INSTITUT C.D. HOWE INSTITUTE

COMMENTARY
NO. 723

Growing Pains: Rethinking Development Charges in Canadian Municipalities

As development charges on new homes have soared, so too have questions about their role in driving up housing costs. This Commentary challenges the conventional thinking that "growth should pay for growth" and proposes alternative ways to finance municipal infrastructure that could support housing supply and affordability.

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Commentary No. 723
July 2026

Alexandre Laurin
Vice-President and Director of Research

ISBN 978-1-77881-090-9
ISSN 0824-8001 (print);
ISSN 1703-0765 (online)

Growing Pains: Rethinking Development Charges in Canadian Municipalities

by Andrew Sancton

- Development charges were introduced to help finance infrastructure needed to accommodate growth and became widely accepted under the principle that "growth should pay for growth." As housing affordability has worsened and charges on new homes have risen in many Canadian municipalities, they have become a major policy issue.
- The idea that "growth should pay for growth" rests on questionable assumptions. It assumes that the benefits of growth-related infrastructure accrue mainly to new residents and that growth-related costs can be clearly separated from other municipal expenditures. Both assumptions are difficult to sustain in practice. Moreover, most evidence suggests that development charges increase the cost of new housing and put upward pressure on housing prices more generally.
- Development charges should be gradually reduced over time, with the long-term goal of eliminating them. Alternative financing approaches like greater municipal borrowing and the use of water and wastewater user fees could spread infrastructure costs more fairly across those who benefit from growth while reducing barriers to housing supply.

Introduction

At the beginning of this decade, development charges, the municipal fees charged on new development to help pay for growth-related infrastructure, were of interest primarily to developers, consultants, and municipal officials.[1] No one else paid much attention. If questions ever arose, they were answered by the maxim that development charges enabled "growth to pay for growth," which was presented as a sound principle of municipal finance. However, in this second half of the 2020s, as Canada faces a housing affordability crisis, development charges have become a major political issue.

1 For an example of a significant study conducted in this period, see: Canada Mortgage and Housing Corporation (2022).

This paper began life at Western University as "Re-assessing the Case for Development Charges in Canadian Municipalities." It was subsequently published in 2022 in *Canadian Planning and Policy*. Permission has been obtained from *CPP* to update it and make substantial revisions for this C.D. Howe Institute publication. The author thanks Zack Taylor at Western and David Gordon, editor of *CPP*, for encouragement and guidance along the way. He also extends gratitude to David Amborski, Colin Busby, Karen Chapple, Ben Dachis, Nicholas Dahir, John DiMichele, Alexandre Laurin, Stu Niebergall, and several anonymous referees for valuable comments and suggestions. The author retains responsibility for any errors and the views expressed.

Policy Area: Fiscal and Tax Policy.
Related Topic: Property Taxes.
To cite this document: Sancton, Andrew. 2026. *Growing Pains: Rethinking Development Charges in Canadian Municipalities.* Commentary 723. Toronto: C.D. Howe Institute.

C.D. Howe Institute Commentary© is a periodic analysis of, and commentary on, current public policy issues. Percy Sherwood and Michael Benedict edited the manuscript; Yang Zhao prepared it for publication. As with all Institute publications, the views expressed here are those of the author and do not necessarily reflect the opinions of the Institute's members or Board of Directors. Quotation with appropriate credit is permissible.

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For example, in most large municipalities in the Greater Toronto Area (GTA), such charges commonly add well over $100,000 to each new single-family home (Keleher 2025).[2] In Metro Vancouver, development cost charges (as they are known in BC) in some municipalities exceed $50,000.[3] In Calgary, meanwhile, "development fees" are in the $10,000 range.[4]

Past C.D. Howe Institute studies have shown that if such charges were eliminated, housing prices could fall accordingly (Dachis 2020). Politicians at all three levels of government have started paying attention, so much so that in March 2026, Prime Minister Mark Carney and Premier Doug Ford announced a new program whereby Canada and Ontario would fund selected local infrastructure projects if affected municipalities reduced their development charges by up to 50 percent. I examine this program more closely toward the end of this *Commentary*.

As shown in the final sections, more permanent solutions deserve consideration. For example, separate water and wastewater authorities could be established to borrow funds for new infrastructure and repay them through user fees over the life of the project. Municipalities could also borrow more aggressively to finance needed capital projects associated with new growth.

This *Commentary* aims to address some of the current issues surrounding development charges, not so much by entering into a discussion of their details and technicalities, but by trying to understand how and why they came into being.

The underlying question – an ethical question, in fact (Beatley 2022) – is: Who should pay for the new municipal infrastructure required to service new growth? Is it purchasers of new housing? Or all municipal residents and property owners? Provincial or federal governments? Is that growth paid up front before new housing is built, or is it paid for over time through borrowing? These are the questions this *Commentary* confronts and for which it proposes possible solutions.

