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Reassessing the Case for Development Charges in Canadian Municipalities

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Executive Summary

"Growth should pay for growth." This slogan—the common justification for development charges—is rarely challenged in municipal circles. The principle that those who cause new urban growth should pay for the infrastructure associated with it has generally been taken for granted, at least for the last few decades. Development charges evolved from post-1945 subdivision agreements and were initially accepted by most developers as a mechanism for enhancing the likelihood that current residents in a municipality would agree to new development. They now add as much as $90,000 to the cost of a new house in some parts of the Greater Toronto Area. If we are serious about attempting to lower the cost of housing in our prosperous cities, it is time to consider reverting to the past practice of having municipalities pay for the cost of new infrastructure associated with development. Such a policy—still largely in place in metropolitan Montreal—would lead to increased levels of municipal borrowing and modest increases in property taxes in some places. This report explores the origins of development charges in the United States and Canada, examines how they have been assessed in the academic literature, and looks at some of the alternatives as experienced in other countries. Prescriptions for future policy are cautious because other countries seem to be increasingly adopting similar charges and reducing them where they exist in Canada could lead to injustice for recent home buyers and other possible unintended consequences.

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1. Introduction

"Growth should pay for growth." This slogan—the common justification for development charges—is rarely challenged in municipal circles. There are certainly debates about how to calculate the charges, how high they should be, and whether they should vary depending on location within a municipality. But the principle that those who cause new urban growth should pay for the infrastructure associated with it has generally been taken for granted, at least for the last few decades. This report explores the origins of development charges, examines how they have been assessed in the academic literature, and looks at some of the alternatives as experienced in other countries. In Britain, there have long been debates about a "betterment levy," the attempt to tax the windfall gains accrued by landowners when they obtain planning approval for new projects. In what ways, if any, is the "growth should pay for growth" policy some form of substitute for a betterment levy? The answer hinges in large measure on who actually pays the cost of development charges, a subject also to be addressed.

Housing affordability is a major problem in the densely populated parts of southern Ontario. In 2018, $2.23 billion were collected in development charges by municipalities throughout the province (Ontario, 2021). As we shall see, the revenue from these charges is focused almost exclusively in fast-growing regions, especially the Greater Toronto Area. In 2020 as much as $93,000 in some parts of the Regional Municipality of Halton was added to the cost of a new house by development charges levied by municipal governments and school boards (Oakville, 2020a). This report suggests that we reexamine the reasoning that has led to such an outcome. As Slack and Bird wrote thirty years ago, "the more closely one looks at the development-charge approach to financing municipal infrastructure, the less attractive it becomes" (1991, 1303–04).

The ultimate objective of the report is to urge policymakers in Ontario to examine critically some of the wider issues about development charges. Hopefully, it will also be relevant in other Canadian provinces (see Baumeister, 2012), especially British Columbia, where these charges are significant contributors to the high cost of new housing.

2. Why Do We Have Development Charges?

Development charges are an outgrowth of subdivision agreements, which became popular in North America in the immediate aftermath of World War II. 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 whereby the developers built the infrastructure within the subdivision according to municipal standards and then turned it over to the municipality when all the building was complete. 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 United States 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 sketchy process often benefited both sides, but obviously led to great uncertainty, and even to claims in some places that some developers got better deals from a particular municipality than others. Pressure mounted for state and local regulation that would legitimize and standardize the collection of lot levies and exactions.

Standardized fees for off-site development first appeared in the United States 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 2½, 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 in many places new residential development was expected "to pay its own way" through impact fees. The authors claim that the fees are "a condition of residency" and that proponents of the fees often fail to consider the potential benefits of growth experienced by all residents which "include growth in retail sales and sales tax collection, expanded employment opportunities, increased disposable income, and diversity in housing choices" (Bauman and Ethier, 1987: 51–52).

It is important to note that, in the United States, impact fees emerged during the Reagan years at a time of "taxpayer revolt." Their emergence was more an indication of desperation and weakness than it was of innovative policy-making that resulted from newly acquired political strength. The claim that new development provides long-term benefits to everyone is an important one that will briefly be considered later in this report. For now, it is sufficient to note that, unlike many American municipalities, Canadian municipalities that approve new development do *not* reap the benefits from a growth in sales tax collection.

