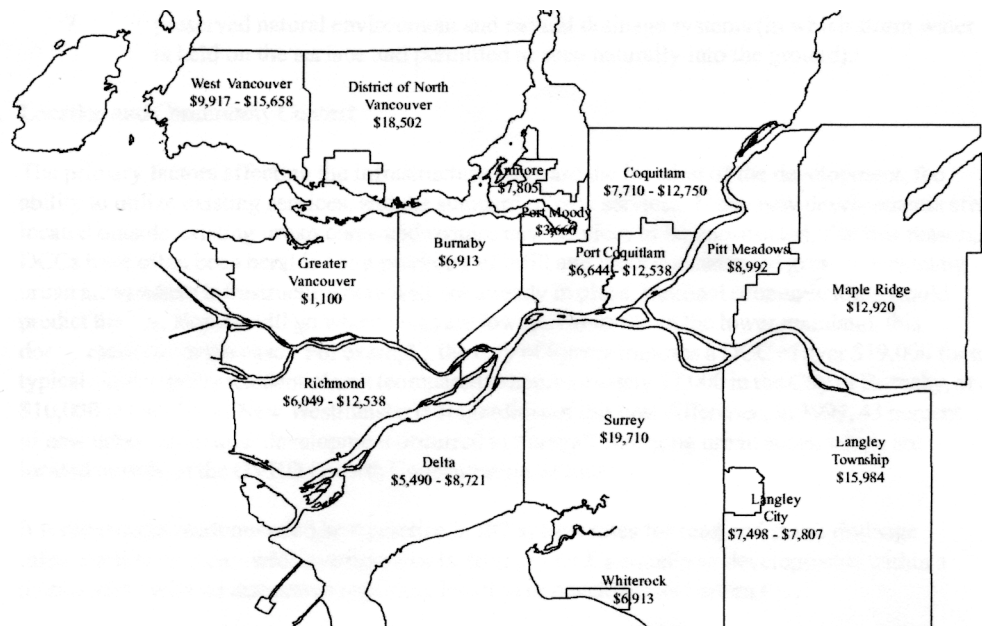
## The Effects of Developer Cost Charges on Sustainable Growth in the Greater Vancouver Regional District

### I. Introduction

In the past ten years our communities have become increasingly dependent on Development Cost Charges to finance the requisite local services and infrastructure (i.e., roads, drainage, water, sewers, and parks) required by new development. Yet, while favouring development within existing urban areas where infrastructure costs are lower due to existing supply networks, DCCs currently act as a barrier to implementing more sustainable new communities, particularly in emerging urban areas, outside the urban core – areas where the majority of growth in our region is occurring. Moreover, the current recommended best practice for applying DCCs for single-family units in British Columbia does not recognize factors such as the location or pattern of new development. However, considerable research finds strong correlation between these two factors and the efficiency of new development, both from an economic and environmental perspective. The results are clear inconsistencies between provincial and regional policy directives for achieving sustainability, and the necessary tools being developed to implement these directives on the ground.

Below is a brief overview of DCCs, followed by a discussion of some of the inconsistencies between current application of DCCs and meeting emerging sustainable development goals. It concludes with recommendations for alternative approaches and courses of action for achieving greater consistency between these two imperatives.

**Figure 10-1 - Basic DCC rate charged for Water, Sewage, Drainage, Road, and Open Space in the Lower Mainland.**



## II. Background

Under sections 932-937 of the Local Government Act, local governments are permitted to collect Development Cost Charges (DCCs) from developers in order to recover capital expended on growth-related infrastructure. A one-time charge levied against residential (single family and multi-family), commercial, industrial and institutional developments, DCCs are designed to cover capital costs related to roads, sanitary sewers, water, drainage, and parkland acquisition and improvements.<sup>1</sup> Section 934 (3) of the Local Government Act states that a local government may vary DCC rates according to one or all of the following: (a) different zones or different defined or specified areas; (b) different uses; (c) different capital costs as they relate to different classes of development; (d) different sizes or different numbers of lots or units in a development.<sup>2</sup>

## III. Provincial History

The evolution of DCCs in BC dates back to the 1958 amendments to the then Municipal Act, which allowed governments, through “Excessive Subdivisions Cost Bylaws”, to refuse subdivision applications that bore excessive public costs due to the provision of new infrastructure related to growth outside existing serviced areas. By the early 1970’s, further amendments gave local governments the authority to charge levies against new infrastructure costs. These amendments marked a shift away from government-led infrastructure provision towards the primarily “user-pay” or “developer-led” model of infrastructure financing currently practiced.

