

Clause 7 in Report No. 9 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on May 17, 2018.

7

Meeting Growth Plan Infrastructure Demands and
Financial Sustainability: 2018 Update

Committee of the Whole recommends:

1. Receipt of the presentation by Bill Hughes, Commissioner of Finance.
2. Adoption of the following recommendations, as amended, in the report dated April 27, 2018 from the Commissioner of Finance:
 1. Council endorse the principle that the infrastructure required to meet Provincial Growth Plan directions requires that the revenue-raising powers currently only available to the City of Toronto be extended to York Region.
 2. The Chairman, once again, appeal to the Province regarding the continued need for City of Toronto Act, 2006 revenue-raising powers.
 3. The Regional Clerk circulate this report to:
 - (a) The local municipalities
 - (b) The Association of Municipalities of Ontario (AMO), Mayors and Regional Chairs of Ontario (MARCO), the Large Urban Mayors Caucus of Ontario (LUMCO), and the Municipal Finance Officers' Association of Ontario (MFOA)
 - (c) The Minister of Finance and the Minister of Municipal Affairs
 - (d) The local Members of Provincial Parliament
 - (e) The Building Industry and Land Development Association (BILD)
 - (f) All upper and single tier municipalities covered by the Provincial Growth Plan

Report dated April 27, 2018 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that:

1. Council endorse the principle that the infrastructure required to meet Provincial Growth Plan directions requires that the revenue-raising powers currently only available to the City of Toronto be extended to York Region and other Growth Plan municipalities who request it.
2. The Chairman, once again, appeal to the Province regarding the continued need for *City of Toronto Act, 2006* revenue-raising powers.
3. The Regional Clerk circulate this report to:
 - a. The local municipalities
 - b. The Association of Municipalities of Ontario (AMO), Mayors and Regional Chairs of Ontario (MARCO), the Large Urban Mayors Caucus of Ontario (LUMCO), and the Municipal Finance Officers' Association of Ontario (MFOA)
 - c. The Minister of Finance and the Minister of Municipal Affairs
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2. Purpose

This report provides an update to Council on the fiscal pressures facing the Region, and the inability of current revenue sources to resolve these pressures. It also summarizes the revenue potential of *City of Toronto Act, 2006* revenue-raising powers and how those revenues could be used.

3. Background

Council has set three broad fiscal objectives that are consistent with financial sustainability objectives

Achieving financial sustainability is mostly about managing service levels and infrastructure. It requires taking the necessary steps to manage both short and

long-term risks. In short, financial sustainability is about the stewardship of the long-term.

York Region will be in a financially sustainable position if it can offer a level of service that can accommodate the needs of growth and keep infrastructure in a state of good repair, while respecting Council's willingness to tax and residents' ability to pay (Table 1).

Table 1
Financial Sustainability in the York Region Context

Growth can be accommodated without unacceptable tax levy, user rate or debt increases
Infrastructure can be kept in a state of good repair and replaced at the right time
Service levels can be increased as the Region urbanizes
Service levels can be maintained in the face of changes in economic conditions
Financial responsibility is fairly shared between current and future residents (inter-generational equity)

In recent years, Council has set three broad fiscal objectives that underpin the Region's approach to achieving financial sustainability:

- Keep annual tax levy increases below three per cent per year
- Reduce reliance on debt
- Save for asset management needs

The Region has taken steps towards financial sustainability

York Region is committed to achieving financial sustainability, guided by a long range vision (Vision 2051) and a Strategic Plan that corresponds with the term of Council. Council decisions that contribute to financial sustainability include:

- An annually reviewed Fiscal Strategy that reduces the Region's reliance on debt, increases savings for capital asset replacement and ensures active management of the Region's ten-year capital plan, with consideration to inter-generational equity;
- A Financial Sustainability Plan for water and wastewater with rate increases that will enable the Region to achieve full cost recovery for water and wastewater in 2021; and

Meeting Growth Plan Infrastructure Demands and Financial Sustainability: 2018 Update

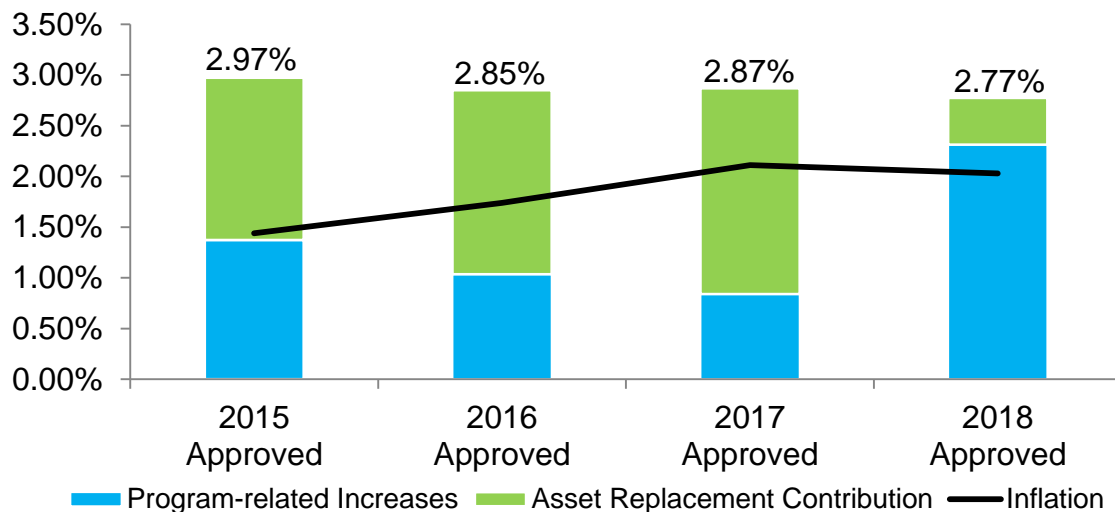
- Multi-year budgeting with a four-year cycle, also linked to the term of Council. This practice has helped the Region improve fiscal discipline, provide a longer-term outlook for service planning, and reduce uncertainty about future tax levies.

Regional spending is well-controlled

Over the course of the Region's first multi-year budget, annual tax levy increases averaged 2.87 per cent (Figure 1). These increases included contributions to capital asset replacement as well as program-related increases.

Program-related increases tracked well below the rate of inflation from 2015 to 2017, with a small catch-up in 2018. This allowed the Region to increase its contributions to asset replacement reserves.

Figure 1
Program Spending and Asset Replacement Contributions (2015 – 2018)



Ontario municipalities have limited revenue-raising options

The *Municipal Act, 2001*, prescribes a limited set of revenue sources for Ontario municipalities, other than the City of Toronto. The revenue sources available to municipalities in Ontario are detailed in the table below.

Table 2
Current Revenue Powers for Ontario Municipalities

Revenue power	Relevant legislation
Property taxes, including the Vacant Unit Tax ¹	<i>Municipal Act, 2001</i> <i>Assessment Act, 1990</i>
User fees and charges (including fees and charges, permits and rents)	<i>Municipal Act, 2001</i>
Development charges	<i>Development Charges Act, 1997</i> <i>Municipal Act, 2001</i>
Fines and penalties	<i>Municipal Act, 2001</i> <i>Provincial Offences Act, 1990</i>
Investment income	<i>Municipal Act, 2001</i>
Road tolls ²	<i>Municipal Act, 2001</i>
Municipal Accommodation Tax (Hotel Tax)	<i>Municipal Act, 2001</i>

¹ Vacant Unit Tax is available to both upper-tier and lower-tier municipalities. In order to levy a Vacant Unit Tax a municipality first has to request it be 'designated' by the Minister of Finance. Once requested and approved, a regulation would be issued by the Province.

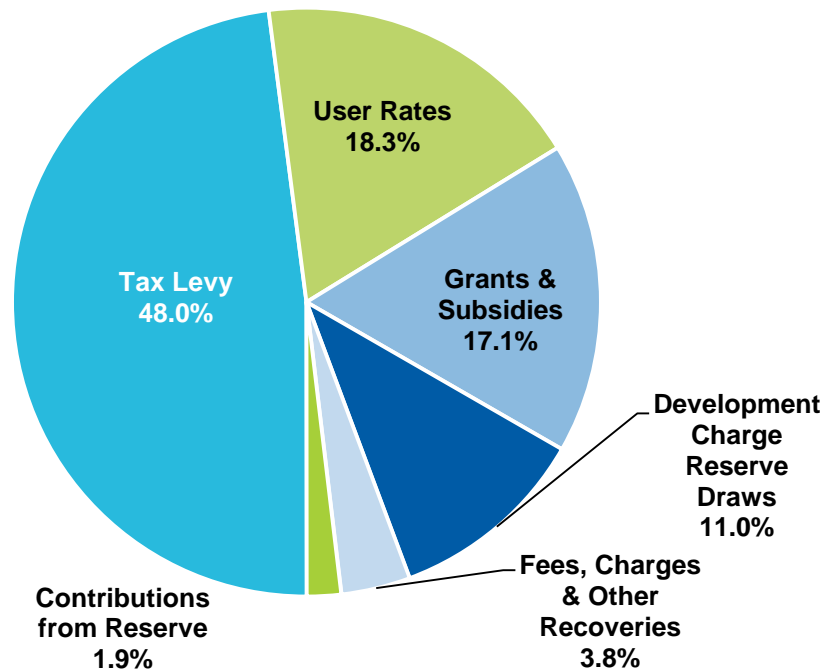
² Under the *Municipal Act, 2001*, municipalities can levy tolls on roads they own, but they must apply to the Province for an enabling regulation. To date no municipality other than Toronto has made this request. Toronto's request was rejected by the Province.

Property taxation is the largest source of revenue for York Region

Property taxation is the only major field of taxation available to most municipalities in Canada. It is a major source of revenue for the Region, and is used to fund the bulk of programs and services that York Region delivers (except for water and wastewater). Programs and services that are supported through property tax revenues include police, paramedics, road maintenance, and transit.

In 2018, the Region expects to raise approximately \$1.07 billion through property taxation, which is approximately 48 per cent of the Region's total revenue requirements.

Figure 2
2018 Total Revenue -
\$2,232 Million

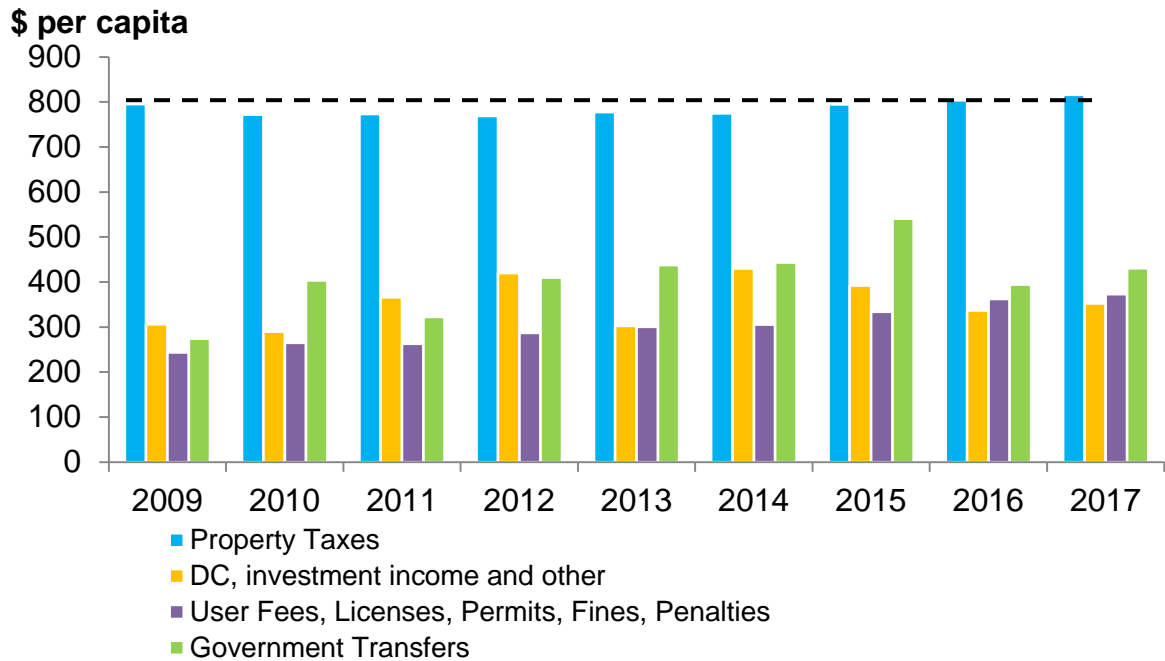


Regional property tax increases have stayed almost flat on a real per capita basis

From 2010 to 2016, Regional property tax revenues increased by 3.89 per cent annually (Figure 4). However, when adjusted for population growth and inflation, annual regional property tax revenue has remained relatively constant (Figure 3).

