

MUNICIPAL INFRASTRUCTURE & OPERATIONS

When a new residential development (or industrial or commercial development) is built on the fringes of a municipality, a variety of new infrastructure investments are required. Some of these infrastructure costs are covered by the developers and are then passed on to buyers. Developers can cover costs directly (sometimes termed “in-kind”) or indirectly (by paying development charges to the municipality). However, many of the costs are left to the municipal government, which translates into higher property taxes and other taxes across the entire municipality. To the extent that federal or provincial grants cover some costs, they are passed along to an even wider set of taxpayers.

In Edmonton, for example, developers pay for sewers, underground electrical cables, roads and sidewalks, water mains and a handful of other costs.²¹ The City and its taxpayers pick up the rest of the infrastructure costs, including fire and police stations, portions of arterial roads, recreation facilities, transit centres and libraries. In addition, the City covers all operating costs – including transit, refuse collection, snow clearing, drainage, and police and fire protection. Finally, and importantly, the City covers the costs of all infrastructure maintenance, repair and renewal. Edmonton is not alone in covering many of the current and future costs of new suburban developments.

The net cost to a municipality can be quite high. In the Edmonton example, it appears the cost to the City of new suburban developments will exceed revenues from those new developments. Across just 17 of the more than 40 new developments underway or planned in Edmonton, net costs have been projected to exceed revenues by nearly \$4 billion over 60 years.²² The City has not published data on what the other twenty-plus planned developments will cost taxpayers.

Certainly, the problem of new developments causing net financial losses is not confined to the City of Edmonton. Other municipalities and regions are becoming more aware of the same problem. For instance, the Region of Peel recently doubled its development charges after determining that new development was not paying for itself.²³ “Staff has given us all kinds of financial statements proving that development is not paying its way,” said Mississauga Mayor Hazel McCallion. “It’s not my opinion here. The facts are on the books. We are going into debt in a big way in the Region of Peel.”²⁴

Of course, development that takes place in any part of a city can entail costs to a municipal government. However, in established areas, much or all of the required infrastructure already exists, and so redevelopment and infill development typically entail significantly lower (sometimes zero) municipal capital spending. Sprawling suburban development, on the other hand, requires new infrastructure and thus new capital spending.

This results in a city being responsible for a larger stock of infrastructure, which means higher maintenance and renewal costs in the future. Roads eventually crack and develop potholes, sidewalks crumble, and pipes decay and begin to leak. Repair and maintenance costs rise to the point where it makes financial sense to replace the aged infrastructure. This happens a few decades after the infrastructure is put in place. Turning back to the Edmonton example, the cost of the 17 developments is projected to exceed revenues in each and every year. However, the net loss to the City is projected to rise dramatically 30 years after initial construction, increasing by five-fold.²⁵

Other cities have found similar results. In 2005, Halifax Regional Municipality (HRM) estimated the cost of services for a range of development densities.²⁶ HRM found that on a per-household basis, the costs of the lowest-density development were more than three times higher than high-density urban development. The costs of many key infrastructure elements are related to distances covered (longer pipes and, particularly, roads cost more than shorter ones).

HRM subsequently adopted a regional plan that set a goal to have 25% of growth take place in urban areas. The existing trend was 16%. HRM recently commissioned another study to determine the net financial savings that could be obtained by meeting the goal of the plan, and by exceeding it (using 40% and 50% urban growth scenarios). The study concluded that HRM could save nearly \$66 million by 2031 through achieving its urban densification goal, and \$715 million by achieving the 50% urban growth scenario.²⁷ Note that such a short timeline (22 years) would exclude the substantial infrastructure renewal costs; the savings from higher density likely would be much larger in the longer term.

**TABLE 2 – HALIFAX REGIONAL MUNICIPALITY
PROJECTED SAVINGS DUE TO URBAN DENSITY²⁸**

REGIONAL GROWTH – URBAN FRACTION	NET SAVINGS 2009-2031
16% (Trend)	0
25% (Goal)	\$66 million
40% (Scenario A)	\$337 million
50% (Scenario B)	\$715 million

Calgary undertook a similar study, with similar findings. It compared the capital costs of new infrastructure for existing patterns of development against those of a denser growth pattern recommended in the Plan It Calgary process. The recommended pattern, which would use 25% less land, would be 33% less expensive to build – resulting in a savings to the City of more than \$11 billion in capital costs alone. Operating costs were also much lower for the denser growth pattern; at the 60-year point, the savings would be on the order of \$130 million per year.²⁹

The City of London found that over a 50-year period sprawling growth would entail capital costs \$2.7 billion higher, and operating costs about \$1.7 billion higher, than for a compact growth scenario.³⁰

These municipal losses amount to an extra subsidy to new suburban development. The financial cost of that subsidy is enormous, and puts a strain on municipal budgets – a strain that will grow larger in future years.³¹

DATA ON MUNICIPAL COSTS

Generating this type of data on the municipal costs of sprawl can be transformative to how municipalities look at growth. For example, some Edmonton city councillors are now openly questioning whether further developments should be approved in the absence of cost-benefit analyses.

Obtaining data on whether a new development is going to make money or lose money for a city is good business-like management. Indeed, it raises the question of why such decisions were ever made *without* the relevant data. Very few businesses make significant decisions without assessing both the benefits and the costs.

For many municipalities considering reining in sprawl, the objection often voiced has been “if we don’t approve it, the next municipality over will get all that development and all the property taxes that go with it.” This may be true; it is also true that the next municipality over will also get a lot of costs – perhaps billions of dollars more than revenues.

The Federation of Canadian Municipalities (FCM) has consistently drawn attention to the fiscal challenges facing cities, particularly infrastructure management costs. FCM is surveying its members in an effort to determine how many municipalities have data on whether new suburban developments yield net revenues or net costs. Some municipalities are collecting this data, but not all have done so.³²