In 1995, the Ministry of Municipal Affairs and Housing began a comprehensive review of the systems used in BC for financing the public costs of urban development with a view toward clarifying and standardizing various financing tools used by local governments. This review culminated in the publications, *Development Cost Charges Best Practices Guide* (revised October 2000), and the *Development Finance Choices Guide* (October 2000).<sup>3</sup>

## IV. Defining Sustainable Communities

While numerous definitions exist, the following principles describe the components of a sustainable community pattern:

- 1 compact, walkable neighbourhoods, wherein basic services, like schools, parks, transit and shops are within a five-minute walking distance from residents;
- 2 different dwelling types and densities in the same neighbourhood and even on the same street;
- 3 dwellings that present a friendly face to the street in order to promote social interaction and safety;
- 4 car storage and services are handled at the rear of dwellings;
- 5 interconnected street network, in a grid or modified grid pattern, to ensure a variety of itineraries and to disperse traffic congestion; and to provide public transit to connect the project with the surrounding region;
- 6 narrow streets shaded by rows of trees in order to save costs and to provide a greener, friendlier environment; and
- 7 preserved natural environment and natural drainage systems (in which storm water is held on the surface and permitted to seep naturally into the ground).<sup>4</sup>

## V. Location and Community Context

The primary factors affecting the infrastructure costs are the location of the development, the ability to utilize existing services, and the standard of new services. Many new developments are located outside existing urban cores and require new services to be constructed. For this reason, DCCs have often been heralded as a promoter of infill and more concentrated growth in existing urban areas where infrastructure networks are already in place. Rational economic logic would predict that developers will go where costs are lowest. However, in the lower mainland, this doesn’t seem to be the case.<sup>5</sup> For example, the City of Surrey imposes a DCC of over \$19,000 for a typical single-family residential unit (compared to approximately \$7,000 in the City of Burnaby, or \$10,000 in the City of New Westminster).<sup>6</sup> Regardless of this cost difference, in 1999, 43 percent of new urban residential development occurred in Surrey’s emerging urban areas,



**Left:**

*In many cases, small lots that use less land, generate less storm drainage and demand less transportation infrastructure (as shown on the far left) are generally charged the same levy that larger homes on much larger lots (as shown on the near left) are.*

which are located outside of the GVRD Growth Concentration Areas.<sup>7</sup>

It is the current recommended best practice in BC to base rates for road and storm drainage infrastructure on a city-wide average; that is, to apply DCCs equally to developments within a municipality with no distinction regarding location or development pattern.<sup>8</sup> However, it has been shown that smaller lot, more compact development has long term advantages over conventional large lot, sprawling development. Less infrastructure and land is required to service the same amount of population.<sup>9</sup> Moreover, studies show that more compact development within the context of mixed-land uses and an integrated street system can result in a 30 to 40 percent reduction in vehicle use per person.<sup>10</sup> In addition, costs for drainage infrastructure can also be reduced by combining usage of land for stormwater detention and parks as well as facilitating increased infiltration of stormwater volumes to the soil.

Yet despite these cost efficiencies, small lots that use less land, generate less storm drainage and demand less transportation infrastructure are generally charged the same levy as larger homes on much larger lots. And since building lots are sold as a commodity and since developers must extract the DCC out of the proceeds from the sale of the lot, it follows that they will favour the large lot over the small lot, since the DCC component of the cost for the small lot represents a proportionately larger share of the total. In addition, the current practice of charging DCCs for secondary suites on single-family lots creates further barriers to increasing land efficiency and neighbourhood diversity.

