

## **Development Charges and Economic Development**

### **Summary**

This report is to provide additional information and background from an Economic Development perspective in support of the Development Charges and Strategic Alternatives report requested by the Finance and Administration Committee on March 26, 2019.

Generally speaking, the success of economic development is determined by striking an effective balance between attracting new investment and cultivating and expanding existing businesses. Greater Sudbury has the competitive advantage of having a clear economic driver—the mining and mining supply & services sectors—plus an innovation story that crosses multiple sectors. From an investment attraction point of view, this combination provides a solid foundation for attracting new businesses, and can be a key competitive advantage in a global investment attraction marketplace crowded with countless local, regional and national jurisdictions, many of which are not as well-equipped as Greater Sudbury.

Businesses and investors must consider many factors when making decisions about where to locate, including available talent, education levels, quality of life, supply chain & infrastructure, transportation, market access, operating and start-up costs, access to capital, business risks and support from local government and community. Development Charges are one factor in this larger picture, and research has indicated that in and of themselves, DCs are not generally an obstacle to a business's final decision on investment.

### **1. Association of Municipalities of Ontario (AMO) Briefing Note Relating to DCs Impacting Economic Development**

Staff reviewed a briefing note prepared in 2013 by AMO (Association of Municipalities of Ontario) that outlines research compiled by the Association in response to concerns raised by stakeholders regarding development charges. These concerns suggested that:

- DCs are perceived as “high” because municipalities provide services at “gold plated” service levels that were not provided to existing residents.
- Residential DCs can increase the price of some kinds of housing.
- Non-residential and industrial DCs can make municipalities less economically competitive than they would be without DCs.
- Some growth-related capital should be paid for through property taxes

Listed below are key statements taken directly from the AMO briefing memo that are relevant to the review of DCs and impact on housing, development in our community and building construction costs. A link to the full document is included in the References listed at the end of the report.

- “Many factors influence the cost of housing. Land costs (supply and demand), construction costs, housing demand by type, real interest rates, availability of mortgage financing, speculation, income levels, consumer confidence, government regulations and broader economic conditions can all be significant drivers of house prices. One study that looked at a broad range of factors driving housing costs concluded that development charges represent a minor component of overall housing costs when compared to land and construction costs.”

- “Many factors influence the affordability of new housing; it is not productive to isolate DC rates from the larger context of the economy, housing market and other influences on affordability.”
- “There does not appear to be any correlation between industrial construction activity and the development charge. An examination of the cost of land in selected municipalities does not seem to suggest any relationship to the development charge amount. The information gathered thus far would suggest that there is no correlation between the amount of development charges and location decisions.”
- “Statistical analyses have not identified any clear and direct linkage between the level of development charges and construction activity for non-residential development....Development charges are part of the overall project cost and locational decision, but rarely appear to be critical to the decision to locate in one municipality versus another. Each company’s decision is the result of an interplay of their own unique requirements, and market conditions...The municipality should consider its strengths and weaknesses with respect to the non-financial factors in competing municipalities (e.g. available well located serviced land, access to transportation, quality of life, cost and quality of labour), as these are often the most significant considerations in business location decisions.”
- “[T]he impact on location decisions is moderated by a number of more important criteria including: the relative location of customers, suppliers and employees, access to inter-regional expressways, local roads that can easily accommodate truck traffic, public transit access for employees, proximity to similar firms, attractive and visible sites, room for on-site expansion, and proximity to business services, restaurants and ancillary retail activities. The municipalities with lower development charges only benefit where there is a virtual saw-off among the other factors affecting industrial development decision making. Since development charges are a one-time charge they have little impact on the decision making of many industrial tenants except to the extent that the development charge may be capitalized in a tenant’s rent. The pattern of recent industrial development activity bears this out since some municipalities with high development charges have also high values of industrial building permits issued in recent years.”
- “There are costs of doing business in any community. If DCs were a major barrier, then we would expect to see higher rates of development in the communities that do not use DCs. The proposition that DCs could be a competitive disadvantage for a municipality can also be tested against non-residential building permit data for Ontario municipalities. The provincial Financial Information Return houses data on the number and value of building permits issued by municipality per year. Many municipalities with comparatively high non-residential charges issued many high value building permits for both residential and non-residential development in 2010. Brampton, for example, has the second highest charge in Peel Region and it has the fourth highest number of permits issued and third highest permit value in the Region.”
- “Overall, we could not find evidence indicating that current non-residential DCs are a barrier to economic development.”
- “The use of property taxes to fund growth-related capital was an issue the implementation of lot levies and DCs were meant to resolve. The adoption of DCs was intended, in part, to be an