The Region has been able to do this while increasing spending on a real per capita basis due to growth in non-tax revenue.

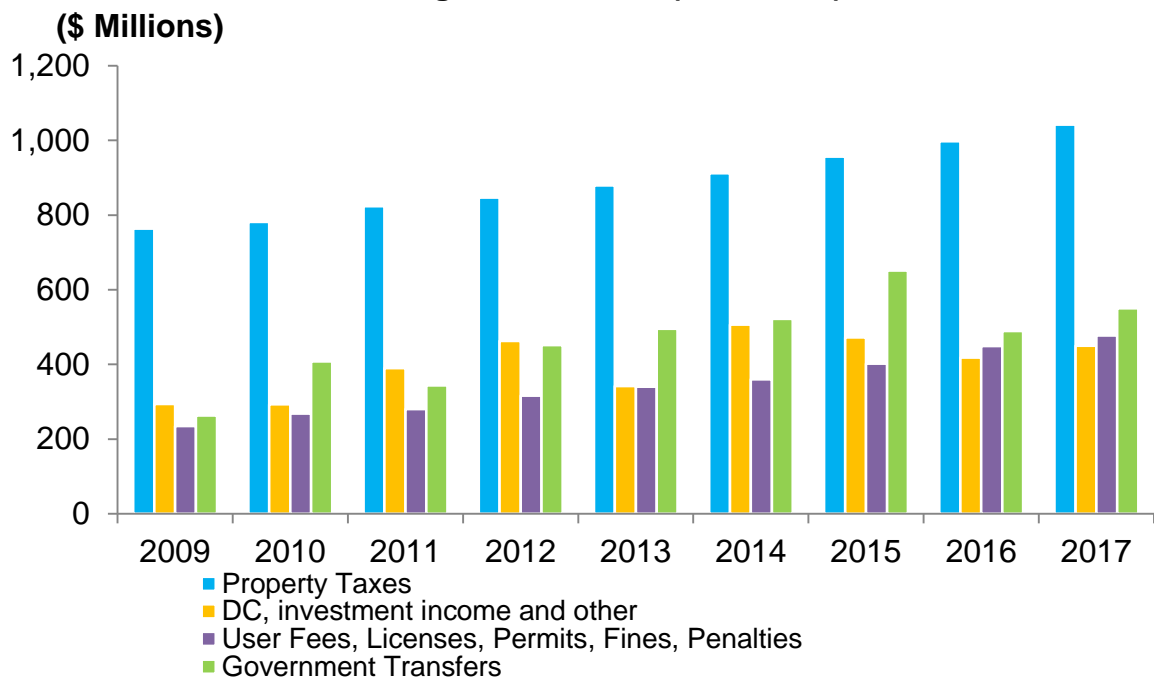
Figure 3
York Region Revenues, real per capita (2011 \$ per capita)



Source: Financial Information Returns, CANSIM Tables 051-0062 and 362-0021

Note: 2017 Figures are draft

Figure 4
York Region Revenues (Nominal \$)



Source: Financial Information Returns

Note: 2017 Figures are draft

In 2017, Council endorsed a recommendation to seek *City of Toronto Act, 2006* revenue-raising powers

In May 2017, Council endorsed a staff report on [Financial Sustainability](#). This report discussed the fiscal pressures facing the Region, the inadequacy of current revenue sources, and a potential path for achieving financial sustainability.

The *City of Toronto Act, 2006* gives the City of Toronto additional revenue-raising powers beyond those available to other municipalities (Table 3).

In June 2017, at the direction of Regional Council, Chair Emmerson wrote to Premier Wynne, requesting that the Province extend the revenue-raising powers under the *City of Toronto Act, 2006* to York Region during the Fall 2017 session of the legislature.

Table 3
City of Toronto Act, 2006 - Revenue Raising Powers

Revenue raising power	Status in Toronto
Revenue-raising powers specific to the City of Toronto	
Municipal Land Transfer Tax (MLTT)	Implemented as of February 1, 2008
Vehicle Registration tax (VRT)	Implemented on September 1, 2008 and later repealed on January 1, 2011
Third Party Sign Tax (Billboard Tax)	Implemented on April 6, 2010
Alcohol Tax; Entertainment and Amusement Tax; Parking Levy; Tobacco Tax;	Not implemented
Revenue-raising powers also available to other municipalities	
Municipal Accommodation Tax (Hotels Tax)	Implemented on all hotel accommodation as of April 1, 2018 ¹
Vacant Unit Tax	Under consideration
Road tolls ²	Not implemented

¹ Tax on short-term rentals to be implemented on or after June 1, 2018, pending the enactment of the short-term rental bylaw.

² In December 2016, Toronto Council voted to explore the option of imposing road tolls on the Gardiner Expressway and the Don Valley Parkway, both of which are owned by the City. In rejecting the City of Toronto's request to levy toll roads, the Province noted that because there were no adequate public transit alternatives to the Don Valley Parkway and Gardiner Expressway, road tolls would have had a disproportionate effect on the most vulnerable in society.

Implementing revenue measures similar to those that already exist in Toronto could generate significant revenue for York Region. Staff estimate that a Municipal Land Transfer Tax and a Vehicle Registration Tax could generate in the order of \$400 million to \$500 million per year.

Recent amendments to the *Municipal Act, 2001* provided municipalities with new revenue-raising powers, though none address the Region's fiscal pressures

In 2017, the Provincial government passed two bills: *Bill 127, Stronger, Healthier Ontario Act (Budget Measures), 2017* and *Bill 68, Modernizing Ontario's Municipal Legislation Act, 2016*. Through these measures, the Province provided additional revenue powers to qualified Ontario municipalities. These new powers include the ability to invest using the Prudent Investor Standard, the potential to levy a Vacant Unit Tax (by way of designation), and the power to levy a Municipal Accommodation Tax (Hotel Tax). Table 4 provides a summary of these new powers.

Table 4
New Municipal Revenue Powers Granted by the Province

Power	Detail	Considerations
Prudent Investor	<p>Ability to invest using the Prudent Investor Standard extended to all qualifying municipalities</p> <p>Would allow the Region to diversify its portfolio more broadly, improving its ability to manage risk and invest in financial instruments with the potential for higher returns</p>	<p>Governance structure as proposed needs to be assessed to determine applicability to the Region</p>
Vacant Unit Tax	<p>Designated municipalities be granted authority to levy a vacant unit tax on residential development to discourage speculators who do not occupy the homes, or who leave them vacant for a prescribed period</p>	<p>Administrative costs and data collection challenges may limit positive revenue impact of the tax</p> <p>Revenue stream will likely decline over time</p>
Municipal Accommodation Tax – MAT (Hotels Tax)	<p>Single and lower tier municipalities have the power to levy a MAT</p>	<p>The MAT was not extended to upper tier municipalities</p>

While these were welcome changes, they do not address the Region's fiscal pressures. Firstly, the Province requires that qualifying municipalities wishing to invest using the Prudent Investor Standard must establish an investment board and delegate to it the control and management of the municipality's day-to day investing. A thorough analysis is needed to determine if the additional cost of establishing an investment board could be recovered through a potential incremental increase in returns realized by investing using the prudent investor standard.

Secondly, the Vacant Unit Tax is intended to address affordable housing challenges. The revenue potential of this tax depends on a number of factors including how "vacancy" is defined, the tax rate, enforcement mechanisms, and the assessment value of homes that are deemed vacant. In addition, the vacant unit tax is likely to be a declining source of revenue, as homeowners are expected to occupy or rent out their homes to avoid the tax. In the City of Vancouver, where a vacant unit tax is levied (Empty Homes Tax), the initial implementation costs were \$7.5 million (which increased from their preliminary estimate of \$4.7 million) with operating costs in 2018 of \$2.5 million. Initially the City forecast gross annual revenues of \$2.2 million (and \$700,000 net of administrative costs). However since implementation, that forecast has increased to \$30 million in gross revenues for 2018. As of April 24, 2018 no Ontario municipalities have sought Provincial designation to levy the tax.

Finally, the Municipal Accommodation Tax is a tax on hotels and other short-term rental accommodations. This power is only available to single-tier and local municipalities. The revenue potential for this tax is also expected to be small.

The Association of Municipalities of Ontario launched a campaign urging the Province to increase the sales tax by one percentage point and dedicate it to municipal governments

In August 2017, the Association of Municipalities of Ontario launched the 'Local Share' campaign. It proposed that revenues from a one percentage point increase in the Provincial share of the Harmonized Sales Tax be dedicated to municipal governments to fund infrastructure needs. The Association of Municipalities of Ontario estimates that this could raise \$2.5 billion annually for distribution province-wide.

Soon after the Association of Municipalities of Ontario launched this campaign at their annual conference, Premier Kathleen Wynne, NDP Leader Andrea Horwath, and former PC Leader Patrick Brown rejected the proposal.

In 2017, the Province announced an enhancement to the Provincial gas tax program

Currently, Ontario's gas tax program provides eligible municipalities with two cents per litre of Provincial gas tax revenues. This revenue can be used to fund transit-related operating and capital expenses. In 2017, the Province committed to increasing the municipal share from two cents to four cents a litre by 2021-22. This will be done gradually – with an increase to 2.5 cents per litre in 2019-20, three cents in 2020-21 and finally four cents in 2021-22.

The Provincial gas tax transfer is allocated to eligible municipalities through a formula based 70 per cent on ridership and 30 per cent on population. For the 2017-18 Provincial fiscal year, York Region is eligible to receive \$16.4 million.

Assuming York Region's share remains at 4.6 per cent of the total province-wide allocation (calculated based on York Region's estimated 2017-18 share), the Region would see its estimated Provincial gas tax allotment increase from \$16.4 million in 2017-18 to approximately \$29.5 million by 2021-22 (Table 5).

Table 5
Estimated Annual Provincial Gas Tax Share for York Region
(\$ Millions)

	2019-20	2020-21	2021-22
Estimated funding	401.3	481.5	642.0
York Region's Share	18.4	22.1	29.5

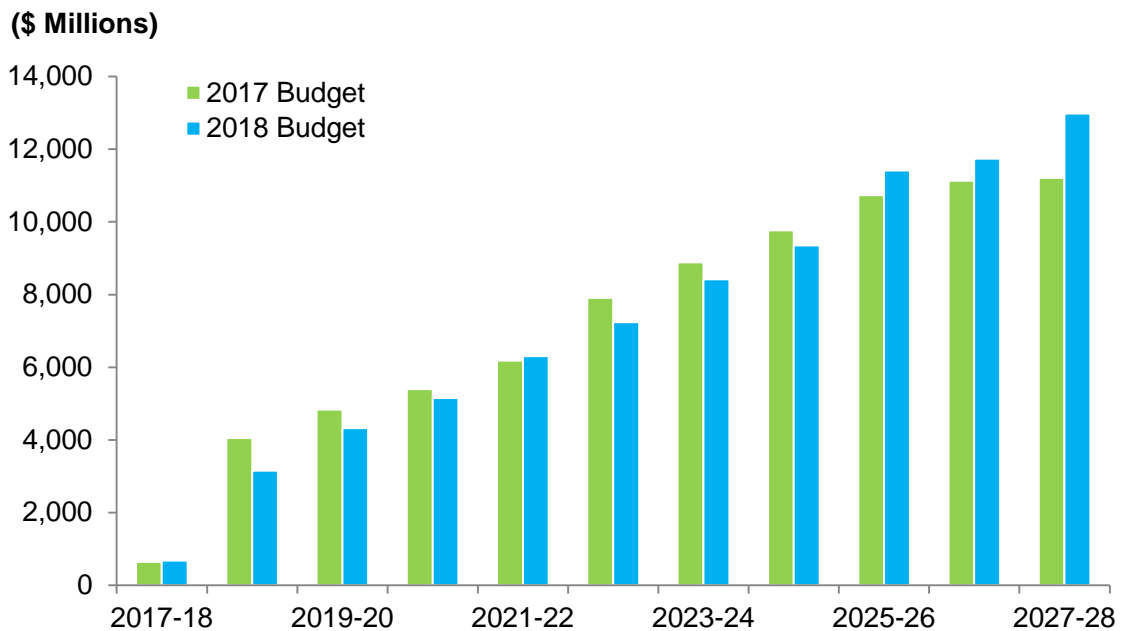
The 2018 Federal and Provincial budgets did not include substantial new grant funding for municipalities

Investing in Canada is a long-term Federal funding commitment that spans multiple terms of government. Through its 2018 budget, the Federal government affirmed its commitment to the \$180 billion Investing in Canada Plan, but re-profiled that funding and pre-2016 (also known as "legacy") infrastructure programs to later years.

