

# **DEVELOPMENT CHARGES IN CANADIAN MUNICIPALITIES: AN ANALYSIS**



**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales **CIRUR**  
**Enid Slack**

**ICURR Publications  
Toronto**

Published by ICURR PRESS  
Suite 301, 150 Eglinton Avenue East,  
Toronto, Ontario  
Canada M4P 1E8  
Telephone: (416) 973-5629  
Fax: (416) 973-1375

First Edition: July 1994  
Copyright © ICURR PRESS 1994  
All rights reserved

No part of this report can be reproduced in any form without the written consent of the publisher. The views expressed here are those of the author and do not necessarily represent the official views of ICURR.

ISBN 1-895469-39-2

Canadian Cataloguing in Publication Data

Slack, N. E. (Naomi Enid), 1951-  
Development Charges in Canadian Municipalities: An Analysis

Includes bibliographical references.  
ISBN 1-895469-39-2

1. Special Assessments - Canada. I. Intergovernmental Committee on Urban and Regional Research (Canada). II. Title.

HJ4292.A6S53 1994 352.1'34'0971 C94-931572-9



ICURR Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales CIRUR

# TABLE OF CONTENTS

Foreword .....	i
Biographical Notes .....	iii
Acknowledgements .....	v
Executive Summary .....	vii
Introduction .....	1
Chapter 1: Provincial Legislation Governing Development Charges .....	3
1.1 YUKON .....	5
1.2 NORTHWEST TERRITORIES .....	6
1.3 BRITISH COLUMBIA .....	7
1.4 ALBERTA .....	10
1.5 SASKATCHEWAN .....	11
1.6 MANITOBA .....	13
1.7 ONTARIO .....	13
1.8 QUEBEC .....	17
1.9 NEW BRUNSWICK .....	18
1.10 NOVA SCOTIA .....	18
1.11 PRINCE EDWARD ISLAND .....	18
1.12 NEWFOUNDLAND .....	19
Chapter 2: Municipal Survey .....	21
2.1 RESPONSES OF MUNICIPALITIES THAT LEVY DEVELOPMENT CHARGES .....	23
2.2 RESPONSES OF MUNICIPALITIES WITHOUT DEVELOPMENT CHARGES .....	35
Chapter 3: Some Issues Arising out of the Use of Development Charges	37
3.1 ADMINISTRATIVE ISSUES .....	37
3.2 DEFINITION OF OFF-SITE COSTS .....	38
3.3 SERVICES INCLUDED IN DEVELOPMENT CHARGES .....	38
3.4 LEGISLATION GOVERNING THE USE OF DEVELOPMENT CHARGES .....	40
3.5 PARKLAND DEDICATIONS .....	41

Chapter 4: The Impact of Development Charges .....	43
4.1 WHO BEARS THE BURDEN OF THE CHARGE? .....	43
4.2 IMPACT OF DEVELOPMENT CHARGES ON EXISTING VERSUS NEW RESIDENTS .....	45
4.3 IMPACT OF DEVELOPMENT CHARGES ON ACCOUNTABILITY .....	46
4.4 IMPACT OF DEVELOPMENT CHARGES ON BORROWING COSTS .....	46
4.5 IMPACT OF DEVELOPMENT CHARGES ON LAND USE .....	47
4.6 IMPACT OF DEVELOPMENT CHARGES ON THE TIMING OF DEVELOPMENT .....	48
4.7 PLANNING TOOL OR REVENUE TOOL .....	48
Chapter 5: Merits and Problems Associated with Development Charges .	51
References .....	53
Appendix: The Survey .....	57



## FOREWORD

On behalf of the Intergovernmental Committee on Urban and Regional Research (ICURR), we are pleased to present Dr. Enid Slack's paper, *An Analysis and Evaluation of the Application of Development Charges by Canadian Municipalities*. This is Dr. Slack's second ICURR research paper on municipal finance. The first report, published last year, is entitled *The Land Use Implications of Alternative Municipal Financial Tools: A Discussion Paper*. Issues related to municipal finance will continue to be an area of priority for ICURR's research program. Other recent research topics of interest to ICURR include sustainable urban development, local governance and environmental and municipal planning.

The purpose of this paper is to describe and evaluate the use of development charges in Canada. This study provides a comprehensive review of provincial and territorial legislation regarding development charges as well as an extensive survey of Canadian municipalities. Dr. Slack also provides an informative evaluation and discussion of the use of development charges in Canada. The results of this topical project should be extremely beneficial to planners, policy-makers and municipal officials in general.

ICURR would like to thank Dr. Slack for the enthusiasm and commitment she displayed in the production of this paper. Moreover, ICURR would like to thank Marianne Farag of the Department of Urban Government and Finance of Manitoba Urban Affairs as well as the members of ICURR's Research Committee for originally suggesting and developing this timely research project. Finally, ICURR thanks Nancy Bardecki, Director of the Municipal Finance Branch of the Ministry of Municipal Affairs in Ontario, whose support and enthusiasm for ICURR research projects related to municipal finance issues was, as always, appreciated. Her encouragement certainly helped us to successfully complete the project.

Michel Gauvin, MCIP  
Executive Director

**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales

Dr. Claude Marchand  
Research Coordinator

Intergovernmental Committee on Urban and Regional Research



## BIOGRAPHICAL NOTES

Dr. Enid Slack is an economic consultant specializing in public policy research in the area of public finance, with special emphasis on municipal and educational finance. She has been president of Enid Slack Consulting Inc. since 1981 and teaches part-time at the University of Toronto. Dr. Slack consults to a variety of clients in Canada and abroad including school boards, municipal, provincial, territorial and federal governments, government commissions and private companies. She has co-authored three books and has published many articles on various aspects of municipal and provincial government finance. Her most recent book, *Urban Public Finance in Canada* (2nd edition) was published by John Wiley and Sons. Previous work for ICURR includes: *The Land Use Implications of Alternative Municipal Financial Tools: A Discussion Paper*.



**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales **CIRUR**





## ACKNOWLEDGEMENTS

I would like to thank ICURR's Committee of Directors of Research from Departments of Municipal Affairs in each of the provinces and territories, and CMHC for providing provincial and territorial legislation, and for answering questions about development charges. Their careful review of the first draft of this paper was also greatly appreciated. I would also like to thank all of the municipalities who participated in the survey and took the time to fill out the questionnaire and provide background documentation. Finally, I would like to thank Michel Gauvin and Claude Marchand of ICURR for their continued support and assistance with this study.



**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales **CIRUR**



# EXECUTIVE SUMMARY

This study describes and evaluates the use of development charges across Canada. As part of the study, a survey was undertaken of the use of development charges and other exactions on developers by Canadian municipalities. The study also includes a survey on provincial and territorial legislation governing the use of development charges by provincial and territorial officials of municipal affairs.

A development charge is a levy on developers to finance the off-site costs associated with development (or, in some cases, redevelopment). These charges are generally levied for officially mandated programs and the funds collected have to be used to pay for the infrastructure made necessary by the development. Charges are generally non-negotiable. Development charges have different names in different provinces, such as development cost charges, development cost levies, development levies, off-site levies and assessment levies.

## Provincial and Territorial Legislation

There is a wide variety of provincial/territorial legislation dealing with the application of development charges. Ontario is the only province which has a separate Development Charges Act. In British Columbia, Alberta, Saskatchewan and the Yukon, there are sections in the Municipal Act or the Planning Act devoted to development charges. In the Northwest Territories there is a government policy statement regarding the use of development charges. In other provinces, there is no governing provincial legislation but, in some cases, legislation does permit municipalities to charge developers as a condition of subdivision approval.

## Municipal Survey

**ICURR** Intergovernmental Committee on Urban  
and Regional Research

A survey on development charges was sent out to 35 municipalities across Canada; responses were received from 31. Of those that responded, 16 currently exact development charges as defined in this study. Of the remaining 15, the majority (10) impose other levies on developers.

Some of the survey findings include:

- Development charges are levied on residential, commercial, industrial and institutional properties. In some municipalities, commercial and industrial development is excluded from development charges.
- Development charges are sometimes levied as an amount per lot or per unit; sometimes they are levied on a per hectare or per square foot basis.

- In most municipalities, development charges are levied to pay for water and sewers. In British Columbia (with the exception of Vancouver where levies can be charged for day care facilities and replacement housing), municipalities are permitted to charge for water, sewers, roads, parks and drainage. In Ontario, municipalities can levy for any growth-related capital costs including recreational facilities, city halls, libraries and other facilities.
- Generally, a charge is levied and collected at the time of subdivision approval or issuance of the building permit.
- All municipalities reported that collected development charges go into special reserve accounts or dedicated service accounts.

### An Evaluation of the Advantages and Disadvantages of Development Charges

An analysis of the impact of development charges suggests the following advantages:

- growth pays for itself and does not create a burden on existing taxpayers
- development charges speed up development by providing funds to pay for the cost of off-site services
- development charges for which there is legislation governing their use are preferable to negotiated exactions because they assure more predictability for developers and the municipality
- development charge legislation requires municipalities to have at least a ten-year capital forecast so that they will undertake financial planning
- if properly implemented to reflect the marginal cost associated with each development, they can promote land-use objectives.

The analysis suggested the following disadvantages:

- development charges increase the price of new housing
- development charges double tax new residents
- development charges inhibit development
- if not properly implemented, development charges can create an incentive for urban sprawl
- development charge requirements place a heavy administrative burden on municipalities.

# INTRODUCTION

The purpose of this study is to describe and evaluate the use of development charges by selected Canadian municipalities. The main focus of the study is a survey of the use of development charges and other exactions by municipalities across Canada. Also, a survey of provincial and territorial officials of municipal affairs provides information on provincial legislation governing the use of development charges.

A development charge is defined as a levy on developers to finance the off-site costs associated with development (or, in some cases, redevelopment). These charges are generally levied for officially mandated programs and the funds collected have to be used to pay for the infrastructure made necessary by the development. Charges are generally non-negotiable. Development charges have different names in different provinces, such as development cost charges, development cost levies, development levies, off-site levies and assessment levies.

Municipalities in Canada have, historically, required developers to provide or pay for on-site services such as streets, streetlighting, sidewalks, and other public facilities within the subdivision as a condition of subdivision approval. More recently, municipalities have extended the responsibility for the off-site costs associated with new development to developers.<sup>1</sup> These "growth-related" costs have traditionally included "hard" costs for roads, water and sewer systems and more recently have included "soft" costs for services such as libraries, recreation centres and schools. The idea behind this move is that "growth should pay for itself" and not be a burden on existing taxpayers.

There are other formal or informal exactions on the developer that are part of the subdivision approval process but that are not development charges as defined above. Some examples are:

- Land dedications require the developer to set aside land for various reasons (for example, for roadways or other public works or for environmental reasons).
- Parkland dedications require that a portion of the land used for development be set aside for parkland or that a cash payment to the municipality be made in lieu of parkland.
- Density bonusing, where developers are granted higher densities in return for providing day care, preserving a historic building etc.

---

<sup>1</sup> The distinction between on-site costs and off-site costs is important. While most municipalities specify the on-site costs that are required to be made by developers, not all municipalities make developers pay for the off-site costs. This study focuses on the off-site costs associated with development.

- Connection fees are often charged to permit developers to buy into existing water and sewer facilities.
- Oversizing provisions (sometimes called front-end financing) may require developers to provide more infrastructure than is required for their development. The municipality, in some cases, agrees to recover part of the costs from future benefitting owners on behalf of the developer.

While all of these exactions represent costs to the developer, they are generally not considered to be development charges, as defined in this study.