improvement upon the old way of doing things, when growth-related infrastructure was paid for out of general municipal taxation revenues. The pre-lot levy regime was seen as unfair to existing ratepayers and other municipal rates. Unit purchasers in newly developed areas, on the other hand, choose to locate in newly developed areas in full view of the costs.”

- “American research has found impact fees (American version of DCs) to be more appropriate tools to fund growth –related capital than property taxes. Property tax revenues increasingly fail to cover the full costs of the infrastructure needed to service new development...Impact fees, like user fees, offer a more efficient way to pay for infrastructure than general taxes, and ensure benefits to those who pay them.”

## **2. What Makes the City Attractive to Invest In?**

Greater Sudbury is geographically the largest city in Ontario and the most populous in northern Ontario with over 160,000 residents. For more than 100 years, our economy has been rooted in the mining sector. Once dominated by operating mines and smelters, the sector has expanded to include the most dynamic mining supply and services cluster in the world, exporting Sudbury products, services and expertise. With an estimated 14,000 people employed in Greater Sudbury’s mining supply and services sector at more than 300 mining supply firms producing \$4 billion in annual activity, not to mention nine operating mines, two mills, two smelters and a nickel refinery, this city is arguably the hard rock mining capital of the world.

This is a community that understands and embraces mining and mineral processing, with more than 120 years of mining experience and significant talent in the field. Greater Sudbury has the expertise to ensure the smooth and efficient operations of the three global mining companies that call Greater Sudbury home – Glencore, KGHM, and Vale – collectively employing another 5,500 people.

The city is committed to environmental sustainability. Greater Sudbury is proud of its growing global reputation for environmental remediation and stewardship. The community continues to work in collaboration with the mining industry, government and academia to heal the landscape through longstanding greening efforts.

Greater Sudbury is ideally located. Centrally located just 390 km north of Toronto, the city is a one-hour flight or four hour drive. Sudbury is the only place in northern Ontario where the Canadian National Rail and Canadian Pacific Rail main lines converge.

Greater Sudbury is no longer simply a mining community. It is home to Health Sciences North (HSN), northern Ontario’s hub for health care. HSN is the city’s largest employer with 3,900 employees and 250 physicians, handling over 500,000 patient visits per year. It is home to leading regional programs in the areas of cardiac care, oncology, nephrology, trauma and rehabilitation, making us the health and life sciences capital of northern Ontario.

With outstanding post-secondary institutions including Laurentian University, Cambrian College and Collège Boréal, Greater Sudbury has matured as the educational capital of northern Ontario. Laurentian University is Ontario’s first designated bilingual university and the only one with a tri-culture mandate, home to the eastern campus of the Northern Ontario School of Medicine, the first school of architecture built in Canada in over 40 years, the Goodman School of Mines and the Bharti School of Engineering. Collège Boréal is the north’s only French-language community college and has six satellite campuses,

including Toronto. Cambrian College was recently named one of Canada's Top 50 Research Colleges, the only college in Northern Ontario to make the list. These institutions are providing training and education to more than 25,000 students, many of whom are moving here from communities across Ontario, Canada and, increasingly, from countries all over the world.

Greater Sudbury hosts the third largest French-speaking population in Canada outside of the province of Québec. A growing Indigenous population has elevated interest in traditions, values and creative expression; a complex ethnic mosaic representing every region of the world is embodied by the city's Bridge of Nations, with nearly 100 flags representing countries and nations that make up the diverse heritage and culture of our community.

