An Independent Study Funded by

RESIDENTIAL AND
CIVIL
CONSTRUCTION
ALLIANCE OF
ONTARIO

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Constructing Ontario's Future

ALTERNATIVES TO DEVELOPMENT CHARGES FOR GROWTH-RELATED CAPITAL COSTS

Version 2

ALTERNATIVES TO **DEVELOPMENT CHARGES** FOR **GROWTH-RELATED CAPITAL COSTS**

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An Independent Study Commissioned by the
Residential and Civil Construction Alliance of Ontario

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Executive Summary

The purpose of this report is to identify and consider the impact of the application of development charges and to identify alternatives to using them to finance growth-related capital costs. The application of these charges was clarified with the passage of the 1989 *Development Charges Act*. Since this time the quantum of development charges has increased significantly to the point where they are $30,000 to $50,000 per single family home in high growth municipalities surrounding Toronto. This upward pressure on development charge revenue is a result of fiscal pressure that municipalities face due to reduction in funding from senior levels of government. The magnitude of development charges in the Greater Toronto Area (GTA) is of concern because:

- These increases put upward pressure on the price of housing and this trend ultimately diminishes housing affordability for more and more prospective purchasers, and
- The charges can have an impact on economic development and ultimately the potential for employment growth in the GTA.

Consequently, the report documents the increase in development charges in the GTA over the past twenty years and compares them to the approaches and quantum in other North American jurisdictions. In addition to discussing the two issues identified above, the report examines the impacts on other urban policy issues and provides examples in the City of Toronto and in Halton Region.

As concerns about the impacts are reviewed, the report identifies and discusses several alternative methods of financing growth-related capital costs. It then draws conclusions about the potential for using these alternatives.

Historical Increases in Development Charges

The report tracks the increase in development charges in the Toronto area since the early 1990s. The data provided by the development industry, the Urban Development Institute (UDI), and the Building Industry and Land Development Association (BILD) demonstrate that once the 1997 Act was passed, single family housing development charges did not increase much and, in fact, in some cases decreased over the 1994 levels. This was a result of the changes in the calculation of the charges that was required in the new Act. The period between 1998 and 2002 showed steady increases with more dramatic increases occurring from 2002 to 2010. The highest development charge recorded for single family housing in 2010 was $50,485.

Development Charge Regimes in Other Jurisdictions

In examining the use of development charge type tools in Canada, it is only British Columbia that has legislation and applications that are as comprehensive and similar to Ontario. However, the quantum of development charges is significantly lower in British Columbia's major cities with the exception of the City of Surrey. Other provinces such as Alberta and Nova Scotia have very limited applications. Fees in Calgary and Edmonton are less than $8,000 per unit. Although Nova Scotia has had legislation in place since 1998, to date development charges have been applied only in the Halifax Regional Municipality.

In the United States, the application of development charges, ("impact fees" is the American term), has had the most extensive use in high growth states such as California and Florida. A 2009 national survey calculated that average impact fee for single family homes was $8,328. The state with the highest average fee is California, $21,648, followed by Florida with an average of $8,974. The difference in the magnitude of the charge between other jurisdictions and the Toronto area suggests that alternative revenue sources are used in other jurisdictions to finance growth-related capital costs.

Method of Calculation

In terms of the method used to calculate the quantum of the charges there have been three main issues that have been a point of contention between the industry and municipalities. These are the range of services to be included in the charge; the service standard that is to be applied in calculating the charge; and the attribution of benefits by type and location of development, and between new and existing residents. In recent years there has also been contention between municipalities and the industry due to new types of calculations and charges that have the impact of increasing development charge type contributions and consequently the cost of development. These approaches include the use by consultants of the "gross population" method of calculation, and attempts to impose additional charges to compensate for the 10 per cent reduction for the benefit of new facilities that is deemed to benefit existing residents. These approaches have been challenged and in some cases the outcome of their application is still uncertain.

Impacts of Increasing Charges

Policy analysts need to understand the impacts of increasing development charges upon urban markets, especially the housing market. This section summarizes the literature on the incidence of development charges. By understanding the incidence of this charge, we gain a clearer understanding about the impact of development charges on housing prices and affordability. The literature indicates that whether you analyze the incidence using the traditional or the new view of incidence, development charges put upward pressure on housing prices.

Examples are provided in two jurisdictions, Toronto and Halton, where large increases or high charges have potential impacts on the markets and other policy initiatives.

Development Charges and Other Urban Policy Objectives

The application of development charges represents a form of fiscal policy that is applied by municipalities. It is an attempt to have growth pay for growth-related capital costs.

As this fiscal policy is advocated and pursued, it is important to understand and assess the impact of these fiscal decisions on other municipal policy sectors. These sectors include affordable housing, economic development objectives, and the impact on land-use planning objectives and policies. It is also important to be mindful of the importance of the housing sector to the economy in terms of contributing to economic growth and jobs.

The first point to understand is the importance of the housing sector to both the local and national economy in terms of both job creation and the multiplier effect in terms of stimulating the economy. Clearly, housing construction is an important economic driver in the economy. This section of the report addresses the relationship of development charges to the above-noted policy areas, as well giving consideration to the compounding impacts of development charge policy on the range of municipal policy concerns. Policy makers and analysts need to give careful consideration to the interrelated impacts when they make policy recommendations.

Analysis of Alternative Revenue Sources

Given the dramatic increases in development charges and the potential for these high charges to have adverse effects on other municipal policy objectives, it is useful to consider alternative funding mechanisms for all or part of the capital cost of services that are currently funded though development charge revenue. This report considers the following alternatives:

- Enhanced transfers from senior levels of government,
- Shifting charges to the property taxes for "people-related" services,
- Using full cost user charge pricing,
- Land value capture techniques.

Each of the above alternatives has strengths and weaknesses in terms of its potential to replace development charge revenues. None of the alternatives are complete substitutes for development charges, but have the potential to be applied in specific ways for specific types of services.

Conclusions and Recommendations

Development charges are imposed across many municipalities in Ontario, but particularly in the GTA, they have been increasing at dramatic rates over the past 10 to 20 years. In part this is because greater financial responsibility has been placed on municipalities by the provincial government. Municipalities, in turn, have tended to view increases in development charges as more politically acceptable as opposed to other revenue sources such as property taxes.

Municipalities tend to desire to maximize revenues from this source because they have low political costs. They are an indirect and hidden charge that often impact on purchasers who are new residents to the community. However, what might not always be considered is that the current application and magnitudes also have the ability to work at cross purposes to other municipal policy objectives.

Consequently, consideration should be given to using the financing alternatives identified to mitigate the impacts on increasing development charges. However, the application of these alternatives requires political will and understanding on the part of municipal policy analysts as well as the need for new senior government initiatives, regulations, and legislation.

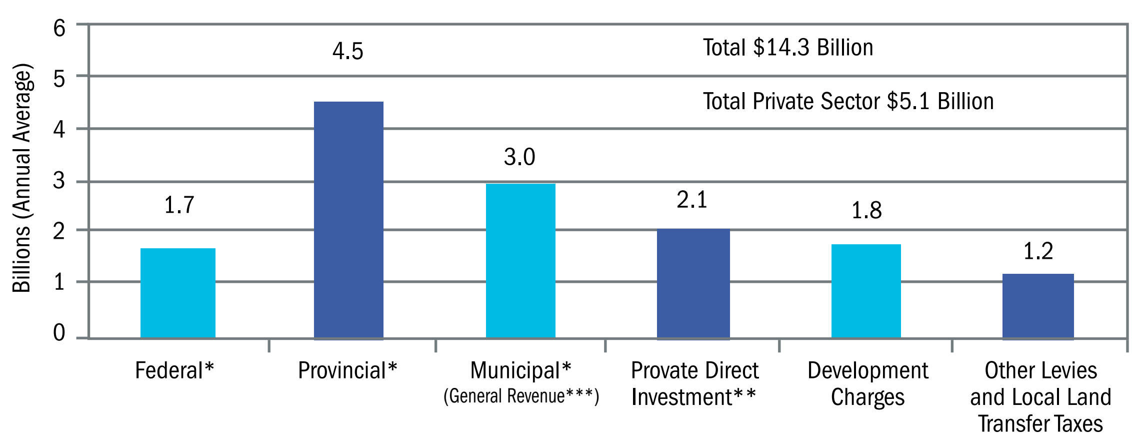
1.0 Introduction

Over the past fifty years there has been tremendous growth and development in the Greater Golden Horseshoe (a densely populated and industrialized region centred around the GTA at the western end of Lake Ontario, with outer boundaries stretching south to Lake Erie and north to Georgian Bay) in both the housing and employment sectors. Both sectors are necessary for healthy growth and development. Some planning documents claim that both types of growth and development should take place within defined growth centres or areas. This kind of growth was an objective in the first Provincial attempt at regional planning for the area surrounding Toronto in 1970, Design for Development, and it is embodied in the current growth plan for the Greater Golden Horseshoe, Places to Grow.

During this period, increasing financial responsibility has been placed on developers and builders in terms of paying for growth-related infrastructure. This has included "in-kind" contributions via subdivision agreements requiring the installation of all internal, and some outside the boundary improvements, at municipal standards. These financial regulations were later extended to require contributions to the cost of off-site growth-related capital costs. These contributions were known as municipal imposts, lot levies, and development charges.[1] With the passing of Provincial legislation in 1989, the contributions began to be referred to as development charges. [2] More recently, there have been increases in other fees and taxes in the development industry. It all adds up to increases in costs which have put upward pressure on housing prices.[3]

This report focuses on development charges as they represent a significant cost component of the charges, fees, and taxes, and the development charges have been increasing at a dramatic rate. Also, in Ontario development charges represent the largest contribution in many municipalities to growth-related infrastructure costs. For example, Figure 1 shows that basic urban infrastructure investment in Canada in 2005-2006 was $5.1 billion—greater than the contribution of any single level of government in Canada.

Figure 1: Basic Urban Infrastructure Investment by Funding Source, 2005 - 2006



Notes: *Net of Transfers. **On-site infrastructure to be transferred to municipalities. ***Including water and sewer charges

Source: Altus Group, "The Time is Right for Alternatives to Development Charges" 2009. Altus Group Economic Consulting based on data from Fixed Capital Flows and Stocks (Cansim 031-0002), Transfer payments by Infrastructure Canada (Public Accounts of Canada) and National Accounts (Cansim 385-0024 NS 385-0002), and consultation with StatCan staff.

In recent years, there has been a tendency for municipalities to try to increase development charges to the greatest extent possible. To a certain extent, this is understandable. Municipalities have faced increased fiscal pressures due to a number of factors, including reductions in senior government grants. These recommendations to increase development charges tend to come from the chief administrative officers, finance departments, and politicians, often without giving due consideration to other policy objectives, or the unintended impacts of the increase in development charges.

Increasing development charges is an easy choice for municipal politicians. While charges imposed on the development building industry are passed along to or impact new home owners, most of these prospective owners are not currently part of the local political constituency. Furthermore, development charges are an indirect charge typically embedded in the total purchase price, so many new homeowners are not aware of the degree to which they may bear the burden of these charges. Municipal policy makers need to broadly examine the impacts of the current charges and consider alternatives to their structure and application, as well as alternative ways to finance some of the infrastructure currently financed by development charges.

These challenges lead to two concerns: first, the impact on the increase in house prices and ultimately affordability of housing; and second, the impact on economic development and consequently employment. The degree to which increased charges impact increasing house prices depends on how the burden (incidence) of the charge is shifted once it is paid by the developer/builder. There are several approaches that economists use to analyze the incidence question. Regardless of the applied analysis, there clearly is upward pressure on house prices.

There are two potential impacts on economic: direct and indirect. The direct impact relates to the non-residential development charge imposed on new employment land developments. The imposition of these charges may have an impact on location choice for employers, and consequently relatively high development charges may put a municipality at a comparative disadvantage to attract non-residential development. This not only leads to a loss of employment opportunities for local residents, but also a loss of potential non-residential assessment to the municipality.

The indirect impact is that with higher house prices, especially in those jurisdictions that have the highest development charges, there will be a lack of affordable housing. Consequently, there will not be an available workforce to work in lower paying service sector office and factory type jobs, and employers are not likely to choose to locate their facilities in areas where an appropriate labour force does not exist. This may upset the planning objectives to have a balance of jobs and housing within a community.

This report reviews the increases in the quantum of development charges, examining the structure of the charges and the calculation of the development charge. The report first examines the growth in the quantum of development charges in Ontario and compares them to other jurisdictions (Canada and elsewhere). Secondly, it will discuss the issues that have persisted since the early application of these charges regarding the calculation method. The next section will comment on the use and transparency of the revenue collected from development charges. The following section will discuss several current examples where municipalities have proposed significant increases in development charges. This analysis is continued in the next section by discussing the application of development charges in relation to other urban policy objectives. Potential alternatives to pay for growth-related capital costs will be discussed in the next section to demonstrate that there are some viable alternatives that may be considered. They should be considered when the current charges have negative impacts on other urban policy objectives. Finally, conclusions and suggestions are made to address some of the relevant issues related to the current application of development charges.

2.0 Historical Increases in Development Charges

The purpose of this section is to track the historical increase in development charges in Ontario. Historical data has been obtained for development charges applied in the GTA for several points in time since the inception of the first *Development Charges Act* in 1989. The data are presented for all of the municipalities and regions that comprise the GTA for the following years: 1994, 1999, 2002, and 2010. This data is based on a survey by the Ontario Home Builders' Association in 1994, reports by the UDI reports in 1999 and 2002; and BILD data for 2010 (see Appendix A).