3. Who Ultimately Bears the Burden of Development Charges?

Empirical determination of the incidence of development charges—who ultimately bears their burden—is exceptionally difficult to undertake because of difficulties in untangling the various relevant factors (land prices, property-tax levels, construction costs, overall state of the real-estate market, etc.). An early Canadian study published in the *University of Toronto Faculty Law Review* 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: 116)

The author goes on to suggest that development charges are a form of betterment levy. Such a claim was rare in North America over the subsequent forty years but has been much more important in the United Kingdom.

A more common argument is that development charges are passed onto purchasers of new housing (Blais, 2010: 97–100). Stegman (1987: 5) 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 claims 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 have the knock-on effect of increasing those 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: 5)

Writing in 1991 following the passage of Ontario's Development Charges Act of 1989, Enid Slack and Richard Bird addressed many of the same issues that Stegman looked at. They compared development charges in Ontario and British Columbia (where they are called "development cost charges") and, like Stegman, agreed that new homebuyers usually paid the cost, especially in circumstances where development charges were relatively equal across municipalities and where there was a strong demand for new housing, as in the Toronto and

Vancouver metropolitan areas. They also agreed that these charges often benefit the interests of existing residents in a municipality (Slack and Bird, 1991). A 1997 study of the incidence 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 (Dresch and Shiffrin, 1997). In 1998, John Yinger claimed to have proven, using formal economic modelling, that about a quarter of the cost of development charges would normally be paid by the original landowners, i.e., farmers and/or land speculators (Yinger, 1998: 37). 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" (38). Yinger's overall conclusion is worth quoting for the larger purposes of this report: "...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" (37).

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" (1998: 37). This is certainly the conventional wisdom in Canada: development charges drive up housing prices. The main circumstance in which this would not be true would be if there were 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 or the developer or both would have to absorb the cost. In the real world, including in the Greater Toronto Area, such a circumstance is unlikely to exist (because there is no reason for neighbouring growing municipalities to forego maximum-level development charges), so the costs of development charges get passed on to the new homeowners. There is also agreement with Yinger's conclusion that the increased prices caused by the development charges also marginally increase the prices even of older homes (Amborski, 2011: 27).

4. Development Charges: Solving Policy Problems or Politically Convenient?

Over the last decade debates about development charges have become quite contentious, especially in Ontario, where development charges in some areas are the highest in North America (Amborski, 2015: 6). Municipalities rely on the "growth should pay for growth" argument to defend a much-needed and lucrative source of revenue (Association of Municipalities of Ontario, 2019). Environmentalists generally embrace development charges because they at least 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. They are countered by pro-development groups (Amborski, 2011) and authors writing for the CD Howe Institute (e.g., Dachis, 2018) who blame development charges for adding to high housing costs.

Another view, especially prevalent in the American context, is that these charges are a politically convenient device to enable growth to occur. Altshuler and Gómez-Ibáñez (1993: 139) 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, the antigrowth and antitax pressures will lead to higher housing costs (due to a lack of new supply) and/or 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 impact fees in the United States:

> 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: 92)

In other words, development charges, in the American context anyway, 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, i.e., one that emphasizes development charges as a means to 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: 6). 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. 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).

The Canadian economist Adam Found (2019) makes a policy-based argument that is seemingly divorced from politically convenience. For Found, the basic problem is that infrastructure spending is "lumpy." Big projects and facilities cannot be built incrementally. They are instead oversized at the start in order to accommodate future growth. He argues that development charges are necessary because current taxpayers cannot be expected to foot the bill today for benefits that (mostly) other people will enjoy in the future. For Found it is thus a matter of equity—"growth" households should pay for their own "lumpy" requirements. It is therefore perhaps ironic that these same households pay the full cost of their share of the new infrastructure before they even move in. The fact that most will borrow the funds through their mortgages, and therefore pay back the cost of passed-on infrastructure charges over time, does not alter the fact that municipalities are receiving the funds even before the supposed beneficiaries are benefiting. Municipalities are also divesting themselves of the small financial risk that results from paying for excess capacity in infrastructure that might not be needed in the future if projected growth does not materialize. Instead, individual homeowners absorb this risk in the form of their mortgage debt repayment obligation.