Greater Sudbury is also the centre of retail activity for northeastern Ontario. In fact, the success of Sudbury's retail sector is a reflection of the city's historic position as a trading and service hub for the region. There are approximately 466,000 people living within a 160 km (100 mile) radius of Greater Sudbury. At the core of this retail hub is the city's retail nerve centre, the New Sudbury shopping district. This area encompasses the New Sudbury Centre, RioCan Centre, and the Silver Hills Centre. In total, this district includes close to 200 retail operations.

Complementing the hundreds of millions of dollars invested in Greater Sudbury since the late 1990s, the retail sector has continued to expand in New Sudbury in particular, with the establishment of such stores as Costco, Home Depot, Lowes, Best Buy and Chapters, to name just a few. Residents of communities up to 400 km outside of our area will visit Greater Sudbury due to these unique retail offerings. Investments such as these have served to solidify Greater Sudbury's position as the regional capital of northern Ontario. Greater Sudbury's retail sector is a shopping destination servicing an area that extends across the north east.

Tourism is an exciting part of the economy in Greater Sudbury with over one million visitors annually. Expansive and beautiful natural resources, including over 330 local lakes, along with world renowned attractions and vibrant arts and culture events draw guests to this region of Northern Ontario.

Film and Television productions also play an increasingly important role in local economic development, helping to attract more investment to the community annually. In 2018, Greater Sudbury attracted 15 productions, resulting in \$35 million in local spending and over 580 days of filming.

The wealth creation that will deliver jobs and economic prosperity for the city will come from the attraction and retention of entrepreneurs and businesses from elsewhere in Canada and internationally, and from the nurturing and development of startups and new businesses locally. Economic Development staff are working closely with other CGS departments in order to foster a more collaborative, holistic and team-based approach to attracting and supporting investment.

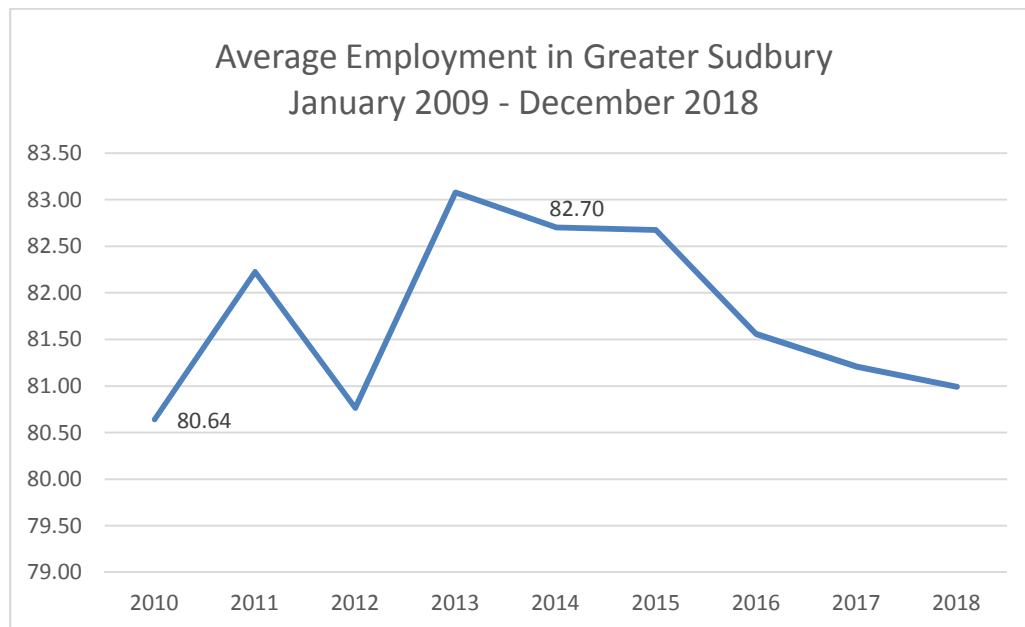
### **3. Past Economic Development Trends in the City**

According to information provided by the Regional Business Centre, 2018 saw the launch of 60 new businesses.