I begin by discussing the origins of development charges and their incidence (who actually pays them). This latter issue is extremely important. If new homeowners and occupants of new rental units are not the people who actually pay, then development charges are of little or no relevance to housing affordability. I then critically assess the well-known claim that "growth should pay for growth." The penultimate section asks the question, "What is to be done?"

It is important to understand that this *Commentary* does not present new empirical findings. Rather, its aim is to provide a critical review of relevant literature, designed especially for readers who might instinctively believe that development charges make sense as a way – perhaps the only way – to finance new municipal infrastructure required by new development.

First, I examine the arguments in favour of development charges. This is followed by a discussion of some of the current issues relating to development charges in Ontario, including the recently announced federal-provincial program.

2 For valuable tables showing levels of 2023 development charges for single-family homes in all GTA municipalities and in Ontario's 10 largest municipalities, and how they have changed since 2011, see: Keleher (2025), 5-6.

3 *The Hub*. 2026. "Why Housing Development Charges Are Skyrocketing—and What to Do About It: Deep Dive." January 8. https://thehub.ca/2026/01/08/why-housing-development-charges-are-skyrocketing-and-what-to-do-about-it-deepdive/.

4 Schlesinger, Joel. 2025. "Government Fees on Development Rise Steeply in Calgary." *Calgary Herald*. December 18. https://calgaryherald.com/life/homes/government-fees-on-development-rise-steeply-in-calgary.

Box 1: The Origins of Development Charges

Development charges are an outgrowth of subdivisions, which became popular in North America in the immediate aftermath of the Second World War. Housing was in great demand, but municipal finances were still recovering from the Great Depression. Instead of building roads, sewers, and watermains to service new areas themselves, municipalities entered into agreements with developers under which developers built and paid for the infrastructure within the subdivision according to municipal standards and then turned it over to the municipality for maintenance once construction was complete. This is an important point to emphasize because many people seem to think development charges cover the immediate infrastructure costs serving a new home or its subdivision.

By the 1960s, these agreements required developers to pay some municipal costs outside the subdivision. In Ontario, these payments went by various names, including "lot levies," "cash imposts," and "development charges" (Tomalty and Skaburskis 2003). In the US, they were normally known as "exactions." While they were supposed to be based on demonstrated infrastructure needs related to the new development, they could easily degenerate into a mechanism whereby developers extracted municipal planning permission by making cash payments. This dubious process often benefited both sides, but obviously led to great uncertainty and even to claims in some places that some developers received better deals from a particular municipality than others. Pressure mounted for state and local regulation that would legitimize and standardize the collection of these lot levies and exactions.

In the US, standardized fees for off-site development first appeared in the mid-1980s and were generally called "impact fees." Their implementation provoked considerable legal conflict that has been well documented. One study described the political environment for the adoption of impact fees in these words:

> Existing taxpayers in many jurisdictions have grown unwilling to share the cost of providing services to new residential development through property taxes that secure general obligation debt. They see little reason for paying the way of newcomers, especially when tax levies appear to rise without a commensurate increase in service levels. It is understandable, then, that the passage of several tax cutting measures, including California's Proposition 13 and Massachusetts' Proposition 2 1/2, has attracted national attention as a possible way of reconciling inflation-eroded state and local budgets and reducing the scope of government and government supported services (Bauman and Ethier 1987, 51).

This same study noted that new residential development in many places was expected "to pay its own way" through impact fees. The authors argued that the fees were a "condition of residency" and that their proponents often failed to consider the potential benefits of growth experienced for all residents, including "growth in retail sales and sales tax collection, expanded employment opportunities, increased disposable income, and diversity in housing choices" (Bauman and Ethier 1987).

It is important to note that impact fees in the US emerged during the Reagan years (1981-1989) at a time of "taxpayer revolt." Their emergence was more a product of fiscal and political weakness than of innovative policymaking born of newly acquired political strength. The claim that new development provides long-term benefits to everyone will be briefly considered later. For now, it is sufficient to note that, unlike many US municipalities, Canadian municipalities that approve new development do not reap the benefits of increased sales tax revenues.

Who Ultimately Bears the Burden of Development Charges?

Empirically determining the incidence of development charges – who ultimately bears their burden – is exceptionally difficult because it requires disentangling the many factors contributing to housing price appreciation (land prices, property-tax levels, construction costs, and the overall state of the real estate market, among others).

An early Canadian study argued that the ultimate burden falls on the original owners of undeveloped greenfield land:

> Economic theory predicts that the cost of exactions will be absorbed eventually by the factors most inelastically supplied to the production of new housing. The supply of land is generally regarded as price inelastic and consequently farmers, speculators and other holders of undeveloped real estate will be the principal losers as a result of harsh municipal exaction practices (Hudec 1980).