5. Shaky Justifications

To recap, defenders of development charges as good policy assume that growth-related costs for infrastructure are clearly separable from non-growth-related costs. 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 there are generalized benefits from growth, potential opposition to paying for it from existing residents justifies transferring the costs to new residents. Finally, environmentalists argue that putting a price on greenfield development incentivizes densification of existing areas through infill and redevelopment. On these bases, "growth should pay for growth." These arguments break down in the real world for several reasons.

Growth-Related Benefits are not Fully Localized and Separable

Found (2019) argues that existing residents cannot be expected to pay for new infrastructure that is oversized in anticipation of future growth. The problem with this line of argument is that all capital spending is "lumpy" to some degree, even in municipalities that are growing very slowly. Surely no one would advocate building any sort of new facility that did not have an element of excess capacity. In any event, excess capacity is not inherently bad or wasteful; rather, it benefits new and existing residents alike. It enhances the experience of using the infrastructure and provides for more flexibility both for the operators of the infrastructure and the consumers. Wider roads; new public-transit facilities and vehicles; and new libraries, recreational facilities, and fire stations all provide some benefit to some existing residents as soon as they are built, even if growth was the main cause of such investments. 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 any new non-property-tax revenues. If this were not the case, we would not expect municipalities of any size—even those with high development charges that apply to residential and commercial and industrial properties—to have some version of an economic development office committed to attracting new growth and investment.

The fact that there are pervasive and ongoing disputes about how to calculate development charges indicates that growth- and non-growth-related expenditures are not clearly separable; if they were, there would be no controversy. In fact, the initial oversizing of infrastructure and facilities is an excellent argument for municipal borrowing. 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 that are put to debt-servicing costs. For municipalities, development charges pull the costs of future use of infrastructure and facilities into the present instead of spreading them out over time. At the same time, they transfer financial risk to the new homeowners.

Economic and Institutional Context Matters

Found (2019) and other 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 American 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 American jurisdictions, Canadians do not hold referendums on the issuing of debt or property tax limitations. Indeed, direct democracy is the principal means by which existing residents resist growth in the United States.

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, municipal politicians and residents are anxious to attract growth and are generally willing to pay the accompanying infrastructure costs, if any. In these places it is highly likely that development charges will be very low or nonexistent. At the other extreme are suburban, largely residential municipalities that still have considerable vacant land, and are located within fast-growing metropolitan areas. Here, developers are anxious to build, but existing residents are 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 United States. In the American context 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, we are likely to see exceptionally strong resistance to new development. Such development provokes classic NIMBY ("Not In My Back Yard") responses, as homeowners resist the loss of empty space and fear various forms of 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. The authors of the most sophisticated American analysis of exactions and impact fees (Altshuler and Gómez-Ibáñez, 1993) claim that it is in these circumstances where 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 lack of supply, or causing leap-frogging urban sprawl even further out from the centre of the metropolitan area.

In Canada, except in Montreal, Vancouver, and Victoria, we do not have such small and independent suburban municipalities. In the Greater Toronto Area, where growth pressures are the most intense, we have a provincial government that lays down growth targets, regional governments with substantial infrastructure responsibilities, and within them, restructured lower-tier municipalities that are very populous and territorially large (especially Mississauga, Brampton, Markham, and Vaughan), at least by American suburban standards (Urbaniak, 2009: 238). These are precisely the places in Canada where we find the highest development charges. It is a similar situation in large municipalities that are dominant in their own particular metropolitan area, and therefore are near-monopoly competitors in their regional housing markets—e.g., Ottawa, Hamilton, London, Barrie, Calgary, Winnipeg, and Halifax. It is my contention that, in these institutional circumstances, growth is going to happen regardless of whether there are development charges. The issue is simply how the new infrastructure is to be paid for.

Slack and Bird (1991: 1304) 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 stingy 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 enables municipalities to confer a benefit on existing property owners in the form of lower property taxes (Fathers, 2014).

Housing Affordability vs. Suboptimal Service Provision

Found (2019) counters the claim that development charges increase housing costs by arguing that there is effectively a trade-off between optimizing the level of service provision and housing affordability. The purchaser of a house is buying not just the house but also a bundle of municipal services, an argument implied in Yinger's (1998) analysis. In effect, homebuyers will get what they pay for. In the absence of development charges, Found suggests that the level of municipal services will be suboptimal. However, the decrease in the value of future municipal services (which the new homeowner is paying for through property taxes anyway) could not possibly be as much as the cost of the high current development charges in such places as the Greater Toronto Area, which significantly increase the value of new housing.