Over the past decade, the Greater Sudbury economy has seen a degree of fluctuation, which can be attributed to global economic forces as well as the cyclical nature of the mining industry. To offset the challenges of the commodities cycle, an increasing number of Sudbury-based mining supply and services

firms have been working to diversify their markets and reduce their dependency on local customers. This hard work has paid off in the form of increased export sales, which has contributed to employment growth.

As seen in the chart below, the number of people employed in Greater Sudbury has been in the range of approximately 81,000 to 83,000 in the last ten years.



*Statistics Canada. Table null Labour force characteristics by census metropolitan area, three-month moving average, seasonally adjusted and unadjusted, last 5 months (x 1,000)*

#### **4. Available Land for Future Development**

As part of the City's Official Plan Review process, a land supply analysis was undertaken in 2013 as part of a *Growth and Settlement Policy Discussion Paper*. This study found that there is a more than sufficient supply of draft approved and designated employment lands to meet the projected demand over the next 20 years. This supply included approximately 795 hectares of vacant designated industrial lands, 108 hectares of vacant designated commercial lands, 175 hectares of land in four draft approved industrial subdivisions and 160 hectares of vacant industrial lots. It should be noted that this analysis only included vacant properties and did not include expansion opportunities on existing developed properties.

#### **5. Do DCs Impact Economic Development?**

As noted previously, the Association of Municipalities of Ontario (AMO) published a report that looked at the effect of non-residential and industrial DC's and whether or not they can make municipalities less economically competitive than they would be without DCs.

The report determined that there is a lack of evidence indicating that current non-residential DC are a barrier to economic development. The report noted that a large body of literature has been devoted to investigating how firms make locational and business expansion decisions and the consensus is that factors such as the quality of services and infrastructure, access to transportation, quality of life, cost

and quality of labour among others, appear to be much more significant when firms make locational decisions. The report also noted that if DCs were a major barrier, then it would be expected that higher rates of development would be seen in communities that do not have DCs. It found that many municipalities with comparatively high non-residential DCs issued many high value building permits for both residential non-residential developments in 2010.

There is one example that staff is aware of where one business decided to invest in North Bay as opposed to Sudbury. In the fall of 2018, the Economic Development team was working to attract a steel fabrication firm to Sudbury, however they chose to establish in North Bay instead. In outreach to the company following this outcome, staff noted that

- The primary reasons cited for their decision were the lower cost of serviced industrial land in North Bay's municipally-owned industrial park, as well as lower labour costs.
- The cost of serviced M3 land in Greater Sudbury typically sells for \$275,000-\$350,000/acre, compared to serviced industrial land in the city-owned Airport Industrial Park at \$40,000 - \$60,000/acre in North Bay.
- The firm indicated that development charges were not a significant factor in the decision, but that they would have added to the already higher initial capital expenditures required to establish in Sudbury compared to North Bay.

Economic Development staff remain focused on attracting investment to Greater Sudbury with particular focus on the Industrial, Commercial and Institutional development sector, and continue to reach out to the development community and monitor the research available to support.

## **Conclusion**

Businesses and investors must consider many factors when making decisions about where to locate. While Development Charges remain an important factor in the decision making process for investment, research indicates that they are not generally seen as the final determinant in business location and investment decisions.

## **References**

Association of Municipalities of Ontario (AMO), *Dispelling Development Charge Myths and Misconceptions*.

<https://www.amo.on.ca/AMO-PDFs/Reports/2013/2013-Development-Charges-Myths-and-Misconceptions.aspx>

City of Greater Sudbury Community Development Corporation, *From the Ground Up 2015-2025*.

<https://investsudbury.ca/investsudbury/assets/File/ftgu.pdf>

Proposed Changes to the City's Development Charges By-law and Rates, Finance and Administration Committee, March 26<sup>th</sup>, 2019.

<https://agendasonline.greatersudbury.ca/index.cfm?pg=feed&action=file&agenda=report&itemid=2&id=1365>