Figure 5 below shows the re-profiling under Phase II of the Investing in Canada Plan. The majority of re-profiling occurs in the Public Transit and Green Infrastructure streams. As a result of re-profiling, approximately \$3 billion of spending has been moved from the first eight years to the last three years.

The Ontario government released its budget on March 28, 2018. The budget outlined new programs and initiatives for health care and child care. It did not include any substantial new funding for municipal infrastructure.

Figure 5
Investing in Canada Plan Phase II – Allocation Re-profile



4. Analysis and Implications

The most significant risk to the Region's future financial sustainability is capital related

Despite the steps that Council has taken towards financial sustainability, the Region continues to face two significant financial risks:

1. Inability to fund all of the needed growth-related investments to support the level of growth envisioned in the Provincial Growth Plan
2. Inadequate funding to meet future asset management needs

The challenge of funding needed growth-related investment stems from three main sources:

- A potential disconnect between actual growth and Growth Plan population forecast
- The limitations of development charges as the principal source of revenue for funding growth-related infrastructure

- Rising capital intensity and complexity associated with large infrastructure projects, such as the Yonge Subway Extension, Upper York Sewage Solutions, and the related unpredictable escalation of costs through environmental assessment and other approval processes.

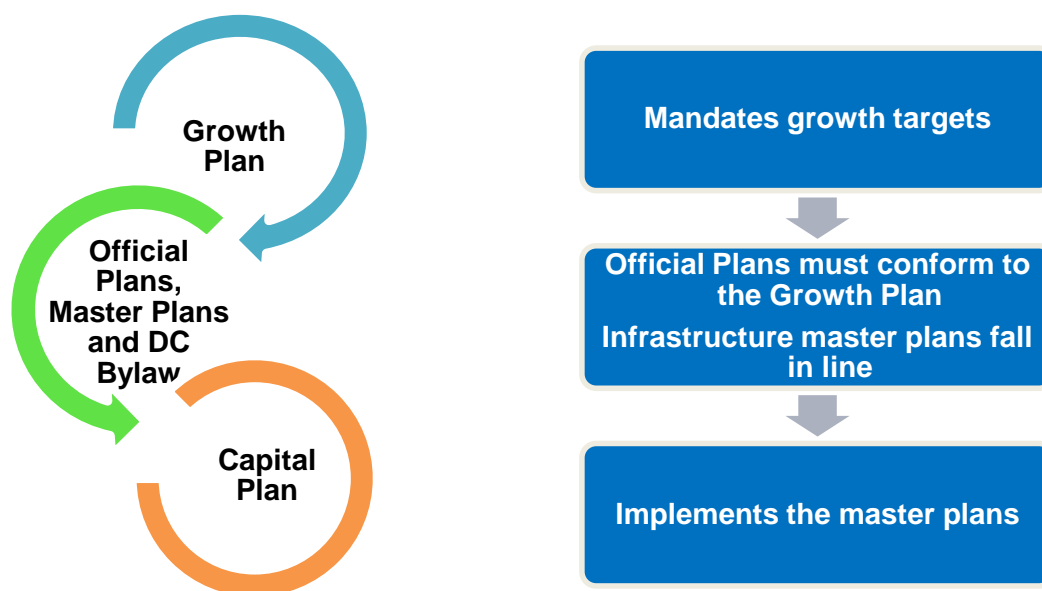
In addition, the Region has a large asset base, which has been growing faster than the rate of population growth. As the asset base ages, it will require major rehabilitation and ultimately replacement. Over this term of Council, the Region has substantially increased contributions to its asset replacement reserves as part of the Regional Fiscal Strategy. Contribution to these reserves will need to continue to grow.

Infrastructure is being built to support the population targets embodied by the Provincial Growth Plan

Municipalities in the Greater Golden Horseshoe are required to conform to the growth targets set out by the Provincial Growth Plan. Due to this legislative regime, there is a cascading effect that has financial implications (Figure 6).

York Region's Official Plan must conform to the Growth Plan, and infrastructure master plans generally include infrastructure needed for the mandated population growth. If the growth contemplated by the Growth Plan does not materialize, municipalities face the risk of stranded debt and under-used infrastructure.

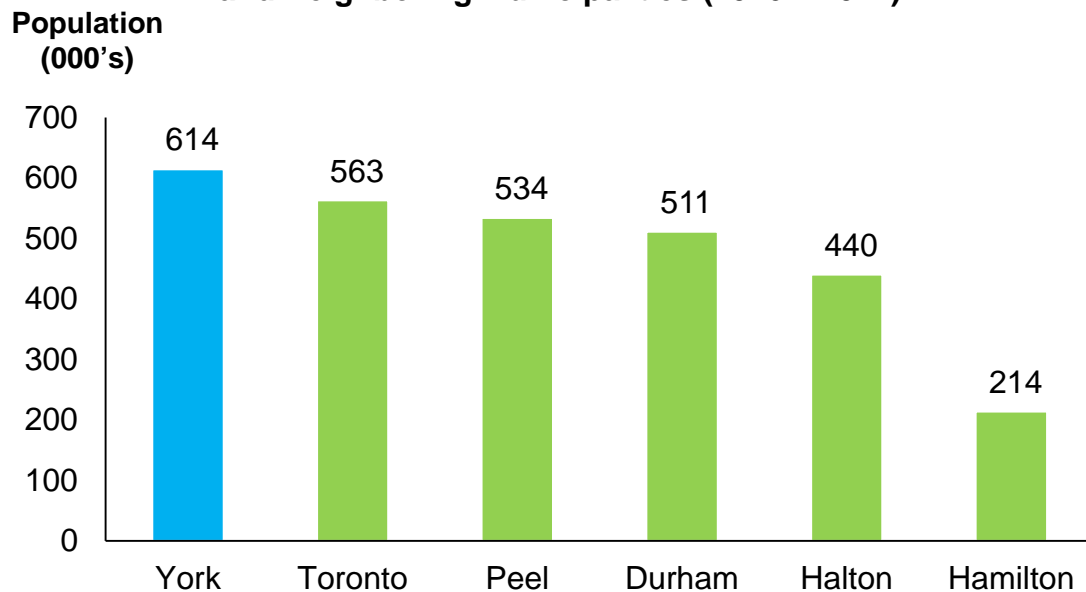
Figure 6
How the growth plan informs the capital plan



Growth creates opportunities to achieve financial sustainability. High-growth municipalities like York Region tend to have a more robust revenue base and greater fiscal capacity. However, growth also necessitates significant infrastructure investments.

The Growth Plan mandates that the Region grow by 716,000 people and 358,000 jobs from 2011 to 2041. This is the highest level of growth anticipated in the GTHA for any upper or single-tier municipality (Figure 7).

Figure 7
Growth Plan Amendment II Population Growth Projections for York Region and Neighboring Municipalities (2016 – 2041)



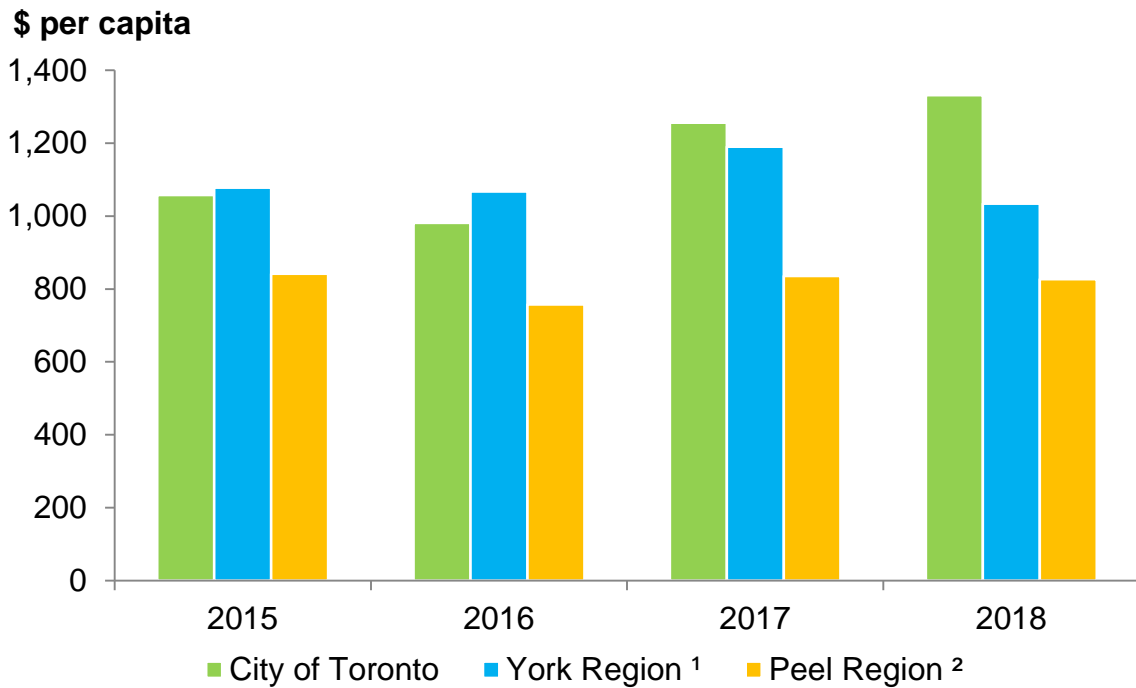
Data Source: Growth Plan Amendment II technical addendum, Hemson Consulting Ltd.

On a per capita basis, York Region's capital budget is similar to that of the City of Toronto

Meeting the needs of growth requires significant capital investment. From 2015 to 2018, on a real per capita basis, York Region and the nine local municipalities' average annual capital budget is approximately 94 per cent of the City of Toronto's and 1.3 times that of Peel Region (upper and lower tier total) (Figure 8). For the budget years 2015 to 2018, approximately 67 per cent of the Region's total capital budget is attributable to the upper tier level.

A municipality's capital budget does not necessarily match its actual capital spending. York Region's (upper tier portion only) capital delivery rate has been improving over the years, and averaged over 80 per cent between 2015 and 2017. According to a 2018 City of Toronto staff report, the spending rate on the city's capital and rate supported budget has consistently averaged 62 per cent.

Figure 8
2015-2018 Real Capital Budget per Capita (2017 \$)



Source: York Region and local municipal budgets, City of Toronto Long Term Financial Plan, Ontario Ministry of Finance, CANSIM Tables 051-0062, 326-0021 and 327-0043

¹ Deflated using a mix of Toronto CMA NRBCPI (80%) and CPI (20%) figures. 2018 inflation calculated using average of previous years. 2018 population figures are Ontario Ministry of Finance forecasts.

² Includes local municipal capital budgets.

Compared to the City of Toronto, York Region’s capital budget is more heavily focused on growth-related investments. At the upper tier level, 61 per cent of York Region’s 2018 ten-year capital plan is for growth, versus 17 per cent in the City of Toronto’s 2018-2027 capital plan¹.

As shown in Table 6 below, York Region’s 2018 ten-year capital plan is among the largest in the 905 municipalities.

¹ The City of Toronto divides its capital plan into five categories: growth-related, state of good repair, service improvement, legislated, and health and safety. These additional categories related to service improvement, legislated, and health and safety are significant and may include spending that meets the needs of growth, but is not officially considered ‘growth-related’ by the City in its budget.