Average-Cost Calculation and the Fiction of the Cost-Benefit Nexus

Defenders of development charges frame them as a form of user charge. Developers are charged for the growth-related development charges that they cause to occur. We have seen that development charges grew out of the *ad hoc* arrangements between developers and municipalities to have developers pay 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 were a mechanism whereby developers purchased planning permission. The creation of a standardized system of development charges eliminated 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 for a new small house in an established neighbourhood. This led to claims that development charges based on average costs, rather than marginal costs (i.e., different charges for different types of development) served to promote 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, but the underlying problem remains (Tomalty and Skaburskis, 2003): some new buildings pay less than the costs of the new infrastructure they are assumed to create, and others pay more.

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 exist as a result of allegedly precise calculations about particular costs that 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 we go to an all-you-can-eat buffet restaurant, we expect everyone to pay the same amount regardless of our appetite. But, if we order *à la carte*, we don't expect to split the bill equally with a neighbouring table.

Inequitable Treatment of Greenfield vs. Inner-City Infrastructure

We have already seen that the value of older properties is likely to be increased by the fact that development charges make houses and commercial properties in newer areas within the same housing market more expensive. But a further inequity occurs in a municipality that contains within its boundaries both centrally located older buildings and peripherally located newer development. In the older parts of town, the original local infrastructure would have been installed and paid for by the municipality. In new greenfield development, the developers build and pay for the local infrastructure *and* they pay development charges, most of the costs of which usually gets passed on to the new homeowner. But when a municipality rebuilds sewers, water pipes, and roads in the old part of town, property owners throughout the municipality—including those new homeowners who have just absorbed local infrastructure costs and development charges as part of the price of their new building—share these capital costs through their property taxes. In fact, infrastructure upgrading and replacement in built-up areas, which is required due to obsolescence or breakdown as much as through infill growth, is often more expensive than in the *tabula rasa* of greenfield areas. In older areas, nearby property owners pay nothing extra, and often they are living in the most established and desirable neighbourhoods. Established residents would loudly object if they were to be levied a special charge for "redevelopment." Meanwhile, new residents in greenfield developments can object to their 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 latter way, housing prices in old neighbourhoods would soon skyrocket.

Another way in which established homeowners are privileged over purchasers of new homes is that new houses in Canada are subject to the federal Goods and Services Tax (GST) or the federal-provincial Harmonized Sales Tax (HST). In Ontario, the charge for HST is 13 per cent. As development charges are passed on to homebuyers in the cost of the new house in hot markets, this means that purchasers are even paying HST on the cost of development charges. It is true that these purchasers in Ontario can apply for federal and provincial rebates on HST, but the maximum rebate is $30,300. However, HST payable on a new home costing $800,000 is $104,000. An Ontario service that counsels people on applying for the rebate points out that:

> In an effort to lower the "sticker price" of a newly constructed condo or house, the builder or developer will often incorporate the rebate into the listed price of a new home or condo. In this scenario, the rights to the proceeds of the new housing rebate are transferred to the developer upon signing the purchase agreement, and in exchange, they deduct the HST rebate amount from the purchase price. Essentially, the vendor is lending the buyer money knowing they will be paid back when the buyer's HST new housing refund is issued. This scenario is very commonplace since it lowers the purchase price for the buyer, and relieves them from the headache of having to file for the refund themselves. (HST Rebate New Homes Services, 2021)

Finally, as already noted, environmentalists sometimes argue that development charges put a price on sprawl by (in principle) eliminating subsidy of greenfield growth-related infrastructure by existing urban areas. The problem with this argument in the Ontario context is that development charges on new buildings are typically applied in infill and greenfield contexts alike, conferring little or no advantage on infill development in established areas. Moreover, one could argue that if municipalities borrowed the full cost of greenfield infrastructure, they would have a strong incentive to plan denser neighbourhoods require less linear infrastructure (Burchell et al., 2005).