Hudec further suggested that because original landowners are the ones who really pay, development charges are a form of "betterment levy," a tax on landowner profits resulting from planning approval. Such a claim was rare in North America over the subsequent 40 years but has been much more important in the United Kingdom.

A more common argument is that development charges are passed on to purchasers of new housing (Blais 2010; CMHC 2025). Meanwhile, Stegman (1987) writes that: "[W]hen most communities in a market adopt roughly equivalent impact fees, the developers' costs will likely be passed on in the form of higher prices or rents [thereby] significantly diminish[ing] the affordability of housing." He then argues that "this is only half the story." As new and existing housing are located within the same regional housing market, higher rents and prices for new housing due to impact fees also increase the cost of existing housing. Stegman highlights the difficult position of renters in such a situation:

> The higher prices at which established homeowners can sell their houses will compensate them for higher prices they may have to pay for houses in the same market. Renters, on the other hand, receive no such capital gains. Their higher rents are, in effect, an uncompensated burden that stems from the private financing of infrastructure to serve new residents. That current renters, who do not create a need for new infrastructure, indirectly bear some of the costs of its financing is an important equity issue that merits serious attention by local policy makers (Stegman 1987).

Following the passage of Ontario's *Development Charges Act* of 1989, Slack and Bird (1991) addressed many of the same issues that Stegman examined earlier. They compared development charges in Ontario and BC, where they are called "development cost charges," and, like Stegman, agreed that new homebuyers usually bear the cost, especially where development charges were relatively equal across municipalities and demand for new housing, as in the Toronto and Vancouver metropolitan areas. They also agreed that these charges often benefit existing residents (Slack and Bird 1991).

Meanwhile, a 1997 study of development charges (exactions) in different parts of Contra Costa County in the San Francisco Bay Area showed that new homeowners absorbed the cost where real estate markets were booming, while landowners and developers did so in sluggish or declining markets (Shiffrin and Dresch 1997). In 1998, John Yinger, using formal economic modelling, wrote that about one-quarter of development charges costs would normally be paid by the original landowners – that is, farmers and land speculators (Yinger 1998). In a footnote, Yinger states that, "The owners of the land at the time the development fees are announced are the ones who bear the [landowners'] burden." His conclusion is worth quoting for the larger purposes of this *Commentary*: "...development fees confer a small capital gain on existing homeowners and, to the extent housing construction is competitive, do not place any burden on developers. No wonder development fees are so popular."

Yinger further acknowledges that, "The buyers of new homes will indeed bear some of the burden of these fees as the benefits of infrastructure show up in the price they pay for new housing." This is certainly the conventional wisdom in Canada: development charges drive up housing prices (CMHC 2025). The main circumstance in which this would not be true is where two neighbouring and growing municipalities, one of which levied development charges and the other did not. To offer competitively priced housing in the jurisdiction with development charges, either the original landowner, the developer, or both would have to absorb the cost. An Australian study showed that when legislation changed so that development charges increased in some Queensland municipalities and decreased in others, housing prices were not much affected anywhere, leading to the conclusion that, in these circumstances, the cost of development charges is absorbed by original landowners and subsequent developers (Murray 2016).

In most circumstances, including in the Greater Toronto Area, such variations do not exist. There is no reason for neighbouring, growing municipalities to forego development charges, so all or a portion of their costs are passed on to new homeowners. Similarly, there is general agreement with Yinger's conclusion that the increased prices caused by development charges also marginally increase the prices of older homes (Amborski 2011).

Does Growth Really Pay for Growth?

Over the last decade, debates about development charges have become quite contentious, especially in Ontario. Municipalities rely on the "growth should pay for growth" argument to defend a much-needed source of revenue (Association of Municipalities of Ontario 2019). Environmentalists generally embrace development charges because they have the potential to put a price on urban sprawl (Blais 2010), thereby possibly encouraging denser infill development closer to the centre. Both of these arguments portray development charges as a tool for advancing important policy objectives. Pro-development groups (Amborski 2011) and others (e.g., Dachis 2018, 2020), however, blame development charges for adding to high housing costs.

Another view, especially prevalent in the US context, is that these charges are a politically convenient device for enabling growth. Altshuler and Gómez-Ibáñez (1993) claim that development charges "merit recognition as an ingenious local adaptation to antitax and antigrowth pressures—highly imperfect, subject to abuse, and requiring state oversight, but often highly preferable to the likely alternatives." They suggest that, in the absence of such charges, anti-growth and anti-tax pressures will lead to higher housing costs (due to a lack of new supply) and a deterioration in the quality of local infrastructure (due to a lack of investment). Similar points were made in 2013 by British researchers who were commenting on US impact fees:

> In some communities, impact fees are actually considered a pro-growth tool because of their ability to defuse anti-growth lobbies or NIMBYism and thus increase the likelihood that the development will be approved. In addition, because they are typically used as a replacement for negotiated exactions, impact fees add speed and predictability to the development process (Monk et al. 2013).