Since the passing of the development charge legislation in 1989, significant changes in development charges have taken place in five-year intervals (the Act permits development charge by-laws to be in force for a five-year period, after which a further review and justification study is required). In the interim, charges are permitted to increase according to an inflation index that is included in the by-law.

Two key events triggered significant changes in the application and hence quantum of development charges. The first was with the initial approval of the *Development Charges Act* legislation in 1989. The second was the amendment of the *Development Charges Act* legislation in 1997. The first Act signalled to municipalities that the application of development charges had a legal basis. It provided a methodology by which the quantum of the charge could be calculated, and the method put upward pressure on the quantum of the charge. The method permitted the charge to be based on all growth-related capital costs and that the service standard was based on the highest standard that existed over the previous ten years. This approach had not been the practice in all jurisdictions prior to the Act. However, as the method was now clearly permitted by the legislation many municipalities raised their development charges to the level of the permitted standard.

The passing of the 1997amendments to the Development Charge Act led to some alterations in the calculation of development charges. As described in detail below, the range of capital facilities that can be included was reduced and the Act required that there be a reduction by 10 per cent in the some capital costs that included reflecting the benefit to existing residents. Finally, the service standard to be applied to projected costs is limited to the average level over the previous ten years, rather than the previous standard of the maximum standard over the previous ten years.

Appendix A records data for 1994 which reflects the charges undertaken in response to the first incarnation of the Development Charge Act, data for 1998 which generally charges established after the new version of the Act in 1997, charges for 2002 that generally reflects new charges after the post 1997 by-laws expired, and 2009 data that generally reflect the most recently adopted by-laws.

The most recent data indicate that the highest development charges exist in Halton Region where the combined charge for single family detached units in Oakville is $50,454. Figure 2 provides a summary of the total development charge and breakdown of the component for each municipality in the Greater Toronto Area for 2010.

Figure 2: Total Development Charges for Single/Semis 2010

Region	Regional DC	Educational DC	GO Transit DC	Local Municipality	Local Charge	Total Charge
HALTON REGION	$29,118.01	$2,576.00	$970.15	City of Burlington	$7,517.00	$40,181.16
				Town of Halton Hills	$13,388.17	$46,052.33
				Town of Milton	$10,735.00	$43,399.16
				Town of Oakville	$17,821.00	$50,485.16
DURHAM REGION	$17,887	$1,964	$610	Oshawa	$6,751	$27,212
				Clarington	$14,143	$34,604
				Ajax	$11,340	$31,801
				Pickering	$9,694	$30,155
				Whitby	$10,412	$30,873
				Brock	$12,853	$33,314
				Scugog	$11,905	$32,366
				Uxbridge	$10,692	$31,153
PEEL REGION	$16,696.30	$1,759.00	$446.09	City of Brampton	$21,279.51	$40,180.90
				City of Mississauga	$15,709.43	$34,610.82
				Town of Caledon	$18,240.04	$37,141.43
YORK REGION	$25,875.00	$2,020.00	$306.00	City of Vaughan	$13,044.00	$41,245.00
				Town of Richmond Hill	$11,433.00	$39,634.00
				Town of Markham	$18,256.00	$46,457.00
				Town of Aurora	$14,670.00	$42,871.00
				Town of Georgina	$4,370.00	$32,571.00
				Township of King	$11,138.00	$39,339.00
				Town of Whitchurch-Stouffville	$11,549.00	$39,750.00
				Newmarket	$13,327.00	$41,528.00
				Town of East Gwillimbury	$10,822.00	$39,023.00
City of Toronto	$ -	$544.00	$ -		$11,737.00	$12,281.00

The following represents a summary of the findings for the Regional Municipalities of Halton, Peel, York, and Durham (the 905 region):

- The UDI review of *total* government charges associated with new residential construction (taxes, fees and charges) paid by a first time homebuyer in 1999 represented at least 22 per cent of the cost of a new home. In 2002, total government charges grew to represent at least 25 per cent of the cost of a new home; equating to not less than $44,000 for a home in each regional municipality.
- Local and regional development charges represented the greatest component of this basket of government charges for Halton, Peel, York and Durham Region in 1999 and 2002.
- The UDI reported that development charges made up at least 58 per cent of the total regional charges in 1999 and that by 2002, development charges made up at least 87 per cent of total regional charges (as shown in Appendix A). This increase can be attributed to the introduction of GO Transit development charges in 2001 in the 905 regional municipalities.

Halton Region

A longitudinal comparison of regional development charges for **Halton Region**, as shown in Figures 3 and 4, is complicated by a previously fragmented calculation method; charges were formerly applied to different areas of development (urban versus rural) within the Region and were only recently consolidated into a standard regional charge. A comparison between the urban charge and rural charge applied region-wide in 2002 with the consolidated regional development charge applied in 2010 reveals a dramatic increase across all residential categories. For instance, the regional rate increased between from $21,532 to $25,923 for singles/semis during this period.

Figure 4 shows how large the percentage increase in development charges has been for the governments that comprise Halton region compared to both the consumer price index and the rate of increase in housing prices for the Toronto area.

Figure 3: Residential DC Rates (Singles/Semis): Halton Region 1994-2010

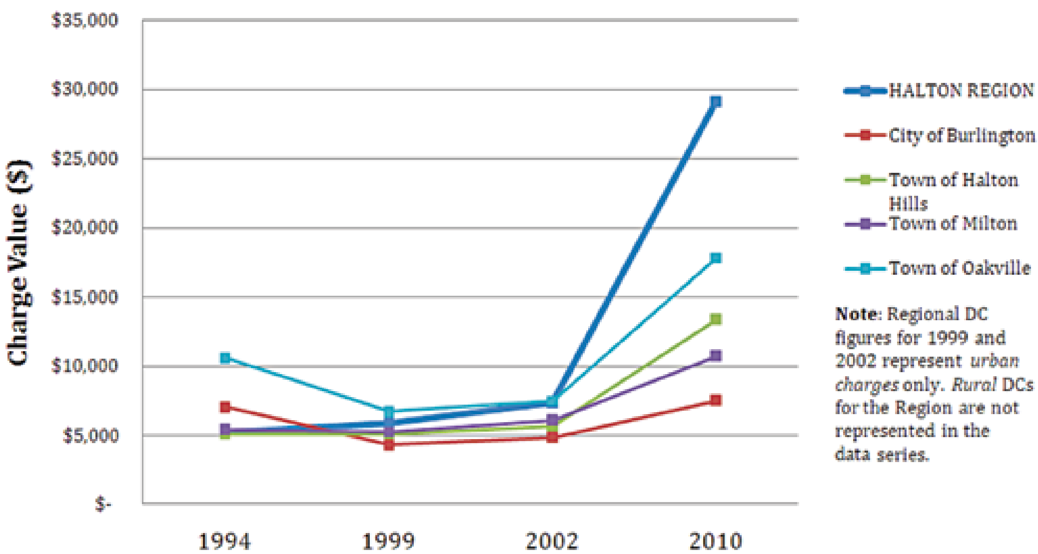
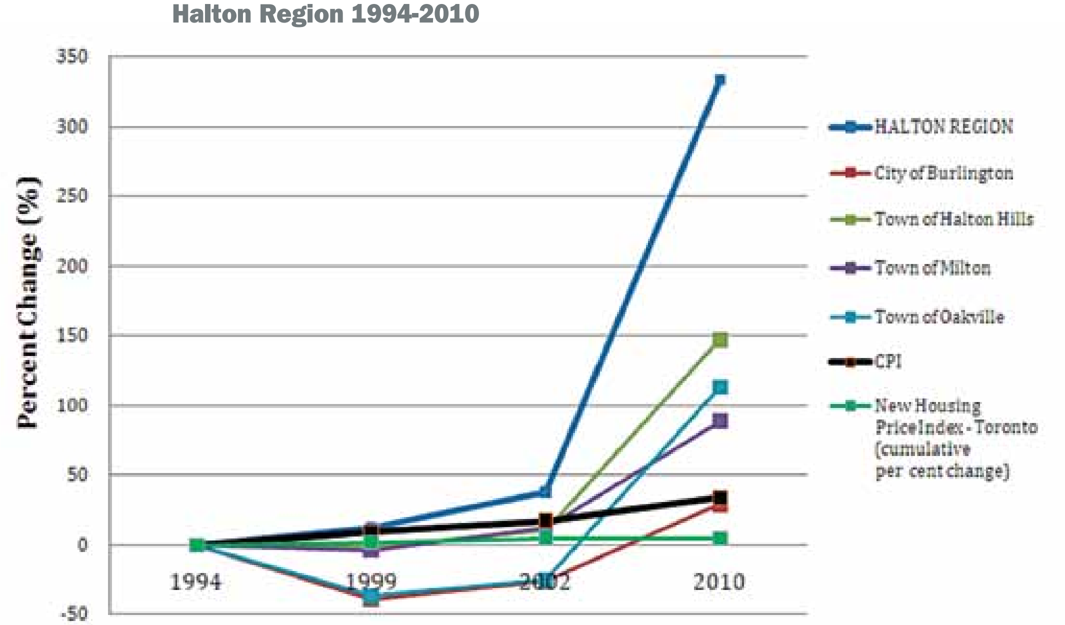


Figure 4: Per cent Change in Residential DC Rates (Singles/Semis): Halton Region 1994-2010



Peel Region

As shown in Figures 5 and 6, Regional and local development charges in **Peel Region** increased steadily between 1994 and 2002, but increased dramatically in the years between 2002 and 2010: during this period, regional development charges for non-apartment and apartment categories nearly tripled from $6,276 to $17,109. The Region's three local municipalities (Brampton, Mississauga and Caledon) also experienced a doubling or tripling of development charge rates across all types of residential categories in this same time period.

Figure 5: Residential DC Rates (Singles/Semis): Peel Region 1994-2010

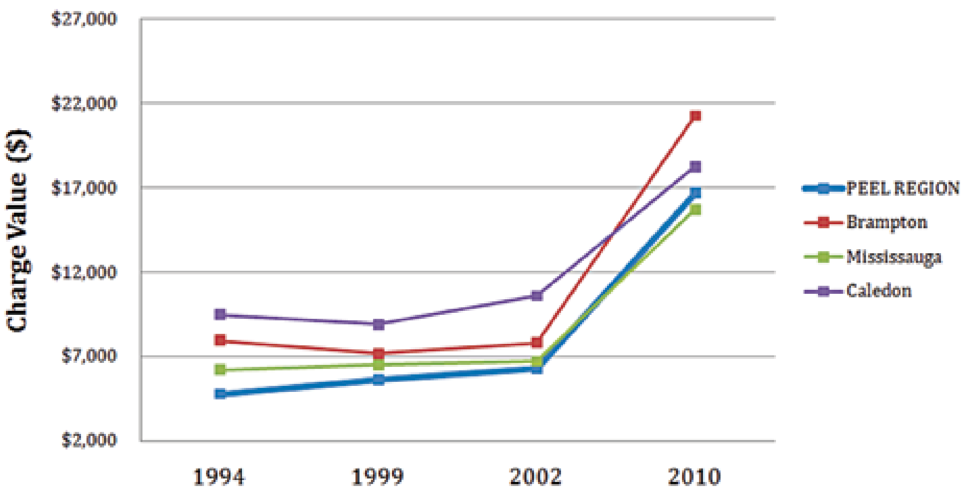
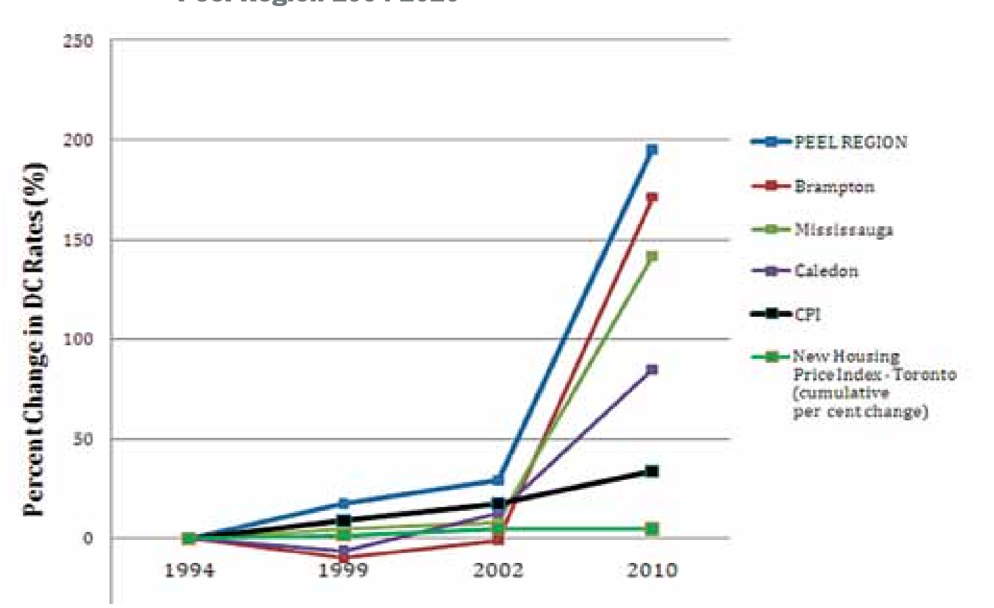


Figure 6: Per cent Change in Residential DC Rates (Singles/Semis): Peel Region 1994-2010



York Region

Regional development charges in **York Region** were characterized by a slightly steeper incline between 1994 and 2002 than in neighboring Peel Region. However, this period was followed by a dramatic doubling of regional charges between 2002 and 2010, with charges for singles/semis settling as high as $23,438/unit. Although local development charge rates dipped slightly across York Region between 1994 and 1999, most local charges were approximately doubled between 2002 and 2010, regardless of residential category. (See Figure 7 and 8.)