Table 6
2018 Approved Ten-Year Capital Plans among
Neighbouring 905 Municipalities

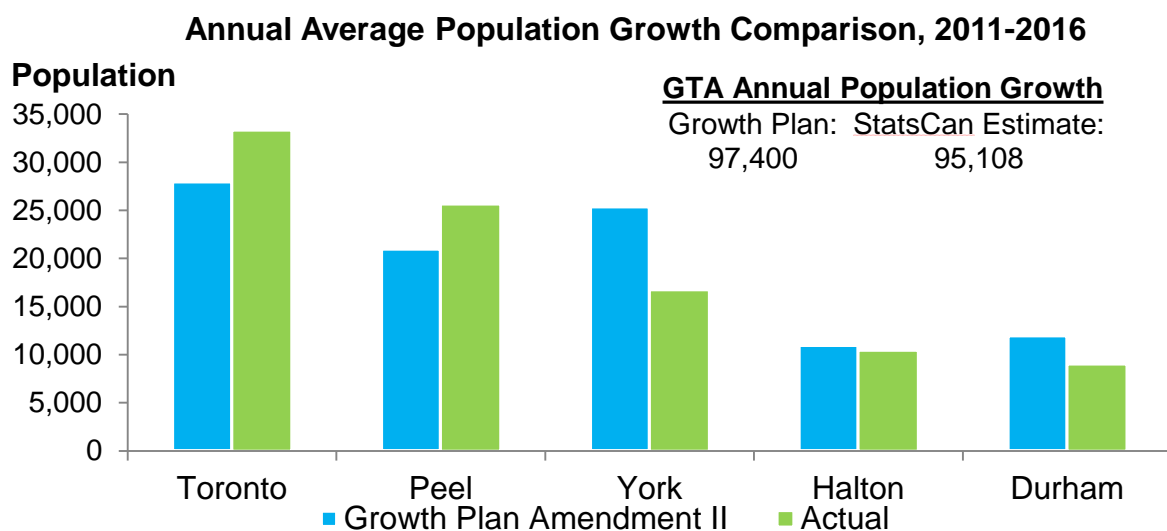
Municipality	Capital Plan (Upper tier only) (\$ Billions)
Peel Region	7.2
York Region	5.9
Durham Region	4.5
Halton Region	4.2

There is a potential disconnect between Growth Plan projections and actual population growth

While the Region has experienced significant growth, the rate of growth has slowed in recent years. From 2011 to 2016, population growth for the Region was only 67 per cent of its Growth Plan target.

From 2011 to 2016, the overall growth for the Greater Toronto Area was modestly less than what was expected by the Growth Plan. However, the distribution of that growth was not what was in the plan (Figure 9). Toronto and Peel have grown at levels exceeding the Growth Plan forecasts, while York, Halton and Durham have been growing more slowly than projected

Figure 9



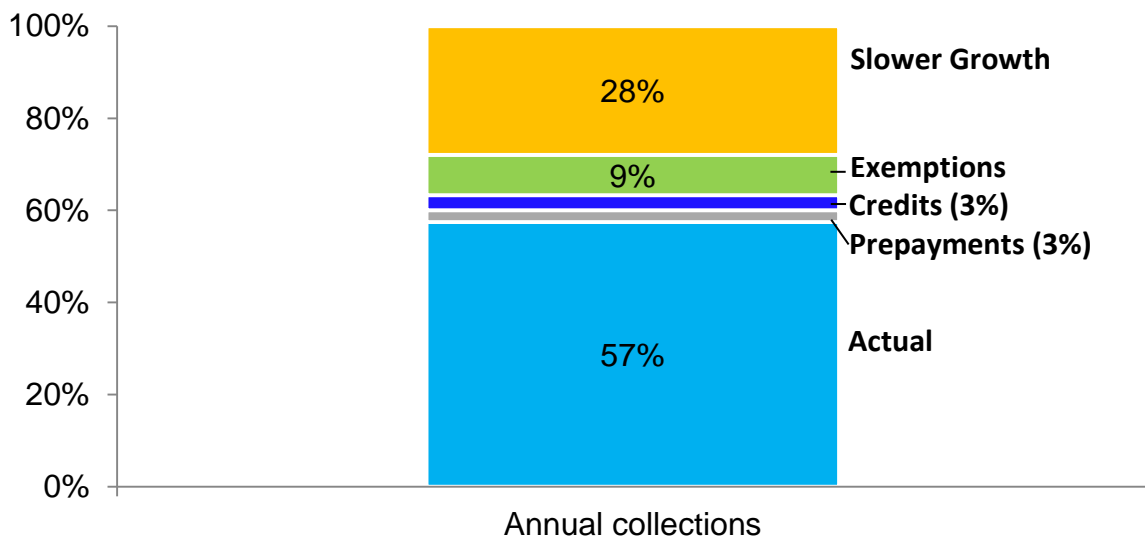
Source: Growth Plan Amendment II, CANSIM 051-0062 (Updated February 21, 2018)

Lower-than-expected growth results in lower-than-expected development charge collections

Development charge collections are highly dependent on the pace of growth. Firstly, the anticipated level of growth is a fundamental input into the development charge rate calculation. In the 2017 and 2018 Development Charge Background Studies, the level of projected growth is consistent with the targets set out by the Growth Plan. In other words, the Region's development charge rates are determined on the assumption that the growth targets set out by the Growth Plan will be realized. Secondly, actual annual development charge collections are a direct function of actual growth as measured by the number of housing units and the total square footage of non-residential development.

From mid-2012 to mid-2017 when the 2012 Development Charge Bylaw was in effect, the Region collected approximately \$1.6 billion in development charges, or approximately 57 per cent of the amount projected in the 2012 Background Study. Slower-than-expected growth is the largest contributor to the shortfall in development charge collections (Figure 10).

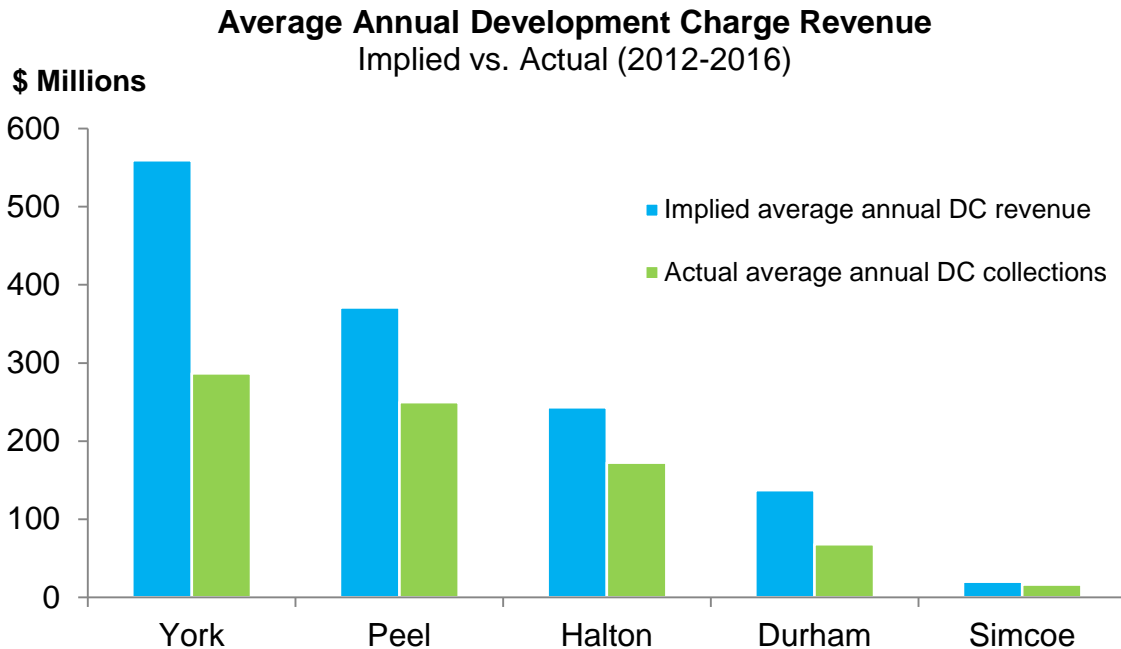
Figure 10
York Region Development Charge Collections
2012 background study forecast vs. actuals
(mid 2012 to mid 2017)



Staff estimate that slower-than-expected growth in residential and non-residential development accounted for nearly 30 per cent, or about \$800 million of the approximate \$1.2 billion in unrealized development charges over the mid-2012 to mid-2017 period. The remaining \$400 million of the \$1.2 billion collection shortfall can be explained by exemptions, prepayments and credits.

York Region is not alone in experiencing development charge collection shortfalls (Figure 11). Other municipalities face similar challenges.

Figure 11



Even if growth occurs at anticipated levels, development charges cannot fully recover the cost of growth-related infrastructure

Development charges are the primary tool that a municipality uses to pay for growth-related infrastructure. However, the *Development Charges Act, 1997* limits and delays cost recovery through a number of statutory deductions (Table 7).

Due to these limitations, growth-related projects funded through development charges have a direct impact on debt, tax levy and user rates (Table 7). Non-development-charge-recoverable costs create a direct tax levy and user rate pressure, while any deductions that delay cost recovery create a debt pressure.

In addition, development charges only fund the initial capital costs of growth-related infrastructure. The lifecycle and operating costs associated with growth-related infrastructure must be funded through the tax levy and user rates.

Table 7
Limitations of Development Charges

Non-Development Charge Recoverable Costs	Delayed Recovery of Development Charges	Asset Management Costs	Operating Costs of New Infrastructure
<ul style="list-style-type: none"> • Ineligible services • 10% statutory deduction (for some services) • Benefit to existing deduction • Exemptions 	<ul style="list-style-type: none"> • Post-period benefit • Level of service deductions (for some services) • Development charge deferrals • Exemptions 	<ul style="list-style-type: none"> • Rehabilitation and replacement costs 	<ul style="list-style-type: none"> • Operating and maintenance costs
Impact on:			
Tax levy and user rates	Debt	Tax levy and user rates	Tax levy and user rates

The Region has turned the corner on debt, although debt levels continue to remain high

Prior to the 2014 fiscal strategy, the Region’s peak outstanding debt was anticipated to be over \$5.0 billion by 2020. However, as a result of the measures adopted over the last four budget cycles, the total outstanding debt peaked at \$2.9 billion in 2017 and is now falling.

Figure 12 below shows the debt forecast from the 2018 budget. Although debt peaked at \$2.9 billion in 2017, the reduction in debt after 2017 will not be as rapid as had been anticipated in previous budget years, primarily due to a downward revision in forecast development charge revenue.

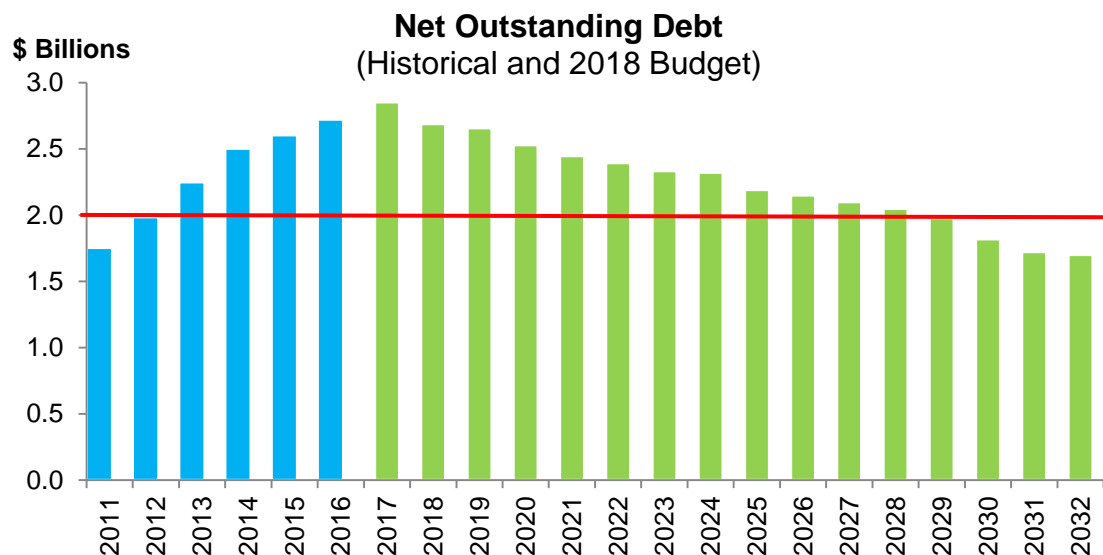
A decreasing debt profile is important because:

- It reduces the Region’s overall financial risk
- It frees up funding that can be spent directly on infrastructure, rather than on debt servicing