In other words, development charges, at least in the US context, are seen as a "least bad" practical adaptation that prevents no-growth politics from taking over. What is quite remarkable, however, is that no one in the US seems to have attempted a more theoretical or comprehensive justification; that is, one that emphasizes development charges as a means of achieving wider policy objectives.

The well-known urban economist William Fischel sees development charges as simply being the result of bargaining between developers and municipalities, which he conceptualizes as clubs of current property owners. If developers thought the charges were too high, they would not build or would build in jurisdictions without development charges (Fischel 2001). In other words, he sees these charges in roughly the same way as Altshuler and Gómez-Ibáñez (1993) – as a mechanism for buying the support of current property owners for new growth.

Indeed, Fischel observes that development charges are "controversial not because they charge too little, but typically because they charge more than the development seems to add to the municipality's fiscal costs" (67). He goes on to note that state legislation and court decisions serve to rein in the more egregious abuses (as they are supposed to do in Ontario).

To recap, defenders of development charges as good policy assume that the benefits to new residents from growth-related infrastructure costs are clearly separable from the benefits received by existing residents. The benefits of urban development and redevelopment are understood to be highly localized. Existing residents are assumed to receive limited benefits from growth in the regional housing market and the infrastructure constructed to accommodate it. These are understood to be almost completely captured by new residents.

Even if growth generates generalized benefits, potential opposition from existing residents to paying for it justifies transferring the costs to new residents. Finally, environmentalists argue that putting a price on greenfield development incentivizes densification through infill and redevelopment. On these bases, "growth should pay for growth." However, these arguments break down in the real world for several reasons.

Growth Benefits Extend Beyond New Residents

New growth-related infrastructure facilities often benefit new and existing residents alike. They may enhance the experience of all users irrespective of how long they have lived in the community and provide greater flexibility for both infrastructure operators and consumers. Wider roads, new public transit facilities and vehicles, along with new libraries, recreational facilities, and fire stations all provide some benefit to existing residents as soon as they are built, even if growth was the main cause of such investments.

Furthermore, municipalities must often build excess capacity upfront to enable growth. More generally, the expansion of the metropolitan housing and labour market ultimately benefits everyone by providing new business opportunities, local jobs, and potential agglomeration economies, even if, as in Canada, local municipalities do not directly benefit from new non-property-tax revenues. If this were not the case, it would not be expected that every large and mid-sized municipality – even those with high development charges that apply to residential, commercial, and industrial properties – would have some version of an economic development office committed to attracting new growth and investment. Most suburban municipalities want growth, even if individual residents usually want it to occur in some place other than near them. Why then should anyone care which infrastructure costs are associated with new growth and which are not?

Pervasive and ongoing disputes over the calculation of development charges suggest that growth- and non-growth-related expenditures are not clearly separable. In fact, the initial oversizing of infrastructure and facilities is an excellent argument for municipal borrowing, a point I address more fully later. If the term of the bond issued matches the anticipated lifespan of the asset constructed, all future residents who directly or indirectly benefit from it will pay for it incrementally through property tax revenue and user fees used for principal repayment and debt-servicing costs.

For municipalities, development charges shift the financing of future infrastructure and facility use into the present instead of spreading it out over time. At the same time, they transfer financial risk to the new homeowners (Dachis 2020).

The Case for Development Charges Depends on Context

Many defenders of development charges accept the claim made by Altshuler and Gómez-Ibáñez (1993) and others that if everyone is expected to pay for new growth-related infrastructure, existing residents would mobilize to oppose it to avoid paying higher property taxes. This would lead either to a shortage of housing (which could benefit some existing residents by raising the value of their houses) and/or an undersupply of local infrastructure for the whole community (which would ultimately lower the value of all buildings in the municipality). As I will show, such reasoning might well make sense in small US residential suburbs, but politically effective no-growth pressure in the much larger and more economically vibrant municipalities around Toronto seems unlikely.

Moreover, unlike in many US jurisdictions, Canadians do not hold referendums on the issuance of debt or property tax limitations. Indeed, direct democracy is the principal means by which US residents resist growth. Given the current pressures on Canadian provincial governments to ensure that more housing is built in our major cities, a municipality that attempts to limit growth could find itself countermanded by provincial edicts. State intervention in the US is far less likely, if not impossible.