Figure 7: Residential DC Rates (Singles/Semis): York Region 1994-2010

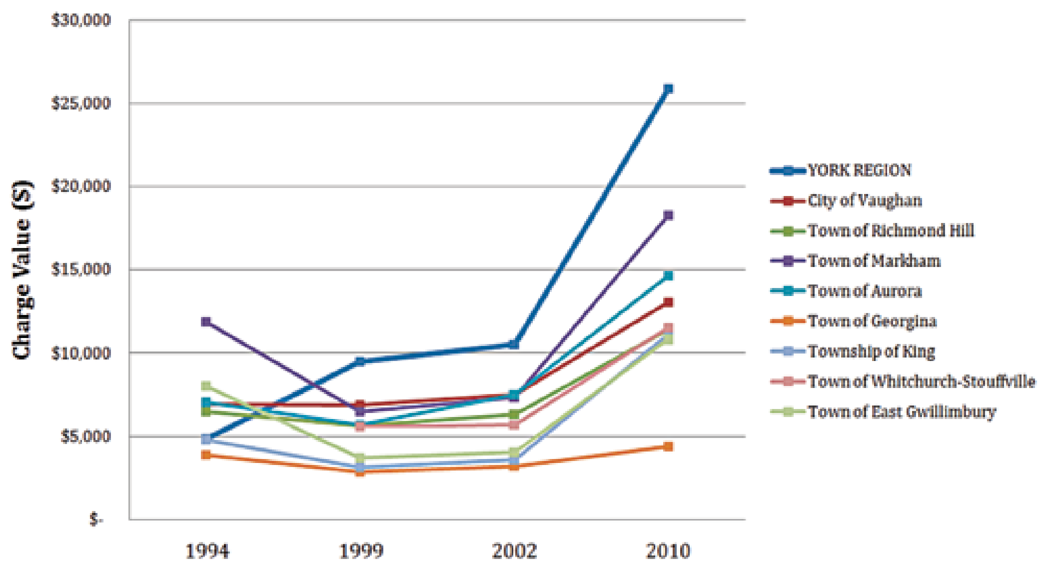
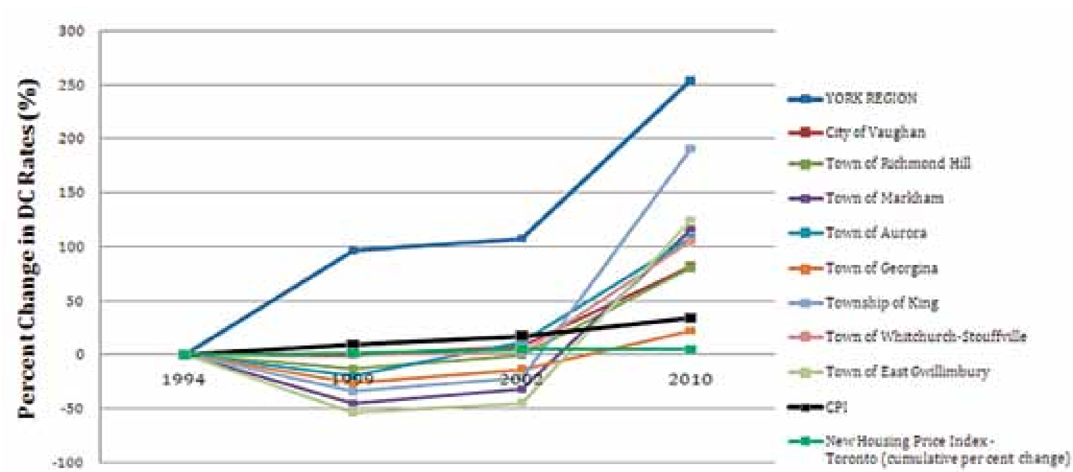


Figure 8: Per cent Change in Residential DC Rates (Singles/Semis): York Region 1994-2010



Durham Region

As illustrated in Figures 9 and 10, between 1994 and 2002, regional charges in **Durham Region** increased steadily, with local municipal charges following a more conservative incline. However, both regional and local development charges for singles/semis increased significantly between 2002 and 2010, with most local municipalities doubling their rates. An example of this is Uxbridge, where municipal development charges for singles/semis jumped from $4,938 to $10,955 during this period. Overall, moderate increases in regional and local charges can be observed in the apartment categories of development in Durham Region between 1994 and 2010.

Figure 9: Residential DC Rates (Singles/Semis): Durham Region 1994-2010

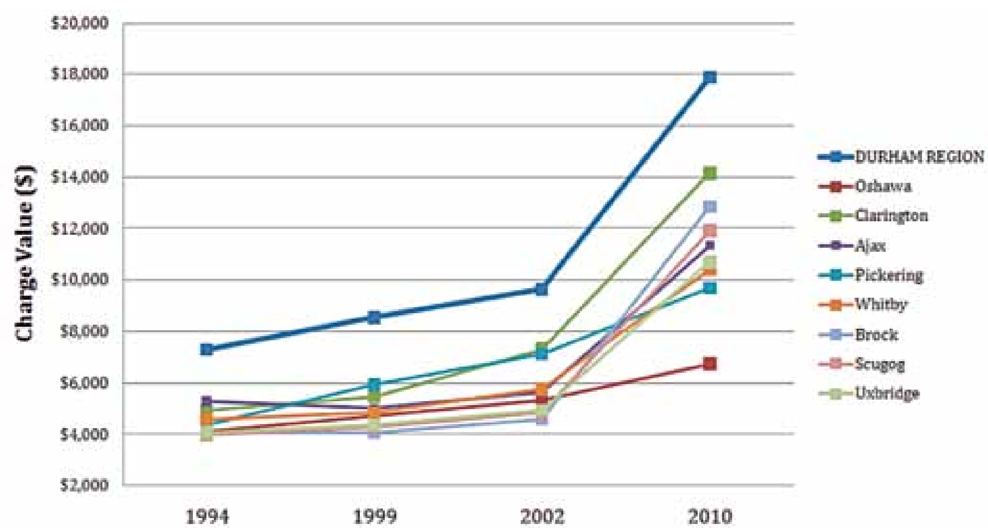
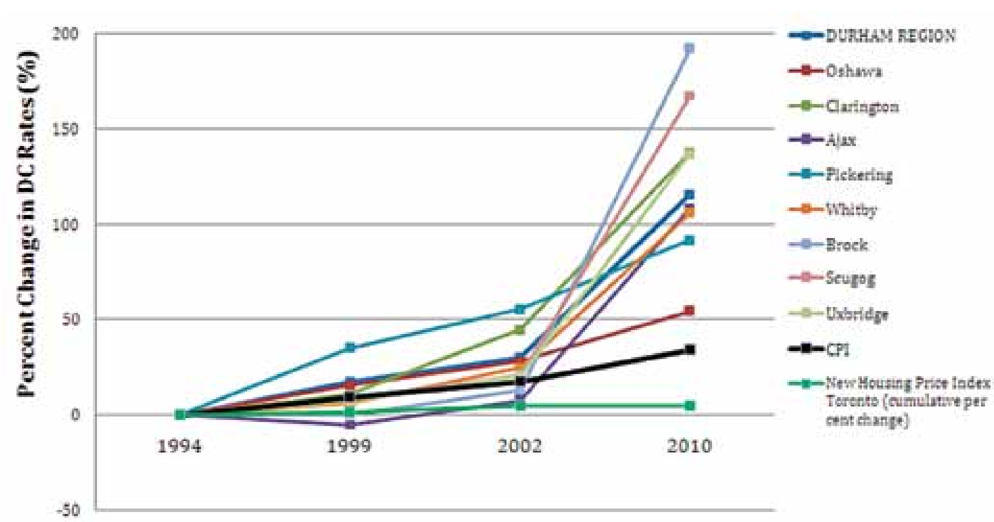


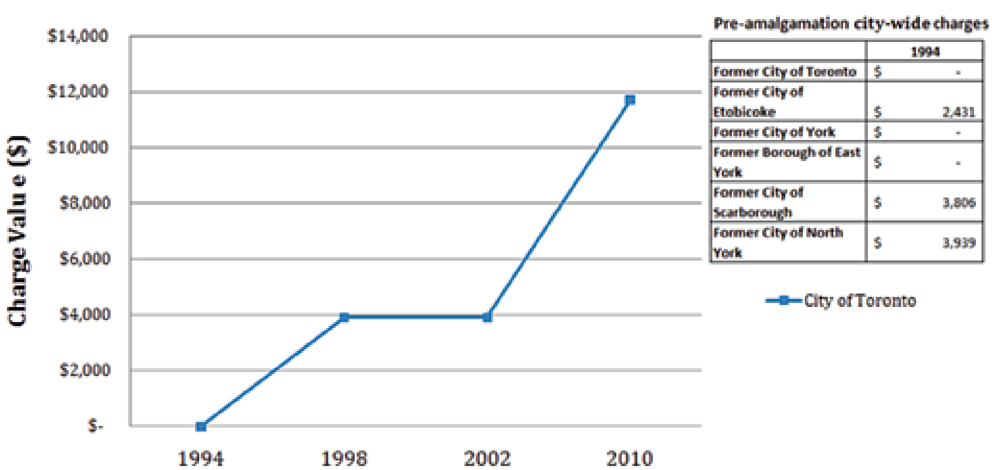
Figure 10: Per cent Change in Residential DC Rates (Singles/Semis): Durham Region 1994-2010



Toronto

The **City of Toronto** is a single-tier municipality that was created by the amalgamation of Metropolitan Toronto with its six lower tiered municipalites in 1998. Consequently the data in Figure 11 below shows relatively constant rates from 1999 to 2002 with a dramatic increase after that point.

Figure 11: Residential DC Rates (Singles/Semis): City of Toronto 1998-2010



All jurisdictions in the Greater Toronto area have seen increases in their development charges since the inception of Provincial legislation in Ontario. There have been very significant increases in the magnitude of the charges since 2002.

The dramatic increase in development charges since 2002 reflect the City of Toronto seeking additional revenue through opportunities for additional non-property tax revenue sources. Some of these sources were made available through the new *City of Toronto Act*. These sources included the land transfer tax, vehicle registration tax, and a sign/billboard tax. In addition, as the magnitude of development charges appeared low relative to other GTA municipalites, politicians felt that there was an opportunity to increase the charge.

3.0 Ontario Comparison: Development Charge Regimes in other Jurisdictions

This section of the report provides an overview of the application of development charge tools in both the Canadian and broader context. The focus is on residential development charges as they are the predominant land use in new development and tend to be the largest focus when there are policy debates about the application of these charges. This section of the report considers the Ontario approach in the context of the other Canadian provinces, the United States, and some international jurisdictions.

Canada

Ontario

Ontario has Canada's most extensive system of development charge use. The province currently uses a distinct piece of enabling legislation, the *Development Charges Act* of 1997, to lay out how the fees can be levied and for what purpose.

Residential development charges in Ontario are unit-based, i.e. based on the type of unit or number of bedrooms, and may be applied uniformly across a municipality or specifically to a district within the municipality. Fees tend to vary widely from one municipality to the next, as a result of different levels of service provision, whether or not major new infrastructure projects are required and whether or not the maximum charge is being applied.

The maximum collectable fees are equivalent to 100 per cent of the growth-related capital costs for water, sewers, highways, electrical power, police, and fire prevention required for the development, plus 90 per cent of other capital costs. The Toronto-York subway line extension may be financed by new developments, with each unit paying up to 100 per cent of the per capita capital costs. On the other hand, cultural and tourism facilities, parks, hospitals, solid waste facilities and administrative facilities (such as city halls) are excluded from development charges. Separate parkland dedication requirements exist outside of the *Development Charges Act*. The *Ontario Planning Act* requires new development to contribute 5 per cent of its land as a park contribution or cash equivalent to 5 per cent of the land value.

British Columbia

British Columbia has imposed development charges (referred to as "Development Cost Charges") since 1996, under section 933 of the *Local Government Act*. Next to Ontario, it has the most extensive use of this financing tool in Canada.

The formula for calculation is left up individual municipalities. It is different than the Ontario per unit charge basis in that in practice, development cost charges are typically collected on a per square foot basis in the province. (An exception to this rule is the municipality of North Vancouver, which calculates charges based on land area).

Sewer, water, and drainage installation may be covered by development charges, as may highway construction and parkland acquisition. In designated resort regions (which tend to be remote and have very expensive housing costs), development charges may also be used to provide subsidized housing for employees. Development charges are not applied to not-for-profit housing, affordable housing, and developments that meet a standard of low environmental impact or low greenhouse gas emissions.

The approach used in Vancouver is a layered approach where there is city-wide charge and then various charges are layered on top depending on the capital costs required in various areas. It is a site-specific approach. In addition, Vancouver uses an incentive approach to encourage development in certain areas by exempting the city wide charge and only apply the site-specific layered charges.

