

Navigating the Development Charges Reduction Program

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This primer provides context to help councils navigate the key fiscal and community impact considerations of participating in the [Development Charges Reduction Program](#) (DCRP).

Why are Housing Starts Still at Historically Low Levels?

Municipalities are doing everything in their power to increase housing supply and affordability. The overall economic environment is the key driving factor shaping housing activity. Improvements in broader economic conditions are starting to have a positive impact on the housing market, but not to the extent that's needed.

- Housing starts in April of this year are 25% higher than April 2025, with 6,680 units under construction¹. On an annualized basis housing starts in 2025 were 13% lower than 2024.
- Interest rates have declined by more than 50% from its COVID peak. The Bank of Canada's policy interest rate is now 2.25% compared to 5% in June 2024.
- Residential construction cost increases are the lowest in a decade, with cost increases averaging 0.4% in 2025, a substantial decline from its COVID-era peak of 9.4%².

Against this backdrop, the federal and Ontario governments' launch of DCRP hopes to spur housing construction by reducing the cost to build³. Specifically, the portion of construction costs that's attributable to development charges (DCs). The program's assumption is that reducing construction costs will make stalled projects economically viable.

Research released by CMHC earlier this month shows that reductions in DCs can help improve project viability⁴. The size of the impact, however, is limited. In Ontario, an estimated 1 to 5% of projects would become viable if DCs were reduced by 50 to 60%. A complete elimination of DCs would increase project viability by 3 to 11%. In many municipalities with low DCs, further cuts will not boost construction because the cost savings will not be enough to make projects profitable.

¹ AMO analysis of [CMHC's Monthly Housing Starts and Other Construction Data Tables](#). Housing starts for urban centres in Ontario with population 10,000 and over.

² AMO analysis of [residential construction cost](#) in Ontario from Statistics Canada's Building Construction Price Indexes, Table 18-10-0289-01

³ The DCRP program guidelines can be found [here](#). Questions about the program can be directed to DCRP@ontario.ca.

⁴ [Development charges: cities aren't created equally](#) | CMHC

Considerations for Municipal Participation

The costs and benefits of participating in this program will vary for municipalities, given the unique housing supply and infrastructure needs in each community. To participate in this program, municipalities will need to absorb revenue losses, financing costs, and cash flow impacts. This will need to be weighed against whether a council has reason to believe the DC cuts are sufficient to impact housing project decisions.

Municipalities in a good position to leverage this program include those that have already reduced DCs and can recoup some of these losses, where sufficient funds for projects have already been collected as part of reserves, or where discussions with local developers provide additional certainty regarding impacts on new starts. In these instances, this program could help support a construction sector under strain while moving forward with needed capital projects. Over the medium-term, more housing will benefit municipalities through significant associated economic benefits.

For other municipalities, the cost of opting into the DCRP may undermine long-term municipal fiscal stability and require increases to property taxes, user rates, or debt and related servicing costs. These could include municipalities that are relying heavily on DC revenues to pay down existing debt or those where previous provincial policy changes like mandatory DC deferral to occupancy have created significant fiscal pressure. The CMHC study underscores the significant uncertainty that DC reductions will have a meaningful impact on housing starts in the current market conditions. There will also be instances where projects that were already viable will proceed with a significant DC cut with no mechanism to ensure this is passed along to homebuyers through lower prices.

Program Application and Transfer Payment Agreement Considerations

At Program Application: Council has a narrow window to review staff recommendation and debate the merits of opting in or out of the DCRP, due to the short intake window and the province's intent to execute transfer payment agreements before the August 21st nomination period closes for municipal election. Given the program's 10-year time horizon, the large sums of foregone DC revenue, and the significant uncertainty in predicting total revenue losses, cash flow impacts and the evolution of housing market conditions, councils will need to carefully consider what new fiscal burden may be created under different municipal contribution and DC reduction scenarios and where this burden shifts, e.g., on the tax base, rate base, and/or descope capital plans.

The DCRP program guidelines explicitly prioritize housing-enabling infrastructure that supports the creation of new housing units over community infrastructure⁵. This preference along with an evaluation framework that rewards large DC reductions will require council to weigh trade-offs such as likelihood of funding vs. immediate community need in determining what type of projects should be submitted.

At Transfer Payment Agreement (TPA): The DCRP asks municipalities to put forward a project list, project costs, and DC reductions for funding considerations. Municipalities will only know what projects are funded and the level of DC rate cuts required to access funding if they are successful in their funding request. Importantly, DC rate cuts will not take effect until a TPA is signed, providing a degree of de-risking for councils. Councils will need to consider how to proceed with the funded choice set (i.e., projects funded, size of DC cuts) if the grant amount requires additional municipal contribution that were not contemplated at time of application. This decision-making will be complicated by the proximity to municipal elections, as there is a risk that TPA negotiations could extend past the nomination period at the end of August.

Myths Vs. Reality: DCs, Home Prices, Reserves

Myth: *If DCs Didn't Exist Homes Would Be More Affordable*

Reality: DCs are a partial cost recovery tool that is **used to pay for growth related infrastructure**. If DCs did not exist, the cost to build housing-enabling infrastructure would still be borne by homeowners through higher property taxes and utility rates. Property taxes would have to increase by 13%, leading to higher monthly carrying costs and gross debt service (GDS) ratio for homeowners⁶. GDS is one of the financial stress measures that banks use to assess if borrowers can afford to buy a home, with higher GDS indicating lower financial capacity. In addition, **many existing homeowners paid DCs to fund their share of the growth costs when their homes were built.**

Myth: *Municipalities Have Ample Reserves To Pay For Growth*

Reality: DC reserves and almost all non-DC reserve funds are committed to specific projects⁷. Reserve funds are heavily regulated by the province, which require municipalities to use these funds for specific purposes, including keeping infrastructure in a state of good repair or investing in new infrastructure to support housing and economic growth **and to provide full transparency in reporting.**

⁵ Refer to page 8 of the DCRP Program Guidelines that's available on TPN.

⁶ AMO analysis of 2024 FIR data

⁷ Financial Accountability Office of Ontario.