Development charges can be imposed in a wide variety of economic and institutional contexts. At one extreme are slow-growing small towns and cities outside larger metropolitan areas. In such places, if municipal politicians and residents are anxious to attract growth, they may be willing to pay the accompanying infrastructure costs, if any. In these places, development charges would likely be low or non-existent.

At the other extreme are suburban, largely residential municipalities that have considerable vacant land and are located within fast-growing metropolitan areas. Here, developers would be anxious to build, but existing residents would be reluctant to pay for the additional municipal infrastructure that is required to accommodate them. Somewhere between these extremes are growing metropolitan areas with one dominant municipality that itself has considerable vacant land ripe for development.

Much of the academic literature about development charges comes from the US, where it is important to remember that most metropolitan areas (except in the southwest) contain a great many relatively small residential suburban municipalities. Here, in the absence of impact fees, it is likely to see exceptionally strong resistance to new development. Such development provokes classic "not in my back yard" (NIMBY) responses, as homeowners resist the loss of open space and fear congestion and other unknown changes in their daily lives. To avoid congestion, however, new infrastructure is required, even though the existing property tax base is limited.

In hot real-estate markets, by contrast, developers have every incentive to contribute to the costs of the required new infrastructure in order to participate in market expansion. Altshuler and Gómez-Ibáñez (1993), authors of a sophisticated US analysis of exactions and impact fees, argue that these are the circumstances in which such fees are most justified. In their absence, the municipal council, prodded by its nervous and cost-conscious residents, is most likely to reject new growth. Exactions and impact fees might not be ideal, but they are better than restricting growth, driving up housing prices through a lack of supply, or causing leap-frogging urban sprawl even farther from the metropolitan centre.

Canada does not have such small and independent suburban municipalities (except in Montreal, Vancouver, and Victoria). The

Greater Toronto Area, where growth pressures are the most intense, includes the amalgamated City of Toronto and regional governments with substantial infrastructure responsibilities. Within the regional municipalities are restructured lower-tier municipalities that are very populous and territorially large (especially Mississauga, Brampton, Markham, and Vaughan), at least by US suburban standards (Urbaniak 2009). These are precisely the places in Canada with the highest development charges and associated growth.

It is a similar situation in large Canadian municipalities that dominate their own particular metropolitan areas and are therefore near-monopoly competitors in their regional housing markets – for example, Ottawa, Hamilton, London, Barrie, Calgary, Winnipeg, and Halifax. It is my contention that, in these institutional circumstances, growth is going to happen regardless of financing sources. The issue is simply how the new infrastructure is to be paid for.

Slack and Bird (1991) sum up what happens in such an institutional environment:

> Finally, it is worth emphasizing that in an important sense what is really going on is the substitution of private for public borrowing. Canadian municipalities, particularly in Ontario, are generally run in a fiscally conservative fashion, partly by choice and partly in response to strong provincial controls on local borrowing. The traditional case for borrowing for local public capital facilities is not accepted, and municipalities tend to pay for everything out of current revenues (including, of course, provincial grants) to the extent possible. One consequence of this policy is the increasing reliance on development charges discussed in this paper: in effect, public sector borrowing is replaced by private sector borrowing (by developers and/or new-home buyers). This substitution seems unlikely to be economically efficient, however, given the greater riskiness and generally higher transactions costs of private sector borrowing.

In a growing housing market in which most or all municipalities impose development charges, they amount to the transfer of infrastructure financing from fiscally cautious municipalities to the private sector. This increases housing costs because lenders charge property developers higher interest rates than governments pay bondholders. Shifting infrastructure costs from borrowing to development charges, in turn, confers a benefit on existing property owners in the form of lower taxes (Fathers 2014).

Average Cost Calculation and the Cost-Benefit Nexus

Development charges are often framed as a form of user charge. Developers are charged for the capital costs of the growth-related development that they stimulate. We have seen that development charges grew out of the ad hoc arrangements between developers and municipalities under which developers paid for an assortment of off-site infrastructure costs that appeared to be caused by new development. In their ideal form, these arrangements were closely linked to real costs. In their less ideal form, they became mechanisms through which developers purchased planning permission. The creation of a legislated system of development charges eliminated many of the obvious arbitrary features of the old arrangements.

But standardization created its own problems. Development charges for large houses in greenfield developments were the same as those for small houses in established neighbourhoods. This led to claims that development charges based on average rather than marginal costs (i.e., different charges for different types of development) promoted urban sprawl (Slack 1994; Blais 2010). This problem has been partially corrected by creating different categories of development charges depending on the nature of the new development (e.g., residential, commercial, or industrial; greenfield or established neighbourhood; single-family residential or apartment buildings), but the underlying problem remains: some new buildings pay less than the infrastructure costs they are assumed to create, while others pay more (Tomalty and Skaburskis 2003).