6. What Happens Elsewhere?

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 not existing 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 likely to be helpful, because such municipalities are usually in areas suffering from population decline and no development. We need to know more about how local infrastructure is financed in jurisdictions that *are* experiencing significant growth but that do *not* have development charges. Montreal and its suburbs are one such place, but it seems impossible to assess the merits of such a system because there is very little available documentation in either English or French (Polèse, 2020). A survey prepared by consultants for the Building and Land Development Industry (BILD) in Toronto in 2019 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: 17). Housing in Greater Montreal is generally cheaper than in other major Canadian cities, municipal borrowing levels are higher, and there is evidence of more municipal corruption (Saint-Martin, 2015). This last factor may or may not be related to the absence of significant development charges. Without development charges, developers who receive building permission assume less financial risk as they launch their projects. In this sense, the municipal permission is more valuable than if it was conditional on the payment of development charges, and therefore the possible returns from corrupt practices might be higher.

Looking beyond North America, things get more difficult. Philip A. Booth, a retired academic at the University of Sheffield, is one of the more perceptive students of comparative urban planning. He emphasizes the difficulty of comparing planning practices across nations because of the differing laws, cultures, and practices that are so deeply embedded within each country's systems that the experts in those systems are often incapable of explaining their key components to outsiders. Nevertheless, if we do not at least make some effort to understand what happens elsewhere, we shall be unable to understand fully our own systems. In comparing local infrastructure financing schemes in Britain and France, he says nothing about "growth paying for growth." He claims that both schemes are really about "land value capture" or "planning gain" (Booth, 2012).

The British government—especially when controlled by the Labour Party—has had a long history of trying to capture "planning gain" through some form of betterment levy (Crook, 2016). The idea here is that the value of land greatly increases when permission is granted by a local authority to build on that land. Why should the landowner profit from this increased value when it has been created by public action? Taxing "planning gain" has been the objective but it has been difficult to achieve, primarily because landowners tended to respond by withholding land from development, especially during times when the Conservative opposition promised to repeal the tax when they returned to office. The concept of planning gain has been more salient in Britain than in North America because each new building in Britain requires specific planning permission. There is no "right to build" that derives from zoning because zoning does not exist. "Upzoning" in North America certainly creates a form of "planning gain" but there have been no serious efforts to tax it, although developers of large projects often agree to provide enhanced local amenities as a form of compensation (Moore, 2016).

Since 1968, British local authorities have been authorized to enter into "planning agreements" with developers (Booth, 2012: 18). Such agreements could require developers to build infrastructure and to make cash payments to help defray the costs of new infrastructure that is external to the development. Significantly, however, by 2011–12 "over 60%" of the total value of these agreements was going towards "affordable housing" (Rowley and Crook, 2016: 161), so in this sense they are quite unlike North American subdivision agreements and development charges. Since 2008, local authorities could also charge developers a Community Infrastructure Levy (CIL) based on the square footage of each new house being built.

Crook and Whitehead (2019: 368) have estimated that all developer contributions in England in 2016–17 added, on average, about £40,000 to the cost of each new home expressed in the 2007–08 value of pounds sterling. This is a high number, but it is not directly comparable to the costs of Canadian development charges because it includes all in-kind contributions (i.e., developer-built infrastructure). What is curious about the British experience is that there seems to have been virtually no academic studies of the incidence of the costs of the various forms of planning obligations. A 2017 study of the incidence of such obligations in Australia claimed that in the UK there was "anecdotal evidence only claiming the required infrastructure contributions for one case study development would add £38,000 per dwelling. It is suggested that this dearth of research has been due to a lack of publicly available data, as experienced in the UK and Australian research efforts to date" (Bryant, 2017: 562).

Booth (2012: 84) writes that, "Recent work on the use of [planning] obligations for affordable housing demonstrates that at least part of the effect is to lower land prices, although it is also evident that the burden is partly shared with the developer." Rowley and Crook (2016: 164) acknowledge that it is possible that "purchasers of completed developments pay in higher prices" but they claim that by analyzing a select number of cases about which they were able to obtain data, that the costs were generally absorbed, in varying ratios, by the developers and original landowners, but not by the consumers. The consumers of "affordable housing" clearly are the beneficiaries of English planning obligations. What is not so clear is why, according to academic commentators at least, consumers of full-cost new private housing are apparently not sharing the burden.

On the surface it certainly appears that Britain, after moving away from outright taxes on "planning gain," has been edging towards the North American model of subdivision agreements and development charges. But the fact that CIL levels are generally low (and charged on the basis of the size of new houses) and that much of their value is directed towards providing "affordable housing" means that the differences between Britain and North America are still substantial.