### Outline of Paper

The outline of the paper is as follows:

- Section 1 reviews the provincial legislation governing the use of development charges by municipalities.
- Section 2 summarizes the findings of the municipal survey on development charges and compares the use of charges across Canada.
- Section 3 reviews some of the issues arising out of the use of development charges: administration, definition of off-site costs, services included in the charge, legislation, and parkland dedications.
- Section 4 analyzes the impact of development charges as a revenue tool and as a planning tool: who bears the burden of the charge, impact on existing and new residents, accountability, impact on borrowing costs, impact on land use, and impact on the timing of development.
- Section 5 summarizes the merits and problems associated with development charges.

# CHAPTER 1

## PROVINCIAL LEGISLATION GOVERNING DEVELOPMENT CHARGES

Constitutionally, municipalities in Canada are creatures of the provinces. Both the services that they provide and their ability to raise revenues are governed by provincial legislation. Therefore, the starting point for any analysis of development charges is provincial legislation. For this study, each provincial and territorial Ministry of Municipal Affairs was contacted about provincial legislation governing development charges. As the discussion below demonstrates, there is wide variation in the nature and detail of provincial legislation.

As Table 1 shows, Ontario is the only province which has a separate Development Charges Act (passed in 1989) governing the levying of development charges. In B.C., Alberta, Saskatchewan, and the Yukon Territory, there are sections devoted to development charges in the Municipal Act or the Planning Act. In all other provinces, there is no governing legislation on development charges, but in some cases provincial legislation allows municipalities to levy charges on developers as a condition of development approval.

Table 1 also shows the services specified in provincial legislation for which development charges can be levied, and whether the calculation of the charge is specified in legislation. With the exception of the Yukon and Ontario, those provinces which have legislation governing the use of development charges specify which services can be financed by development charges. In the Yukon, the legislation does not specify the services; in Ontario, the development charge can be levied to pay for any growth-related capital costs. Where there is governing legislation, it sets out how the charge should be calculated, for example by housing type, location etc.

Finally, Table 1 summarizes, by province, the use of parkland dedication provisions. Although these provisions exist in each province and territory, they do vary across Canada. Generally, parkland dedications require the owner of the land to set aside between 5 and 10 percent of the land to be developed or to make a cash payment to the municipality in lieu of land.

The remainder of this section summarizes provincial legislation governing development charges by province and territory. Where there are few provisions, a quick summary is provided. Where there is more detailed legislation, the summary attempts to answer a series of questions:

- who can levy development charges?
- what are growth-related capital costs?
- for what services can development charges be levied?
- when do development charges have to be paid?
- how is the charge calculated?
- what is the approval process?

**Table 1: Summary of Provincial Legislation**

Province/ Territory	Legislation Governing Dev. Charges	Services	Calculation of Charge Specified	Parkland Dedication Provisions
Northwest Territories	Cities, Towns and Villages Act	not specified	no	10%
Yukon	Municipal Act	not specified	yes	10%
British Columbia	Municipal Act	water, sewers, roads, parks, drainage	yes	5%
Alberta	Planning Act	water, sewers, land for parks, schools, recreation	yes	10%
Saskatchewan	Planning and Development Act	sewers, water, highways, parks & rec., drainage	yes	10% res'l; 5% non- res'l
Manitoba	no	not specified	no	100 acres/ person res'l only
Ontario	Development Charges Act	any growth- related cost	yes	5% res'l; 2% non-res'l
Quebec	no	not specified	no	10%
New Brunswick	no	not specified	no	10%
Nova Scotia	no	not specified	no	5%
Prince Edward Island	no	not specified	no	10%
Newfoundland	no	not specified	no	10% or 25 sq. m. per dwelling unit



- what are the front-end financing arrangements?
- what are the parkland dedication provisions?

While these questions provide a framework for summarizing legislation, they are not all addressed by legislation in each province. In addition, in some provinces there may be unique circumstances which require additional questions to be posed.

## 1.1 YUKON

The authority of Yukon municipalities to impose development cost charges is found in Section 345 of the Yukon Municipal Act.

Who can levy development cost charges?

As a condition of its consent to an application, a Municipality can impose development cost charges on every person who applies for approval of a subdivision or building permit. The funds collected are deposited into a development reserve fund.

What are growth-related capital costs?

Capital costs are defined as capital payments (including planning, engineering and legal costs) for providing, altering or expanding municipal services and other facilities of benefit to the municipality. Also included as a capital cost is the payment of debt incurred as a result of an expenditure made.

ICURR Intergovernmental Committee on Urban  
and Regional Research

Comité intergouvernemental de recherches  
urbaines et régionales

**CIRUR**

For what services can development cost charges be levied?

The legislation does not specify which services are subject to development cost charges.

When do development cost charges have to be paid?

Development cost charges are fixed prior to the approval of the subdivision or the issuance of the building permit, whichever the case may be. The approving authority may direct the time and method of payment.

How is the charge calculated?

A schedule of development cost charges has to be provided in a by-law. Charges may vary according to:

- different defined or specified areas or zones
- different uses
- different capital costs related to any class of development
- different sizes or numbers of units or lots created by or as a result of development.

What is the approval process?

A by-law must be approved by an Executive Council Member, who may grant approval, refuse to grant approval, or require that the by-law be altered and amended.

What are the parkland dedication provisions?

Under the Municipal Act, up to 10 percent of the land to be subdivided must be set aside for public use.

## 1.2 NORTHWEST TERRITORIES

The Planning Act serves as one legislative basis for Territorial policy on development charges but its wording is very general. Section 37 enables a municipal council, an approving authority, or an appeal board to enter into agreements with landowners with regarding requirements or limitations as a condition of issuing a permit or authorizing development. Section 38(d) of the Planning Act prohibits land subdivisions unless the developer provides for the installation and construction of specified on-site public facilities if requested by the municipality.

More recently, the Territorial government has taken a position on the municipal use of development charges through the Municipal Lands Policy, approved by Executive Council in 1993. Provision 7 of the Policy Directive deals with "off-site levies." Although the Municipal Lands Policy does not have legislative status, it is linked to recent amendments to the Cities, Towns and Villages Act, Charter Communities Act, and Hamlets Act which require municipal councils undertaking land administration to make land administration by-laws satisfactory to the Minister of Municipal and Community Affairs.

Who can levy off-site levies?

A municipal corporation may charge an off-site levy to a purchaser or lessee of municipal lands to help pay for all or part of the capital cost associated with development. Off-site levy revenues must be placed in a separate fund account and are to be clearly identifiable and substantiated by the municipal corporation. The public is to be made aware that these charges are a separate surcharge above the lot price.

What are growth-related capital costs?

Capital costs include land, and costs those incurred for new or expanded facilities.

For what services can off-site levies be used?

Off-site levies can be used to pay for new or expanded facilities for the storage, transmission, treatment or supply of water; treatment, movement or disposal of sewage; storm sewer drainage facilities; roadways and sidewalks.

What are the parkland dedication provisions?

Under the Planning Act, the municipality may require the owner of the land comprising a proposed subdivision to set aside 10 percent of it as a reserve. A reserve is to be used by the municipality for a school, public park or recreation area.

### 1.3 BRITISH COLUMBIA

The legislation governing the use of development cost charges (DCC's) in British Columbia is Section 983 of the Municipal Act.

Who can levy development cost charges?

Under the Municipal Act, municipalities, regional districts and greater boards (i.e. special purpose bodies such as water districts) can levy development cost charges where there is an approval of subdivision, or a building permit authorizing the construction, alteration or extension of a building or structure. The funds collected are placed in a separate development cost charge reserve fund according to the purpose for which each charge was levied.

What are growth-related capital costs?

The development cost charge applies only where the development imposes new capital cost burdens on the local government. Capital costs include: the costs, construction and expansion of the capital facilities; planning, engineering and legal costs related to the capital cost incurred. The funds can also be used for debt charges on debt incurred by the local government to meet capital expenditures.

For what services can development cost charges be levied?

Under Section 983(2) of the Municipal Act, local governments can charge DCC's to pay for the capital costs of: providing, constructing, altering or expanding sewage, water, drainage and highway facilities other than off-street parking; providing park land to service, directly or indirectly, the development for which the charge is imposed.

When do development cost charges have to be paid?

The charge is payable at the time of the approval of the subdivision or the issue of the building permit. In some cases, it is possible to pay the development cost charge in instalments over a period of years.

How is the charge calculated?

The development cost charge may vary with respect to:

- different zones or different defined or specified areas
- different uses
- different capital costs as they relate to different classes of development
- different sizes or different numbers of lot or units in a development.

The charges have to be comparable for all developments that impose similar capital cost burdens on the municipality. It is also specified under the legislation that standards of service have to be comparable to the standards of existing services, and that the justification for the charge is subject to public scrutiny.

What is the approval process?

The by-law that imposes a development cost charge has to be approved by the provincial Inspector of Municipalities. The charge must be related to the capital costs attributable to

projects included in the by-law, and the local government must consider the impact of the charge.

What are the front-end financing arrangements?

The legislation states that where an owner has provided or paid for services outside of the boundaries being developed, and where the costs are included in the DCC, that the costs should be deducted from those DCC's applicable to those services. The Act also allows a local government to require an owner to provide excess or extended services beyond that owner's lands. The municipality will collect charges from subsequent property owners who connect or use the excess or extended services, and reimburse the original owner. No charge may be made beyond ten years from the date of the completion of the service.

What are the parkland dedication provisions?

Under Section 992 of the Municipal Act, the owner of land being subdivided is required to provide parkland or make a payment in lieu of providing parkland. The amount of land (or cash equivalent) required shall not exceed 5 percent of the land being proposed for subdivision.

How is Vancouver different?

Vancouver can charge "development cost levies" (DCL's) under the Vancouver Charter. Not only can it levy for sewage, water, drainage, highways and parks (as can other municipalities in B.C.), but it can also levy for the capital costs of establishing daycare facilities, and acquiring property for daycare facilities. The City of Vancouver can also levy for assisting in providing replacement housing to accommodate those displaced by the development. The housing component of DCL's is much like a linkage fee where commercial developments are required to pay for affordable housing necessitated by the development.<sup>2</sup>

The DCL may be based on a rate per foot of the longest boundary of the parcel, the number of units, the number of square feet permitted by the building permit or on any other basis determined by the Council.

---

<sup>2</sup> Linkage fees are used in the U.S. (notably in Boston and San Francisco) but not in Canada. The City of Toronto considered implementing a linkage fee a few years ago but did not proceed.

## 1.4 ALBERTA

Municipalities in Alberta have the authority to charge redevelopment levies and off-site levies under Part 4, Division 2 of the Planning Act.

Who can levy redevelopment levies and off-site levies?

A council may pass a by-law to provide for the imposition of an off-site levy. If a person applies for a development permit in a redevelopment area, and the area redevelopment plan includes residential, commercial or industrial development, a redevelopment levy can be imposed on the applicant in accordance with the by-law adopting the area redevelopment plan.

What are growth-related capital costs?

Capital costs paid for by an off-site levy include the costs of new or expanded facilities and land required in connection with any of those facilities.

For what services can redevelopment and off-site levies be charged?

Off-site levies may be used to pay for the storage, transmission, treatment or supplying of water, the treatment, movement or disposal of sanitary sewage, and storm-sewer drainage.

Redevelopment levies may be imposed to provide land for a park, school buildings, or new or expanded recreation facilities.

When do levies have to be paid?

The legislation is unclear concerning the timing of payments.

How is the charge calculated?

A redevelopment levy may vary between one class of development and another in a development area. A by-law authorizing a redevelopment or off-site levy is required to set out the object of each levy and to indicate how the amount of the levy was determined. There are no other guidelines in the legislation.

What is the approval process?

Municipalities are required by legislation to pass a by-law. Otherwise, no other approval process or appeal mechanism is specified.

What are the front-end financing arrangements?

An agreement may be made which requires a developer to construct (or pay for all or a portion of) an improvement with excess capacity (defined as capacity in excess of that required for the proposed development). The agreement may also provide for the reimbursement of the cost incurred, together with interest, at such time as land benefitted by the excess capacity is developed.