It is common for taxpayers to help finance public services they do not use. We all pay for municipal parks and recreation services, even if we have a swimming pool in our backyard and never use a public park. The problem with development charges is that they rest on allegedly precise calculations about the particular costs new buildings create. But when they are actually collected, there is little or no effort to assign the charges based on what is being consumed. If you go to an all-you-can-eat buffet restaurant, you expect everyone to pay the same charge regardless of appetite. But if you order à la carte, you don't expect to split the bill equally with a neighbouring table.

Greenfield and Inner-City Infrastructure Are Treated Differently

We have already seen that the value of older properties is likely to increase because development charges make houses and commercial properties in newer areas of the same housing market more expensive. But a further inequity arises in municipalities that contain both centrally located older buildings and newer peripheral development. In the older parts of town, the original local infrastructure was installed and paid for by the municipality. In new greenfield developments, developers build internal infrastructure and pay development charges, most of which are usually passed on to new homeowners. But when a municipality rebuilds sewers, water pipes, and roads in the old part of town, property owners throughout the municipality – including new homeowners who have just absorbed local infrastructure costs and development charges as part of the price of their new homes – share these capital costs through their property taxes.

In fact, infrastructure upgrading and replacement in built-up areas, required as much by obsolescence or breakdown as by infill growth, is often more expensive than the tabula rasa of greenfield areas. In older areas, nearby property owners pay nothing extra, and some live in the most established and desirable neighbourhoods. If existing property owners are not expected to pay for redeveloping infrastructure in their own areas, surely these same people have a moral responsibility not to charge owners of new housing for the cost of providing new infrastructure in established areas. Established residents would loudly object if they were levied a special charge for "redevelopment."

Meanwhile, new residents in greenfield developments can object to these financial burdens only by not buying or by buying in an older neighbourhood. But if all potential new residents in a growing community acted in this way, housing prices in older neighbourhoods would soon increase.

Finally, as already noted, environmentalists sometimes argue that development charges put a price on sprawl by (in principle) eliminating the subsidy of greenfield growth-related infrastructure by existing urban areas. The problem with this argument in the Ontario context is that, although provincial legislation allows different levels of development charges in different areas of a municipality, they are often applied alike in infill and greenfield contexts, conferring little or no advantage on infill development in established areas.

Montreal

How is growth-related infrastructure financed in the absence of development charges? For municipal practitioners in places where development charges are high, the prospect of their absence might seem impossible to imagine. But there are places where they do not exist. Pointing to municipalities in the same province that have low or no development charges is not particularly helpful because such municipalities are usually in areas suffering from declining populations and no development. More needs to be known about how local infrastructure is financed in Canadian jurisdictions experiencing significant growth but that do not have development charges. As a result of recent changes to provincial law, Quebec municipalities can now levy development charges. But even in Montreal and its suburbs, these charges are still very low (Prémont and Tremblay-Racicot 2019).

Indeed, a 2019 study showed that the average "infrastructure charge" for new low-rise buildings in Montreal, Laval, and Longueuil was only $1,462 (Altus Group Economic Consulting 2019). Housing in Greater Montreal is generally cheaper than in other major Canadian cities and municipal borrowing levels are higher. Unfortunately, it seems impossible to assess the merits of Montreal's practices because there is very little current analysis available in either English or French (Polèse 2020).

However, municipal observers in the Toronto and Vancouver areas should know that growth-related infrastructure in the Montreal area is still largely financed through municipal borrowing financed by all property owners. This is presumably why Quebec municipalities are the most indebted in Canada (Meloche and Vaillancourt 2021). In any event, an urgent Canadian research priority is to better understand how new development happens in Quebec, especially in suburban Montreal. For now, all that can be done is to speculate about what municipal finances would look like in Ontario if its municipalities followed the Quebec model.

The Canada-Ontario Plan to Reduce Development Charges

As noted above, the governments of Canada and Ontario announced a new program at the end of March 2026 to provide incentives for Ontario municipalities to significantly reduce their development charges. The two governments plan to spend $8.8 billion over 10 years to compensate Ontario municipalities that lower their development charges. The expectation is that, in some cases, charges will be reduced by as much as 50 percent and that the reductions will remain in place for at least three years. The news release accompanying the announcement stated that, "The province will work with municipalities to put forward a list of infrastructure projects for approval with a focus on speed and efficiency (Canada 2026)."

It is not clear how this process will work, but the implication is that some mechanism will require provincial approval of local infrastructure projects before municipalities can be compensated for reducing development charges. The same release made it clear that municipalities themselves will also be expected to contribute.

There appear to be two significant problems with the plan. The first is that local infrastructure projects appear to be subject to both a federal and provincial veto. To benefit, a municipality would first reduce its development charges and then apply to the province for compensation so that it could proceed with a project that otherwise would have been financed from its development-charge revenue. It is hard to see how such a process would involve "a focus on speed and efficiency."