Figure 12: Development Charges – Greater Vancouver Area

MUNICIPALITY	RESIDENTIAL Unit Type				Singles and Towns	Multifamily
	Multifamily		Townhouse	Detached	Blended: 30-70 split intowns and singles respectively	Blended: 60-40 split in 1BD and 2 BD units respectively
	1 BD	2 BD				
City of Vancouver Development Charge	$9,806	$9,806	$18,828	$26,150		
TOTAL	**$9,806**	**$9,806**	**$18,828**	**$26,150**	**$23,953**	**$9,806**
City of Burnaby Municipal Charge	$4,245	$4,877	$9,127	$9,252		
TOTAL	**$4,245**	**$4,877**	**$9,127**	**$9,252**	**$9,215**	**$4,498**
City of Richmond Municipal Charge	$9,054	$13,581	$25,704	$24,860		
TOTAL	**$9,054**	**$13,581**	**$25,704**	**$24,860**	**$25,113**	**$10,865**
City of Surrey Municipal Charge	$9,750	$14,625	$29,250	$44,086		
TOTAL	**$9,750**	**$14,625**	**$29,250**	**$44,086**	**$39,635**	**$11,700**
City of West Vancouver Municipal Charge	$3,555	$4,929	$9,373	$12,741		
TOTAL	**$3,555**	**$4,929**	**$9,373**	**$12,741**	**$11,731**	**$4,105**
AVERAGE	**$7,282**	**$9,564**	**$18,456**	**$23,418**	**$21,929**	**$8,195**

*Note that most jurisdictions also apply area-specific development charges 'layered' onto the base charges summarized above.

Source: Geoffrey Matthews, *Who Pays: Assessing the Impacts of Growth*, 2010

Furthermore, Vancouver has a Community Attribution Contribution, (CAC) that may be applied when rezoning is required. It is similar to the Ontario Section 37 Contributions. CACs were formerly negotiated with the local councillor. However, they are now directly related to the land value increase that results from the rezoning.

As shown in Figure 12 that quantum of development charges in British Columbia in the case of most municipalities, except Surrey, is significantly less than the quantum in the GTA.

Alberta

In Alberta, government imposed charges are much smaller than in Ontario and British Columbia even in the two largest cities, Edmonton and Calgary. Most high density developments do not pay any kind of charge in the Province; however, lower density developments have been subject for some years to acreage assessment fees. These tend to be applied to large tracts of land designated for low density development. A recent analysis of these contributions for single family development estimates that these fees are $7,475 per single family home in Calgary and only $1,425 in Edmonton.[4]

There are no fees for higher density development in Edmonton. However, Calgary does impose some levies on high density development but they are relatively small. These are levied on a frontage basis and are used to finance upgrades and improvements to infrastructure at or near the location of the contributing development. The current charge is $4,464 per linear metre of frontage. Services paid for through development charges are limited to sewer, water and drainage installation, and road construction.

Nova Scotia

Nova Scotia has permitted development charges since 1998, under section 274 of the *Municipal Government Act*. They are referred to as "Infrastructure Charges" and are allowed across the province. However, to date, they have only been employed by the Halifax Regional Municipality (HRM).

Similar to Ontario, fees must be collected on a per-unit basis. They may be used to cover the capital costs of water and sewage installation, as well as roads, solid waste management, and transit. HRM has engaged consultants from Ontario to undertake a development charge study in order to implement a development charge regime.

Yukon

The Yukon has allowed development charges (known, as in British Columbia, as "Development Cost Charges") since 1998 under section 327 of the *Municipal Act*.

Legislated provisions, however, are far broader and more discretionary than those used in the provinces that collect development charges. Municipalities are permitted to levy fees to recoup any capital costs associated with development, without limitation. As in British Columbia and Alberta, municipalities may choose the manner in which fees are calculated.

United States

In the United States, development charges are generically referred to as "Impact Fees." However, in specific instances, they may be labelled "Capacity Fees," "Facility Fees," System Development Charges," or "Capital Recovery Fees." Their application is highly non-uniform, differing widely from state to state and municipality to municipality. Historically, impact fees were first applied on the west coast in the major urban areas and gradually expanded eastward in use.

A 2009 survey of impact fees across the United States shows that the scope of services they pay for is widest in California, Florida, Hawaii, New Hampshire, Rhode Island, and Vermont.

These states allow roads, water, sewers, drainage, parks, fire services, police, libraries, solid waste facilities and schools to be financed through development charges. On the other end of the spectrum, Illinois, Pennsylvania, and Virginia permit only the financing of roads.

Of services included for impact fee applications, police are on average funded the least, while schools are funded the most. Utility fees are most significant with residential developments, while road fees are most significant with commercial and industrial developments. Park fees tend to be applied to residential developments only. Fees are by far the highest on residential developments.

As shown in Figure 13, California continues to charge the highest fees and funds a wide variety of services. An average single family home in California is charged $21,964 (US) in impact fees, compared to $8,974 (US) in Florida, which has the second highest fees. Arkansas has the lowest fees, averaging below $1,000 (US).

In the 2008-2009 year, residential fees went up overall, while commercial and industrial fees went down. Of the states, Texas has the highest increase (almost 25 per cent), while Georgia had the highest decrease (almost 15 per cent).

American impact fees may be collected by either (or both) upper tier and lower tier municipalities, and there have been further proposals that they be collected and dispersed on a region-wide basis. In a study of Phoenix metropolitan area municipalities, it was revealed that on a very limited scale, development charges are also being applied to recoup operating costs.

Figure 13: Average Single-Family Fees by State, 2008-2009 Constant Sample*

State		Average Fees, 2008	Average Fees, 2009	Percentage Increase
Arkansas	4	$819	$955	16.6%
Arizona	30	$5,999	$6,389	6.5%
California	37	$19,193	$21,649	12.8%
Colorado	17	$5,697	$6,476	13.7%
Florida	66	$9,431	$8,974	-4.8%
Georgia	6	$1,969	$1,676	-14.9%
Illinois	4	$2,597	$3,247	21.2%
Maryland	10	$8,798	$8,804	0.1%
North Carolina	5	$2,718	$2,742	0.9%
New Hampshire	4	$4,111	$4,111	0%
New Mexico	8	$4,879	$4,858	-0.5%
Nevada	5	$2,828	$3,221	13.9%
Oregon	11	$6,929	$7,841	13.2%
Tennessee	6	$4,092	$4,092	0%
Texas	8	$1,520	$1,893	24.6%
Utah	8	$4,702	$4,745	0.9%
Washington	15	$6,436	$6,588	2.4%
Wisconsin	4	$2,887	$3,087	6.9%
All States	**269**	**$7,955**	**$8,328**	**4.7%**

*Totals do not represent sum of average fees, since not all jurisdictions charge all types

Source: Duncan Associates, "National Impact Fee Survey 2009", constant sample survey of 276 jurisdictions.

4.0 Method of Calculation

The calculation of the development charge quantum has been one of the key issues or points of contention throughout the development charge application in Ontario. The issue predates the passing of the first *Development Charges Act* (1989) when development charges were calculated in a variety of ways depending on local practice. In good economic times the charges were often simply paid by developers and builders, but when the market turned down there was a tendency to challenge the charges either at the Ontario Municipal Board (OMB) or in Divisional Court. In good times with rising markets and prices most of the increased charge could be passed on, and developers and builders did not want to waste time and resources fighting the increases. They would rather spend their time and resources building and selling houses. Most often, the basis of this challenge was the method of calculation. Generally this would relate to either the range of services to be included in the charge, i.e. what constituted growth-related costs, or the method by which the charges were calculated.

With respect to the calculation of the quantum of the charges, there have traditionally been three major issues that have been addressed while they represent points of contention between the municipalities and the development industry. These were the issues that also the formed the basis of OMB appeals and Divisional Court challenges prior to the passing of the *Development Charges Act*. The issues include the range of services to be included in the charge, the standard to be applied in calculating the quantum of the charge, and the attribution of benefits to development by type, and location, and between new and existing residents.

Range of Services

In considering the range of services to be included in the calculation the two positions, i.e. those held by the municipalities versus the development/building industry are best described as either including all growth-related capital costs as advocated by municipalities, or the inclusion of only "property related" or "hard services." The industry typically has advocated for a hard services approach. Whereas the position expressed by all growth-related capita costs is fairly clear, the charge based on property related or hard services requires some explanation. As the other side of property related services are people related services, and the other side of hard services is soft services, these typologies are not entirely clear for some services that are not clearly under one definition or the other. Whereas sewer, water and roads are clear (property or hard services; and libraries and recreation facilities are clear (people or soft services); some services such as fire and police cannot be clearly demarcated a hard or soft service. Consequently, those parties advocating only including hard or property related services will generally include fire and police capital costs as they protect property as well as people.

In regard to these two positions, municipalities and the municipal associations generally desire to maximize development charge revenue and therefore wish to have all growth-related capital costs included. This approach was included in the first *Development Charges Act*, much to the disappointment of the development and building industry, which favoured the more narrow approach of property related or hard services. Following the passage of the 1997 Act, the scope of eligible services now excluded: cultural and entertainment facilities, tourism facilities, parkland acquisition, hospitals, waste management services, and administrative headquarters.[5]

In examining the approaches, property related services such as sewer, water, and stormwater would be appropriate to include in a development charge payments as these benefits are directly related to the property as they are essential for development. However, this does not preclude using other mechanisms to finance them. Other property related services such as roads (external to the development) and new fire stations are necessary, and they do provide direct benefits to the new development. However, they also provide benefits that are external to the new development to the broader community and existing residents. Increased capacity and or new roads will facilitate movement for existing residents and goods movement for business. New fire stations will provide enhanced protection to some existing residents in addition to the new development. For both road and fire services, the external benefits will depend upon the capacity and location of the facilities and may need to be considered in each individual context.

In terms of the people related, or soft services that are currently part of the development charge quantum, these items should be considered in terms of the distribution of the benefits that they provide and perhaps be considered for alternative funding approaches. This should include broader revenue sources.

New Approaches to Development Charges

There have been several attempts to find ways by municipalities or consultants working for them to increase growth-related revenues either by altering the existing method used to calculate development charges, or to find additional growth-related revenue tools. Two recent approaches are outlined below. They include what has been termed the "gross population" calculation method and the application in Halton Region of special surcharge/tax in the Halton Urban Structure Plan (HUSP) area.

In the past round of development charge studies one of the consulting firms began to apply a new method of calculation that had the impact of increasing the quantum of development charges. It has come to be known as the "gross population" method as compared to the old or traditional method which is referred to as the "net method."

The "gross method" is based on the notion that the charges be based on the need for new services required by new development. The maximum allowable funding is the result of a calculation of the forecast growth anticipated by the municipality by the ten-year average service level for each service. Any excess capacity resulting from declining population or persons per household should be left for the benefit of the existing population and not be used for new residents. This approach is rejected by the industry as in its view it results in funding service increases that exceed the ten-year average and lead to higher development charges.

The new method suggests that new development should pay a charge based on the average household size of more recent housing developments. The number of person's per household is important as the per capita capital cost projection is multiplied by the average household size for each type of housing to determine the development charge quantum for each type of unit.

This approach has been challenged by the development industry at the OMB. In a recent decision where the industry has challenged the gross population method of determining the quantum of development charges, the Board decision was in favour of the applicant rejecting the use of the "gross population" method which leads to higher development charges.[6]

There have also been attempts in some jurisdictions to apply an additional tax to new development to make up for the 10 per cent local benefit reduction required for certain services under the *Development Charges Act*. An example of this exists in the Region of Halton where the additional tax/charge is imposed on new development in the area included in the Region's HUSP. This has been continually challenged by the development and building industry.

5.0 The Use of Development Charge Revenue: Accountability

As development charges represent a type of user fee for growth-related capital costs and the application often reflects the municipal objective that growth should pay for itself, development reflects an application of the benefit principle. However, setting the appropriate quantum of the charge is only part of the requirement for applying the benefit principle. The second aspect has to do with the use or application of the funds that are collected. To apply the benefit principle appropriately the funds should be used for the purposes that they were collected.

One of the key elements of the first *Development Charges Act* was to ensure municipal accountability in the use of development charge revenues. As the intent of the development charge is to pay for growth-related capital costs the Act includes provisions to ensure municipal accountability via earmarking development charge revenue by placing the revenue in special accounts to be used for the purpose of defraying the growth-related capital costs that are included in the development charge by-law.

The accountability is also reinforced by the requirement that municipalities must report each year regarding both the use and balance of these reserve funds as part of their Financial Information Return (FIR) reporting. Due to the variation in the details that have been reported for 2010, the Ministry of Municipal Affairs and Housing is requiring the reporting to be completed on a newly developed form to ensure consistency in reporting for the 240 municipalities who collect development charges.

The transparency issue is important in terms of how the funds are actually allocated and used once they are collected by municipalities and school boards. As the funds are collected for growth-related capital costs they should be used for the capital facilities for which they have been collected, i.e. those that are required due to the new growth.

Prior to the 1989 Act, there were no specific requirements for accountability other than the normal budgeting rules in the *Municipal Act*. However, as development charge revenues were not normally placed in special reserve funds, the revenue could be allocated and used for any municipal purpose in its operating or capital budget. More recently, the general requirements for FIR annual reporting to the Province have improved accountability.