What are the parkland dedication provisions?

Under the authority of the Planning Act, a subdivision-approving authority may require the developer of a parcel of land to provide part of that parcel as municipal or school reserve or to make payments in lieu or some combination. The aggregate amount of land required to be provided is not to exceed 10 percent of the area of the parcel, less the land required to be provided as environmental reserve. The cash in lieu payment is not to exceed 10 percent of the appraised market value, less environmental reserve land.

## 1.5 SASKATCHEWAN

Municipalities in Saskatchewan are permitted to charge "development levies" under the authority of Section 55.1 of the Planning and Development Act and under Section 143 of the Planning and Development Act for servicing agreements.

Who can levy development levies?

Municipalities can charge development levies. A municipality is required to deposit development levies in one or more development levy accounts and use the funds (plus interest) only to pay the capital costs of providing the services and facilities for which it levied, any debt incurred by the municipality as a result of the expenditures, or to reimburse the owner for additional capital costs when subsequent owners are required to pay the levy.

What are growth-related capital costs?

Development levies can be charged to cover the capital costs associated with construction, planning, engineering and legal costs. The council may establish, by by-law, development levies for recovering all or part of the costs of providing, altering, expanding or upgrading services and facilities associated directly or indirectly with the proposed development.

What services can development levies be charged for?

Levies can be charged for: sewage, water or drainage works; public highways; parks; and recreational facilities. Municipalities are required to undertake specific engineering studies on servicing requirements, and studies on recreation needs.

How is the levy calculated?

Levies may vary according to zoning districts or other defined areas, land uses, capital costs as they relate to different classes of development, and the size or number of lots in the development.

What are the front-end financing arrangements?

Developers may be required to pay the costs of providing services or facilities in addition to, or of a greater capacity than those in the development levy (oversizing). Under the Planning and Development Act, a development agreement may provide for the reimbursement of the owner when other, subsequent owners in the benefitting area are required to pay development levies for the development of the land in the benefitting area.

What are the parkland dedication provisions?

The landowner may be required to provide part of the land as a municipal reserve or make a cash-in-lieu payment. The aggregate amount of land to be reserved is 10 percent of the land (or land value) proposed for subdivision in the case of a residential subdivision, and 5 percent of the land area (or land value) in the case of a non-residential subdivision. Land value is determined by market value, as set by a qualified appraiser selected and paid for by the municipality, on the basis that the land is in a subdivided unserviced state. Alternatively, the value of the land can be agreed to by the owner and the municipality.

Municipal reserves can only be used for: a public park or buffer strip; a public recreation area; school purposes; a natural area; a public building or facility; a building or facility used



and owned by a charitable corporation; agricultural or horticultural uses; or any other specific or general use that the Minister may provide by regulation.

## 1.6 MANITOBA

As part of the conditions of subdivision approval under the Planning Act, an owner may be required to install or construct on-site services within designated time limits. The owner may also be required to pay capital levies. There appears to be no mechanism for the levying of charges to finance the off-site costs associated with development.

What are the parkland dedication provisions?

Municipalities may require developers to set aside public reserve land not to exceed one acre for each 100 persons expected to occupy the area being subdivided. Public reserve land is land used as a public park or a public recreation area and a cash equivalent payment can be made in lieu of the land dedication. There is no provision for parkland dedication in commercial or industrial development.

## 1.7 ONTARIO

Under authority of the Planning Act, development charges have been applied to new developments in Ontario for almost 40 years as "lot levies". In 1989, the Development Charges Act was passed which lays out more detailed guidelines on development charges. Ontario is the only province that has separate development charges legislation. For this reason, the description of the Ontario legislation is provided in some detail.<sup>3</sup>

Who can levy development charges?

Under the legislation, development charges can be levied to pay for the growth-related off-site costs associated with development. On-site costs are the responsibility of the developer. Charges can be levied by four levels of government -- the upper tier municipality (region),

---

<sup>3</sup> The Development Charges Act is in the process of being clarified and streamlined for administrative purposes. The review is being undertaken by the Province and representatives from the municipal sector and the development industry. The basic intent of the Act, however, is not being altered.

the lower tier municipality (city), the public school board and the separate school board.<sup>4</sup> Those municipalities that levy charges are required to establish and report on separate development charge reserve funds.

What are growth-related capital costs?

Development charges can be levied to pay for the growth-related capital costs associated with development. Capital costs include costs to:

- acquire land or an interest in land
- improve land
- acquire, construct or improve buildings and structures
- acquire, construct or improve facilities including: rolling stock, furniture and equipment, and materials required for circulation, reference or information purposes by a library board
- undertake studies in connection with any of the above.

The growth-related net capital cost is the portion of the net capital costs (net of grants and subsidies) that is "reasonably attributable to the need for such net capital cost that results or will result from development in all or a defined part of the municipality." Development charges can only be used to pay for costs associated with growth.

For what services can development charges be levied?

The services for which development charges can be levied are not specified in the Act. Municipalities can charge for any growth-related capital cost including hard services (e.g. water, sewers, roads etc.) and soft services (e.g. city halls, recreational facilities, police and fire facilities, park development etc.).

When do development charges have to be paid?

A development charge is payable "on the date a building permit is issued in relation to a building or structure on land to which a development charge applies" (Development Charges

---

<sup>4</sup> The Development Charges Act permits school boards to levy development charges to build new schools. A constitutional challenge was launched by the Ontario Home Builders Association to the divisional court. The Home Builders won the challenge but were defeated in an appeal to the Ontario Supreme Court. At the present time, school boards in only two Ontario municipalities (York Region and Ottawa-Carleton) have levied development charges for schools. Other boards, however, are planning to levy charges in the near future.

Act, 1989, Section 9(1)). Under this section of the Act, payment is deferred until construction is imminent. There are exceptions: in the case of water supply services, sanitary sewers, storm drainage, transportation services, and electrical power or energy services, the payment of the charge may be required at the time of entering the subdivision agreement. The municipality may make an agreement with the developer to pay the development charge on other dates or to provide services in lieu of payment.

How is the charge calculated?

Under Section 3(3) of the Act, municipalities are required to pass by-laws which:

- designate those uses of land, buildings or structures upon which a development charge shall be imposed
- designate the areas within which a development charge shall be imposed
- establish the development charge (or the schedule of development charges) to be imposed in respect of the designated uses of land, buildings and structures
- designate services for which a development charge may be imposed.

Under these provisions, a municipality can levy residential, commercial and industrial developments, or it can exempt any of these uses or parts of the municipality from levy. The municipality can levy one charge which reflects the average cost of growth in the municipality for each type of development across the municipality, or it can levy different charges on different developments to reflect the marginal cost imposed by each development.

While the Act does not specify exactly how charges are to be calculated, the Regulation and the Guide to the Development Charges Act (Ministry of Municipal Affairs, 1990) provides some guidelines. The calculation of the charge requires that municipalities provide a ten-year capital forecast and identify what portion of the projected capital costs are growth-related. The charge is to be based on standards for services that are no higher than standards which have existed in the municipality at some time in the previous ten years. Development charges can be indexed for inflation in accordance with the regulation.

What is the approval/appeal process?

Development charge by-laws have a duration of no more than five years and are subject to public consultation. Development charge by-laws may be appealed to the Ontario Municipal Board (OMB) within 20 days of passage. While the charge is being appealed, developers can proceed with their development although they are required to pay the levy. If the OMB determines that the levy should be reduced, the municipality is required to pay a refund for the difference to the developer, plus interest.

What are the front-end financing arrangements?

Prior to the passage of the Development Charges Act in Ontario, municipalities put a "best efforts" clause into subdivision agreements which stated that a municipality would make an effort to reimburse the developer who undertook front-end financing, by recouping those costs from subsequent benefitting owners. In other words, where developers oversized facilities (such as a sewer system) beyond the capacity required for their own development, efforts were made to recoup those costs from subsequent developments. Unfortunately, this process was often unsuccessful.

Under the provisions of the Development Charges Act, there is a series of requirements concerning front-end financing arrangements. Municipalities can enter into agreements with owners who wish to accelerate development. The municipality can have those owners install water, sewers and roads or make a front-end payment to the municipality. As part of the agreement, the municipality agrees to require each benefitting owner to pay their portion of the front-end payment to the municipality or the providing owner.

How are education development charges different?

Growth-related education capital costs include costs incurred to:

- acquire, construct, expand, alter or improve school facilities to provide pupil accommodation
- furnish or equip the school facilities described above
- undertake studies in connection with any of the above.

While many of the provisions relating to education development charges are similar to those for municipal development charges in Ontario, there are some differences:

- The funds collected can be used only for school construction costs which are approved by the Minister of Education and have been recognized for capital grant purposes.
- Boards of education are required to estimate the number of new students that will be generated by the new development, determine (according to provincial guidelines) the net capital cost for new schools (net of provincial grants), and determine what portion of that cost that will be charged to the development charge. The board is also required to determine the amount of the development charge (up to 40 percent) that will be applied to commercial property.

What are the parkland dedication provisions?

Under Section 41 of Planning Act, municipalities can require developers to set aside a portion of their land for parks or public recreational purposes, or to make a cash payment in lieu of parkland equal to the value of the land that would have been conveyed. Parkland dedication can be required of all types of developments. The percentages of land to be set aside are: residential (5%), commercial (2%) and industrial (2%). Under the Planning Act, there is an alternative provision in the case of land proposed for development or redevelopment for residential purposes; the land required for parks or public recreation is at the rate of one hectare for each 300 dwelling units proposed, or at a lesser rate specified in the by-law.

## 1.8 QUEBEC

There is currently no provincial legislation in Quebec governing the payment of development charges. However, recent legislation in June 1994 added a new section to the Planning Act concerning development agreements dealing with municipal services. As a condition for subdivision approval or for the issuing of a building permit, municipalities can require a developer to construct infrastructure or facilities made necessary by a development, or to pay all or part of the costs where the municipality builds these services

Municipalities who wish to use this approach must adopt a bylaw on development agreements which specifies the zones and types of projects for which a development agreement is required; the infrastructure and facilities to be provided, and the cost-sharing arrangements between the municipality and the developer. Such agreements deal essentially with on-site "hard" costs, but the legislation allows each municipality to define which services are required for a specific project, whether these be on-site or elsewhere.

The legislation specifically provides for oversizing and enables the municipality to recover part of these costs from future benefitting owners. In such cases the development agreement may require the developer to construct services with excess capacity or to provide front-end financing where the municipality assumes this responsibility. The agreement can also provide for the reimbursement of the developer for these costs within a specified time frame.

What are the parkland dedication provisions?

Under the Planning Act, the municipality may require developers to transfer land (or make a cash-in-lieu payment) to the municipality for the establishment, maintenance and improvement of parks and playgrounds, and the preservation of natural areas. The amount of land or cash payment cannot exceed 10 percent of the area of the site and value of land respectively. Payment is made at the time of subdivision approval. Recent changes to the Planning Act enable municipalities to require contributions for redevelopment projects as

well. Further, municipalities can choose between the existing assessed value of the property (which is intended to reflect market value) or a new evaluation of market value which can be appealed to the Expropriation Division of the Quebec Court.

## 1.9 NEW BRUNSWICK

There is no provision in provincial legislation for the financing of off-site costs associated with new development. Under the Community Planning Act, municipalities can adopt policies making developers responsible for on-site costs associated with development.

What are the parkland dedication provisions?

Under the authority of the Community Planning Act, the municipality can require the developer to set aside 10 percent of the land in the development for parkland. At the request of the developer, the municipal council can agree to accept a cash payment in lieu of the land. The land can be used as parkland or for similar purposes such as community facilities.