## **VI. No Incentive for Innovation**

An additional concern expressed by some is that since DCCs are a cost recovery mechanism for municipalities, and the total infrastructure capital costs of a development are borne by the developer through DCCs, there is no incentive (political or economic) for the municipality to encourage alternative, more cost-effective (both in the short and the long term) development practices or innovative infrastructure technologies. It is suggested that this is due in part to conventional infrastructure financing approaches, which are characterized by standardized servicing fees and impact assessment, which themselves are shaped by a supply-oriented logic. While this “predict and provide” model emphasizes government certainty and cost recovery of new infrastructure, it does not take into account wider environmental, social and economic limits to the capacities of infrastructure over the long term.<sup>11</sup> Recent transformations in governance and decision-making, together with a new focus on network efficiency, are bringing about more demand-oriented partnership approaches to infrastructure financing and management, particularly in the fields of transportation and utility servicing.<sup>12</sup>

## **VII. Conclusions and Recommendations**

As local governments have become increasingly dependent on DCCs to finance infrastructure investment, it is imperative that these wider benefits be included in the calculation. The above discussion suggests that significant benefit would result if DCCs were restructured to provide incentives for developing more sustainable communities, particularly in emerging urban areas.

- DCC rates should reflect the impacts of more compact, land efficient development patterns;
- DCCs should be charged on buildable area (i.e. square foot of lot or building) regardless of number of units provided; and
- Ways to better predict and isolate the real costs associated with more sustainable land development practices should be explored and incorporated into municipal infrastructure financing structures.

Notes:

<sup>1</sup> *Local Government Act*, Section 933 (2).

<sup>2</sup> *Local Government Act*, Section 934 (1). As a large part of urban growth is occurring in single-family areas in suburban areas, the DCC rates as applied to single-family dwellings are the primary focus of this discussion.

<sup>3</sup> See Ministry of Municipal Affairs and Housing, *Development Finance Choices Guide*, (Victoria British Columbia: Province of British Columbia; Ministry of Municipal Affairs and Housing, 2000. *Development Cost Charge Best Practice Guide*, (Victoria: Province of British Columbia, 2000).

<sup>4</sup> These principles are adapted from seven principles, approved by Surrey City Council, to be used as a basis for developing the East Clayton Neighbourhood Concept Plan, a model sustainable development in the City of Surrey.

<sup>5</sup> It is noted that there are a number of other factors such as market forces and land availability that affect decision-making around development investment.

<sup>6</sup> Ministry of Municipal Affairs, “Development Cost Charge Bylaws Approved,” (Victoria BC: Province of British Columbia Ministry of Municipal Affairs, March 2001).

<sup>7</sup> City of Surrey Corporate Report No. C014, November 6, 2000.

<sup>8</sup> *The Development Cost Charge Best Practices Guide* (2000) recommends that Road and Storm Drainage DCCs be established on a municipality-wide basis except where a significant disparity exists between those who pay the DCC and benefiting users, 17-18.

<sup>9</sup> Patrick Maza and Eben Fodor, *Taking its Toll: The Hidden Costs of Sprawl in Washington State*, (Seattle, Washington: Climate Solutions, 2000, 11); UBC James Taylor Chair in Landscape and Liveable Environments, “Technical Bulletin #2 – Two Alternative Site Development Standards Compared,” Vancouver, British Columbia: University of British Columbia, 2001).

<sup>10</sup> Criterion Engineers, Planners, *Benefits of Neotraditional Community Development*, (Coquitlam, BC: City of Coquitlam, 1996, 18); UBC James Taylor Chair in Landscape and Liveable Environments, “Technical Bulletin #8: - East Clayton Neighbourhood Concept Plan, Environmental Benefits,” (Vancouver, British Columbia: University of British Columbia, 2001).

<sup>11</sup> Marvin, Simon and Guy, Simon, 1997, “Infrastructure Provision, Development Processes and the Co-production of Environmental Value” in *Urban Studies*, Vol. 34, No. 12.

<sup>12</sup> Owens, S., 1995, “From Predict and Provide to Predict and Prevent?: Pricing and Planning” in *Transport Policy*, 2.

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