In the absence of such a process, there would seem to be nothing preventing a municipality from simply receiving unconditional grants from the province to compensate for reduced development charges. The danger here is that municipalities might not maintain investment in local infrastructure, undermining the federal-provincial objective of the program.

A more serious problem relates to fairness. What about the owners of new homes and rental projects for whom hefty development charges were included in the prices they paid only a year or two earlier? Their federal and provincial taxes will help reduce the prices paid by more recent purchasers. Meanwhile, the value of these slightly older buildings will be reduced because of the assumed reduction in the price of the new buildings. Because owning a home is an investment as well as a mechanism for providing housing, this would seem to be a problem with any plan to drastically reduce development charges over a short period.

Another issue relating to fairness is that, so far at least, the Canada-Ontario program has not been replicated elsewhere. But even if it is, the issue is not simply one of Canadian taxpayers living in areas with low or no development charges subsidizing local infrastructure in areas with high development charges. What is to be done for Montreal and its suburbs? Because fast-growing areas there have virtually no development charges, their residents will pay for their own new local infrastructure through their property taxes and for new local infrastructure in other fast-growing cities (especially in the GTA) through their income taxes and GST payments.

Alternatives to Development Charges

If development charges are to be drastically reduced or eliminated over the long term, municipalities will have to develop alternative sources of revenue to fund the expansion of local infrastructure. One possibility is a major provincial overhaul of municipal finance. This could involve granting municipalities access to income and/or sales taxes or to guaranteed revenue from such taxes, with rates still set by the province. Municipalities have been asking for such reforms for decades. It is conceivable that they could be part of some kind of grand provincial-municipal bargain involving the end of development charges as we know them. Nevertheless, analyzing such hypothetical possibilities goes far beyond the scope of this *Commentary*.

There are, however, two more modest approaches that could enable municipalities to make up for revenue lost from reducing development charges. Both involve increased borrowing by local public bodies, including municipalities, rather than by new homebuyers, as is currently the case. The first involves slightly higher property taxes. The second involves increased user fees for water and wastewater. Each is discussed in turn.

Increased Borrowing Financed by Property Taxes

In 2025, the City of Toronto sold 30-year bonds at an annual interest rate of 4.5 percent (Toronto 2025). If the $2.77 billion collected by Ontario municipalities in 2023 had instead been borrowed over 30 years at an interest rate of 4.5 percent, the annual debt-charge cost (inclusive of principal repayment) would have been $164 million, resulting in an average property tax increase across the province of slightly more than half of one percent.[5] Assuming these charges recur annually, the cumulative increase in property taxes would gradually rise over time, reaching approximately 15 percent by the end of a 30-year period. This calculation is intended as a broad order of magnitude illustration rather than a precise estimate, as interest rates can go up or down.

Those concerned about potential increases in municipal capital borrowing rates should have similar concerns about the exposure of new homebuyers to increased mortgage rates (which are higher than municipal borrowing rates) and monthly payments, a portion of which often goes to paying the cost of development charges. A significant difference between municipal borrowing and homeowner mortgages is that, for the former, the interest rate is locked in for the duration of the loan, while rates are usually guaranteed only for a maximum of five years for the latter. In addition, many Canadian homebuyers have variable-rate mortgages, adding more uncertainty.

Therefore, borrowing conditions are more predictable for municipalities than for homebuyers. It is also true, however, that in the absence of development charges municipalities would have to borrow more for different projects and might find that debt-servicing costs increase over time as interest rates for new bonds rise.

5 However, this number is perhaps of dubious practical value because of the huge variation in levels of development charges in all of Ontario's municipalities, including many that have no development charges at all.

As already noted, the highest development charges in Canada are found in Toronto and its suburbs. The broad calculations above include all Ontario municipalities, including those with very little new development and, therefore, low or no development charges. As a result, high-growth municipalities would likely experience larger property tax increases over time. For example, if development-charge revenues from the Regional Municipality of Halton and its four constituent lower-tier municipalities in 2024 are combined (Ontario 2025), the total amount raised was $384 million. This figure excludes development charges from school boards, which in 2026 added about $7,000 to the cost of each new single-family house (Halton District School Board). Total property tax revenue for the region was $1.236 billion (Ontario 2025).

However, if the $384 million was financed through borrowing at 4.5 percent over 30 years, the annual debt-charge payment (inclusive of principal repayment) would be $23 million, translating into an average property tax increase of slightly less than 2 percent.[6] Assuming that these municipalities continued to grow at an accelerated pace year after year for decades, the cumulative property tax increases required to fund the new infrastructure built each year could be substantial. This is one reason why – as suggested below – any attempt to eliminate development charges would have to be phased in gradually and carefully.