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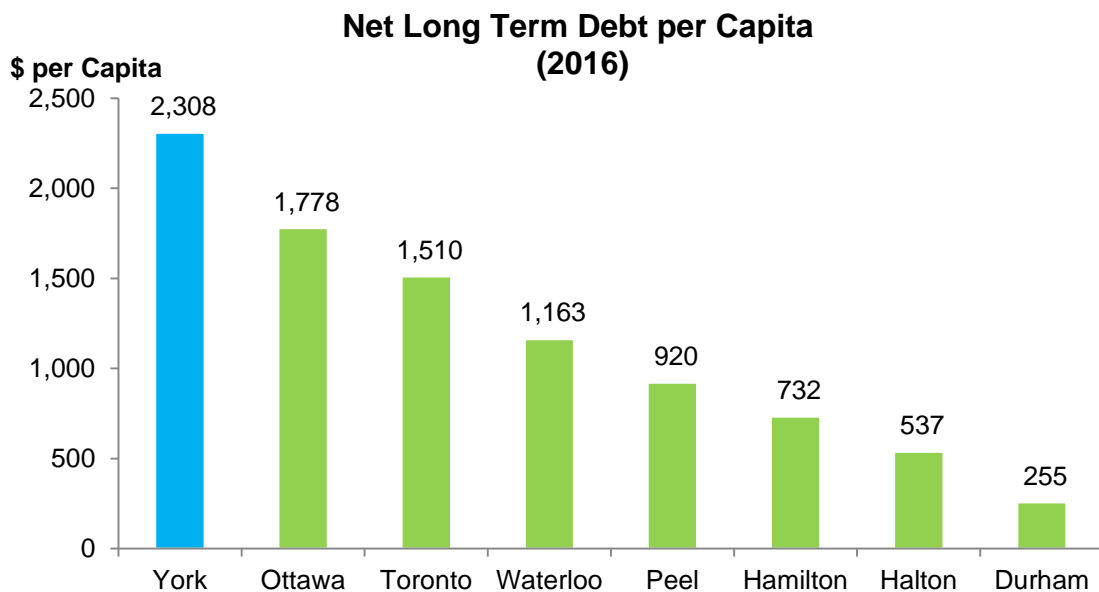
- It is a metric of financial sustainability – credit rating agencies have said that “greater-than-forecast debt” could lead to a potential rating downgrade
- It is expected to help the Region regain a triple A credit rating with S&P Global Ratings
- The Region must comply with the Province’s annual debt repayment limit

Figure 12



While the fiscal strategy has been effective at reducing debt levels, the Region’s overall debt still remains high compared to its peers (Figure 13).

Figure 13



Source: 2016 Financial Information Return

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Approximately 90 per cent of the Region's outstanding debt will be serviced and repaid through development charges. This debt has enabled the construction of the infrastructure needed to support growth. The Region invested approximately \$1.85 billion in water and wastewater infrastructure from 2012 to 2016. This large investment increased debt by 27 per cent during this period. In addition, the higher debt level is a result of the pace of growth in the Region being slower than anticipated, resulting in less development charge collections that could have been used to pay for capital projects directly.

The Region's debt burden constrains spending on growth-related infrastructure

Using current revenue sources, funding growth-related projects above and beyond the Region's ten-year capital plan would mean more debt and could reverse the planned downward trajectory of outstanding debt.

The greatest risk to the capital plan lies with development charge collections, which is an uncertain and variable source of revenue. If development charge collections are significantly less than forecast, the Region may need to reduce or defer planned projects to stay within its debt and tax levy constraints. The Region needs to continue to manage its debt levels, and therefore its capital spending.

The Region's ability to reduce development charge debt while funding additional projects is contingent on achieving the level of growth envisaged by the Growth Plan

Development charge collections service existing development charge debt, and help avoid future debt. From 2013 to 2017 development charge servicing costs averaged approximately \$230 million per year, while development charge collections over the same period averaged \$285 million per year. The amounts above what is needed to pay annual debt servicing costs can be used to fund growth-related infrastructure in the ten-year capital plan without issuing new debt.

The Region has experienced a period of lower-than-expected growth and lower-than-expected collections. For the purpose of developing the capital budget, staff developed a growth projection that is more in line with historic actuals, which is lower than projections in the Growth Plan and the Development Charge Background Study. If the Region achieves the level of growth envisaged by the Provincial Growth Plan, development charge collections are forecast to be \$850 million higher over the next 20 years (2018-2037) compared to what was projected for the Region's 2018 budget.

However, even if the Provincial Growth Plan forecast comes to fruition, the Region will still be financially constrained to fund all of the projects in the 2018 Development Charge Background Study, which includes an additional \$1.5 billion of growth-related road projects compared to the 2017 Bylaw. As Figure 14

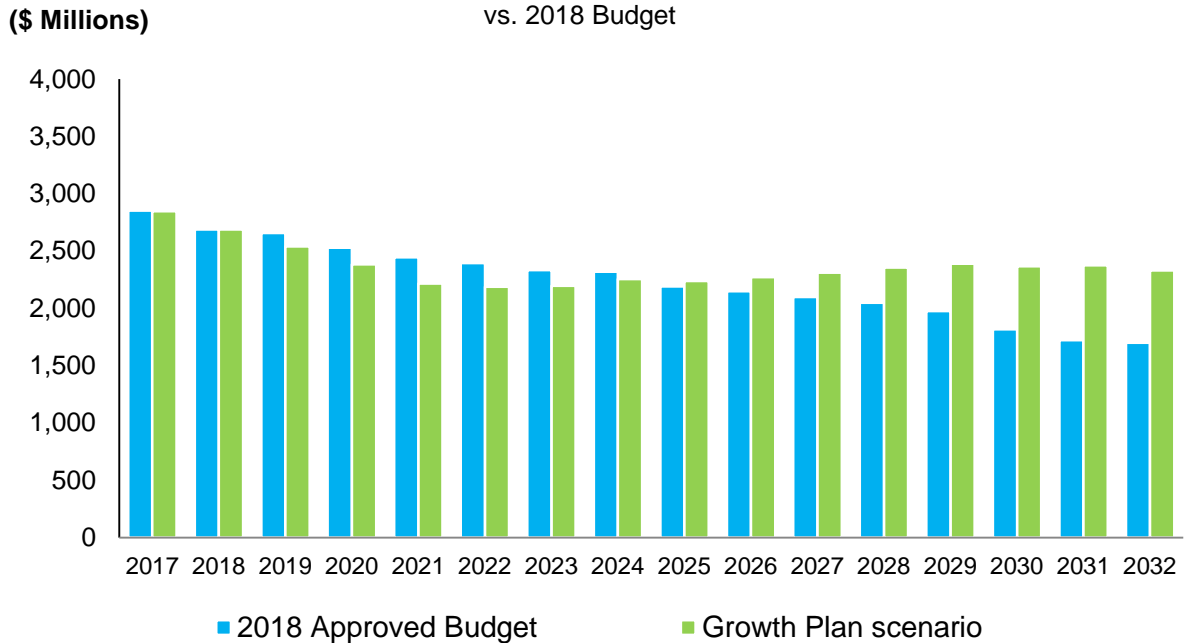
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shows, the Region’s outstanding debt projection, after incorporating the additional roads projects, is still higher than what was expected in the 2018 budget.

Figure 14

Outstanding Debt Projection

Growth Plan growth and funding all projects in 2018 Background study
vs. 2018 Budget

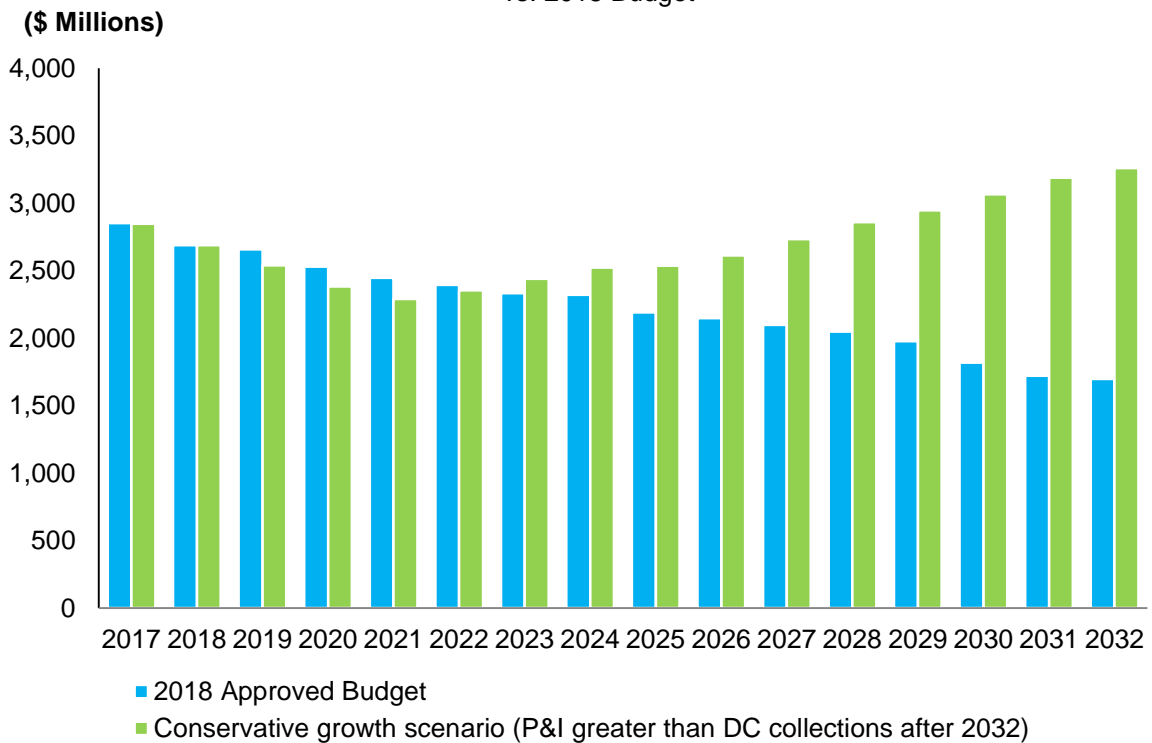


Furthermore, if growth proves to be less than forecast, there will be little to no opportunity to fund additional growth projects without increasing the outstanding debt profile. Figure 15 shows the Region’s outstanding debt projection using more conservative growth estimates. The debt projection in this case exceeds what was anticipated in the 2018 budget after 2023, financially restricting the Region’s ability to add further development charge funded projects.

Figure 15

Outstanding Debt Projection

Conservative growth and funding all projects in the 2018 Background Study
vs. 2018 Budget



Under this scenario, development charge collections would be less than the amount needed for the annual principal and interest payments on development charge debt after 2032. The implication is that the shortfall would have to be drawn from the development charge reserve contingency previously established by Council. On average, the debt servicing costs exceed the development charge collections by roughly \$65 million per year after 2032. This situation results in consecutive development charge reserve draws that eventually deplete the development charge reserve of all its funds around 2037-2038.

An estimated \$60 million annual contribution to a Development Charge Debt Reduction reserve would be required to offset the development charge debt pressure of additional growth-related projects

Staff are exploring the possibility of creating a Development Charge Debt Reduction Reserve that will have similar characteristics to the Region’s Debt Reduction Reserve. The reserve could be used to fund growth projects temporarily to avoid taking on additional development charge debt. Future development charge collections would be used to replenish this reserve with accrued interest.

Meeting Growth Plan Infrastructure Demands and
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A preliminary estimate indicates that the Development Charge Debt Reduction Reserve would require contributions of approximately \$60 million per year. Funds received from new revenue sources could fund this reserve.

The cost of growth-related projects not eligible to be recovered through development charges results in a fiscal pressure of approximately \$69 million per year

Although the majority of the initial capital costs related to growth projects are eligible to be recovered through development charges, there are still substantial costs that are not. Table 8 outlines the municipal costs that are not eligible to be recovered through development charges. These costs consist of both benefit-to-existing development and 10 per cent statutory deduction components of the 2018 Development Charge Bylaw Amendment.