## 1.10 NOVA SCOTIA

There is no provincial authority empowering municipalities to capture off-site costs associated with development. As in other provinces, the Planning Act enables municipalities to require developers to build infrastructure within subdivisions (roads, streets, water, sanitary, storm, services and other utilities) to standards. While there is no provincial authority to levy charges for off-site costs, municipalities may require contributions to off-site costs as a part of planning approvals. This requirement would be part of a Development Agreement.

What are the parkland dedication provisions?

Under the authority of the Planning Act, a municipality may require the transfer of land or cash payment in lieu of land for park, playground and similar public purposes. The land cannot exceed 5 percent of the area shown in the final plan of subdivision.

## 1.11 PRINCE EDWARD ISLAND

There do not appear to be development charges for off-site costs as defined in this study in PEI. There are arrangements for the sharing of on-site costs, however. Less than one quarter of the eighty-nine municipalities in the province are responsible for provision, ownership, or

maintenance of streets and roads within their boundaries. For this reason, the provincial Department of Transportation and Public Works has developed a detailed policy on charges and developer responsibilities for the on-site costs associated with new subdivisions. Under the public utility rules, a cost-sharing arrangement can be made between the developer and the municipality to finance the on-site costs of any new sewage or water supply works.

What are the parkland dedication provisions?

The parkland dedication provisions under the Planning Act permit municipalities to levy development fees up to 10 percent of the value of the land being developed. Alternatively, municipalities can take up to 10 percent of the raw land for park use.

### 1.12 NEWFOUNDLAND

Municipalities in Newfoundland do not charge developers for the off-site costs associated with development. They do, however, have service levies and parkland dedications. Under the Urban and Rural Planning Act, the municipality can require the payment of a service levy where development is made possible, density of potential development is increased, or the value of property is enhanced by the carrying out of a public work, either on or off the developed site.

Under the Municipalities Act, a service levy is assessed based on the amount of real property benefitted by the public work or the density of development made capable or increased by the public work. The service levy is payable when imposed, when development begins or is completed, or at another time decided by council.

According to the regulations, the magnitude of the service levy cannot exceed the cost (or estimated cost) of constructing or improving the public works that are necessary for the property to be developed in accordance with standards set by the Authority. Costs include financing costs.

What are the parkland dedication provisions?

The developer may be required to dedicate an area of land for public open space equivalent to not more than 10 percent of the gross area of the subdivision or 25 square metres for every dwelling unit, whichever is greater. Where land is subdivided for non-residential uses, the Authority shall determine the percentage of land to be dedicated. The developer may make a payment in lieu of parkland equal to the value of the land which would have been dedicated. The municipality is required to use these funds for the purpose of acquisition or development of land for public open space or other public purpose.





## CHAPTER 2

# MUNICIPAL SURVEY

A survey on development charges was sent out to 35 municipalities across Canada.<sup>5</sup> These municipalities were chosen in conjunction with officials in the various provincial and territorial ministries of municipal affairs. In general, the larger municipalities experiencing some development in each province or territory were selected. While the municipalities surveyed are not intended to represent a random sample, they do provide examples of the use of development charges across Canada.

Responses to the questionnaire were received from 31 of the 35 municipalities;<sup>6</sup> a response rate of 89 percent. Table 2 lists those municipalities that responded to the survey and indicates which municipalities levy a development charge (as defined in this study) and which levy other exactions -- such as parkland dedications. Of the 31 municipalities that responded to the questionnaire, 16 currently levy some form of development charge.<sup>7</sup> Every municipality surveyed in B.C., Ontario and Alberta reported using development charges.

The remainder of this section summarizes the responses to the questionnaire, question by question. Table 3 summarizes many of the responses to the questionnaire for those municipalities which levy development charges.



---

<sup>5</sup> A copy of the questionnaire is in Appendix A.

<sup>6</sup> Three of the four municipalities that did not respond were in provinces that do not have development charge legislation (New Brunswick and Quebec). The other municipality that did not respond is in Ontario and does levy development charges.

<sup>7</sup> In some cases, the municipalities responded that they were charging development charges. On closer evaluation, however, these charges were parkland dedications (or cash in lieu of parkland), connection charges for water and sewers or levies for on-site services. For this reason, these were not classified as development charges for the purpose of this study.

Table 2: Municipalities Responding to Survey

Municipality	With Charge	Other Exactions
Northwest Territories:		
City of Yellowknife	X	
Yukon:		
City of Whitehorse	X	X
British Columbia:		
Township of Langley	X	X
District of Maple Ridge	X	X
City of Richmond	X	X
District of Surrey	X	X
Alberta:		
City of Calgary	X	X
City of Edmonton	X	X
City of Lethbridge	X	
Saskatchewan:		
City of Prince Albert	X	X
Town of Kindersley	X	X
City of Saskatoon		X
Manitoba:		
City of Brandon		X
City of Winnipeg		X
West St. Paul		X
Ontario:		
Town of Richmond Hill	X	
City of North York	X	X
City of Nepean	X	X
Quebec:		
Town of Aylmer		X
Ville de Gatineau		X
Repentigny		X
New Brunswick:		
Ville de Bathurst		X



ICURR Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales CIRUR

Table 2 (cont'd): Municipalities Responding to Survey

Municipality	With Charge	Other Exactions
Nova Scotia:		
Town of Bedford	X	X
County of Kings		X
City of Halifax	X	X
Prince Edward Island:		
City of Charlottetown		X
Town of Summerside		X
Town of Parkdale		X
Newfoundland:		
Town of Carbonear		
Town of St. Anthony		
Town of Bishop's Falls		

## 2.1 Responses of Municipalities that Levy Development Charges

Table 3 and the following discussion summarizes the responses to the questions in the survey for those municipalities that levy development charges. A copy of the survey is in the Appendix.

What is the legislative basis for levying development charges in your municipality?

In all of the case-study municipalities levying development charges, there is some form of provincial legislation governing the use of charges. The various Acts were summarized by province in Table 1. For many municipalities, a provincial Municipal Act provides the legislative basis for development charges: Yellowknife (Cities, Towns and Villages Act), Whitehorse, Langley, Maple Ridge, Richmond, Surrey, Kindersley, and Bedford. The provincial Planning Act is the governing authority in Calgary, Edmonton, Lethbridge, and Prince Albert. In other municipalities, provincial legislation relating to the individual municipality governs the use of development charges: for example, the Halifax City Charter. Finally, in Ontario municipalities (Richmond Hill, North York and Nepean), the Development Charges Act governs the use of development charges.

**Table 3: Summary of Information on Development Charges**

Municipality	Name of Charge	Types of Development	Services	Municipal Bylaw	Other Exactions
City of Yellowknife	off-site levy	Res'l, Comm'l	water, sewers, roads, traffic control, parking	No	local improvement taxes
City of Whitehorse	development cost charge	Res., Comm'l, Ind'l, Other	not specific	Yes	local & special improvement charges, land dedication, other special agreements
Township of Langley	development cost charge	Res., Comm'l, Ind'l, Inst'l, Rural Comm'l	water, sewers, drainage, highways, public green space	Yes	local improvement levies, latecomer agreements, parkland in lieu of DCC
District of Maple Ridge	development cost charge	Res'l, Comm'l, Ind'l	water, sewers, drainage, highways, parkland acquisition	Yes	latecomer agreements, specified area charges agreements, park dedication
City of Richmond	development cost charge	Res'l, Comm'l, Ind'l	water,sewers, drainage, roads, open space	Yes	parkland dedications
District of Surrey	development cost charge	Res'l, Comm'l, Ind'l, Inst'l parkland	water, sewers, roads, drainage,	Yes	parkland dedication, local improvement taxes, other
City of Calgary	assessment levies	Res'l, Comm'l, Ind'l, Other	water, sewers, highways, parks recreation, inspection	No	density bonusing, negotiated access to transp'n improvements

City of Edmonton	offsite rates	Res'l, Comm'l	sewers	No	construction of additional infrastructure; local improvement charges
City of Lethbridge	off-site levy	Universal	water, sewers	Yes	none
City of Prince Albert	development levy	Res'l, Comm'l, Ind'l, Other	trunk lines, abutting services, connections to site	No	specific agreements for services
Town of Kindersley	development levy	Res'l, Comm'l, Ind'l, Other	water, sewers streets, parks and recreation	No	other service requirements e.g. parkland dedication, trunk mains etc.
Town of Richmond Hill*	development charge	Res'l, Comm'l, Ind'l	water, sewers, roads, library, fire, parks and rec., gen. admin.	Yes	
City of North York	development charge	Res'l, Comm'l, Ind'l, Inst'l	water, sewers, hydro, library, fire, parks and rec.	Yes	parkland dedication, other conditions on development
City of Nepean*	development charge	Res'l, Comm'l, Ind'l, Inst'l	water, sewers, roads, hydro, parks and rec., fire, police, library	Yes	parkland dedication, local improvement tax, connection charges
City of Halifax	charge	Res'l, Comm'l, Ind'l, Other	sewers, trunks	Yes	parkland dedication, local improvement charges
Town of Bedford	development charge	Res'l, Comm'l	water, sewers	No	parkland dedication

\* The Town of Richmond Hill and the City of Nepean also collect development charges for hydro. Richmond Hill also collects a charge for the Region. The information in this Table relates only to their own (lower-tier) charges.

How long have development charges been levied by the municipality?

With the exception of the City of Whitehorse which initiated development cost charges in 1993, those municipalities reporting the use of development charges have used them for a considerable length of time ranging from 7 to 35 years:

- Northwest Territories: Yellowknife reported levying off-site levies for 7 years.
- British Columbia: all four municipalities surveyed reported using development charges for about 15 years.
- Alberta: Calgary reported using development charges for 35 years, Edmonton for 22 years and Lethbridge for 20 years.
- Saskatchewan: Kindersley has used development charges for approximately 8 years and Prince Albert for about 30 years.
- Ontario: Nepean has used development charges (formerly called lot levies) for 33 years; North York and Richmond Hill reported using development charges for almost 3 years although they charged lot levies prior to that time.
- Nova Scotia: Halifax has levied charges for 22 years and Bedford for 7 years.

Prior to levying development charges, how were the off-site costs associated with new development (or redevelopment) financed -- e.g borrowing, provincial transfers, property taxes, etc.?


  
**ICURR** Intergovernmental Committee on Urban  
 and Regional Research  
 Comité intergouvernemental de recherches

The sources of revenue used to finance off-site costs prior to the use of development charges included: property taxes, local improvement charges, conditional and unconditional provincial and federal grants, and borrowing. The two most often cited sources were property taxes and capital borrowing. In some B.C. and Ontario municipalities, developer contributions were required to pay for off-site costs even before development charges were introduced. In Yellowknife, the city itself was the land developer prior to 1987. Off-site costs were financed from general revenues plus 10 percent of the proceeds from the sale of land.

Does your municipality establish a schedule of charges in a by-law?

The extent to which municipalities establish a schedule of charges in a by-law is summarized in Table 3. As the Table shows, 10 municipalities pass by-laws; 6 do not.

What types of developments are levied a charge, and what is the magnitude of the charge?

The types of developments that are levied a charge include residential, commercial, industrial and other (such as institutional developments). Table 3 summarizes which types of developments are levied a charge in each municipality. In most of the municipalities surveyed, residential, commercial and industrial developments are levied charges. The exceptions are Yellowknife, Edmonton and Bedford which exclude industrial developments. Institutional or other developments are also levied charges in Whitehorse, Langley, Surrey, Calgary, Prince Albert, Kindersley, North York, Nepean and Halifax.

Table 4 shows the magnitude of the charges in each municipality. There is wide variation in the size of the charge as well as the form in which it is levied. For example, some charges are a fixed amount per lot while others are calculated per square metre, square foot or hectare. The numbers in this Table are estimates of the charges for single-family dwellings, commercial property and industrial property. A closer look at the by-laws and regulations would be required to determine the precise charge on a particular property in a particular location.