6.0 Impacts of Increasing Charges

There are several cases in Ontario that may be used to highlight the concerns regarding the large increases and currently significant magnitude of development charges. These jurisdictions are the City of Toronto and the Region of Halton. The Toronto case reflects an attempt to make a dramatic increase in development charges, while the Halton case shows an attempt to continually increase development charges in an attempt to maximize the revenue generated from the application. Prior to describing these cases, it is important that there is an understanding about the impacts of development charges. The next section provides an overview of the economic theory and some empirical evidence regarding the impact of development charges or impact fees on house prices.

The Impact of House Prices: Incidence

A major consideration in the use and then later increase in development charges is the impact on house prices. This is important as housing affordability is an important policy objective especially in terms of providing housing for people of moderate and low incomes. As the development charges are levied upon developers or builders, they are the actors in the development/building process who write the cheques to make the payments. However, based on economic theory we know that with all types of taxes and charges on producers, builders will shift these financial burdens onto others where possible. Consequently, economic analysis is typically undertaken to assess who actually bears the incidence of development charges or increases in development charges.

There is a body of literature that can help us understand the question of development charge incidence (or in the United States, impact fee incidence). In the literature there are two approaches that have been used to assess the incidence: the old (traditional) view and the new view. The old view treats the development charge as an excise tax on the production of housing. The result is a tax (charge) which increases the price of housing and also leads to reduction in developer/builder profits and a reduction in the production of housing.

The new view treats development charges as reflecting the costs of providing facilities for the new development that would otherwise be financed by property taxes. As the savings in property taxes accrue to homeowners, the theory suggests that these savings are capitalized into the price of housing leading to higher prices. The end result with either theory is an increase in house pricing due to the imposition of the development charges.[7]

There have been several empirical studies in the United States that have estimated the increase of impact fees (development charges) on housing prices. These results have been summarized to suggest that impact fees lead to higher average housing prices for both new and existing housing. For those studies that are considered to use reliable data and methodological approaches the impact on new house prices is in the range of $1.50 to $1.70 for each $1.00 increase in impact fees, while for existing housing the range of price increase is from $1.00 to $1.68.[8] A caveat is that these studies have been undertaken for U.S. jurisdictions where the fees are significantly lower and they are applied under a different legislative basis. These results also show that there are price increases that accrue to owners of existing housing.

Toronto Case

In 2008, the City of Toronto commissioned a developer charge justification study which was then used as the basis of proposing to significantly increase their development charges. The original proposal was to increase development charges above the 2004 rate by 126 per cent for single and semi-detached units, 123 per cent for two-bedroom apartments, and 144 per cent for bedroom and bachelor units.[9] This was driven by recommendations from the finance department based on the development charge study and report.

Response from the development industry came first from individual companies and later via a coalition known as Building a Sustainable Toronto. This coalition made a number of submissions to the City and commissioned a report entitled Building a Sustainable Toronto.[10] Its purpose was to demonstrate the advantages of intensification and demonstrate that the dramatic increase in development charges would work at cross purposes to intensification and other policy initiatives of the city, and the benefits that would arise from the increased development. The advocates of the increased development charges had the objective of wanting to maximize the revenue obtained from development charges. Comparisons were made to other jurisdictions outside Toronto that had higher development charges. Several other variables were not considered including: 1) the fact that high-rise residential development in Toronto also is generally required to make contributions to public benefits via the application of section 37 of the *Planning Act*, and 2) the fact that much of the infrastructure to accommodate growth already exists in Toronto.

The end result was a compromise development charge by-law in which development charge increases would be sensitive to existing market conditions. The by-law passed in February of 2009 placed a two-year freeze on the development charge increase, with any increase in 2011 being dependant on the number of housing starts in the City during the previous November to September period. Statistics Canada reported that there were more than 9,000 housing starts during the November 2009 - September 2010 period in accordance with the by-law the stating that the development charge would increase by 25 per cent. The transition during the freeze period was related to the number of starts. If the number was between 7,000 and 9,000, the development charge would increase between 5 per cent and 20 per cent. If new units exceeded 9,000, the increase would be 25 per cent.

Despite the policy decision that was a compromise between the city and the industry, there are still questions about the method used to determine the charge especially in terms of the relationship of the benefits to the charges paid by various units. The new charge reflects increases for new services that were included and charges to assist in the funding of Toronto's York-Spadina subway extension. Transit is by far the largest component of the new charge, representing 27.56 per cent of the charge (of which 11.55 per cent reflects the York-Spadina subway contribution).

There is uncertainty about the link between the payment and benefit of charges as the link between new development in parts of Toronto that contribute to the subway costs can be questioned. Many of the developments in downtown Toronto, Midtown, and Scarborough will not have any direct benefit from the subway extension. However, they are required to make a substantial contribution to its construction through the payment of development charges.

Halton Case

Not only are the highest combined development charges applied in Halton, but the region also applies an additional surcharge. The Region applies a selective "surcharge tax" in addition to the schedule of approved development charges.[11] This surcharge only applies to that part of the Region designated as Halton Urban Structure Plan (HUSP) area.[12] This additional tax burden applies only to residential and non-residential uses in the HUSP as summarized below. Figure 14 provides a comparison of previously approved development charges, (expired July 2008), approved new schedule of charges (August 2008); the Proposed Allocation Plan (November 2008); and the Revised Plan (May 2009). The right of the Region to apply this selective surcharge does not appear to be clearly supported by Provincial legislation.

Figure 14: Taxes and Surcharges in the Halton HUSP Area

Tax	July 2008	August 2008	November 2008 Plan	May 2009 Plan	Per cent Increase
HUSP New Homeowner Tax	$21,011	$26,649	$26,649	$29,075	38.4%
HUSP New Homeowner Surcharge	$1,400		$11,917	$11,917	751.2%
TOTAL TAX	$22,411	$26,649	$38,566	$40,992	82.9%

Factors that distinguish Halton Region give rise to a number of questions that fall beyond the scope of this research report but are deserving of further investigation. They should be of particular interest to the Province in achieving the objectives of the Growth Plan. Is development in Halton Region more costly than elsewhere, and if so, why? Could these costs be lowered by a more efficient pattern of growth? Can the rate of increase continue, and for how long? Are development charges approaching a level where they could impose macroeconomic disruptions and impact the efficiency of the housing market? Are development charges approaching a level where they impede public policy objectives? Is a selective surcharge a fair and equitable tax?

Summary

These two cases, Toronto and Halton, in conjunction with the attempt to use the "net population" method in determining the quantum of development charges illustrate the continued attempt by some municipalities to maximize the revenue that they can obtain from new development. In some ways this approach is understandable in that municipalities face financial constraints. However, there has to be careful consideration of the impacts of these approaches on other important municipal policy objectives.

7.0 Development Charges and Other Urban Policy Objectives

The application of a development charge policy in a municipality reflects fiscal policy. Generally stated, the policy that it reflects is that the costs of growth, especially capital cost, should be borne by new growth. Trying to achieve this policy often leads to attempts by municipalities to try to maximize the revenue that can be obtained from new growth. In the previous section of the report, these examples were illustrated for Toronto and Halton. However, in addition to fiscal or financial policies, municipalities must consider the spectrum of policy objectives that they are trying to achieve. Any attempt to increase revenue needs to considered in the broader context in terms of the impact it has on other policies and then to consider applications of new policy holistically in the context of all objectives.

This suggests that it is important to understand what other areas are affected by a specific fiscal policy and to assess the impacts of a proposed initiative on these areas prior to making the policy decision. In the case of increasing development charges there are several municipal policy areas that must be considered, including the potential impact on housing affordability; the impact on economic development objectives; and the impact on land use planning objectives and policies. With respect to planning policies, there are a number of considerations including outward growth versus intensification, support for transit-oriented development and growth centres, as well having balanced population and employment growth. These issues reflect both municipal and provincial Growth Plan objectives. Prior to addressing these issues it is useful to comment on the importance of the housing sector in terms of planning and jobs.

The Housing Sector

The housing sector is of importance to all levels of government. This is borne out by the fact that all levels of government have housing policies. Housing is important as it provides basic shelter, and governments want to ensure that it is affordable to all households by encouraging a range and mix of housing types. In addition, residential development is economically significant and has important multiplier effects. Housing production leads to a significant increase in jobs and additional spending throughout the economy. For the same reasons, the housing sector is important to provincial and local economies for its job creation in specific geographical locations.

The Canadian Mortgage and Housing Corporation (CMHC) indicates that housing related expenditures accounted for over $300 billion in expenditures in 2009 which represents one fifth of the total Canadian economy.[13]

The importance of this sector may also be illustrated by the following estimates of the impact on the economy. The construction of 10,000 new homes:

- Leads to a rise in $3.3 billion in economic production including the multiplier or spin off in other sectors,
- Creates 19,300 jobs in the Canadian economy,
- Boosts household income by $1.3 billion, and
- Creates $56 million in indirect revenue for governments in addition to the millions collected via direct charges and revenue from HST, charges and fees.[14]

Finally, Figure 15 provides more specific estimates for employment multipliers.[15]

Figure 15: Estimated Employment Multipliers

Full-Time Equivalent Jobs Created Per Housing Start, Ontario, 2007				
Impact	**Singles**	**Doubles**	**Rows**	**Apartments**
Direct	1.32	0.99	0.75	0.71
Indirect (within province)	0.70	0.52	0.40	0.38
Indirect (other provinces)	0.20	0.15	0.11	0.11
Total Jobs	2.23	1.66	1.26	1.20

Source: Will Dunning Inc., using data from Statistics Canada (Provincial Input-Output Multipliers, 2007; building permit data)

Due to the economic importance of the housing sector, it is crucial to consider the impacts of new policy initiatives both in terms of its broader economic impacts, and the impact on jobs or job creation in specific municipalities. The key point is that all levels of government desire to have affordable housing and, consequently, they have developed policies to support this objective. This includes policies for both affordable social housing and affordable market housing. These aspects of the housing sector illustrate why the impacts of development charges need to be considered regarding affordable housing, economic development and land-use policy.

Affordable Housing

One of the important policy objectives of all levels of government is to ensure the provision of affordable housing. The impact on development charges and, in the United States, impact fees, on housing prices is an ongoing discussion. Earlier in this report, it was determined that these charges commonly result in upward pressure on housing prices, resulting in less affordable home ownership and increases in rental rates. In an attempt to mitigate these impacts, some jurisdictions give exemptions for development charges on social housing—an appropriate solution to making social housing more affordable. However, it does not address making homeownership more affordable.

With the ageing of the "baby boomers," more attention has been focused on the need for senior citizen housing and, in many cases, affordable seniors' housing. As above, exemptions may be granted by some jurisdictions for seniors' social housing. Also, similar to general market housing, it is desirable to keep market seniors' housing, especially that which provides a range of care options, as affordable as possible. Some of the jurisdictions in Ontario have taken this range into consideration in their development change studies, which has resulted in their development charge by-law establishing a special category and/or charge for seniors' housing.

The charge reflects that the senior demographic places less demand on a number of capital facilities and that seniors' housing has a lower number of persons per unit than conventional housing. For example, senior citizens have lower car ownership rates and drive less than family households; they also place less demand on active recreational facilities. In calculating per unit charges, the per capita growth-related capital costs are typically multiplied by the average number of persons for each unit type. In this analysis some jurisdictions treat a seniors' unit as a one-bedroom unit even if it does not have a full kitchen (as many don't). Seniors' housing data clearly shows that the average number of persons per unit in Ontario is 1.1 persons. This is significantly lower than the average for one-bedroom units in each jurisdiction. For example, the data shows 1.8 persons for one-bedroom units in Durham Region. Consequently, when jurisdictions charge the one-bedroom rate they are significantly overcharging seniors' units compared to family units. This ultimately is reflected in the prices for seniors' units as the higher charge puts upward pressure on prices and rents.

This example helps to illustrate some of the concerns that affordable housing policy objectives are not always given adequate consideration when municipalities design their development charge policies. Rather, the policies tend to be driven by revenue or financial considerations.

Economic Development

There are two aspects to the impact of development charges on economic development. The first relates to the impact of high non-residential development charges on the location of employment related land uses, especially office and industrial uses. The second is more indirect as it relates to the lack of an industrial workforce to attract employment uses due to the high residential charges having an adverse effect on housing prices.

In the same way the development charges and increases will have an impact on the cost of providing non-residential/employment-based buildings, they impose additional costs on the owners and/or users of these buildings. The same type of economic analysis that was used to analyze the increase in housing prices due to development charges may be applied to non-residential charges. There are some differences in that these costs may be viewed as a business expense and the shifting forward of the costs could be onto consumers of any products or services that are provided by the employment activity using the property. The ability to shift these costs forward depends on market conditions. In any case, the result is a reduction in the number of these facilities supplied, especially in jurisdictions that have relatively high development charges. If these are employment land uses it will in turn lead to a decrease in employment in the jurisdiction.

Over the years some jurisdictions have attempted to address the concerns of the development charges impact on employment lands by giving an exemption or partial reduction of development charges for all or some types of non-residential land uses. Examples of this policy approach can be found in a number of jurisdictions, including Toronto and Brampton. When exemptions are undertaken, however, the Act stipulates that the foregone development charge revenue cannot be recouped from the other land uses that generate development charges.