Table 8
Non-Development Charge Eligible Capital Costs, Excluding Water & Wastewater

(\$ Millions)	2018 Budget with Development Charge Main List	Full Contingent List B	Total
Total Non- Development Charge Eligible Costs	900	138	1,038
Average Annual Amount	60	9	69

Note: Numbers may not add due to rounding

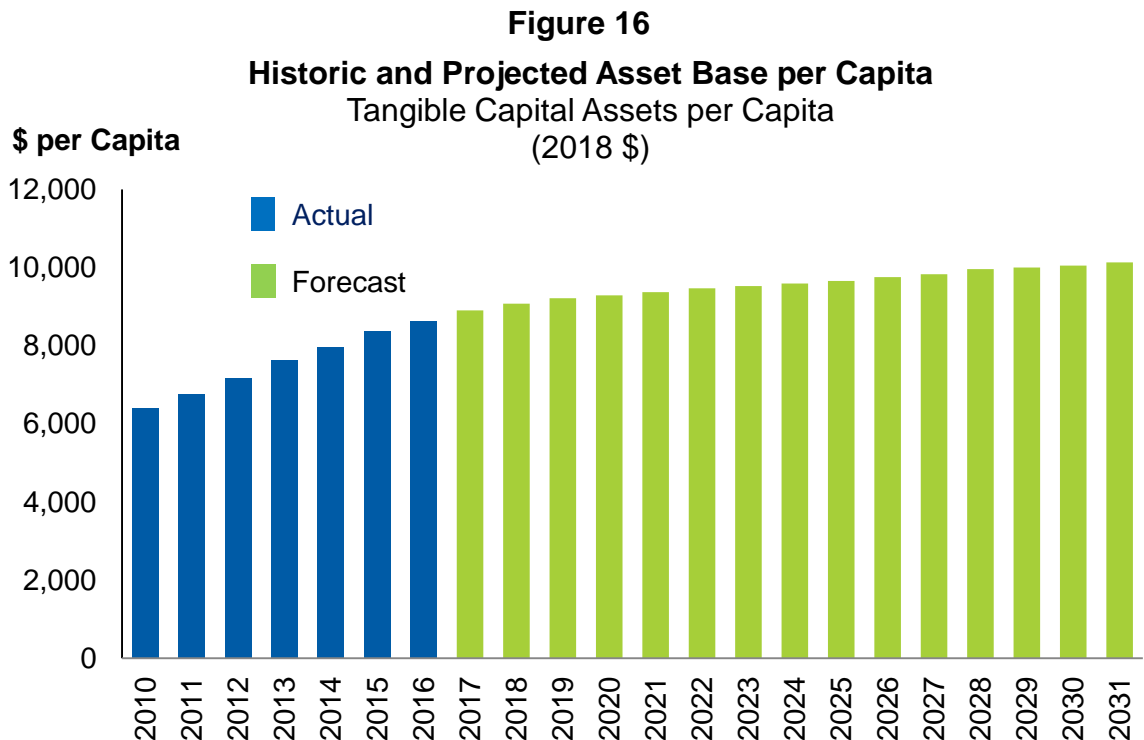
While tax levy increases of three per cent are sufficient to fund increases in the operating budget, including those related to growth assets, they are not sufficient to pay for these non-development charge eligible initial capital costs.

The Region's asset base is growing much faster than its population

As of December 31, 2016, the Region owns and operates tangible capital assets with a net book value of more than \$7 billion and an estimated replacement value over \$12.3 billion (including Housing York Inc.). This includes \$6.0 billion in water and wastewater assets, \$4.1 billion in transportation assets and \$2.2 billion in other assets.

The Region's asset base is expected to continue to grow significantly as new infrastructure is built to meet the needs of current and future residents. On a per

capita basis, the asset base is expected to grow from roughly \$8,600 per capita in 2016 to \$10,100 per capita by 2031 (Figure 16).



The growth of the asset base is partially a result of the need to invest in major infrastructure, such as water and wastewater infrastructure, well in advance of population growth occurring. Fully funding the asset management needs of large and growing asset base will be a challenge. Staff are developing a Corporate Asset Management Plan, which is expected to be complete in 2018.

Fully funding asset management needs will put pressure on the tax levy

The Government of Ontario recently enacted a regulation (O. Reg. 588/17: Asset Management Planning for Municipal Infrastructure) that requires municipalities to prepare asset management plans. One component of the regulation is that municipalities must identify any funding shortfalls, as defined by the difference between available funding and the cost of delivering proposed levels of service. The Province is providing some funding to small rural and northern municipalities to address funding shortfalls. However, York Region does not meet the eligibility criteria, and staff do not expect the Region to receive a funding provision.

Through the user rates that were approved by Council in 2015, it is anticipated that the asset management needs for water and wastewater infrastructure can be fully funded by user rate reserves.

For the Region’s other assets, current estimates suggest that an annual average of \$222 million will be required each year from 2019 to 2031 (Table 9) to maintain a state of good repair. It is estimated, however, that an average annual expenditures of \$202 million over the same period can be supported by tax levy increases capped at three per cent, creating a shortfall of approximately \$19 million per year (Table 9). The Region is continuing to develop its asset management plans and refine its estimates of the related financial requirements.

If all of the Contingency List B projects were to be added to the Region’s capital plan, the gap in asset management funding would increase further. While development charges are expected to recover approximately 91 per cent of the initial capital costs of these projects, all of the asset management costs would have to be raised through alternative means. It is currently estimated that \$3 million annually would be required to fully fund the asset management needs of these projects alone, in addition to the \$9 million in initial costs shown in Table 8 above.

Table 9
Summary of the Tax Levy Shortfall Related to Asset Management
(Annual Average Amount)

(\$ Millions)	2018 Budget with 2017 Development Charge Main List	Full Contingent List B	Total
Full asset management needs	222	3	224
Needs supported by tax levy increases capped at three percent	202	0	202
Average Annual Shortfall	19	3	22

Note: Numbers may not add due to rounding.

The full asset management needs incorporate current estimates of asset management requirements for existing assets and growth assets.

As the Region grows, it will require larger and more complex infrastructure that is both expensive and challenging to manage

As the Region continues to urbanize, infrastructure requirements become more complex, often requiring increasingly demanding conditions of Ministerial approval or tri-party agreements. These large infrastructure projects cannot be accommodated through own-source revenues and require third-party funding. Table 10 provides some examples of these future large infrastructure projects.

Table 10
Examples of Large Infrastructure Projects

Project	Estimated cost (\$ Million)
Yonge Subway Extension (construction)	5,100 ¹
Bus Rapid Transit Plan (Metrolinx 2041 Regional Transportation Plan) <ul style="list-style-type: none"> • Highway 7 West BRT Extension (Highway 50 – Helen St.) • Yonge BRT (Richmond Hill, Aurora, Newmarket (19th Ave. – Mulock Dr.)) • Highway 7 East BRT Extension (Unionville GO – Donald Cousens Pkwy.) • Jane North BRT/LRT (Highway 7 – Major Mackenzie Dr.) • Steeles BRT/LRT (Jane St. – McCowan Rd.) • Leslie North BRT/LRT (Highway 7 – Major Mackenzie Dr.) • Major Mackenzie BRT/LRT (Jane St. – Leslie St.) • Major Mackenzie West Priority Bus (Highway 427 – Jane St.) • Major Mackenzie East Priority Bus (Leslie St. – Mount Joy GO) • Green Lane Priority Bus (Davis Dr. – East Gwillimbury GO) • Woodbine Ave. – Steeles Ave. to Major Mackenzie 	5,350 ²
Langstaff Road Extension (crossing the Macmillan CN rail yard)	620

¹ Project costs are as of September 2017. 75 per cent of the Yonge Subway Extension lies in York Region, while 25 per cent lies in the City of Toronto. \$5.1 billion is the current estimate, adjusted to future dollars for the expected years of construction.

² Other than the Yonge BRT (Richmond Hill, Aurora, Newmarket (19th Ave. – Mulock Dr.)) and the Highway 7 East BRT Extension (Unionville GO – Donald Cousens Pkwy.) all projects are in 2017 dollars.

The Region is challenged to fund new rapid transit priorities, including the Yonge Subway Extension and the Bus Rapid Transit Plan

While Metrolinx's 2041 Regional Transportation Plan acknowledges the Region's key transit projects, including Yonge Subway Extension and the Bus Rapid Transit Plan, funding details are vague. In the past, bus rapid transit projects in the Region have been fully funded by the Province. However, the Region contributed to the Toronto York Spadina Subway Extension.

The Yonge Subway Extension project is expected to require a Regional contribution along with funding from other levels of government. York Region's share could be well over a billion dollars (Table 11).

Table 11
Yonge Subway Extension Cost Share Scenarios

(\$ Billions)	York Region's Contribution Assuming Toronto is NOT paying for its portion	York Region's Contribution Assuming Toronto is paying for its portion
York pays for 33%	1.70	1.28
York pays for 27%	1.38	1.03

Funding a regional contribution from existing revenue sources would put significant pressures on development charge debt and the tax levy.

Federal and provincial infrastructure programs will not likely be enough to address the Region's fiscal challenges

Through its budgets from 2016 to 2018, the federal government committed to invest more than \$180 billion in infrastructure over twelve years. While Phase I investments were focused on near-term projects, Phase II investments will focus on projects with a longer horizon. The federal government has recently finalized a bilateral agreement with Ontario to deliver Phase II infrastructure funding for public transit, green infrastructure, community, culture and recreation infrastructure, and rural and northern communities.

Of the \$81.2 billion Phase II commitment, the Public Transit Stream makes up a significant portion - \$20.1 billion. However, as a result of a ridership-based allocation formula, the Region, with a newer transit system, will receive less than other municipalities with more mature transit systems such as Toronto. The Region will receive a total of \$372 million (\$204 billion from the federal government, with 33 per cent matching funding or \$168 million from the Province), while Toronto will receive a total of \$8.9 billion. The \$372 million in transit funding from the federal and provincial governments would fund about three per cent of the Region's unfunded large transit projects.

To realize these funding opportunities, the Region will be required to contribute the remaining 27 per cent of the funding (i.e., between \$125 million and \$137 million depending on the types of projects to be funded). In the absence of the ability to generate new revenues, the Region will be required to come up with options to fund its contribution such as capital reductions or increases in development charges and tax rates.

The Association of Municipalities of Ontario 'Local Share' campaign is not likely to generate sufficient revenue to address the Region's fiscal gap

The Association of Municipalities of Ontario is advocating the allocation of revenues from a one per cent increase in the Harmonized Sales Tax to municipalities on a per dwelling unit basis at rates that decline with size of the municipality. This allocation methodology favours smaller municipalities, and does not recognize the infrastructure needs of rapidly growing municipalities. It also disadvantages municipalities with larger household sizes.

Under this methodology, York Region municipalities would receive \$160.6 million annually, or 6.4 per cent of the estimated provincial total. Of this amount, \$82.8 million per year would be for York Region, while \$77.8 million per year would be for the local municipalities. York Region's overall allocation is approximately \$145 per person. This is the 3rd lowest among the 202 single and upper tier municipalities in the province.

The Association of Municipalities of Ontario represents 444 municipalities across Ontario with differing structures, differing levels of responsibility and at different stages of growth. Having a 'one size fits all solution' like the "Local Share" does not address the different financial responsibilities that municipalities face.

The Province is unlikely to cede major fields of revenues to municipalities

Provincial legislation and regulations control the expenditure responsibilities and revenue-generating authorities of municipal governments.

The Province has its own challenges when it comes to program expenditures. Real per capita provincial spending has been declining in most program areas over the past five years. In addition, the Province is facing significant pressures on health care expenditures, particularly as the baby boom generation ages. Staff anticipate that the Province will be reluctant to cede its big revenue generators to municipalities, and that any new revenue-raising powers will require municipal accountability.

Advocating for *City of Toronto Act, 2006* revenue-raising powers may require consistent efforts over a number of years

Staff have consulted with the City of Toronto to better understand the process for advocating for their revenue powers under the *City of Toronto Act, 2006*. The process is likely to take considerable time, and require a consistent and concerted effort. It will also entail several touch points with the Province, Council, local municipalities, neighbouring municipalities, and other stakeholders (including the Building Industry and Land Development Association – York

Chapter, as well as local residents and business owners). The table below summarizes potential touchpoints with Council.

Table 12
Future Touchpoints with Council

Timeframe¹	Touchpoint
Q4 2018	Council transition documents
	As part of the multi-year budget process
2019	Financial Sustainability update (Council report)
	As part of the Municipal Comprehensive Review
2020	As part of the 2020 Development Charge Background Study (update)

¹ Timeframe is tentative and subject to change

It is recommended that *City of Toronto Act, 2006* revenue-raising powers be used to address the capital-related fiscal gap

Building growth-related infrastructure to meet the population and employment targets contemplated by the Growth Plan has created capital-related fiscal pressures for the Region. These pressures are three-fold:

- Debt, tax levy and user rate pressures resulting from the upfront costs of building growth-related infrastructure, and the inability of development charges to fully fund those costs
- The inability to fully fund the ongoing lifecycle costs of growth-related assets and existing assets to ensure that they remain in a state of good repair while keeping tax levy increases below three per cent
- The Regional contributions to Federal-Provincial infrastructure projects

Unlike the City of Toronto, which uses revenue-raising powers like the Municipal Land Transfer Tax to help fund its operating budget², staff recommend the Region direct any new revenues derived from *City of Toronto Act, 2006* revenue-raising powers to address its capital-related fiscal gap.