Municipalities will doubtless claim that increased borrowing is too financially risky or that provincial legislation limits their borrowing capacity. Critics of municipal financial practices will point to large reserve funds, which in many cases have been built up over the years with revenues from development charges. The issue of municipal borrowing capacity is complex and merits another study of its own.

Increased Borrowing Financed Through Water and Wastewater User Fees

Somewhere between one-quarter and one-third of the revenues raised by development charges are earmarked for water and wastewater infrastructure (Ontario 2025). One way to reduce the added burden on property tax from eliminating development charges would be to restructure user fees so that growth-related infrastructure costs are incorporated into the fees paid by all consumers. Determining the extent of any fee increase is not easy. Not surprisingly, rate increases would be higher in areas experiencing significant new development. If, for example, this course of action were followed in Halton Region, fees would increase by an additional 5 percent for each of the following 10 years (Clayton 2014).

Dachis also advocates absorbing the costs of new water infrastructure into user fees (Dachis 2018). Simultaneously, he wants accrual accounting to be adopted for municipal budgeting so that the actual costs of new infrastructure would be amortized over the asset's lifetime (consistent with municipal financial statements). This makes direct comparisons with existing rate structures difficult, if not impossible. The key point is that in the absence of development charges, the costs of new growth-related infrastructure for water need not be financed through property taxes.

Arguably, implementing this plan might be facilitated by removing water from direct municipal control and establishing independent water authorities, just as there are independent local bodies in Ontario (still usually municipally owned) for electricity distribution. However, such a proposal would likely be politically contentious because of fears that it could be a prelude to privatization. To

6 This number was calculated by adding together all of the development-charge revenue from the Halton Region and its constituent municipalities, then using an "amortization calculator" to determine annual debt-charge payments for a 30-year, $384 million loan at 4.5 percent interest and then dividing that amount by $1.236 billion.

counter such concerns, water could be left under direct municipal control, while municipal borrowing rules could be adjusted to reflect the new financial regime for new water and wastewater infrastructure.

Conclusion

Over the long term, development charges in Canada need to be drastically reduced or eliminated. Sustained action at the local level in this direction will not be easy because, in the absence of development charges, existing residents will have strong incentives to block development simply because they do not want to pay for the associated new infrastructure. However, this is much more likely to be a serious problem in small, fast-growing suburban municipalities in the United States than in Canada.

The most important questions relating to development charges are who ultimately pays them and whether the resulting arrangements are fair. There is some evidence that, in some places and circumstances, part of the cost is borne by owners of agricultural land before it is developed. To the extent that this is the case, development charges are a truly excellent form of tax because they tax what the British call "planning gain" – the windfall increase in property value that occurs when rural land is rezoned for urban use (Crook 2016).

Unfortunately, most analysts, especially in North America, agree that residential development charges are actually paid by the owners or renters of new homes in newly developed subdivisions. Proponents of the slogan "growth should pay for growth" support this outcome because they believe that growth-related infrastructure costs can be clearly separated from other local infrastructure costs and that current residents have no moral responsibility for them. Much of this *Commentary* has been devoted to showing the shortcomings of that view.

Given that housing affordability is now a huge issue in Canada's metropolitan areas, it is reasonable to think that reducing or eliminating development charges could help reduce housing prices. But eliminating them too quickly would likely be unfair to recent purchasers of new homes who are still paying for the charges through their mortgage payments. Another undesirable outcome might be that prices for new homes would not come down as much as expected because developers and landowners could reap some or all of the benefits by not passing the "savings" along to new buyers, depending on the competitiveness of the new housing marketplace.

For those interested in the political economy of municipal financing, there is an important lesson to be learned from this account of the evolution of development charges. Rather than being grounded in any theoretical account of "economic efficiency," development charges have always been a pragmatic political response to the challenge of funding local infrastructure in fast-growing urban areas. As generally structured in Canada, these charges do not effectively contain urban sprawl because they are usually based on average rather than marginal costs and apply to infill as well as greenfield development. They almost certainly unfairly increase housing costs in a way that harms first-time homebuyers and contributes to the demand for other policy interventions, such as governments subsidizing downpayments.

Development charges were generally accepted in the past because so few established interests objected to them. Today, many do. The reason is simple: high development charges are widely perceived as unfair because they penalize potential occupiers of new housing for the benefit of residents in established neighbourhoods.

Governments at all levels should commit to gradually and consistently reducing development charges over time. The ultimate goal should be to eliminate them. It took many years for fast-growing municipalities to become addicted to the revenues produced by development charges. They cannot be expected to give them up entirely right away. Provincial governments must assist in this difficult process. There are alternatives.

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