The indirect impact of high or increased residential development charges must be referred to in this section of the report. As it has been demonstrated that development charges increase the price of housing and make housing less affordable, jurisdictions that have exceptionally high development charges will also tend to have less affordable market housing. This may have an impact on the available workforce in the area for certain types of industrial and clerical jobs, since people employed in these sectors may not have the income necessary to afford more expensive housing, thereby affecting the immediate future of potential employers. Firm location is influenced by the available workforce and it is often said that "jobs follow people." High residential development charges may act as deterrent to the location of some types of firms and the growth of employment and economic development in a jurisdiction.

Finally, there is also a need to consider the way in which the non-residential development charge tends to be structured in Ontario, which is a uniform per square foot or metre charge for all types of non-residential development. Since the charge is uniform, it will not encourage higher density development, despite higher density development being more efficient in terms of servicing costs. Thus non-uniform charges might be useful in supporting transit-oriented development and provincial growth centres. The Residential and Civil Construction Alliance of Ontario (RCCAO) has proposed that that Province should encourage more innovative charge schemes that are non-uniform where site specific cost differentials can be recognized and reflected in the charges. They suggest that this could potentially lead to more intensification of employment lands.[16]

Land Use Objectives

Transit-Oriented Development and Growth Centre Policies

There are policy objectives in Places to Grow which are supported by the transportation improvements proposed in the Metrolinx documents, to encourage higher density development to support transit. The Places to Grow document has identified a number of growth centres across the Greater Golden Horseshoe.[17] Metrolinx has also identified its initial routes and stations which, in a number of cases, require higher density development to support the requisite transit ridership to make them successful.[18] The current application of development charges is not structured to support or encourage these land-use objectives and may in their current form work at cross purposes to these objectives.

Structuring the development charge on a per unit basis does not lead to incentives to have higher density development. As the development charge is based on a per unit basis for various types of units it does not take into account the density of development. Consequently, higher density development pays a higher charge per hectare/acre than low density development despite the fact that some services have a lower per unit or per capita cost at higher development. By not taking this reality into account when designing the development charge policy, municipalities are missing the opportunity to provide incentives for higher density development that will help to meet the Growth Plan and Metrolinx objectives. Incentives could be used to encourage both higher density development and specifically to encourage the density targets for the centres in the Provincial Growth Plan.

Reducing development charges to increase density in designated growth centres may also help to make housing more affordable to encourage a broader range of households in terms of incomes.

Greenfield Development

Related to the above issues of transit-oriented development and the Provincial Growth Plan are the issues related to how current development charge applications tend to provide an incentive for greenfield-type development, rather than supporting greater intensification and compact urban development.[19]

Although the GTA has higher overall densities than most U.S. cities, the current development charge regime and application has embodied within its structure a number of elements that do not provide incentives or support more compact development. The premise of the research by Pamela Blais, for example, is that efficient development subsidizes inefficient development. Low-cost areas tend to subsidize high-cost areas, small lots subsidize large lots, and smaller units tend to subsidize larger units. As most municipalities do not apply area-specific development charges, relatively low-cost development that is adjacent to built-up areas where services are already extended pay the same per unit charge as areas further away. Consequently, as they all pay the charges based on the same average costs, low-cost areas tend to subsidize the high-cost areas.

Similarly, smaller lot projects with higher densities and more compact form tend to be more cost effective for some services. These areas will tend to subsidize those areas that have larger lots and a lower density of development. Finally, the same analysis tends to hold for unit size for several reasons, one is that for single family and semi-detached developments, smaller units tend to be built on smaller lots. Secondly, even where a development charge by-law differentiates apartment units by the number of bedrooms, within each bedroom class, it does not take the unit size into consideration in the quantum of the charge.

Another issue may be raised with the application by school boards of education development charges. There is a tendency by boards to apply a uniform charge to all types of residential units. This means that small bachelor and one-bedroom high density units, condos and apartments, pay the same charge as a four-bedroom low density single family unit. Based on data for the average number of persons occupying each type of unit, it is obvious that the number of persons per household and consequently school aged children is lower in smaller, high density units. This suggests that the benefit principle is not met as the charge is not related to the usage, in this case the number of students. In addition, by applying a uniform charge there is the loss of an economic incentive to encourage higher density development that is consistent with Provincial policy in the Growth Plan. In fact, the uniform pricing approach works at cross purposes with encouraging intensification and the Growth Plan.

Compounding Impacts with other Policies and Fees

In addition to the imposition of development charges there are a number of other fees, charges, taxes, and policies that have an impact on the cost of producing and therefore the ultimate price of housing. This has been recognized in several reports from CMHC that identify all of the additional costs.[20] In addition to the direct financial implications there are also additional policies that have an impact on the final costs of development and consequently effect prices. This includes the application of Section 37 of the *Planning Act* and the requirement of certain standards in the development of new housing such as green roofs and the potential for inclusionary zoning where developments are required to have a percentage of their units available within some specified affordable price range.

The additional policies referred to above include that application of Section 37 of the *Planning Act* that is applied in the City of Toronto. Section 37 permits municipalities to negotiate public benefits in exchange for granting increased density as part of the rezoning process. As most desirable sites for high density housing in Toronto seek rezoning for higher density development, the application of Section 37 has become common place in the City of Toronto. Although the development charges in the City of Toronto are relatively lower than those in the surrounding regions, developer contributions in many cases are increased significantly via Section 37 contributions.

Although these policies have social benefits and may be politically acceptable within a municipality, it is essential for the municipality to assess and understand the impacts of these polices on its other policy objectives prior to implementation. For example, raising the development charge will tend to always have an impact on housing affordability for all types of housing not exempt from development charges. There could be impacts on economic development that need to be assessed by the municipal economic development departments. There could also be impacts on when, where, or how (density) that development takes place, thus having an impact on land-use policies.

A few years ago, when the City of Toronto was considering the new development charge by-law that would approximately double its development charges, it did not appear to consider the impacts on other land-use planning objectives. For example, the city's "Avenues" would be most successful with increases in ridership resulting from intensification along its corridors. As the increased development charges would have a greater impact on the pro formas and bottom line of the more marginal developments, such as those in Scarborough and Etobicoke, the increased charges would deter the development of new higher density development projects that would support transit objectives. Also, transit objectives could be better achieved by changing the zoning to permit for higher densities along areas planned for rail transit especially in the vicinity of stations or transit stops. This proactive planning approach of designating and zoning land for higher density development in the vicinity of future transit stops is practiced by the cities of Calgary and Ottawa.

Another impact was raised by the developers involved in the redevelopment of Regent Park. During the City of Toronto Executive Committee debate regarding the proposed development charge by-law, developers pointed out that their involvement in the Regent Park revitalization scheme would result in additional financial risk. The dramatic increase in development charges altered the developers' original financial analyses and increased the risk of their private sector development being financially successful. Consequently, if this project proved unsuccessful, it could alter the participation by developers with the City in similar projects.

The point is that public policies that are proposed and/or approved by municipalities need to be considered more carefully than simply the revenue increase that will be achieved, or the other public benefits that will accrue. Care must be taken by urban policy analysts in municipal jurisdictions to assess the impacts of policy options on the broad range of objectives on the urban policy agenda.

8.0 Analysis of Alternative Revenue Sources

Given the very high and increasing development charges, the use of inefficient pricing approaches, the impact on house prices and economic development, and working at cross purposes to other urban policy objectives—all conditions identified in this report—there is a need to examine alternative approaches to finance growth-related capital costs, especially ones that are better in terms of efficiency, equity, or in their impact on other policy objectives such as land use, affordable housing, and economic development.

A number of financing tools or options could replace all or some of the components that currently comprise the quantum of development charges. Changes could be made regarding the way in which growth-related capital costs are financed in Ontario. Of course, these changes are subject to the current legislation and perhaps other legislation or Provincial policies. The options that should be considered collectively are enhanced transfers from the Province, a move to more extensive use of the property tax, full cost pricing of user charges for some services, and the use of land value capture tools.

Enhanced Transfers

Despite the fact that provincial funding for most growth-related infrastructure has generally decreased in recent years, we can still make a case for increasing grants for some growth-related capital costs. The case can be made for certain types of services which have broader benefits than simply providing physical servicing to developable properties.

The capital cost of education facilities, i.e. schools, is one key area that may be appropriate for transfers Education development charges were first implemented with the passing of the *Development Charges Act* in 1989. When the idea of education development charges was introduced in the green paper prior to the Act, many people were surprised to see it appear as a legislative proposal. It was not a major concern for either municipalities or developer/builders in the development charge policy discussions. The primary reason for inclusion by the Province was to reduce the amount of provincial grants for the capital cost of schools.

Leading up to the Act there was significant suburban/greenfield growth and development. In order to provide appropriate educational facilities, school boards were required to provide a significant number of new schools. The Province, faced with the current practice of providing capital grants for 75 per cent of the eligible capital costs for new schools, was concerned about the increased funding required to meet these needs. In response to these concerns Provincial policy makers devised the use of education development charges. The premise was that the province would reduce the capital grant from 75 per cent of the capital costs for new schools to 66.7 per cent (or two-thirds) of the eligible costs. School boards would now be permitted to impose education development charges to make up for the shortfall in capital funding with the new formula.

The above example provides the fiscal rationale for the application of education development charges. There also must be the economic analysis of whether applying the education development charge which is essentially a user charge for the capital cost of education makes sense from an economic perspective. Education, at least at the primary and secondary level is considered what economists refer to as a “merit good” which is a kind of public good which has broad societal benefits in addition to benefits that accrue to the individual user. User charges are generally referred to as a benefit charge, and it makes sense to apply them where the individual user receives a direct benefit which can readily be identified. However, primary and secondary education is required for all residents up to an age when they can opt out if they choose. All residents have the benefit of the education if they reside in Canada. Likewise all residents' children have access to the system. Therefore all residents have access to the education system. Furthermore, as it is a merit good in that there are not only individual benefits, but broad based benefits to the rest of society. We all benefit from a well-educated society.

If we look at the range of services for which growth-related capital costs may be included in the development charge calculation, the range of services that can be included for the development charge was reduced in the 1997 *Development Charges Act*. However, an argument could be made to further reduce that range of services to be included in the calculation. The argument has been made in the past and could be made again to eliminate people related services from the charge, or in some cases further reduce the percentage attributed to growth when deducting the percentage for benefits to the existing population, currently 10 per cent.

If the Province made the decision to increase grants to fund part of the growth-related capital costs, it could consider making them available to municipalities on an incentive basis. Grants could be structured to reward municipalities for applying development charges that encourage efficient development, or that encourage development that facilitates intensification or other policy objectives of the growth plan. Of course, it would be necessary to earmark these funds and make the grant conditional upon meeting certain growth plan and/or intensification or density targets.

On a broader basis, a welcome contribution for growth-related transit costs would be a Federal Government transit policy along with a sustainable transfer program to support the construction of transit facilities in urban areas. The Organization for Economic Co-operation and Development (OECD) pointed out that Canada stands alone among top economic nations in not having a national transit strategy and program. The Toronto region needs to address its transportation issues to maintain its economic prosperity and growth. It is well documented that this initiative is long overdue in Canada.[21]

Shift Charges to Property Taxes for "People-related Services"

In some Canadian jurisdictions such as Quebec, the property tax is used to finance growth. In other jurisdictions, such as Alberta and other provinces, a portion of growth-related capital costs may be financed via the property tax. The point is that there are other models that are applied across Canada that may be used to finance all or part of growth-related capital costs. If we consider property versus people-related services, it is the people-related services that may be most appropriately financed via property taxes rather than property-related services. While property-related services may provide direct benefits to the property (and owner), people-related services may provide broader community benefits. For example, recreation facilities such as swimming pools and hockey arenas may also benefit the broader community in terms of either more or higher quality services that they may use. Some of these facilities and related services, such as libraries, have the characteristics of merit goods with broad public benefits. Capital facilities with these kinds of services could be financed via the property tax.

It is also important to note that the financing via the property tax will require the use of debentures to pay for the capital facility with the repayment of the debentures being financed via property tax revenues. There is logic in this application as the capital facility will yield a flow of benefits via the services that it provides over its economic life and the repayment of the debt for this facility will occur over time. As the debt is repaid, there is a crude matching of the flow of costs and benefits.

There is also a potential application that could be applied for the capital cost of those services that have direct benefits to the properties which are being developed. An alternative to using the lump sum payments of the development charges would be to pay for the infrastructure via debentures financed by the property tax. An innovative approach would be to use a differentiated tax rate that would be applied to different newly developed areas that reflects the infrastructure for the services that they are receiving. This would entail differential property tax rates for different zones depending on the services that must be paid for via debentures. There is a precedent for this kind of tax approach, prior to the property tax reform, where split mill rates were applied in some jurisdictions such as Niagara region to differentiate between the service delivered in urban and rural areas.

Rather than imposing development charges, this proposed approach, could finance the capital cost for new facilities via debentures with the repayment coming from increased property tax rates in the benefiting areas. Rather than an upfront payment for the infrastructure, the payment for the infrastructure would flow as the annual benefits from the service are accruing. This approach is similar to the current application of local improvement charges where the municipality will issue debentures to undertake infrastructure works and the debentures are repaid by the benefiting properties by additional charges added to annual property tax bills. There is room for municipalities to take on additional debt as most Ontario municipalities are not close to their provincially regulated debt limits.