² In the City of Toronto's "Long Term Financial Plan", released in March 2018, one of the recommendations was to reduce the cyclical risk of the Municipal Land Transfer Tax by allocating an appropriate portion of the revenue to capital reserves.

5. Financial Considerations

The Region is facing a capital-related fiscal gap of over \$220 million per year

Preliminary estimates of the fiscal gap indicate that the Region needs additional revenue of over \$220 million annually to achieve financial sustainability (Table 13). Overcoming this fiscal gap will require new revenue sources. The fiscal gap can be categorized into three groups:

- \$60 million in annual contribution to a Development Charge Debt Reduction Reserve
- \$91 million in annual estimated tax levy shortfall/fiscal gap related to non-development charge recoverable costs and unfunded asset management costs
- \$69 million to \$113 million annually for a regional contribution to Federal-Provincial infrastructure projects, such as the Yonge Subway Extension

**Table 13
Annual Fiscal Gap**

	(\$ Millions)
Annual contribution to development charge debt reduction reserve	60
Tax levy shortfall/fiscal gap	
Unfunded asset management costs	22
Non- development charge eligible costs	69
Regional contribution to Federal-Provincial infrastructure projects	69 to 113
Annual requirement for long-term financial sustainability	220 to 264

The non-development charge eligible capital costs and unfunded asset management costs currently represent one of the greatest financial constraints to the Region. While Council has significantly increased contributions to asset replacement reserves in recent years, additional revenue is required to fully fund these needs in a manner that is consistent with the fiscal strategy, while simultaneously keeping tax levy increases under three per cent per year.

In addition, cost sharing associated with large Federal-Provincial infrastructure projects is expected to put significant debt and tax levy pressures on the Region. In the case of Yonge Subway Extension project, York Region's share could

range between \$69 million and \$113 million per year depending on Toronto's commitment. This is equivalent to an 8.5 per cent to 14 per cent increase to the Region's 2018 capital budget.

A municipal land transfer tax could raise \$350 to \$430 million per year for York Region and the nine local municipalities

In the City of Toronto, a municipal land transfer tax is imposed on properties purchased in the City and on unregistered dispositions of a beneficial interest in land. Using current City of Toronto municipal land transfer tax rates (which are the same as the Ontario rates), a municipal land transfer tax in York Region could generate \$350 to \$430 million in revenues. This is approximately half of the amount that the City of Toronto has budgeted for its municipal land transfer tax revenue in 2017 (\$716 million).

The majority of the land transfer tax revenue in York Region would be from residential property transactions. Using Toronto Real Estate Board and RealNet data, staff estimate that almost 90 per cent of total property sales value in 2017 involve residential property (land or buildings).

These revenue estimates do not account for the potential impact of a first-time home buyers' rebate. In the City of Toronto, first-time home buyers are eligible to receive a rebate of up to \$4,475 if the property was purchased after March 1, 2017 or \$3,725 if it was purchased before this date. This rebate reduces the revenue potential from a Municipal Land Transfer Tax. Staff estimate that a first time home buyer rebate could reduce annual revenues by approximately \$5 million, assuming a program similar to the City of Toronto's.

A Vehicle Registration Tax could generate an additional \$65 to \$80 million per year depending on the fee

The revenue potential for a vehicle registration tax was estimated by applying an assumed vehicle registration fee of \$100 to \$120 per vehicle per year to the total number of private vehicles registered in York Region on an annual basis. Using this assumption, and applying an administrative fee approximating three per cent of revenue (City of Toronto's administrative costs in 2010), a vehicle registration tax could generate approximately \$65 to \$80 million annually. This amount is expected to grow each year, as vehicle registrations increase at an average rate of 1.6 per cent a year.

6. Local Municipal Impact

New revenues could be shared with local municipalities

Revenues generated from *City of Toronto Act, 2006* revenue-raising powers, could be shared with local municipalities to address their infrastructure priorities. For example, the amount of revenue shared could be based on the size of capital budget, the value of capital assets owned by the Region and each of the local municipalities, or past capital expenditures.

7. Conclusion

City of Toronto Act, 2006 revenue-raising powers are needed to enable the Region to grow in a financially sustainable way

In order to for the Region to continue to build the infrastructure required for growth and address that infrastructure's asset management costs in a financially sustainable way, new revenue sources are needed.

It is recommended that Council continue to advocate for all *City of Toronto Act, 2006* revenue-raising powers, including a municipal land transfer tax and a vehicle registration tax.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at 1-877-464-9675 ext. 71644.

The Senior Management Group has reviewed this report.

April 27, 2018

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Accessible formats or communication supports are available upon request



Meeting Growth Plan Infrastructure Demands and Financial Sustainability Presentation to Committee of the Whole

Bill Hughes, Commissioner of Finance
May 10, 2018



Outline

1. Financial sustainability overview
2. The challenge of funding growth-related infrastructure
3. The fiscal gap
4. Increasing revenues
5. Summary of recommendations

Financial sustainability overview

A practical view of financial sustainability

Financial Sustainability in the York Region Context

Growth can be accommodated without unacceptable tax levy, user rate or debt increases

Infrastructure can be kept in a state of good repair and replaced at the right time

Service levels can be increased as the Region urbanizes

Service levels can be maintained in the face of changes in economic conditions

Financial responsibility is fairly shared between current and future residents (inter-generational equity)

Council has identified three broad fiscal objectives

**Annual tax
levy
increases of
three per
cent or less**

**A reduction
in debt**

**Saving for
asset
management
needs**

The Region has taken steps towards financial sustainability

1. A Fiscal Strategy updated every year
2. Multi-year budgeting with a four-year cycle corresponding to the term of Council
3. A Financial Sustainability Plan for water and wastewater infrastructure

The Region is turning the corner on debt



The Region's financial policies have yielded good results

Working towards financial sustainability

A sound financial strategy is in place

Debt peaked in 2017 and is expected to fall

Reserves to meet future asset management obligations are growing

Full cost recovery for water and wastewater will be achieved by 2021

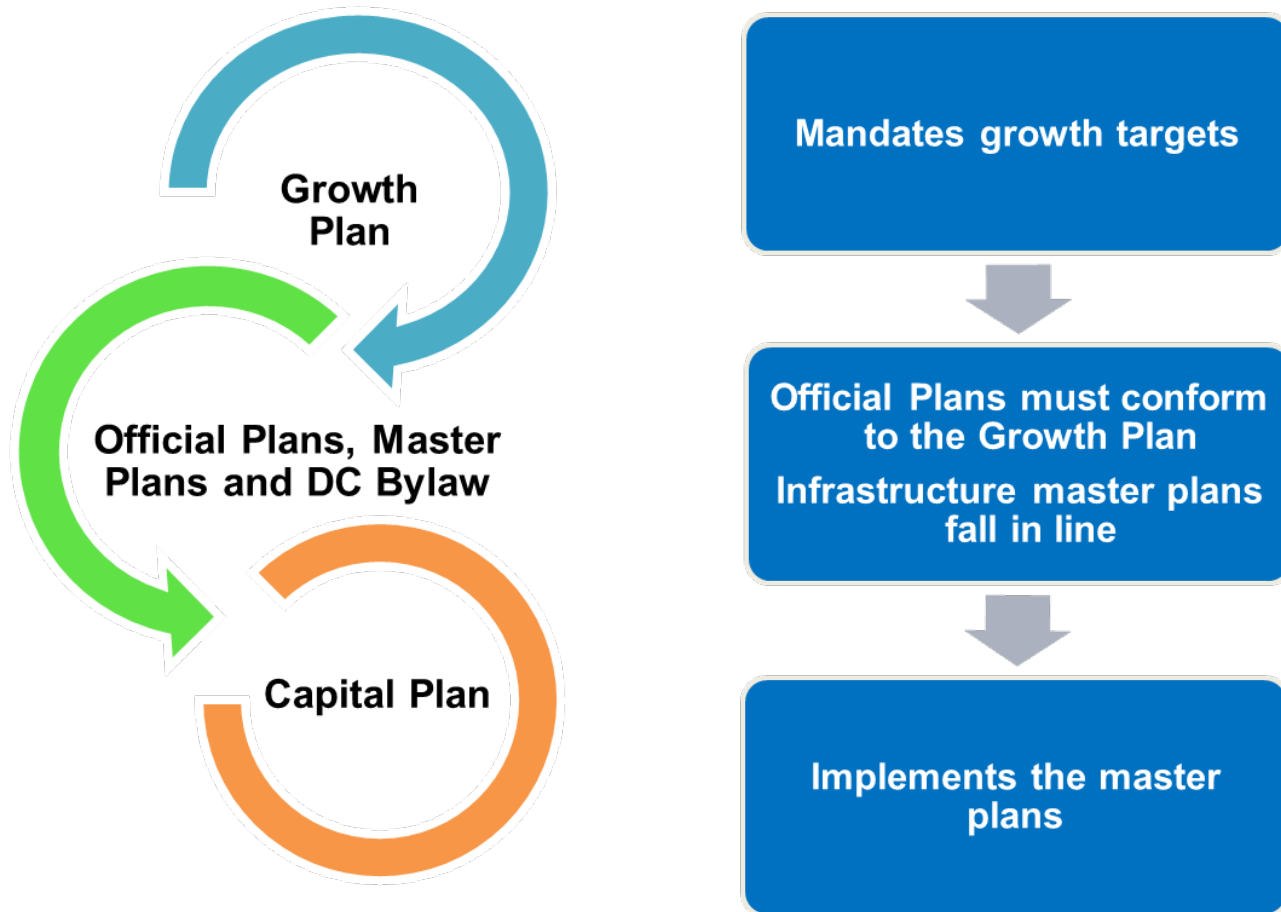
The Region will be a net investor by 2021

The challenge of funding growth-related infrastructure

The most significant risks to the Region's future financial sustainability are related to growth and infrastructure

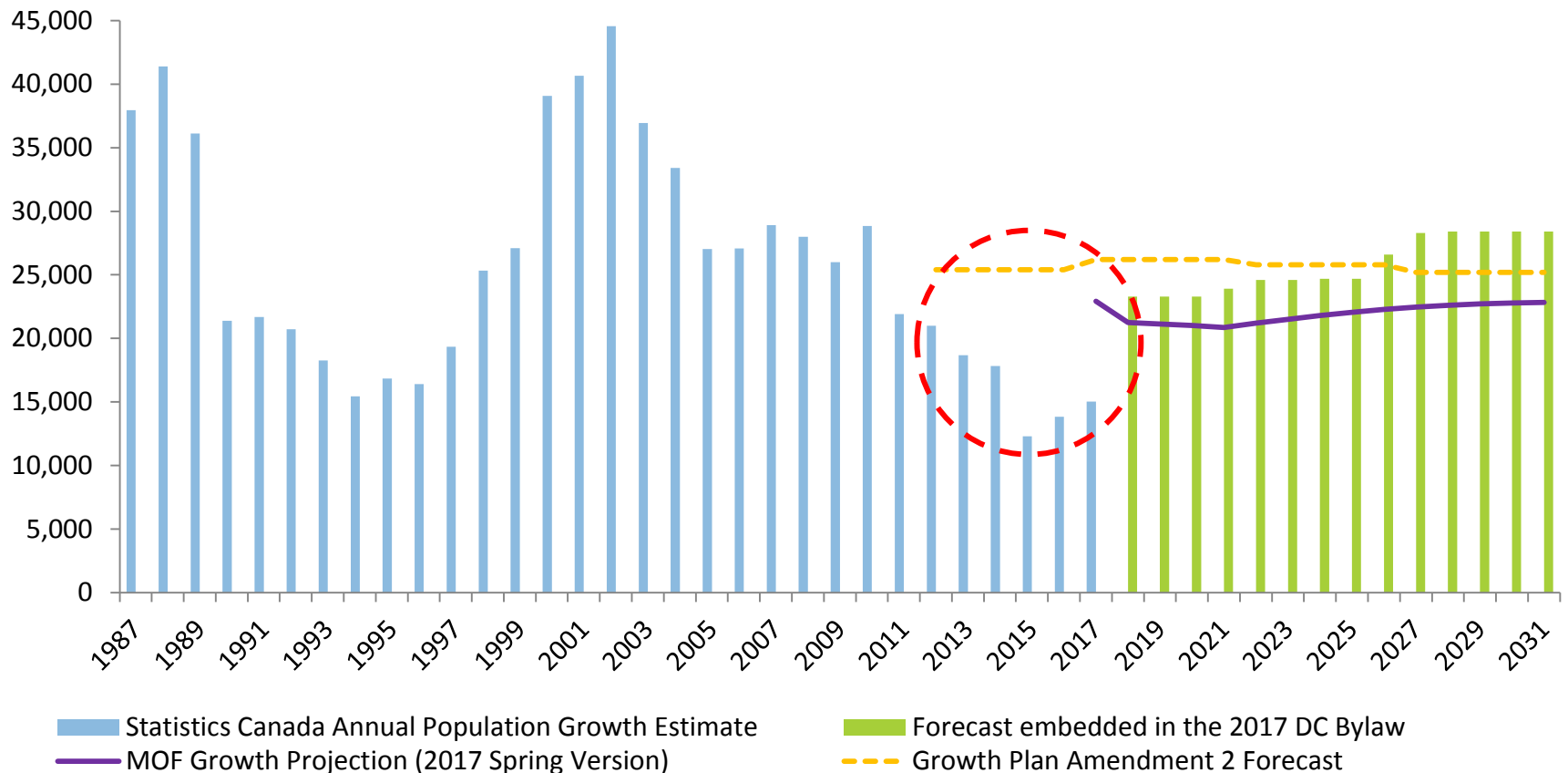
1. A potential disconnect between actual growth and Growth Plan targets
2. The fact that growth does not pay for growth
3. Rising capital intensity and complexity – more large, expensive infrastructure projects
4. Future asset management needs