In both the Netherlands and France, municipalities were very active in suburban land development until about the 1990s. They purchased rural land at its agricultural price, provided infrastructure and then sold the building lots to private developers at a price that covered the cost of the infrastructure (Monk and Crook, 2016: 248). Starting at the turn of the twenty-first century, however, private developers started to buy rural land on speculation. They then agreed to pay for, or provide, local infrastructure in return for permission to develop the land, thereby creating a system that looks similar to that in Britain.

What is different in France is that private developers since 2012 are now subject to two nation-wide taxes (*taxation d'aménagement* and VSD) that are designed to pay for the local infrastructure required by new housing (Monk et al., 2013: 59). The rates of the taxes are set by the communes and they reap most of the benefits. English researchers have offered the following observation:

> These financial incentives have been found to have a positive effect on residents' views on development…. This is because in France, communes are small enough and close enough that residents can see the taxation being spent on local facilities. This has not been observed in England, possibly because local authorities are large and the fruits of any developer payments are too remote to produce the same effect. (Monk et al., 2013: 59)

In Germany, the designation of land for residential development is tightly regulated, mainly by municipalities acting within wider national and regional plans. But municipalities also play a crucial role in providing the infrastructure required for new development. Monk and Crook (2016: 234) describe the German arrangements in these words:

> While a developer acquires the building site, it is the responsibility of the municipality to service the land and provide the infrastructure (streets and parking areas, technical services, green space and also 'social infrastructure' such as playgrounds). This puts municipalities in a strong position to influence common facilities and to recoup the related costs. The applicant for a building permit on such a site is required to contribute to those costs, to a maximum of 90%, with the remaining costs (at least 10%) paid by the municipality…. Special local laws are used by municipalities to vary the level of charges for landowners…. The actual provision of the infrastructure is commissioned by the municipality. In addition, the owner must pay the costs of measures to compensate for any destruction of nature and landscape caused by the development…. However, if the municipality demands too much, land will not be brought onto the market. There are also a range of loans, subsidies and cheap building land available for constructing both owner-occupied and rented housing, which are targeted at households with a limited income….

It is important to reiterate Booth's observations about the difficulties involved in attempting to apply particular practices observed in one country as a remedy for perceived problems in another. Given the differences in municipal arrangements between most parts of the United States and Canada, it is even dangerous for Canadians to draw too many conclusions from American practices with respect to development charges. Alternatives are available. Those who question the wisdom of high development charges should at least be aware that other western countries seem to be moving in the direction of applying charges for new growth that look similar to Ontario's development charges.

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 that is paid back by revenue from property tax paid by all property-owners in the municipality. This is presumably why Quebec municipalities are the most indebted in Canada (Meloche and Vaillancourt, 2021: 16). In any event, an urgent Canadian research priority is to obtain a better understanding of how new development happens in Quebec, especially in suburban Montreal. For now, all we can do is speculate about what municipal finances would look like in Ontario if its municipalities followed the Quebec model.

7. Is There Life Without Development Charges?

Could Canadian municipalities get along financially without development charges? For most, the answer is obviously yes because most do not levy such charges. But what about the ones that do? This is not so easy to answer, mainly because of accounting issues. “Development charges” are not an item in municipal operating budgets because these charges relate to the separate capital budget, the structures of which vary a great deal from one municipality to another. Development charges, however, do appear as an annual revenue item in audited municipal financial statements because these statements combine operating and capital revenues and expenditures in accordance with the principles of accrual accounting.

For Ontario, these financial statements are reported by the province through its collection of municipal financial information returns (FIRs). The FIRs for all of Ontario in 2018 show that municipalities collected $2.23 billion in development charges while $21.8 billion was collected in property tax. Revenue from development charges is obviously important for municipalities. The alternative to raising infrastructure funds from development charges is for municipalities to borrow. This is where things get difficult. Different municipalities have widely different borrowing practices for capital funds. However, if development charges were to be reduced or eliminated, borrowing practices would have to change for many, and perhaps provincial legislation would need to be amended. In August of 2020 the City of Toronto sold twenty-year bonds at an annual interest rate of 2.15 per cent and an “all-in cost” of 2.218 per cent (Toronto, 2020). If we assume that the $2.23 billion collected by Ontario municipalities in 2018 were replaced by funds borrowed over twenty years at an interest rate of 2.5 per cent, the annual amortization cost would be $142 million, which would result in an average property tax increase over the whole province of 0.7 per cent. Interest rates can obviously go up or down, most likely up, given the current low rates. If the worry is the potential increase in municipal capital borrowing rates, we 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 substantial 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 rate is locked in for the duration of the loan, while for the latter rates are usually guaranteed only for a maximum of five years. Many Canadian homebuyers have variable-rate mortgages. Borrowing is less risky for municipalities than for homebuyers for these reasons. It is also true, however, that in the absence of development charges municipalities would have to borrow every year for different projects and might find that debt servicing costs would increase over time as interest rates for new bonds rise.