There is a potential added benefit with this approach. As the more suburban greenfield areas tend to be more expensive to service, the property tax rates would be higher in these areas than more central infill sites or areas adjacent to built up areas. Households, in considering their housing location, typically take the cost of home ownership including the property tax into consideration in making their location decisions. Consequently, this financing approach will support location choices at infill sites and at higher densities where the cost of services per unit is lower. This will support general smart growth principles and more specifically the Provincial Growth Plan. The implementation of this approach would of course require changes in Provincial legislation.

Over the years as development charges and exactions imposed upon new development have increased, there has been shifting of debt to finance growth-related capital costs from the public sector to the private sector. The use of increased property taxes to pay debt related to growth-related capital cost shifts part of the new debt back to the public sector where gains can be achieved through lower interest rates compared to the private sector.

Move to Full-Cost User Charge Applications

An alternative to some components of the development charge could be the use of full-cost user charge applications. Rather than a development charge being imposed as a lump sum payment, the costs would be paid in periodic payments throughout the year. The payments would be made according to the payment scheme that is in place for the operating cost of the service. This could be monthly, bi-monthly, semi- annually or annually.

Full-cost service charge pricing is essentially the imposition of a periodic user charge that includes both the operating and capital cost of the service. This type of pricing has been applied for utility types of service, such as hydroelectric power and gas that are based on full-cost pricing, including components for the capital and operating costs. In utility pricing the operating part of the charge may consist of a variable user charge based on the quantity used as well as a distribution charge and/or a connection fee. Part of the user charge may consist of charges for capital facilities that are used to generate the service. The costs included in the charge may be the payment for debt incurred to finance the existing facility, or funds put away in a reserve fund to replace or repair the existing infrastructure. This type of application is best suited for utility types of services like sewer and water services.

The Use of Land Value Capture Tools for Rail-Based Transit Expansion

Land capture tools are based on the principles of neo-classical economics that go back to the writing of David Ricardo where he identified that land can receive "economic rents," or an unearned increment in value that results from nothing that the land owner had to do to enhance the value of the land. Rather, the increase in value is due to market conditions or public expenditures on infrastructure. Once these "economic rents" have been identified, and when they clearly accrue due to public investment in infrastructure, the argument is that they may be taxed away to help pay for the infrastructure which in fact increased the land value.

Examples of land value capture that have been applied through various approaches over the years include site value taxation as a form of property taxation, the use of Betterment Levies and Planning Gain in England, and Tax Increment Financing (TIFs) in North America. Currently in Ontario, Metrolinx is considering the concept as a financing tool to help finance its regional transit plan.

The primary way in which this approach could be applied would be for transit improvements, although there could be broader applications. For example, it could be used to replace the development charge component for GO Transit. In the case of the City of Toronto's most recent development charge study, a significant part of the charge is attributed to the building of the York-Spadina subway link, 11.6 per cent of the total charge. This component could be replaced entirely or in part through a land value capture tax. In this way those properties that benefited by having an increase in land value due to the public investment in infrastructure would have part of the windfall gain taxed to help pay for the infrastructure. One of the main attractive benefits of this approach is that it clearly links the charge to the benefits received by the increased land value.

Summary

None of the approaches addressed above could be used as a complete substitute for development charge revenues. Rather, the approaches and tools could be considered alternatives to help reduce the current large quantum of development charges. The idea would be to develop a growth-related capital cost funding model that is both stable and minimizes the conflict with other municipal and provincial policy objectives. A financially stable model is important to ensure that investments in the multi-year budget will continue to be expended to meet the infrastructure needs. The model could use the funding alternative identified in Figure 16 as a replacement for part of the development charge quantum. The strengths and weaknesses of the funding alternatives are identified in the figure.

Figure 16: Strengths and Weaknesses of the Funding Alternatives

Funding Alternative	Key Strengths	Key Weaknesses
Enhanced Transfers	· Appropriate for "Merit goods" that have broad social benefits	· Both federal and Provincial Governments have stimulus funding deficits, therefore unwilling
Shift to Property Taxes	· Payments are paid over time and match flows of benefits · Variable rates support economic efficiency	· Political resistance to raise property taxes · Politicians may prefer a more hidden tax/charge
Full Cost User Charges	· Economic efficiency	· Limited to utility type services
Land Value Capture Tax	· Strong theoretical basis-benefit principle · Used in other jurisdictions	· A new tax is required · Limited application to transit

9.0 Conclusions and Recommendations

This report has shown that development charges in Ontario have been growing over the last twenty years and are very significant in terms of their magnitude. In comparison to other jurisdictions in Canada and the United States, development charges in Ontario were identified as having the highest growth-related capital cost contributions. Despite these relatively high charges, there have been continued attempts by municipalities to increase or maximize the revenue that can be collected from imposing development charges. This has occurred despite the apparent ability of many other jurisdictions in North America to finance growth-related services without these very large developer contributions.

Since 1989 there has been legislation in place, the *Development Charges Act*, which both legitimized and regulated the application of development charges in Ontario. The new Act in 1997 revised the application and methodology for calculating and collecting development charges. Despite the first Act and changes resulting from the second Act there are still a number of equity and methodological issues with the application of development charges. And, despite these issues, their application and growth has been politically popular as to the extent that the charges are passed forward, they fall upon new residents and businesses many of whom are not taxpayers or voters in the municipality when the development charge by-law was passed. Furthermore, this is an indirect charge or tax paid at the beginning of the development process. Consequently, many end users may not be aware of the charge or its magnitude. Also there are pitfalls for municipalities that develop an over-reliance on development charges or have an expectation that development charges will be a continuing revenue source. In an economic downturn, like the recent recession, housing starts tend to decline and municipalities might face a shortfall to meet expenditure commitments that were predicated on future development charge revenue.

Despite the development charge legislation legitimizing that the application should be based on the benefit model and be a form of user-charge application, there are a number of problems with the current application both in terms of efficiency and equity. Earlier in the report, many of these concerns were discussed. These applications, along with attempts to continually increase development charges, often work at cross purposes and conflict with other municipal policy objectives.

For all of the above reasons, it would be appropriate to consider alternatives or modifications to development charges as a source of funding growth-related capital costs. The report details alternatives such as the increased use of senior government transfers; the use of the property tax to finance growth-related capital debt; the use of full-cost utility pricing, and the use of land value capture tools. Provincial grants could be increased or provided to fund merit goods or social/people related capital costs. The Province could use the grants as an incentive to meet Provincial Growth Plan objectives. Municipal organizations also need to encourage the Federal government to develop a national transit strategy with stable funding. More reliance could be placed on the property tax to finance growth-related capital debt for non-property related growth costs. There may also be innovative approaches available to encourage intensification or Growth Plan objectives. A full cost utility model pricing model could be used to finance both the operating and capital cost of utility type services like sewer and water. Finally, land value capture tools could be used to help finance, and relieve the pressure on development charges for some services that lead to land value increases such as new transit lines/stations.

The above suggested alternatives cannot be implemented easily. They will require careful analysis in order to be designed properly to meet carefully crafted policy objectives. In all likelihood, changes to Provincial policy and/or legislation will be necessary to facilitate their implementation. However, the alternatives should be considered and evaluated as revenue sources for growth-related capital costs.

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Appendix A: Ontario Development Charge History

CHART 1: Comparison of Residential and Non Residential DC Rates between 1994 to 2010 for the City of Toronto

Municipality	Adopted Year	Development Charge Type	Type of Development													
			Residential, non-Apartment ($ / Unit)				Apartment				Non-Residential ($ / Sq. Mtr.)					
				Multiples												
			Singles/ Semis	Overall	3 or More Bedrooms	1 or 2 Bedrooms	Overall	2 or More Bedrooms (defined as >750 sq. ft.)	Bach or 1 Bedroom (defined as <= 750 sq. ft.)	Dwelling Room	Overall	Office	Retail Comm.	Industrial	Institutional	Non-Industrial/ Sq Mtr.
City of Toronto (1998-present)	1998	Municipal	$3,912	$3,172				$2,644	$1,692		$ -					
	2002	Municipal	$3,912	$3,172				$2,644	$1,692		$ -					
		Educational DC	$1,236	$1,236			$1,236				$2.91					
	2010	Municipal	$11,737	$9,340				$7,613	$4,731	$3,032						$94.25
		Educational DC	$544	$544				$544	$544	$544	$6.24					
Former City of Toronto	1994	Municipal	$ -	$ -				$ -	$ -		$ -					
Former City of Etobicoke	1994	City-wide	$2,431	$2,127				$1,757	$1,330		$ -					
		Motel Strip	$3,063	$2,669				$2,209	$1,657		$ -					
Former City of York	1994	City-wide	$ -	$ -				$ -	$ -		$ -					
Former Borough of East York	1994	Municipal	$ -	$ -				$ -	$ -		$ -					
Former City of Scarborough	1994	Municipal	$3,806	$3,729				$2,412	$2,412			N/A	$7.32	N/A	$7.32	
Former City of North York	1994	City-wide	$3,939	$3,376				$2,364	$1,685		$1.37	$1.37	N/A	$1.37		
		Yonge Centre	$3,360	$2,880				$2,015	$1,440		$2.02	$2.02	N/A	$2.02		

CHART 2: Comparison of Residential and Non Residential DC Rates between 1994 to 2010 for Durham Region

Municipality	Adopted Year	Development Charge Type	Type of Development												
			Residential, non-Apartment ($ / Unit)				Apartment				Non-Residential ($ / Sq. Mtr.)				
			Singles/ Semis	Multiples			Overall	2 or More Bedrooms (defined as >750 sq. ft.)	Bach or 1 Bedrooms (defined as < = 750 sq. ft.)	Special Needs	Overall	Office	Retail Comm.	Industrial	Institutional
				Overall	3 or More Bedrooms	1 or 2 Bedrooms									
DURHAM REGION	1994	Regional	$7,308												
	1999	Regional	$8,545	$7,604				$5,832	$3,161			$10.76	$10.76		
	2002	Regional	$9,644	$8,582				$6,074	$3,568			$14.96	$14.96		
		GO Transit DC	$498	$441				$313	$185						
		Educational DC	$2,084	$2,084				$2,084	$2,084		$1.94				
	2010	Regional	$17,887	$14,618				$10,432	$6,567				$140.36	$35.84	$40.79
		GO Transit DC	$610	$540				$383	$227						
		Educational DC	$1,964	$1,964				$1,964	$1,964						
Oshawa	1994	Municipal	$4,113												
	1999	Municipal	$4,740	$4,597				$2,873	$2,154		$ -				
	2002	Municipal	$5,348		$5,187	$3,241		$2,873	$2,154		$ -				
	2010	Municipal	$6,751	$6,751				$4,865	$2,658	$2,143.00			$30.35	N/A	$30.35
Clarington	1994	Municipal	$4,940												
	1999	Municipal	$5,458	$4,725			$3,258				$ -				
	2002	Municipal	$7,317	$6,431				$4,879	$3,104			$8.86	$8.86		
	2010	Municipal	$14,143	$12,329				$9,700	$6,152				$55.20	$30.24	$55.20
Ajax	1994	Municipal	$5,283												
	1999	Municipal	$5,003	$4,287				$3,002	$2,287		$11.84	Effective July 1, 2000			
	2002	Municipal	$5,647	$5,647				$3,389	$2,581		$12.92				
	2010	Municipal	$11,340	$8,871				$6,249	$4,115				$35.31	$35.31	$35.31
Pickering	1994	Municipal	$4,387												
	1999	Municipal	$5,927	$4,857				$3,292	$2,470		$10.97				
	2002	Municipal	$7,118	$5,832				$3,954	$2,965		$12.41				
	2010	Municipal	$9,694	$6,957				$5,246	$3,849				$41.66	$41.66	$41.66
Whitby	1994	Municipal	$4,569												
	1999	Municipal	$4,846	$3,971				$2,692	$2,154			$2.69	$2.69		
	2002	Municipal	$5,747		$4,708	$3,194		$3,194	$2,553			$2.92	$2.92		
	2010	Municipal	$10,412	$8,624				$7,314	$3,992				$39.72	$39.72	$39.72
Brock	1994	Municipal	$4,079												
	1999	Municipal	$4,078	$2,472			$2,224				$17.22				
	2002	Municipal	$4,602	$2,788			$2,510				$19.43				
	2010	Municipal	$12,853	$10,192				$7,533	$7,533				$47.90	$47.90	$47.90
Scugog	1994	Municipal	$3,965												
	1999	Municipal	$4,283	$3,779			$2,645					$9.47	$9.47		$9.47
	2002	Municipal	$4,834	$4,265			$2,985					$11	$11		$11
	2010	Municipal	$11,905	$9,442				$6,612	$6,612				$62.92	$62.92	$40.13
Uxbridge	1994	Municipal	$4,073												
	1999	Municipal	$4,376	$3,603			$2,831					$21.85	$21.85		$21.85
	2002	Municipal	$4,938	$4,067			$3,195					$24.70	$24.70		$24.70
	2010	Municipal	$10,692	$7,972				$5,125	$5,125	$3,479			$43.58	$29.06	$43.58

CHART 3: Comparison of Residential and Non Residential DC Rates between 1994 to 2010 for Halton Region

