

# Development Charges

*Presentation to  
the Ontario East Municipal Conference (OEMC)*

*Ministry of Municipal Affairs and Housing  
September 14, 2005*

## DEVELOPMENT CHARGES

There are currently three “types” of development charges:

- **Municipal Development Charges** - fees levied by municipalities on new development (either residential or non-residential) to help pay for infrastructure (a.k.a. capital costs) that supports growth-related services. Authorized and governed by the *Development Charges Act, 1997*.
- **GO Transit Development Charges** – fees levied by municipalities on residential and non-residential development to help pay for their share of growth-related GO Transit capital costs. Authorized by the *GO Transit Act, 2001*, but governed by the *Development Charges Act*.
- **Education Development Charges** – fees levied by school boards on residential and non-residential development to acquire sites for new schools as a result of new residential growth. Authorized and governed by the *Education Act*.

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## HISTORICAL BACKGROUND

### **1950-1959: Birth of Informal Development Fees**

- Increased urbanization and demand for housing after WWII.
- Municipalities provide infrastructure, but this adds fiscal pressure.
- To address these fiscal pressures, municipalities entered into "subdivision agreements" to pay for on-site services and charged informal fees to pay for off-site services.

### **1959-1989: "Lot Levies"**

- *Planning Act* reinforces authority of municipalities to enter into subdivision agreements and provides basis for continued informal fees for infrastructure called "lot levies."
- Municipalities negotiated lot levies on a "site to site" basis and were required to spend the monies on services for those who paid the levies.

### **1989: Birth of Development Charges**

- The rules and procedures for levying development fees were standardized.
- Fees henceforth called "Development Charges."

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## *DEVELOPMENT CHARGES ACT, 1989*

- The *Development Charges Act, 1989* established three key fundamental principles regarding development charges, including:
  1. Municipalities have the authority to levy fees on new development through development charges, if they so choose;
  2. The process of establishing a development charge and any accountability mechanisms are codified in provincial legislation and standardized throughout the province;
  3. Development charges must be tied to the costs of providing infrastructure for growth related services (growth must pay for growth).

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## KEY FEATURES OF THE *DEVELOPMENT CHARGES ACT, 1989*

### **ELIGIBLE SERVICES:**

- Municipalities were permitted to levy a development charge for the growth-related capital costs of any municipal or contracted service, provided that the service was currently being offered by municipalities to existing residents.

### **METHODOLOGY:**

- Municipalities were not required to provide detailed calculations in determining their development charges, but did have to justify the quantum of their charge.
- The Act and regulation specified several rules on how to determine development charges. For instance: capital costs had to be net of grants.

### **ESTABLISHMENT OF BY-LAWS AND APPEAL PROCESS:**

- Those municipalities wishing to levy a development charge were required to hold a public meeting, and establish a development charge by-law.
- The by-law outlined the amount of the charge, who and where it applied to and which services it was funding, and had to expire within 5 years.
- Development charge by-laws could be appealed to the OMB by interested parties within 20 days of their enactment.

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## REVIEW OF THE DCA, 1995-1997

- In 1995, the provincial government announced a review the Development Charges Act (DCA).
- The review process lasted approximately two years, with a number of “start and stop” negotiations between stakeholders. Representatives from both municipalities and the development industry participated in consultation sessions.
- While the three key principles established in the *Development Charges Act, 1989* were to remain intact, other government objectives became important. These included: cost containment, increased accountability and reducing barriers to investment.
- The result of the 2-year consultation was the *Development Charges Act, 1997* (the current DCA).

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## KEY FEATURES OF THE CURRENT DCA: ELIGIBLE SERVICES

- Municipalities continue to levy development charges to pay for the capital costs related to growth related services. However, the DCA sets out three broad service “categories:”
  1. **100% Recoverable Services:** services for which a municipality may levy a development charge with no mandatory percentage reduction. Includes: *water and wastewater, storm water drainage, roads, electrical power, police and fire protection services.*
  2. **Ineligible Services:** services for which a municipality may not levy a development charge. Includes: *cultural or entertainment facilities, tourism facilities, acquisition for land for parks, hospitals, waste management services, and municipal administrative buildings.*
  3. **Services with a 10% Discount:** services for which a municipality may levy a development charge, but with a mandatory 10% reduction. Includes: *all services not listed in category 1 or 2 (i.e. transit, homes for the aged).*

## 10% DISCOUNT SERVICES

- All services that are not **100% Recoverable** or **Ineligible** for a development charge are **Services with a 10% Discount**. These include, but are not limited to:
  - » Transit
  - » Homes for the Aged
  - » Recreation Facilities
  - » Library Facilities
  - » Parkland Development
  - » Social Housing
  - » Emergency Shelters
  - » Parking
  - » Airports
  - » Daycare Space
  - » Works Vehicles and Equipment
- The discount for these services is funded by other sources of municipal revenue, such as property taxes or user fees.

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## KEY FEATURES OF THE CURRENT DCA: METHODOLOGY

### **Background Study Requirement**

- Municipalities are required to create a “background study” to show the calculations and background materials used to establish their development charges.

### **Capital Costs**

- Definition of “capital cost:” costs of acquiring, leasing, constructing or improving land, building and structures; rolling stock with a life of 7 years or more, furniture and equipment (not including computers), interest on monies borrowed for such purposes, costs of background studies.

### **New Rules for Calculating Development Charges**

- **10-year average service level** - Municipality must determine average service level attained over the previous 10 years; development charge cannot recover monies that would pay for services that exceed this level.
- **Excess Capacity** – Capital costs must be net of any surplus capacity in existing services.
- **Industrial Expansion Exemptions** – Mandatory exemptions for expansions of existing industrial buildings of 50% or less. 9

## KEY FEATURES OF THE CURRENT DCA: ACCOUNTABILITY

- The DCA retained many of the accountability provisions in the 1989 Act, including:
  - A mandatory public meeting;
  - A 5-year expiry date for development charge by-laws;
  - An OMB appeal process;
  - A yearly statement of development charge reserves from municipal Treasurers;
  - A requirement for the municipality to produce a pamphlet explaining development charge by-laws.
- The DCA also added new accountability provisions, including:
  - A requirement that the background study be made available to the public at least two weeks prior to the public meeting;
  - Increasing the number of days in which an appeal of the by-law can be made (from 20 to 40).

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# DEVELOPMENT CHARGES IN 2005

## Change in Average Municipal Development Charges Rates for Single Detached Homes Across the Province 2004-2005

REGION	# of DC's Surveyed	2005 Rates (per unit)	Pre-2005 Rates (per unit)	DC Increase (per unit)	Percentage Change (+/-)
GTA	25	\$19,343	\$15,727	\$3,616	23%
Central ON	44	\$10,004	\$7,644	\$2,360	31%
Southwestern ON	46	\$6,921	\$5,238	\$1,684	32%
Northeastern ON	3	\$3,112	\$2,498	\$614	25%
Eastern Ontario	36	\$4,307	\$3,206	\$1,100	34%
Ontario	154	\$9,133	\$7,100	\$2,033	29%

**Notes:**

- Estimated Total Number of Municipalities with Development Charges: 174
- No Development Charges in Northwestern Ontario
- Average Provincial Development charge for single detached home: \$9,133 (an increase of \$2,033 from "1<sup>st</sup> Round")