We have already seen that the highest development charges in Canada are in the suburbs around Toronto, with Halton Region having the highest charges of all. Combining development charge revenues from the Regional Municipality of Halton and its four constituent lower-tier municipalities in 2018 (Ontario, 2021), we find that the total amount raised was $258 million (excluding development charges from school boards, which, in 2020, added about $8,000 in charges for each new single-family house [Oakville, 2020b]). Total property tax revenue was $896 million (Ontario, 2021). If the $258 million were financed at 2.5 per cent over 20 years, the annual amortization payment would be $16.4 million, which translates into an average property tax increase of 1.8 per cent across the Region.

8. Conclusion

Development charges were invented to facilitate development. They improve economic efficiency to the extent that they remove the incentive from current residents to block development solely on the grounds that they do not want to pay for new infrastructure. As we have seen, this is much more likely to have been a problem in small American suburban municipalities in fast-growing metropolitan areas than it is anywhere else, including the Greater Toronto Area. The most important questions relating to development charges are who actually pays them and whether the arrangements are fair.

There is some evidence that at least part of the cost of development charges in some places in some circumstances is paid by the owners of agricultural land before it is scheduled for development. To the extent that this is the case, development charges are a truly excellent form of tax because they capture what the British call "planning gain"—the windfall increase in property value that occurs when rural lands are upzoned for urban use. Unfortunately, most observers agree, especially in North America, that residential development charges are actually passed on to the owners (or renters) of new homes in newly developed areas. Proponents of the slogan "growth should pay for growth" are in support of this outcome because they believe that growth-related infrastructure costs can be fairly separated from other local infrastructure costs and that current residents have no moral responsibility for such costs. Much of this report has been devoted to showing the shortcomings of such a view.

The report began by pointing to the very high development charges in some parts of Canada (but not Québec), especially in the Toronto suburbs. Given that housing affordability is now a huge issue in Canada's metropolitan areas, it seems reasonable to think that by reducing, or eliminating, development charges, we could help reduce housing costs. Eliminating development charges, however, would likely be unfair to recent purchasers of new homes who are still paying for the charges through their mortgage payments. A possible undesirable outcome might be that prices for new homes would *not* come down because developers and/or landowners would reap the benefits by not passing the "savings" along to new buyers. Furthermore, some municipalities would face significant disruptions to their plans for future capital financing and would undoubtedly be concerned about more long-term borrowing even though, at current interest rates, such borrowing would not have dire consequences for property-tax bills.

Given all these factors and the fact that other countries facing similar pressures to facilitate infrastructure financing in fast-growing areas have also effectively levied taxes on new development that look somewhat like development charges, the wisest course of action would probably be to freeze them at current levels and plan for their gradual reduction over time, perhaps to be eroded only by inflation. During this period of reassessment, we might want to consider whether or how development charges could be used, as they are in Britain, to enhance the availability of "affordable housing." Calling for a freeze and reassessment is not a dramatic solution, but it does recognize that it was easier to stumble into development charges than it is to get out of them; that there is still a lot that we do not know about their effects; and that policy reversals can have unintended consequences, so it is sometimes better to stick with what we know.

From a practical policy perspective, this conclusion must seem disappointing. But for those of us who try to understand 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 a particular set of problems relating to the financing of local infrastructure in fast-growing urban areas. As generally structured in Canada, they do not act to contain urban sprawl because the charges are usually based on average costs rather than marginal costs, and they apply to infill as well as greenfield development. They almost certainly add unfairly to the cost of housing in a way that harms the interests of first-time homebuyers, leading to other policy "patches," such as governments subsidizing down payments. They seem to work in practice only because so few established interests object to them. But they do not work in theory, and this should be of concern to everybody, not just academics. New entrants to housing markets are not an established interest. Someone must speak for them.

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