Municipality	Adopted Year	Development Charge Type	Type of Development												
			Residential, non-Apartment ($ / Unit)				Apartment				Non-Residential ($ / Sq. Mtr.)				
			Singles/ Semis	Multiples			Overall	2 or More Bedrooms (defined as >750 sq. ft.)	Bach or 1 Bedrooms (defined as <= 750 sq. ft.)	Special Needs	Overall	Office	Retail Comm.	Industrial	Institutional
				Overall	3 or More Bedrooms	1 or 2 Bedrooms									
HALTON REGION	1994	Regional	$5,212												
	1999	Urban Charge	$5,870		$4,947	$3,595		$3,397	$2,309	$1,814		$25.73	$38.54	$25.73	$25.73
		Rural Charge	$2,272		$1,915	$1,391		$1,315	$894	$702		$7.32	$10.98	$7.32	$7.32
	2002	Urban Charge	$7,358		$6,196	$3,595		$4,255	$2,892	$2,271	$57.85				
		Rural Charge	$2,967		$2,495	$1,391		$1,714	$1,165	$914	$16.43				
		GO Transit DC	$745		$623	$453		$428	$292	$228					
		Educational DC	$1,563		$1,563	$1,563		$1,563	$1,563	$1,563	$3.66				
	2010	Regional	$29,118.01		$23,280.11	$16,645.53		$17,426.17	$11,656.19	$9,143.03		$166.53	$166.53	$166.53	$166.53
		GO Transit DC	$970.15		$811.16	$590.18		$557.83	$379.98	$296.44					
		Educational DC	$2,576.00		$2,576.00	$2,576.00		$2,576.00	$2,576.00	$2,576.00		$7.74	$7.74	$7.74	$7.74
City of Burlington	1994	Municipal	$7,035												
	1999	Municipal	$4,300		$3,505	$2,541		$2,301	$1,662	$1,325	$18.19				
	2002	Municipal	$4,844		$3,947	$2,862		$2,592	$1,872	$1,493	$20.45				
	2010	Municipal	$7,517		$5,385	$4,263		$3,793	$3,097	$2,468		$35.84	$84.82	$35.84	$35.84
Town of Halton Hills	1994	Municipal	$5,115												
	1999	Municipal	$5,073		$4,489	$3,591		$2,843	$1,945	$1,496	$16.36				
	2002	Municipal	$5,662		$5,010	$4,008		$3,173	$2,171	$1,670	$18.26				
	2010	Municipal	$13,388.17		$11,227.47	$6,908.00		$6,477.72	$4,749.77	$4,319.00		$63.39	$63.38	$25.90	$63.38
Town of Milton	1994	Municipal	$5,444												
	1999	Municipal	$5,240	$5,062				$3,256	$2,664		$20.78				
	2002	Municipal	$6,092	$5,882				$3,787	$3,096		$22.07				
	2010	Municipal	$10,735.00		$7,866.00	$7,866.00		$6,355.00	$4,165.00	$3,084.00		$34.02	$58.34	$34.02	$34.02
Town of Oakville	1994	Municipal	$10,589												
	1999	Municipal	$6,697		$5,589	$4,755		$4,180	$2,793	$1,924		$21.53	$26.70	$21.53	$21.53
	2002	Municipal	$7,474.00		$6,238.00	$5,308.00		$4,665.00	$3,117.00	$2,148.00		$24.03	$29.80	$24.03	$24.03
	2010	Municipal	$17,821		$13,613	$13,613		$11,300	$6,519	$5,783		$69.44	$69.44	$69.44	$69.44

CHART 4: Comparison of Residential and Non Residential DC Rates between 1994 to 2010 for Peel Region

Municipality	Adopted Year	Development Charge Type	Type of Development: Residential, non-Apartment ($ / Unit)				Apartment				Non-Residential ($ / Sq. Mtr.)				
			Singles/ Semis	Multiples: Overall	Multiples: 3 or More Bedrooms	Multiples: 1 or 2 Bedrooms	Overall	2 or More Bedrooms (defined as >750 sq. ft.)	Bach or 1 Bedrooms (defined as < = 750 sq. ft.)	Special Needs	Overall	Office	Retail Comm.	Industrial	Institutional
PEEL REGION	1994	Regional	$4,782												
	1999	Regional	$5,614	$5,614				$4,021	$2,086		$25.83				
	2002	Regional	$6,276	$6,276				$4,484	$2,331			$29.23	$29.23	$27.93	$29.23
		GO Transit DC	$313	$313				$223	$116						
		Educational DC	$2,136	$2,136				$2,136	$2,084		$5.16				
	2010	Regional	$16,696.30	$16,696.30				$11,925.93	$6,201.50			$89.21	$89.21	$62.30	$62.30
		GO Transit DC	$446.09	$446.09				$318.64	$165.13						
		Educational DC	$1,759.00	$1,759.00				$1,759.00	$1,759.00			$5.71	$5.71	$5.71	$5.71
Brampton	1994	Municipal	$7,956												
	1999	Municipal	$7,173	$7,173				$4,953	$2,672		$22.17				
	2002	Municipal	$7,818	$7,818				$5,399	$2,912			$20.26	$20.26	$24.97	$20.26
	2010	Municipal	$21,279.51	$19,674.75				$15,635.30	$8,130.31			$45.65	$96.16	$45.65	$96.16
Mississauga	1994	Municipal	$6,212												
	1999	Municipal	$6,498	$6,498				$4,641	$2,414		$23.47				
	2002	Municipal	$6,728	$6,728				$4,805	$2,499			$24.31	$24.31	$19.76	$24.31
	2010	Municipal	$15,709.43	$15,709.43				$12,090.61	$6,287.12			$62.99	$62.99	$51.22	$62.99
Caledon	1994	Municipal	$9,491												
	1999	Municipal	$8,908	$6,524				$4,768	$3,262		$13.67				
	2002	Municipal	$10,598	$7,762				$5,672	$3,880		$15.47				
	2010	Municipal	$18,240.04	$18,240.04				$12,160.35	$7,137.53			$45.58	$45.58	$45.58	$45.58

CHART 5: Comparison of Residential and Non Residential DC Rates between 1994 to 2010 for York Region

Municipality	Adopted Year	Development Charge Type	Type of Development												
			Residential, non-Apartment ($ / Unit)				Apartment				Non-Residential ($ / Sq. Mtr.)				
			Singles/ Semis	Multiples			Overall	2 or More Bedrooms (defined as >750 sq. ft.)	Bach or 1 Bedrooms (defined as < = 750 sq. ft.)	Special Needs	Overall	Office	Retail Comm.	Industrial	Institutional
				Overall	3 or More Bedrooms	1 or 2 Bedrooms									
YORK REGION	1994	Regional	(Range) $3,462 - $6,189												
	1999	Regional (Proposed)	$9,495	$8,002				$5,869	$3,735			$18.84	$30.14	$18.84	$18.84
	2002	Regional	$10,500	$8,833				$6,479	$4,123			$26.91	$37.67	$26.91	$26.91
		GO Transit DC	$267	$210				$154	$98						
		Educational DC	$2,628	$2,628				$2,628	$2,628		$3.88				
	2010	Regional	$25,875	$21,352				$16,077	$10,421			$124.66	$246.17	$124.66	$124.66
		GO Transit DC	$306	$241				$177	$111						
		Educational DC	$2,020	$2,020				$2,020	$2,020			$5.60	$5.60	$5.60	$5.60
City of Vaughan	1994	Municipal	(City average) $6,936.80												
	1999	Municipal	$6,890	$6,003			$3,879				$12.38				
	2002	Municipal	$7,504	$6,537			$4,225				$13.46				
	2010	Municipal	$13,044	$11,043				$7,745	$7,745			$18.91	$18.91	$18.91	$18.91
Town of Richmond Hill	1994	Municipal	$6,456.00												
	1999	Municipal	$5,614	$4,624			$3,137				$3.55	9/1/99 - 11/6/00 incl.			
	2002	Municipal	$6,319	$5,206			$3,531				$6.49				
	2010	Municipal	$11,433.00	$9,248.00				$6,902.00	$4,903.00			$40.12	$64.94	$40.12	$40.12
Town of Markham	1994	Municipal	$11,873.00												
	1999	Municipal	$6,500	$5,400				$4,224	$2,689		$4.31	(+) $33,201 per net hectare			
	2002	Municipal	$7,357	$6,113				$4,782	$3,045		$4.84	(+) $37,581 per net hectare			
	2010	Municipal	$18,256	$14,347				$11,291	$6,782		$5.51	$8.04	$8.74	$8.04	$8.04
Town of Aurora	1994	Municipal	$7,075												
	1999	Municipal	$5,671	$4,678				$3,364	$2,482		$12.16				
	2002	Municipal	$7,477	$6,167				$4,436	$3,272		$18.06				
	2010	Municipal	$14,670	$11,557				$8,891	$6,670			$24.42	$24.42	$24.42	$24.42
Town of Georgina	1994	Municipal	(Twp. average) $3,882.50												
	1999	Municipal	$2,853	$2,853				$1,694	$1,338		$10.01				
	2002	Municipal	$3,219	$3,219				$1,912	$1,509		$8				
	2010	Municipal	$4,370	$4,224				$3,009	$2,073			$16.90	$16.90	$16.90	$16.90
Township of King	1994	Municipal	(Twp. average) $4,805.50												
	1999	Municipal	$3,161	$2,086				$1,952	$1,775		$8.18				
	2002	Municipal	$3,568	$2,355				$2,203	$2,003		$9.26				
	2010	Municipal - All areas	$11,138	$9,476				$6,317	$4,363			$41.10	$41.10	$41.10	$41.10
Town of Whitchurch-Stouffville	1994	Municipal	No data												
	1999	Municipal	$5,591	$4,271				$3,433	$2,685		$23.04				
	2002	Municipal	$5,667	$4,220				$3,440	$2,881		$22.71				
	2010	Municipal	$11,549	$9,065				$7,675	$5,519			$69.94	$82.32	$41.54	$82.32
Town of East Gwillimbury	1994	Municipal	(Twp. average) $ 8,000.40												
	1999	Municipal	$3,693	$2,879				$2,056	$1,852		$13.02				
	2002	Municipal	$4,021	$3,314				$2,240	$2,018		$14.21				
	2010	Municipal	$10,822	$8,955				$6,280	$4,348			$31.85	$31.85	$31.85	$31.85
Town of Newmarket	1994	Municipal	$3,500												
	2010	Municipal	$13,327	$9,627	$10,571.00			$7,400	$4,531			$17.54	$17.54	$17.54	$17.54

Endnotes

1 This history is provided in David Amborski, "Impact Fees Canadian Style: Development Charges in Ontario," In C. Arthur Nelson Ed, Planners Press, Chicago 1986.

2 *Development Charges Act*, 1989

3 These costs have been documented in a CMHC report entitled "Government Imposed Charges on New Housing in Canada," by Ray Tomalty and Andrejs Skaburskis, CMHC 2009.

4 Geoffrey Matthews, "Who Pays? Assessing the Impacts of Growth", September 2010, page 13.

5 "New Development Charges Act, Bill 98", Bill 98, Regulation and assorted material, Urban Development Institute Seminar, March 26, 1998.

6 OMB Decision with regard to the Town of Orangeville Development Charges By-Law no 78-2008, OMB Case no, DC090049.

7 For a summary of these two theories see Gregory Burge, Arthur Nelson and John Matthews, "Effects of Proportionate Share Impact Fees," in Housing Policy Debate, Volume 18, Issue 4, 2007.

8 Op cit pages 684-691

9 City of Toronto Staff Report, "Development Charges- Background Study and Proposed By-Law", October 27, 2008.

10 James McKellar, David Amborski et al, "Building a Sustainable Toronto", January 2009.

11 The surcharge is intended to off-set costs attributable to growth that the Region cannot include in its development charges as prescribed by the *Development Charges Act*.

12 Halton HUSP refers to the Halton Urban Structure Plan which separates the Region into two zones. The non-HUSP area coincides with the existing built up area, and the HUSP encompasses lands that will considered for future developed.

13 CMHC, "2010 Canadian Housing Observer," page 43, Government of Canada, Ottawa.

14 These economic impacts are reported by the Altus Group, "The Time is Right- Alternatives to Development Charges," March 2009.

15 Will Dunning Inc., "Consequences of Government-Imposed Costs Within the New Housing Market," prepared for RESCON, March 2011.

16 RCCAO Letter to Brad Graham, ADM Ontario Growth Secretariat, Re: Planning for Employment in the Greater Golden Horseshoe, July 21, 2008.

17 Ontario Growth Secretariat, "Proposed Size and Location of Urban Growth Centres in the Greater Golden Horseshoe," Technical Paper, Spring 2008.

18 Metrolinx, "The Big Move: Transforming Transportation in the Greater Toronto and Hamilton Area," November 2008.

19 This has been commented on by a number of publications in Ontario including N.E. Slack, "Municipal Finance and the Pattern of Urban Growth." C.D. Howe Institute Commentary 160, February 2002, and Pamela Blais, Perverse Cities: Hidden Subsidies, Wonky Policy and Urban Sprawl, UBC Press 2010.

20 Ray Tomalty and Andrejs Skaburskis, "Government Imposed Charges on New Housing in Canada," CMHC, September 2009.

21 This has been raised by Canada's Big City Mayors, the Federation of Canadian Municipalities, the Toronto City Summit Alliance, and recently by Richard Soberman in *Delivering Transit Service in the GTHA: Where We Are Is Not Where We Want to End Up*, Study for the Residential and Civil Construction Alliance of Ontario, November 2010.

RESIDENTIAL AND
CIVIL
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ALLIANCE OF
ONTARIO

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