From a land use point of view, it is interesting to note which municipalities vary the charge by housing type or density and by area of the municipality. In other words, which municipalities differentiate the charge according to the costs of services associated with each development? All municipalities surveyed in B.C. and Ontario plus Whitehorse vary the charge by housing type or density while the other municipalities do not. Seven municipalities vary the charge by area of the municipality: Maple Ridge, Richmond, Calgary, Edmonton, Prince Albert, Richmond Hill and North York. While two of the three municipalities in Ontario which responded to the survey noted that they vary the charge by location, it is generally the case that municipalities in Ontario charge the same amount per lot throughout the municipality.

To appreciate how development charges vary across municipalities, it is useful to compare the charge to housing prices. This could be done only for those municipalities which levy an amount per lot, and for which house-price information is available. House prices were taken from the Royal LePage Survey of Canadian House Prices, Winter 1994. An executive two-storey detached house (4 bedrooms and approximately 2,000 square feet) was selected as an example. The price reflects the market of January 1, 1994.

While the following comparisons do not indicate the precise charge that would be levied on the houses selected, it does give an indication of the relative magnitude of the charge in selected municipalities:

- The charge in Bedford is \$250 relative to an average house value of \$197,000; the charge is less than 1 percent of the house value.

**Table 4: Nature and Magnitude of Development Charges, 1993**

Municipality	Charge Varied by housing type or density	Charge Varied by area of mun.	Charge per single family dwelling	Charge for Commercial	Charge for Industrial
City of Yellowknife	No	No	\$600 per dwelling unit	\$2,500 per acre	N.A.
City of Whitehorse	Yes	No	\$2,500 per lot	\$13.33 per sq. metre of gross floor area	\$13.33 per sq. metre of gross floor area
Township of Langley	Yes	No	\$14,594 per dwelling unit	\$23.20 per sq. metre of lot	\$9.59 per sq. metre of lot
District of Maple Ridge	Yes	Yes	\$9,358 per unit (urban area)	\$46,870 per hectare (urban)	\$26,573 per hectare (urban)
City of Richmond	Yes	Yes	\$3,730-\$12,072 per unit plus \$2,915-\$12,142 per acre	\$1.07-\$3.61 per sq. ft. of bldg. area	\$27,256-\$77,204 per acre
District of Surrey	Yes	No	\$13,810 per lot	\$5,710 per 1000 sq. ft.	\$34,380 per acre
City of Calgary	No	Yes	rate per hectare that varies with service and area of the municipality		



City of Edmonton	No	Yes	----- \$897 - \$16,620 ----- per hectare	N.A.
City of Lethbridge	No	No	----- \$34,221 per hectare -----	
City of Prince Albert	No	Yes	----- \$1,000 or \$38,000 per acre -----	
Town of Kindersley	No	No	----- \$5.276 per net sq. metre -----	
Town of Richmond Hill*	Yes	Yes	\$13,366 plus \$1,577 - \$254,328 per hectare	\$12.35 per sq. ft. plus \$1,577 - \$254,328 per hectare
City of North York	Yes	Yes	\$3,700	\$17.70 per sq. metre of gross floor area
City of Nepean+	Yes	No	\$9,476 (full urban rate)	\$2.74 per sq. ft. (full urban rate)
City of Halifax	No	No	\$0.30 per sq. ft.	\$0.30 per sq. ft.
Town of Bedford	No	No	\$250 on each new cons- truction area	\$0.05 per sq. ft. of floor

+ The charge reflects only the city charge and not hydro.

\* The charge reflects the lower tier charge plus the regional and hydro charges.

- The charge in Halifax is \$600 relative to a house value that ranges between \$123,000 and \$230,000 depending on location; the charge is less than 1 percent.
- The charge in Richmond Hill is \$13,366 relative to a house value of \$245,000; the charge represents over 5 percent of the house value.
- The charge in Surrey is \$13,810 compared to an average house value of \$257,000; the charge is over 5 percent.
- The highest charge in Richmond is \$12,072 compared to an average house value of \$435,000; the charge is less than 3 percent.
- The charge in Maple Ridge is \$9,358 relative to a house value of \$242,000; the charge is just under 4 percent.
- The charge in Langley is \$14,594 relative to a house value of \$267,000; the charge is over 5 percent.

In the B.C. examples, development charges range between 3 percent and over 5 percent of the average house value. This is comparable to the Ontario example. The charge in the Nova Scotia cities is a much smaller percentage of house values because the charge is fairly small and is only levied for water and sewers.

How is the amount of the charge determined? What methodology is used to calculate the charge?

The methodology used in Ontario and B.C. municipalities is fairly similar. The starting point is to provide growth projections over the next 10 to 20 years (depending on the service and the municipality). Capital forecasts are provided over the same period and an effort is made to determine what proportion of the costs are growth-related. The growth-related costs are divided by the number of units to determine the cost per unit. In other municipalities, the description of how the charge is determined is less specific but the charge is generally based on costs that are projected into the future. In Yellowknife, the charge is determined by the municipal council.

What specific services are financed by development charges?

As Table 3 indicates, municipalities generally use development charges to finance the cost of water and sewers. In some cases, roads and drainage are also financed by development

charges. B.C. municipalities (with the exception of Vancouver which was not surveyed)<sup>8</sup> are permitted to levy only for water, sewers, roads, parks and drainage. Municipalities in Ontario can levy for any growth-related capital cost and, as Table 3 shows, they levy for fire and police services, city halls, recreation centres, library and cultural facilities as well as the more traditional hard services. Yellowknife levies for sewers, water, roads, traffic control devices and parking. Territorial legislation in the Yukon does not specify which services are to be included in the development cost charge.

Do the charges levied go into general revenues or to dedicated service accounts?

All of the municipalities reported that the funds collected go into special reserve accounts or dedicated service accounts. In Calgary, the majority of the charges levied are directed to dedicated service capital deposit accounts. In Surrey, the funds are placed in a reserve fund and can be spent only when augmented by a 10 percent general revenue contribution.

At what stage is the development charge levied?

In most municipalities, the charge is levied at the time of subdivision approval or issuance of the building permit. In some cases, the charge is levied at the time of signing the development agreement.

At what stage is the development charge collected?

The development charge is collected at the time of the subdivision approval or issuance of the building permit, at the time of subdivision construction, at the time of signing the subdivision agreement, prior to subdivision construction or at the time of the issuance of the occupancy permit. In some municipalities in B.C., one-third is due at the time of the building permit or subdivision approval, one-third one year later and one-third two years later. In Whitehorse, the payment can be deferred to the time of sale of the lots. In Nepean, the charge is due when the building permit is issued but 50 percent of the payment can be deferred for 120 days for residential property and 180 days for non-residential property.

---

<sup>8</sup> As noted in section I, Vancouver can also levy for day care facilities and replacement housing.

What is the process by which developers can appeal the application or magnitude of development charges?

There was a wide range of responses about appeal mechanisms available to developers:

- Yellowknife: There is no formal appeal mechanism. Developers can appeal to council but there have been no appeals to date.
- Whitehorse: There is no specific appeal process; there is a general appeal period provision to the Yukon Municipal Board on anything a municipality does .
- Langley, Maple Ridge, Richmond, Surrey: The appeal process in B.C. municipalities includes lobbying local and provincial officials or a by-law challenge to the provincial Inspector of Municipalities. In Langley, there have been no appeals, only a couple of questions.
- Calgary, Edmonton, Lethbridge: Edmonton has an annual review of rates, Calgary negotiates annually with the Urban Development Institute and in Lethbridge, developers can negotiate with the municipality. If that fails, there can be arbitration.
- Kindersley, Prince Albert: In Kindersley, off-site levies are negotiable with the municipality; in Prince Albert, levies can be appealed to the Development Appeals Board followed by the Provincial Municipal Board.
- Richmond Hill, North York, Nepean: In Ontario municipalities, developers can appeal to the Ontario Municipal Board.
- Halifax, Bedford: The normal administrative appeal is available in Halifax; in Bedford, an appeal can be made to the Town's Chief Building Inspector.

Has your dependence on development charges changed over the last ten years? How have development charges been affected by the recession?

The response to this question varied across the country:

- Yellowknife reported that it has not relied on development charges in the past. To date, it has only collected charges; it has not spent them.

- In the B.C. municipalities surveyed, there has been no significant reduction in development charges. On the contrary, a couple of the municipalities suggested that they were more dependent on charges now because of provincial funding cuts and rapid growth.
- Municipalities surveyed in Alberta reported no change.
- In Saskatchewan, municipalities responded that they were unable to collect as much from development charges, and one municipality reported that it is being more lenient so as to encourage development.
- Municipalities in Ontario were split: Richmond Hill reported no change whereas North York reported that the reduction in revenues is matched by reduced capital expenditures. In Nepean, the City reported that it is paying for some development costs through borrowing which will be paid out of future development charges.
- Bedford, Nova Scotia hopes to rely more heavily on development charges as other revenue sources become scarce.

What other exactions or alternative arrangements other than development charges are used between the municipality and the developer to pay for or provide services -- e.g. parkland dedications, local improvement taxes, linkage fees, density bonusing, etc?

Table 3 summarizes other exactions used by municipalities levying development charges. With the exception of Lethbridge and Nepean,<sup>9</sup> all surveyed municipalities with development charges reported using other exactions as well. The most commonly used other exaction is parkland dedications. Local improvement levies are also used. In many municipalities, developers are also required to construct other infrastructure. Calgary was the only municipality to report the use of density bonusing.

What do you see as the advantages of levying development charges in your municipality?

The advantages of development charges listed by the responding municipalities are:

- development is paying its own way and not creating a financial burden to the municipality and its taxpayers

---

<sup>9</sup> Nepean reported using front-end financing arrangements but these are not considered exactions in addition to development charges. Rather, front-end financing is just a way to recoup development charge costs from future benefitting owners.

- development charges speed up development because the funds necessary to build the infrastructure required for the development are available
- development charges are an equitable method of funding to finance growth because the costs are paid by those who enjoy the benefits
- development charges provide certainty for both developers and the municipality and they avoid negotiations on a site by site basis
- development charges result in a consistent level of service across the municipality.

What do you see as the disadvantages of levying development charges in your municipality?

The disadvantages cited in the survey are:

- development charges are unpopular and they deter development.
- development charges are inflexible to changes in demographics, wants and need. Once the by-law is passed, it is difficult to change the nature and magnitude of the charge in response to changing needs in the community.
- there are difficulties in allocating benefits between old and new residents. For example, it is difficult to know how to allocate the costs of upgrading an intersection not immediately adjacent to the new development but presumably required, at least to some extent, by the new development.

Many municipalities reported, however, that there were no disadvantages to levying development charges and some argued that there is only a *perception* that development will be deterred.

What recommendations would you make to improve the use of development charges by municipalities?

The response to this question depended on the type of legislation governing the use of development charges. Where there is not detailed legislation governing the use of development charges (for example, in Nova Scotia), the following recommendations were made:

- the provincial government should establish guidelines so that there is consistency across municipalities, while still allowing local flexibility

- the charge should be a set fee and not negotiable
- it should be required that the funds be used for the purpose for which they were collected and that the municipality be required to prove to the community that the funds were so spent.

In Ontario, which has the most detailed legislation on development charges, the following recommendations were made:

- front-end financing arrangements should be simplified
- the legislation should generally be made clearer (to avoid costly administrative procedures and litigation)
- there should be more flexibility to respond to community requests.

The recommendations from municipalities in B.C. were:

- the services for which municipalities can levy should be increased, especially to include recreation centres, fire halls, parkland development and police stations
- borrowing costs incurred in advance of the development should be covered by development cost charges.

