

## Development Charges: Principles & Practices

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### Research Aims :

In light of renewed efforts to adopt a plan for the region of Montreal, and the perennial interest in new revenue streams for municipalities, a small group of students and researchers at McGill are producing short overviews of municipal finance tools used elsewhere in Canada and abroad that could be of interest to Montreal decision makers. The first of this series presents a case for the introduction of development charges in Montreal to the Communauté métropolitaine de Montréal:

- Development charges (DC) are an important fiscal tool used by municipalities to offset the costs associated with the provision of infrastructure (e.g. roads, sewers, community centres) that are the result of new urban growth;
- Montreal is one of the only municipalities in Canada and the United States to not use levies or development charges to pay for growth-related infrastructure costs;
- Montreal does not yet have a formal mechanism for funding infrastructure that are required as the result of new growth and urban development projects;
- Instead, the City negotiates charges for additional infrastructure work on a case-by-case basis.

There are three approaches to DCs:

- Municipal-wide Approach: Costs for services are generalized across the entire municipality, but are typically divided amongst different development types (e.g., residential, commercial, industrial). This is the most common approach to DCs because it is argued to require the lowest administrative burden. However, because costs are not differentiated by location or density, higher density developments that tap into existing services end up subsidizing expensive low-density development that requires brand new services.
- Area-specific Approach: Costs are generalized by pre-defined areas or zones. Costs are lower in zones where development can tap into existing services and are higher in areas that are more expensive to service (e.g., require an extension of services or have difficult geography). Within each pre-defined zone, the costs are averaged for different development types.
- Marginal-cost Approach: Costs for services vary by the location, type, and density of development; DCs are directly related to the actual costs of service provision. This is considered to be the most accurate approach to DCs and can be used to curb urban expansion that is too expensive for municipalities to service and maintain. This approach is getting more attention from municipalities that are finding it difficult to service outlying development.

By not having a formal mechanism for charging the costs of infrastructure, municipalities in the CMM are missing out on an important source of revenue, and a transparent mechanism that ensures new growth pays for itself. The Brief recommends that the CMM consider adopting DCs across the Montreal CMA. The brief was submitted to the CMM as part of their public consultation for the Plan métropolitain d'aménagement et de développement (PMAD).