

# Intelligence MEMOS



From: Benjamin Dachis  
To: Municipalities that Impose Development Charges  
Date: August 10, 2018  
Re: Stop Hosing Homebuyers with Water-Related Development Charges

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**C**anadian municipalities are hurting housing affordability by imposing expensive water charges on development and they should revamp their development charges to improve housing affordability across the country.

Many Canadian municipalities impose development charges on homebuilders – around \$80,000 per single-detached home in some large Canadian cities. The largest single component of these charges in many municipalities is for water and wastewater construction. These fees have been rising in recent years, worsening housing affordability in the process, since development costs are ultimately passed on to homebuyers in the form of higher home prices.

Developers pay the charges to compensate municipalities for the cost of building municipal infrastructure that services homes and commercial properties in a newly developed area. That is, growth pays for itself. Development charges only apply to projects that will require the city to provide more services.

In theory, an ideal development charge would reflect the incremental (marginal) cost of building new infrastructure: the end users who benefit from a service would be the ones who pay for it. But this type of up-front financing creates an incentive for a household to make heavy use of the infrastructure, such as roads or water, once built, which leads to congestion or the overuse of water.

[Empirical evidence](#) shows that new homebuyers pay almost all development fees. For example, every 10-percent increase in the average development charge on a new single-detached dwelling in Ontario municipalities has been found to lead to a 0.45 percent increase in home prices for both new and existing homes.

Municipalities should eliminate development charges for water and wastewater and instead levy full-cost user fees that cover the full cost of amortized capital. This is the pricing model that private and municipally owned utilities in the natural gas and electricity market have used for decades without relying on up-front fees. Municipalities could move to such a system for new developments, which would improve housing affordability.

There are two other steps I recommend in my latest C.D. Howe Institute [report](#):

Municipalities should create region-wide, standalone utilities that can take advantage of the scale economies available in the sector.

And provinces should also create independent wastewater- and water-specific regulators to ensure that municipal and private water and wastewater utilities are setting appropriate prices and meeting environmental standards. Without such an independent body, governments have an inherent conflict of interest when they hold the powers of both operating infrastructure and regulating it in areas such as safety or price setting, since weaker regulatory standards make the operations easier to manage.

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