## 2.2 Response of Municipalities without Development Charges

Those municipalities which do not levy development charges were asked to answer questions concerning their use of other charges as well as their evaluation of the potential use of development charges. Generally in municipalities that do not levy development charges, there are subdivision standards for on-site services provided by the developer. In a few municipalities, the cost of on-site services is shared between the municipality and the developer. It is more common, however, to have the developer install or pay for these services.

The majority of municipalities that are not currently levying development charges apply other exactions on developers (12 out of 15). The most commonly used exaction is the parkland dedication which ranges from 2 to 10 percent of the land being developed or a cash-in-lieu payment.

In addition to parkland dedications, other exactions are sometimes imposed. Some examples include:

- In Charlottetown, if approved by the local council, cash-in-lieu payments are permitted in the downtown core for parking.
- In Bathurst, a meter connection charge of \$1,200 per residential property is levied to connect to water and sewers.
- In Aylmer, there are no development charges for off-site services, but the developer may be required to provide an intersection adjacent to the development. Development agreements may also include oversizing provisions.
- In Brandon, the city may absorb part of the oversizing costs to be recovered later, or they may undertake by agreement to recover part of the costs on behalf of the developer.
- In Winnipeg, a charge is levied under the City of Winnipeg Act to pay for streets, drainage and riverbank land acquisition.
- In the Rural Municipality of West St. Paul, a capital levy is charged for recreation. The levy is determined by council and, for multi-family residential and commercial and industrial property, the levy is estimated to be 10 percent of the market value of the property. There is also a green space levy charged.
- In Saskatoon, developers are required to pay "prepaid service rates" per front metre for direct services as well as off-site services.<sup>10</sup>

Finally, in most municipalities, a charge is levied for building permits and there is usually a fee for subdivision approvals to cover the administrative costs of the municipality. While all of these charges represent exactions on developers, they are not development charges as defined in this paper.

In two municipalities -- Winnipeg and Saskatoon -- development charges are currently being considered. In the Municipality of the County of Kings (Nova Scotia), a surcharge per developable acre is being considered to finance infrastructure costs. In some municipalities where there is no provincial legislation governing the use of development charges, it is felt that provincial legislation which would apply to all municipalities in the province would avoid problems of deterring development when only one municipality levies a charge.

---

<sup>10</sup> It is not clear that these are not a form of development charges. The City of Saskatoon, however, responded that it does not levy development charges but is considering them.



# CHAPTER 3

## SOME ISSUES ARISING OUT OF THE USE OF DEVELOPMENT CHARGES

Several issues concerning the use of development charges were raised in the surveys of municipalities as well as in discussions with municipal and provincial officials. These include administrative issues, the definition of off-site costs, the services to be included in development charges, and the legislation governing the use of development charges. This section expands on these issues and looks at the issues concerning parkland dedications.

### 3.1 Administrative Issues

In those provinces where there are detailed requirements for the calculation of development charges, the administrative burden can be high for both municipality and developer. The municipality may be required to provide 10 to 20 year projections of population growth in the municipality, the estimated number of new housing units, the estimated square footage of commercial and industrial properties, future capital needs of the existing residents and businesses and other information. This information goes into its ten-year capital forecast.

The municipality also has to determine the proportion of capital expenditures required by growth. For example, where capital expenditures for a new road are projected, it is necessary to determine what proportion of the use of that road will be by existing residents as opposed to new residents. It is also necessary to allocate the costs between residential and non-residential properties in order to allocate the costs to different types of developments.

It is also generally required that service standards for new developments do not exceed standards currently enjoyed in the municipality. In Ontario, for example, the regulations require that the municipality show that the standards that are being sought do not exceed the highest standard that has been achieved over the last ten years. The idea behind establishing service standards is to ensure that municipalities are not levying to pay for services which are of a higher standard than those currently being enjoyed by existing residents. The problem with this provision is that the highest standard achieved may be one which includes a considerable amount of excess capacity (if the year chosen is one in which there was a major expansion).

The advantage of these detailed requirements is that municipalities are forced to undertake long-term capital planning (which often has not been done before) and to provide justification for the magnitude of the charge. The disadvantage is that the process is time

consuming and costly. In many cases, a consultant is hired to assist in the process.<sup>11</sup> For the developer or taxpayers to evaluate this information, it is also often necessary to hire experts.

### 3.2 Definition of Off-Site Costs

One of the issues that arose from the survey was the definition of off-site costs. As noted earlier, on-site costs associated with water, sewers, roads etc. are generally provided by the developer, who is required to meet service standards established by the municipality in its subdivision agreement or by-law. The agreement (by-law) may include detailed requirements on servicing, such as size of water pipes, location of fire hydrants, location of manholes, road allowances, road grading, spacing of streetlights etc.

Off-site costs are those costs associated with the development that are outside of the subdivision such as trunk mains, sewage treatment plants, main roads etc. While growth necessitates expenditures on these services, the services required are off-site.

It is difficult to determine whether some services are off-site or on-site. Some examples include the costs associated with the connection or hookup to water and sewers. While the facilities are off-site, the pipes connecting to the facilities are on-site. It is unclear whether the connections are on-site or off-site. One municipality questioned whether parkland dedications are on-site or off-site. Where a development necessitates parkland, the park will not necessarily be on-site; it may be adjacent to the development. Where the developer makes a cash payment in lieu of setting aside land for parks, it is likely that the park will be located off-site. Another municipality questioned whether an intersection adjacent to the development is on-site or off-site.



### 3.3 Services Included in Development Charges

With the exception of the City of Vancouver and municipalities in Ontario, development charges are levied only for "hard" services (see Table 3).<sup>12</sup> Some municipalities in B.C. responded to the survey by recommending that the legislation be amended to permit them to levy development cost charges for services other than water, sewers, roads, parks and

---

<sup>11</sup> In Ontario municipalities, the consultant's study can be paid for out of development charges.

<sup>12</sup> A review of development charges (impact fees) in the U.S. (see Salkin, 1991) shows that these charges are levied for a wide range of services including: roads, transportation, water, sewage, stormwater, flood control, parks, open space, recreation, solid waste, parking, affordable housing, educational facilities, public facilities, public buildings, public services, fire protection and other capital facilities.

drainage. The Planning Institute of British Columbia (1991) has also recommended that B.C. municipalities be permitted to levy DCC's for recreational facilities, daycare, housing and cultural facilities. The Urban Development Institute, on the other hand, recommended against including "soft" services in development cost charges.

Municipalities provide a wide range of services: fire, police, roads, transit, welfare, water, sewers, garbage collection and disposal, libraries, culture, recreation and planning. Slack (1990) argues that there is a fundamental difference in the services provided by local governments, in particular between "hard" services and "soft" services. While there is some justification in levying development charges to finance at least some of the costs of hard services for which direct beneficiaries can be identified, there is little justification in the literature for using development charges to finance school construction. Although there would be direct benefits to individuals, the external benefits to all of society and equality of opportunity that is a central component of education would not be served by such localized financing. For these reasons, education is more appropriately paid for by general revenues than by development charges.

Skaburskis (1993) uses an efficiency criterion for determining which services should be included under development charges. Where the physical expansion of a city increases the need for off-site services, the cost of these services can be included in the development charge to promote land use efficiency. He divides services into three groups:

- The first group consists of roads, water, sewers and drainage. Only location-specific components of these services should be included in the development charge. These include the distribution component of sewer and water systems and the maintenance and operation of the road system.
- The second group includes recreational facilities, libraries, schools, fire and police facilities built to serve the planning sector. Skaburskis argues that these services should not be included in the development charge on efficiency grounds because they represent a tax on growth. If there is opposition to growth, however, then charging the full cost results in a second-best use of development charges.
- The third group includes sewage treatment plants, water purification or filtration facilities, central school facilities, open space and parks provided outside the planning sector. Skaburskis argues that recovering the costs of these facilities through development charges is inefficient because the need to expand these facilities is due to city growth and cannot be attributed to the location of the new development.

In summary, the costs included in development charges should as much as possible be related to the location of the development, and not to existing needs.

### 3.4 Legislation Governing the Use of Development Charges

Prior to provincial legislation on development charges, exactions were often negotiated on an informal basis between municipalities and developers. In some provinces, informal exactions are still used: developers are required to provide some services (or cash payments) as a condition of subdivision approval. There are a number of problems with negotiated exactions:

- there is no certainty for the developer or the municipality about how much the charge will be
- there is no guarantee that similar projects will be treated in the same way
- the exactions may be influenced by political pressure
- there is no guarantee that the exactions will be used towards the purpose for which they were levied.

Development charges are considered to be preferable to the alternative of negotiated exactions because they alleviate the above problems.

In those provinces where there is no provincial legislation governing the use of development charges, few municipalities levy them. In response to the survey, municipalities in those provinces discussed the need for province-wide legislation so that all municipalities would apply development charges consistently. One municipality suggested that legislation is required to ensure consistency in the application of development charges but that it needs to be flexible enough to allow municipalities to respond to local needs.

In B.C., where there is legislation (the Municipal Act) that pertains to development cost charges, municipalities want it to be expanded to include other services. In Ontario, where there is detailed legislation (the Development Charges Act), surveyed municipalities expressed the need for more clarification of some of the sections of the Act. A review of the Development Charges Act is currently under way in Ontario.

In the U.S., approximately 20 states authorize development charges (known as "impact fees") on residential and commercial developments. A review of the legislation in these states by Salkin (1991) indicates that there is wide variation in the use of these fees. In examining the considerations that need to go into legislation, Salkin (1991) and other U.S. authors refer to the "rational nexus" test in state legislation. In order for the impact fee (development charge) to meet the rational nexus criterion it needs to pass three tests:

- does the assessed development create the need for facilities?
- will the development paying the fee derive benefit from the expenditure of the fee?
- does the fee represent the development's proportional share of the cost of the new or expanded facility?

In operational terms, the purpose of the legislation is to ensure that the development pays a charge that is based on the need for services that it has created rather than needs arising from existing developments. The charge has to reflect the benefits received by the development. It is necessary to show what capital costs have been necessitated by the development (the growth-related costs), and that the development paying the fee receives a substantial benefit from the new or improved facility.

Legislation is also required to ensure that the funds are spent on the projects for which they were collected. In other words, if the funds are collected to construct a sewage treatment plant, then some mechanism is required to ensure that the funds are spent in that way. Provincial legislation generally requires that the funds collected be placed in separate reserve accounts dedicated to the particular purpose for which they were levied. Dedicated reserve accounts are used by municipalities that levy development charges.

Where legislation exists in Canadian provinces, it attempts to ensure that only the growth-related costs of new development are included and that the funds are used for the purpose for which they were levied. The details of the legislation, however, vary among provinces.

### 3.5 Parkland Dedications

As noted in Table 1, each province and territory has enacted legislation governing the use of parkland dedications. In most cases, the owner of the land is required to set aside up to 5 or 10 percent of the land to be developed for parks or make a cash in lieu payment to the municipality. In Saskatchewan and Ontario, the dedication is smaller for non-residential property than for residential property. In Manitoba and Newfoundland, parkland dedication only applies to residential property. Where cash-in-lieu payments are used, many provinces have specified in legislation how the magnitude of the cash payment is to be determined.

It is interesting that the lowest parkland requirements (5%) are found in Ontario and British Columbia, both of which have some of the most densely populated cities in Canada.

A review of the use of development charges in Ontario (see Lehman and Associates, 1991) suggests that the implementation of parkland dedication provisions differs across municipalities depending on their size, stage of growth, and the need for parkland. For example, growing municipalities prefer land dedication; older municipalities accept cash-in-lieu payments to improve existing parks and recreation facilities or to acquire parkland elsewhere in the municipality.

