

# Intelligence MEMOS



From: Andrew Sancton  
To: Canadian Housing Watchers  
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Re: **PUTTING A LID ON DEVELOPMENT CHARGES**

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“Growth should pay for growth.” This slogan – the common justification for development charges – is rarely challenged in municipal circles.

Development charges evolved from post-1945 subdivision agreements and were initially accepted by most developers as a mechanism for enhancing the likelihood that current residents in a municipality would agree to new development.

But now they add as much as \$135,000 to the cost of a new house in some parts of the Greater Toronto Area. If we wish to lower the cost of housing in our prosperous cities, we must consider reverting to the past practice of having all municipal taxpayers pay for new infrastructure associated with development. Such a policy – still largely in place in metropolitan Montreal – would lead to increased levels of municipal borrowing and modest increases in property taxes, unless new revenue sources were made available to municipalities.

Although development charges are levied on developers, they are really paid by the purchasers of new buildings. There are some circumstances in which this might not be the case, but these circumstances do not apply in most parts of urban Ontario where the charges are the highest.

Development charges are levied on the alleged costs of the new municipal infrastructure that is required by the new development. Such infrastructure is typically outside the boundaries of a new subdivision; local streets and underground pipes within the subdivision are built by the developer and their cost is included in the price of a new house.

Is it fair that owners of new buildings pay development charges when owners of older homes and buildings pay nothing when infrastructure is rebuilt in their neighbourhoods?

To make matters worse, owners of established properties even benefit slightly from the higher housing prices caused by the existence of the development charges in new neighbourhoods.

As I [detailed](#) in a recent paper published online in *Canadian Planning and Policy*, the case for development charges is based on the assumption that there is an obvious distinction between new infrastructure required by new development and other forms of new or rebuilt infrastructure.

But in fact, all municipal property owners ultimately benefit from all new infrastructure outside a subdivision or new development, including the infrastructure typically built with excess capacity to allow for even more growth.

In small suburban municipalities (mainly in the US) development charges might still be a useful mechanism for convincing existing taxpayers to agree to new development on vacant land. In Ontario, however, such municipalities no longer exist.

And unlike US states, provincial governments have ample regulatory tools to ensure that new development cannot be held up indefinitely by the forces of NIMBYism. In Canada, especially in Ontario, development charges are simply a mechanism for raising municipal revenue – and a most unfair one at that.

Development charges are usually financed by the purchasers of new houses or buildings who will borrow the funds through their mortgages, and therefore pay back their cost over time. Municipalities get the money even before any supposed beneficiaries are benefiting.

Municipalities are also divesting themselves of any risk that results from paying for excess capacity in infrastructure that might not be needed in the future if projected growth does not materialize.

Instead, individual homeowners absorb this risk in the form of their mortgage debt repayment obligation. For municipalities, development charges pull the costs of future use of infrastructure and facilities into the present instead of spreading them out over time. At the same time, they transfer financial risk to the new homeowners, who borrow at higher rates of interest than those available to municipalities.

What would happen to property taxes if development charges were eliminated? In the current uncertain environment around interest rates, it is difficult to make accurate predictions. What is certain, however, is that purchasers of new homes face even more uncertainty than municipal governments do.

Fixed-term home mortgages in Canada rarely guarantee interest rates for a period beyond five years. Municipalities routinely borrow at fixed interest rates for terms of 20 years and more. The potential abolition of development charges would require changes in municipal financial practices and probably in provincial legislation about municipal borrowing.

More serious problems from immediate elimination would result from the fact that it would be unfair to those who have paid hefty development charges in the past.

Municipalities have stumbled into this situation, and it will not be easy to get out, even if we want to. We need to know more about how growing municipalities – such as those in the Montreal area – manage to get along without development charges.

Such charges seem to survive in Ontario only because so few established interests object to them. But they do not work in theory, and this should be of concern to us all, not just academics.

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