Aide-Memoire

TEN REASONS WHY DEVELOPMENT COST CHARGES ARE POOR PUBLIC POLICY

For the past decade or more, municipal governments in several provinces across Canada have been using a form of tax on new home buyers known as “development cost charges”, “development charges”, “offsite levies”, “servicing agreement fees”, or similar terms.

The declared purpose of these charges, which are paid by developers on behalf of new home buyers, is to fund offsite infrastructure that is linked in some direct way to new residential and other types of developments. The range of infrastructure types so funded varies by province. It usually includes sewage treatment plants, water treatment plants, highway interchanges, bridges, fire halls, and some transit services. All of this infrastructure typically lies outside of the boundaries of new developments for which they are being paid. In recent years, the trend has been toward fewer and fewer direct connections between off-site infrastructure effectively paid for by new home buyers and specific projects that might benefit them.

In Ontario and British Columbia, such municipal development charges are regulated by specific provincial legislation. In other provinces, they tend to fall within general municipal powers granted via Municipal Government Acts.

Residential developers and new home builders have had little alternative to paying these charges on behalf of new home buyers and to negotiating with municipalities about their level and scope of application. However, the industry has never accepted that they were sound public policy. This short paper outlines, based on extensive third-party research, why this is so.

Arguments against development charges as defensible public policy fall into three main categories, representing the perspectives of three major groups directly affected by development charges:

- New and especially first-time home buyers;
- Day-to-day users of infrastructure throughout the community;
- Residents interested in securing long-term benefits associated with community growth and prosperity.

#1 Development charges increase the cost of housing by as much as 20 percent and reduce affordability. They are added to the base price of new housing and borne by new home buyers in their mortgages, meaning that those facing the highest current interest rates must bear them. Application of these charges also generates added legal and administrative costs that must be passed on to consumers.

 # 2 Development charges impose the full up-front construction costs of municipal assets with life-cycles of up to 50 years on buyers of new homes, who may use them for only a few years or less, if they use them at all. This is unfair and may also lead municipalities to underfund long-term asset management and maintenance.

#3 Development charges impose the costs of creating infrastructure assets that clearly benefit the whole community on a small minority of residents. This is unfair and arguably leads to misallocation and management of municipal infrastructure resources as whole.

#4 Development charges contribute to "infrastructure deficits" by perpetuating the practice of "pay-as-you-go" financing, rather than comprehensive low-cost loan financing that covers the full life-cycle of infrastructure assets.

#5 Development charges are not geared to actual user consumption of services based on the infrastructure provided, and thus have perverse environmental impacts.

#6 Development charges contribute to what some urban planning critics call "urban sprawl", i.e., spread-out low-density development, because they are usually based on flat amounts per dwelling rather than measurable use dwellings make of land and infrastructure.

#7 Development charges lead to municipal dependence on a source of funds that fluctuates annually in relation to housing production cycles and is not predictable for forward budget-planning and financial management purposes.

#8 Development charges put overall community prosperity at risk by reducing housing affordability and choice, and driving away both potential investors and newcomers to the community.

#9 Development charges are an inappropriate policy tool for addressing the challenges of the future. An aging population and other fundamental changes in housing markets are driving more residential development into existing areas of cities, many of which already have infrastructure and related services.

 # 10 Development charges contribute to weakened municipal government accountability and lack of transparency. They are often not properly tracked and may then be used for purposes other than those originally committed.

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