While it is not the intent of this study to evaluate the use of parkland dedications among Canadian municipalities, it is evident from this brief review that there are differences in their application across provinces and municipalities within provinces. As the demands for

parkland and open space change, there will be a need to review parkland dedication policies across Canada. Some of the issues that might be addressed in such a review include:

- how much land should be set aside for parks (5%, 10% or more)?
- how should the cash-in-lieu amount be determined?
- what should the funds be used for (park acquisition, park development, community facilities)?
- should park requirements be different for residential and non-residential developments?
- should park requirements vary by size or density of development?
- should parkland requirements vary by location of development?



## CHAPTER 4

# THE IMPACT OF DEVELOPMENT CHARGES

This study has summarized the results of the surveys of municipalities and provincial and territorial governments on the application of development charges across Canada. To some extent, the municipalities that responded to the survey have identified the impacts of development charges. This section of the paper supplements the information provided in the surveys with a review of the literature on the impact of development charges.

The evaluation of the impact of development charges depends on the purpose for which they were levied. Skaburskis (1990) suggests that the purpose of development charges may be one or more of the following:

- to restructure public-private sector responsibilities for service provision (evaluate the efficiency of privatization)
- to be a planning instrument (evaluate the impact on land use patterns)
- to facilitate development (evaluate ability to reduce public resistance to growth)
- to collect revenues (evaluate on the basis of public finance criteria such as who bears the burden of the charge).

This section focuses on the impact of development charges as a means of collecting revenues and as a planning instrument. As a revenue source, it considers the incidence of the charge (who bears the burden), the impact on existing versus new residents, the impact on accountability, and the impact on borrowing costs. As a planning tool, it considers the impact of the charge on land use and on the timing of development. The final part of this section reviews the use of development charges as a revenue tool and as a planning tool.

### 4.1 Who Bears the Burden of the Charge?

A number of studies have investigated the issue of who bears the burden of development charges (see, for example, Slack, 1990 and Snyder and Stegman, 1986). As the responses to the survey indicated, the developer pays the charge generally at the time of subdivision approval or issuance of the building permit or at the time of subdivision construction. However, even though the levy is charged to the developer, it is not necessarily the case that the developer will bear the final burden of the charge. The charge may be borne by new homebuyers, the predevelopment landowner, the developer or builder, or some combination of these players.

Who bears the burden of development charges depends on several factors: whether the charge is uniform within housing markets, the demand and supply conditions in the market for new housing, and whether the developer knows about the charge and its magnitude before undertaking the development.

A uniform charge is one that is comparable in a particular housing market: municipalities in that housing market all levy a similar charge. With a uniform charge, the degree to which it will be passed on to new homebuyers or backward onto landowners depends on the demand and supply conditions in the housing market. In the long run, it is generally believed that demand for housing is price inelastic and that the supply of housing is elastic.

On the demand side, this means that new homebuyers are relatively insensitive to price -- if there is a price increase, the demand for housing will fall only very slightly. On the supply side, an elastic supply means that development is very responsive to price changes. The combination of an inelastic demand and elastic supply means that a uniform charge is likely shifted forward onto new homebuyers.

If market conditions do not permit the developer to pass the charge forward onto the new home buyer, then the land will not be developed. The price of land will fall and the burden of the charge will be borne by the owner of the land at the time the charge was imposed. The timing of the charge thus also affects who bears the burden. Even if the developer bears part of the burden in the short run, it is unlikely that s/he will bear the burden in the long run. Increased demand for housing in the future will cause prices to rise to the point where it is profitable to proceed with the development. In the long run, the burden will be shifted forward to the new homebuyer.

The price of new and existing housing will increase as a result of the levying of development charges. This means that owners of existing housing will enjoy a windfall gain as a result of the higher prices of their houses.

Where the charge is non-uniform within the same housing market, it will be more difficult for the developer to pass the charge forward onto the new homebuyer because competitors in nearby locations with lower development charges will not raise their house prices by as much. Where the charge cannot be passed forward, the developer will develop less land and the price of land will be reduced. The differential will be borne by the landowner at the time the charge is anticipated. In the long run, when increased demand for housing results in an increase in the price of housing, the developer will be able to pass the charge forward onto the new homebuyer.

It is difficult to discern from the survey of municipalities whether charges are uniform within housing markets because the municipalities in the survey were from all across the country and not within comparable housing markets. However, an earlier study of development charges in B.C. and Ontario (see Slack, 1990) suggested that municipalities in housing sub-markets do levy similar charges. Indeed, some municipalities suggested at that time that they consider the magnitude of the charges in neighbouring municipalities before levying their own charge. This earlier review would suggest that charges are fairly uniform within housing sub-markets.



In summary, the development charge is likely passed forward onto the new homebuyer, certainly in the long run, if not in the short. With respect to rental housing, it is likely that the charge is passed forward onto tenants. The analysis of who bears the burden of development charges on commercial and industrial property is similar: the charge is likely passed forward onto the consumers and producers of services provided by these properties in the same way as the residential charge is passed onto new homebuyers.

The discussion of who bears the burden of the development charge has focused on the theory of who is likely to bear the burden under different circumstances. The conclusions drawn can be useful in designing development charges. The charge can be designed to reflect who one thinks should bear the burden. For example, Nicholas (1987) notes that, if one thinks that the property owner should bear the burden of the charge because s/he benefits from the new facilities through increased property values, then a charge that is anticipated before the developer purchases the land is more likely to be passed back onto the landowner than a charge anticipated later in the process. On the other hand, if one thinks that the charge should reflect the use of services by the homebuyers, then it should be levied later in the process (perhaps at the time of occupancy).

#### 4.2 Impact of Development Charges on Existing Versus New Residents

One of the main advantages of development charges that was cited in the municipal survey is that growth pays for itself and does not create a burden for existing residents. In the discussion above of who bears the burden of the development charge, it was suggested that existing residents enjoy a windfall gain from development charges because of the increase in their property values. In comparing new and existing residents, two further points can be made.

First, to the extent that property taxes and user fees paid by new residents are used to help defray the debt costs associated with existing infrastructure, or are used to finance present or future capital expenditures (for example, where replacement costs of existing infrastructure are charged to existing residents through property taxes or user fees), new residents are paying not only for their own facilities but also for those of previous and future generations. While there is no provincial legislation that addresses this problem of "double-charging", some Ontario municipalities provide a 5 or 10 percent reduction to the development charge to reflect that new homebuyers may be double charged.

Second, to the extent that infrastructure being enjoyed by existing residents was financed in large part by previous generations of taxpayers, a move from tax revenues to development charges on new residents means that existing residents enjoy a windfall gain. Their services were paid for, in part, by previous generations and they are not required to pay for future generations.

### 4.3 Impact of Development Charges on Accountability

Where the development charge is passed onto the new homebuyer, there can be problems of accountability. The new homebuyers pay the charge before moving into the neighbourhood -- before they are constituents. In the case of property taxation, taxpayer/voters can register their opposition to high taxes at election time. In the case of development charges, those who pay them are not voters at the time they are levied and cannot register opposition to them. As Altshuler and Gomez-Ibanez (1993) note, developers are rarely in a position to make a public statement about development charges and future customers are unorganized and unknown.

### 4.4 Impact of Development Charges on Borrowing Costs

The responses to the municipal survey noted that, prior to levying development charges, municipalities generally borrowed funds to pay for infrastructure and then passed the costs of the infrastructure (plus the borrowing costs) onto taxpayers through the property tax. With development charges, the developer pays the charge up front using borrowed funds (or equity) and then passes these costs onto residents. In theory, in the absence of interest-rate differentials, a new homebuyer should be indifferent to the difference between a development charge financed over the mortgage period and annual property tax payments. In reality, however, homebuyers face borrowing constraints. An addition to the purchase price of the house (resulting, for example, from a development charge) may mean that a new homebuyer facing a borrowing constraint can no longer purchase the house.

One of the differences between levying development charges and levying property taxes to pay for capital costs is who borrows. In the case of the property tax, the municipality borrows funds; in the case of the development charge, developers and new homebuyers borrow funds. It is probably the case that municipalities can borrow more cheaply than new homebuyers and likely more cheaply than developers as well. With respect to borrowing considerations, development charges are less efficient for financing infrastructure than municipal borrowing.<sup>13</sup>

---

<sup>13</sup> While it may be more efficient for municipalities to borrow, the trend across Canada is towards the reduction of long term outstanding debt at the municipal level. Municipalities do not want to increase their debt financing costs and are looking to the private sector to borrow instead.

#### 4.5 Impact of Development Charges on Land Use<sup>14</sup>

To the extent that development charges reflect the benefits received from municipal services, they are efficient and neutral with respect to their impact on development. Development charges will be efficient if they reflect the true marginal cost of the services necessitated by the development.

If the development charge reflects the full costs and benefits (private and social) of the development, then developers will make efficient choices about where to develop. The charge is similar to a price for services rendered. In the absence of a development charge, the developer considers only the private costs and benefits of alternative locations, and doesn't consider the impact of the development on the municipality's costs of providing services. As Skaburskis (1993) notes, if there were no development charges, the developer would over-consume land and contribute to urban sprawl. Thus, a development charge, if properly applied, requires the developer to take account of servicing costs.

Since the cost of services varies by the type and location of development, an efficient development charge would vary by these characteristics. The evidence indicates that it is more costly to provide some "hard" services (such as water) to low density than to high-density neighbourhoods (see Slack, 1993 for a review of the studies of costs and density).<sup>15</sup> To be efficient, the development charge should be higher per unit for low than for high density developments. Similarly, developments located close to existing services should pay less than those further away. Higher charges for developing land on the outer edges of a community could stimulate development in the inner city and reduce urban sprawl (see Hoxworth, 1991).

However, if a development is based on average costs, the result will be underpricing of "hard" services in low density neighbourhoods and overpricing in high density neighbourhoods. The result will be overdevelopment of low density housing and underdevelopment of high density housing. A development charge that is the same amount per unit regardless of the where the unit is located, will not reflect the true costs of the development on the municipality and will not lead to efficient development decisions.

It was noted in Table 3 that some municipalities, notably in B.C., do differentiate charges by the type and location of the development. However, Skaburskis (1993) argues that

---

<sup>14</sup> This section relies on Slack (1993) which reviews the literature on the impact of alternative financing tools (including development charges) on land use.

<sup>15</sup> While there have been several studies that indicate that the cost of hard services increases as density decreases, there have been no similar studies on how the costs of soft services vary with density. Since many municipalities (especially in Ontario) use development charge to cover soft costs, the results of such a study would be useful.

municipalities in B.C. are unable to design the charge to promote efficiency goals because they do not set the charge equal to the location-specific marginal cost of extending major facilities. Other authors, such as Altshuler and Gomez-Ibanez (1993) argue that the efficient land and infrastructure use would be more likely to occur in a system that depended on user charges rather than on exactions to recover infrastructure costs.

#### 4.6 Impact of Development Charges on the Timing of Development

In reviewing the surveys of municipalities, there appears to be a mixed response to the impact of development charges on development. On the one hand, it is argued that development charges increase the price of housing (and non-residential development) and therefore discourage development, or at least slow it down.

Others argue that development charges speed up development because developers provide the funds required to construct necessary infrastructure. Since municipalities haven't adequate funds to construct infrastructure, development would have to wait until there were sufficient funds. Development charges, it is argued, hasten development. It has also been argued that where there is opposition to development on the grounds that existing residents do not want to bear the burden, development charges decrease the opposition to growth because growth is paying for itself.

Development is less likely to be speeded up where average cost pricing is used across a municipality. Where each development pays the costs associated with it, the municipality collects the funds when the development is ready to go and uses those funds to provide the infrastructure. Since the cost of providing the infrastructure is equal to the funds collected, the municipality has sufficient revenues to proceed. Where average cost pricing is used, however, the municipality may collect less from a particular development than the cost of providing the service to that development. This means the municipality will have to borrow additional funds or postpone the construction of the infrastructure until other developments are ready to proceed (and pay their charges).

#### 4.7 Planning Tool or Revenue Tool

This section of the paper has reviewed a number of issues relating to revenue and planning aspects of development charges. As a source of revenue to local governments, development charges do provide funds to pay for needed infrastructure created by growth. They are probably borne by new homebuyers (and renters) and they provide a windfall gain for existing residents. They also create problems for accountability and may result in inefficiencies with respect to borrowing costs. As a planning tool, a development charge that reflects the true marginal costs (social and private) of alternative development decisions could result in efficient land use patterns but it is not clear that the way in which development charges are currently applied is efficient.

While development charges do have land-use impacts, it is not clear that they should be used as a tool to achieve land-use objectives (see Slack, 1993). Revenue policy generally is a blunt instrument for achieving land-use objectives. In the case of development charges, setting the appropriate magnitude of the charge to result in a specific land-use pattern can be extremely difficult. Further, local municipalities are responsible for levying development charges but many land-use problems are more regional or provincial in scope.<sup>16</sup>

While it is probably difficult to use development charges to encourage higher densities and discourage urban sprawl, development charges should not do the reverse. Development charges should be designed to be neutral with respect to land-use decisions -- they should reflect the true costs of specific types of development and specific locations. If they do, the resulting land use decisions will be efficient.



**ICURR** Intergovernmental Committee on Urban  
and Regional Research  
Comité intergouvernemental de recherches  
urbaines et régionales **CIRUR**

---

<sup>16</sup> One might argue, for example, that where regional land use objectives are important, a regional development charge should be levied. This issue has not been addressed in the literature.



## CHAPTER 5

# MERITS AND PROBLEMS ASSOCIATED WITH DEVELOPMENT CHARGES

The survey of municipalities highlighted some of the advantages and disadvantages of using development charges to finance growth-related costs. The literature on development charges also evaluates some of the pros and cons of development charges. This section summarizes the merits and problems associated with development charges that were raised in this paper.

Arguments in favour of development charges include:

- growth pays for itself and does not create a burden on existing taxpayers
- development charges speed up development by providing funds to pay for the cost of off-site services
- development charges for which there is governing legislation are preferable to negotiated exactions because they provide more predictability for developers and municipality
- development charge legislation requires municipalities to have at least a ten-year capital forecast so that they can undertake financial planning
- if properly implemented to reflect the marginal cost associated with each development, they can promote land use objectives.

There are a number of disadvantages to using development charges. These include:

- development charges increase the price of new housing
- development charges double tax new residents
- development charges inhibit development
- if not properly implemented, development charges can create an incentive for urban sprawl
- development charge requirements place a heavy administrative burden on municipalities.

Development charges have been used by some municipalities in Canada for over 30 years. Reliance on these charges is not surprising given the alternatives available to municipalities:

- they could reject all new development, which is unlikely
- they could seek assistance from other levels of government, which is becoming increasingly difficult
- they could raise local taxes and user fees -- increasingly difficult in the face of organized taxpayer resistance

- they could let services deteriorate -- also difficult in the face of increasing service demands by residents.

Given these alternatives, it is unlikely that the use of development charges will decrease in the future.





## REFERENCES

- Altshuler, Alan, A and Jose A. Gomez-Ibanez (1993) *Regulation for Revenue: The Political Economy of Land Use Exactions* (Washington, D.C. and Cambridge, Mass.: The Brookings Institution and the Lincoln Institute of Land Policy)
- Apogee Research Inc. (1987) *Financing Infrastructure: Innovations at the Local Level* (Washington, D.C.: National League of Cities)
- Bird, Richard M. and N. Enid Slack (1993) *Urban Public Finance in Canada* second edition (Toronto: John Wiley and Sons Canada Limited)
- Bland, Robert (1989) *A Revenue Guide for Local Government* (Washington, D.C.: International City Management Association)
- Bright, Elise M. (1990) *Tactics for Preserving Open Space: A Survey and Analysis of Parkland Acquisition Techniques*. Institute of Urban Studies, University of Texas at Arlington
- Burby, Raymond, J., David H. Moreau and Edward J. Kaiser (1987) *Financing Water and Sewer Extensions in Urban Growth Areas: Current Practices and Policy Alternatives*. Center for Urban and Regional Studies, University of North Carolina at Chapel Hill
- City of Toronto Planning and Development Department (1989) "Use of 'Parks Requirement' authorized by Section 41 of the Planning Act." (internal memo)
- Coopers and Lybrand (1990) *Economic Impact of Proposed City-Wide Impact Fees for the City of San Diego*. A study prepared for the City of San Diego
- Frank, James E. and Robert M. Rhodes (1987) *Development Exactions* (Washington, D.C.: Planners Press, American Planning Association)
- Hoxworth, Dan (1991) "Impact Fees: Issues and Case Studies." In *MIS Report*, ICMA, Vol. 23, No. 12
- Kaiser, Ronald A. and James D. Mertes (1986) *Acquiring Parks and Recreation Facilities through Mandatory Dedication: A Comprehensive Guide* (Pennsylvania: Venture Publishing Inc.)
- Kasoff, Eric (1991) "Alternative Infrastructure Financing: Development Districts Pave the Way." In *Land Use Law and Zoning Digest*, Vol. 43, No. 1
- Lehman and Associates (1991) *Outdoor Resources for Active Living*. A paper prepared for the Ontario Ministry of Tourism and Recreation

- Leitner, Martin L. and Eric J. Strauss (1988) "Elements of a Municipal Impact Fee Ordinance, with Commentary." *Journal of the American Planning Association*, Vol. 54, No. 2
- Listokin, David (1990) "Impact Fees: A Fair Share Framework." In Robinson, Susan (ed.) *Financing Growth: Who Benefits? Who Pays? and How Much?* (Chicago, Ill.: Government Finance Officers Association)
- Mars, J., D. Amborski, R. Crow and J. Springer (1990) *Housing-Employment Linkage Study*. A study prepared for the City of Toronto Planning and Development Department
- National Council for Urban Economic Development (1988) *Development Fees: Sharing the Costs of Growth*. (Washington, D.C.)
- Nicholas Applied Management (1984) *Review and Evaluation of Development Levies and Charges*. Prepared for Alberta Municipal Affairs
- Nicholas, James (ed.) (1985) *The Changing Structure of Infrastructure Finance* (Washington, D.C.: Lincoln Institute of Land Policy)
- Nicholas, James C. (1988) *The Calculation of Proportionate-Share Impact Fees*. (Chicago, Ill.: American Planning Association)
- Planning Institute of British Columbia (1990) *PIBC Position Paper on Development Cost Charges*.
- Porter, Douglas R. and Richard B. Peiser (1984) *Financing Infrastructure to Support Community Growth*. (Washington, D.C.: Urban Land Institute)
- Report of the Advisory Committee on Development Charges and Off-Site Levies* (1986) Alberta
- Salkin, Patricia (1991) *Impact Fees for New York Municipalities: Time for Legislative Action?* (Albany, N.Y.: Government Law Center of Albany Law School)
- Sedley Associates Inc. (1986) *The Impact of Differing Lot Levies on Lower Priced Housing Distribution*. (Toronto)
- Skaburskis, Andrejs (1993) *An Assessment of Development Cost Levies*. Prepared for the Province of British Columbia, Ministry of Municipal Affairs, Recreation and Housing
- Skaburskis, Andrejs and Mohammad Qadeer (1992) "An Empirical Estimation of the Price Effects of Development Impact Fees." *Urban Studies*, Vol. 29, No. 5

- Slack, Enid (1990) *An Economic Analysis of Development Charges in B.C. and Ontario*. A paper prepared for the Laurier Institute, Vancouver
- Slack, Enid (1993) *The Land Use Implications of Alternative Municipal Financial Tools: A Discussion Paper*. Prepared for the Intergovernmental Committee on Urban and Regional Research
- Slack, Enid and Richard M. Bird (1991) "Financing Urban Growth through Development Charges." *Canadian Tax Journal*, Vol. 39
- Snyder, Thomas P. and Michael A. Stegman (1986) *Paying for Growth Using Development Fees to Finance Infrastructure* (Washington, D.C.: Urban Land Institute)
- South Peace Regional Planning Commission (1986) *Off-Site Levies and Development Charges, A Review of Practice and Opinions in the South Peace Regional Planning Commission Area (Alberta)*
- Steckler, Steven A. (1992) "Privatization of Transportation Infrastructure: Models and Center Financing Local Transportation Infrastructure (Albany, N.Y.: Albany Law School) Opportunities." In Government Law
- Stephen Chait Consultants Ltd. and Cumming Cockburn Limited (1992) *Cityplan '91 Economic Impact Study*. A report prepared for the City of Toronto Planning and Development Department
- Sweeney, James G. (1988) "The 'Impact Fee', An Exciting and Troublesome Concept." In *New York State Bar Journal* (October)
- Urban Development Institute, Pacific Region (1990) *Discussion Paper on Development Cost Charges and Levies: Alternative Financing Mechanisms for Infrastructure*.
- Watson, C.N. and Associates (1992) *1992 Survey of Ontario Municipal, Utility and School Board Development Charges*. (Toronto)
- Wright Mansell Research Ltd. (1993) *Off-Site Development Charges and Taxation Principles*. A paper prepared for the Urban Development Institute (Calgary)



# APPENDIX

## DEVELOPMENT CHARGES QUESTIONNAIRE

1. Name of Municipality \_\_\_\_\_

Contact Person (name and telephone number) \_\_\_\_\_

2. Development charges are generally defined as a charge per lot or per hectare (or per square foot) which is levied on developers to cover the off-site costs associated with development or redevelopment. They are also known as development cost charges, lot levies etc.

Does your municipality levy development charges?

Yes \_\_\_\_

No \_\_\_\_

If you do not levy development charges, please proceed to question #15. If you do levy development charges, please continue with question #3.

3. What is the legislative basis for levying development charges in your municipality?

---

---

4. How long have development charges been levied by the municipality?

---

5. Prior to levying development charges, how were the offsite costs associated with new development (or redevelopment) financed? e.g. borrowing, provincial transfers, property taxes etc.

---

---

6. Does your municipality establish a schedule of charges in a by-law?

Yes \_\_\_\_\_

No \_\_\_\_\_

7. What types of developments are levied a charge and what is the magnitude of the charge?

Residential \_\_\_\_\_  
Commercial \_\_\_\_\_  
Industrial \_\_\_\_\_  
Other \_\_\_\_\_

IF A PUBLISHED SCHEDULE OF CHARGES IS AVAILABLE, PLEASE ATTACH A COPY.

8. How is the amount of the charge determined? What methodology is used to calculate the charge?

---

---

---

9. What specific services are financed by development charges?

---

---



10. Do the charges levied go into general revenues or to dedicated service accounts? Please specify.

---

---

---

11. At what stage of the development process is the charge levied?

---

---

12. At what stage of the development process is the charge collected?

---

---

13. What is the process by which developers can appeal the application or magnitude of development charges?

---

---

---

14. Has your dependence on development charges changed over the last ten years? How have development charges been affected by the economic recession?

---

---

---

15. What other exactions or alternative arrangements are used (other than development charges) between the municipality and the developer to pay for or provide services? e.g. parkland dedications, local improvement taxes, linkage fees, density bonusing etc.

---

---

PLEASE ATTACH ANY RELEVANT MATERIAL ON OTHER EXACTIONS.

16. What do you see as the advantages of levying development charges in your municipality?

---

---

---

17. What do you see as the disadvantages of levying development charges in your municipality?

---

---

---

18. What recommendations would you make that would improve the use of development charges by municipalities?

---

---

---

**WE WOULD APPRECIATE RECEIVING COPIES OF ANY BY-LAWS, SCHEDULES OF CHARGES OR OTHER RELEVANT MATERIAL ALONG WITH THE RESPONSE TO THE QUESTIONNAIRE.**

Thank you for your assistance.