1. Infrastructure is being built to support the population targets in the Provincial Growth Plan

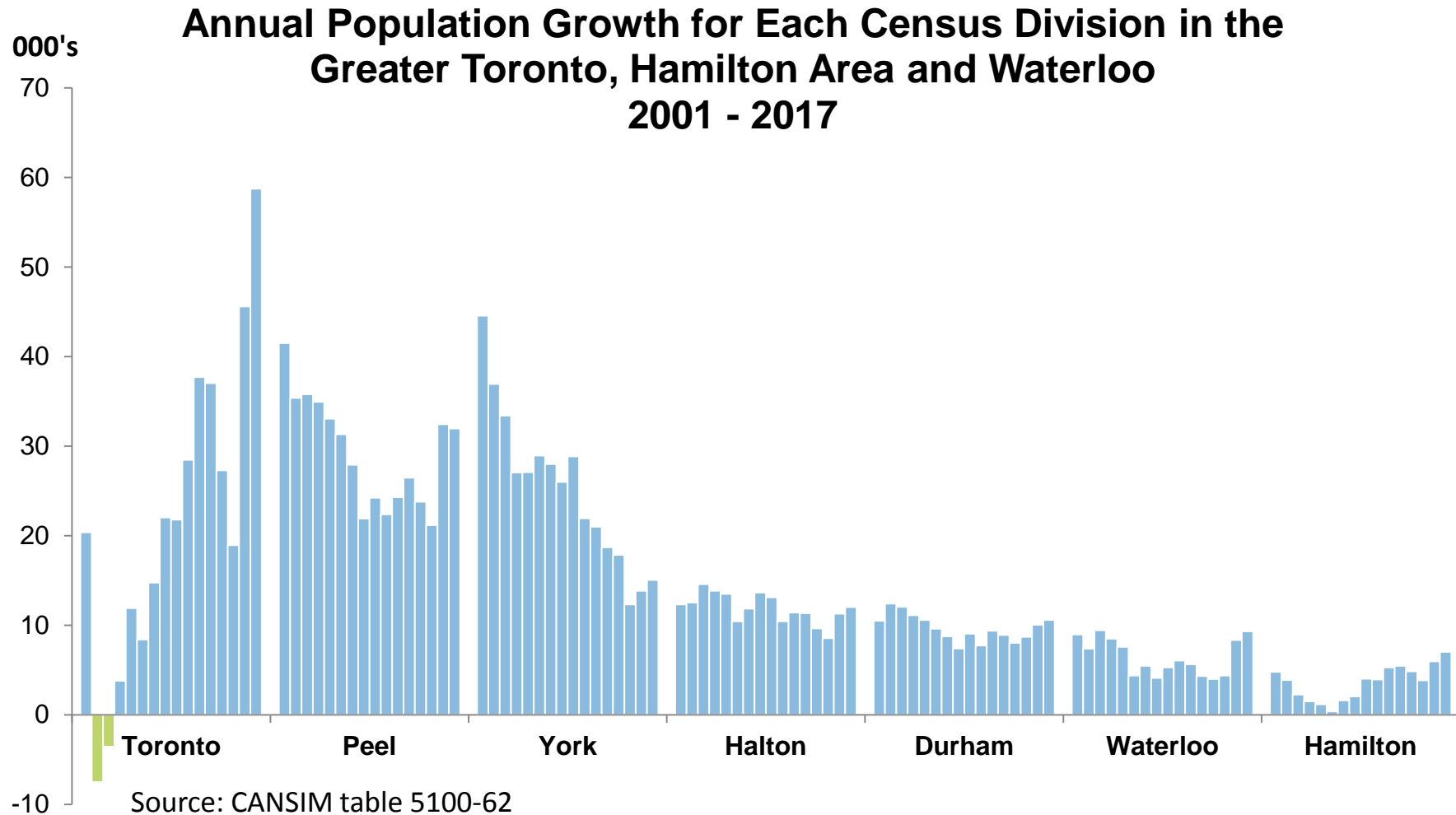


However, there is a potential disconnect between Growth Plan projections and actual population growth

Historic Annual Population Growth Estimate and Forecasted Annual Population Growth



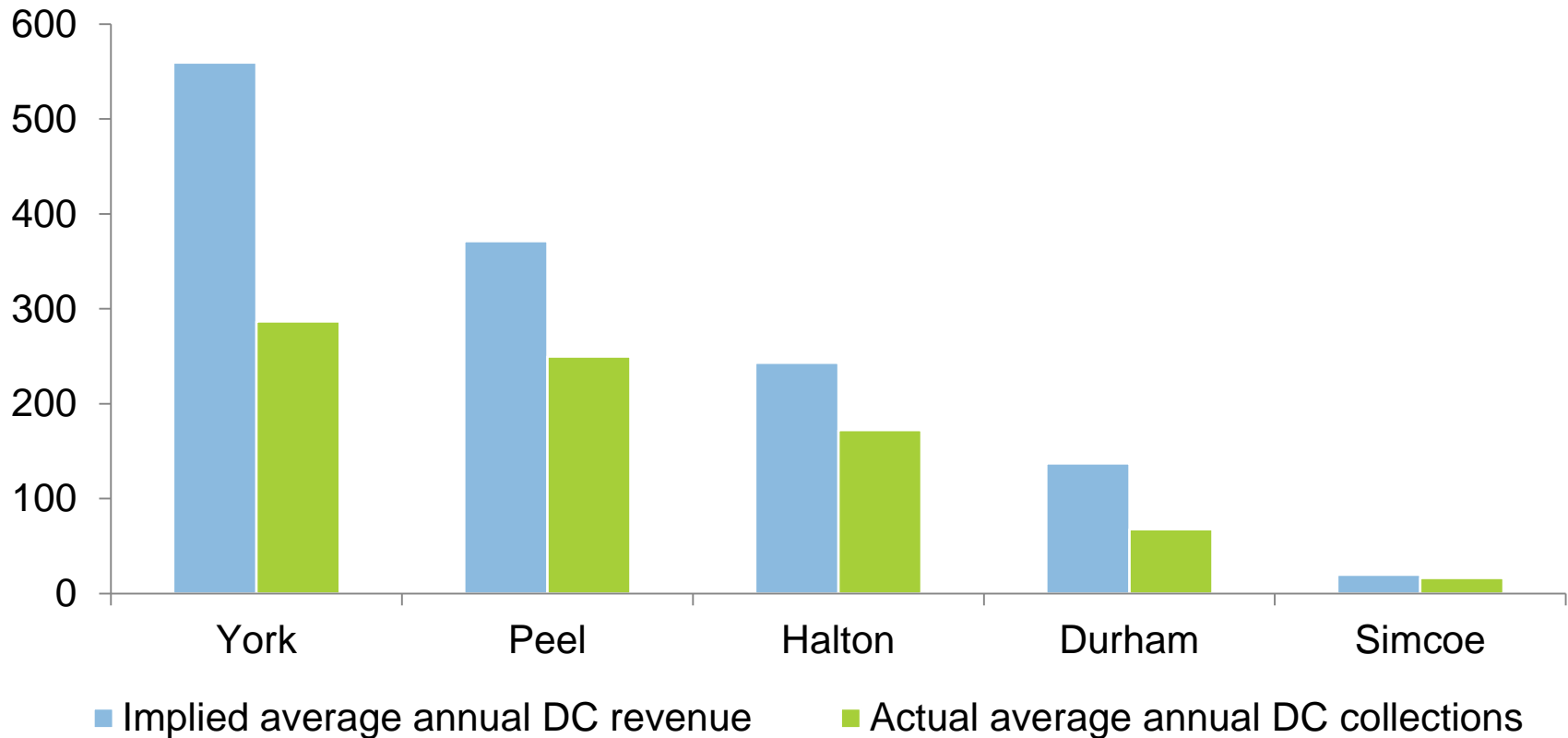
Toronto is capturing an unexpectedly large share of growth



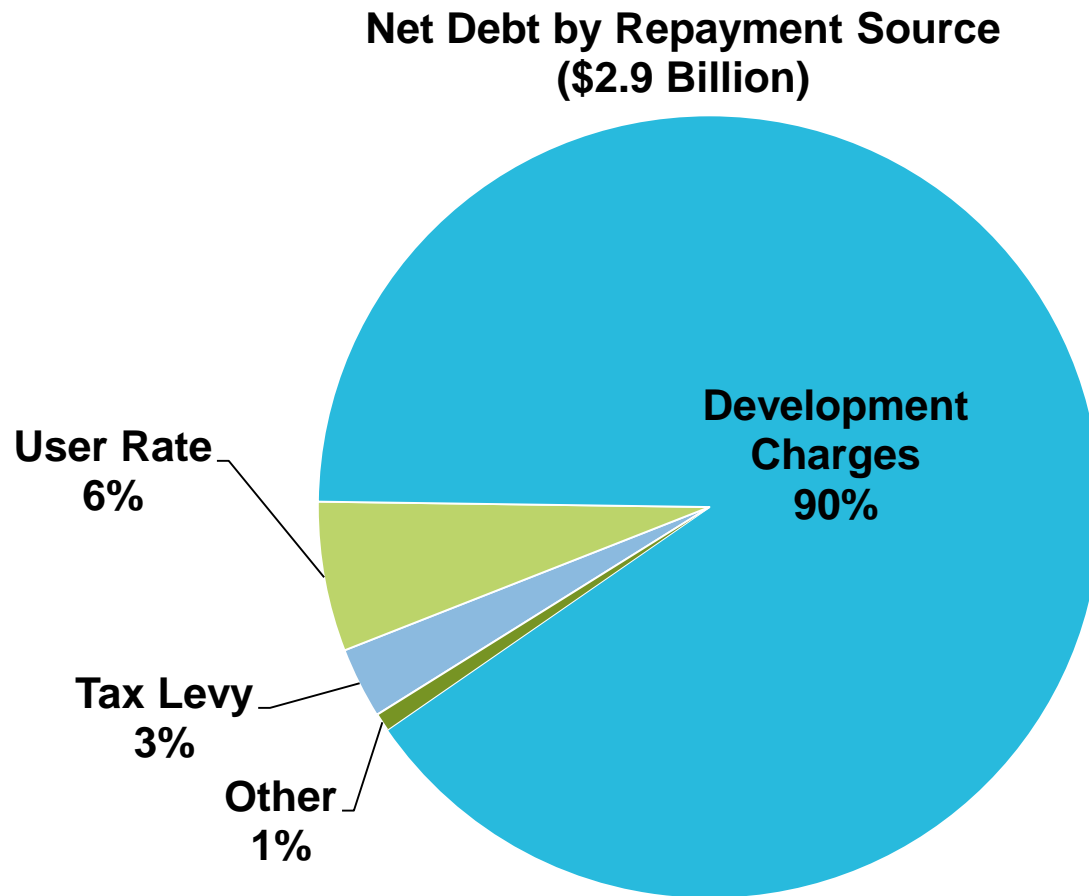
Lower-than-expected growth results in lower-than-expected development charge collections

**Average Annual Development Charge Revenue
Implied vs. Actual (2012-2016)**

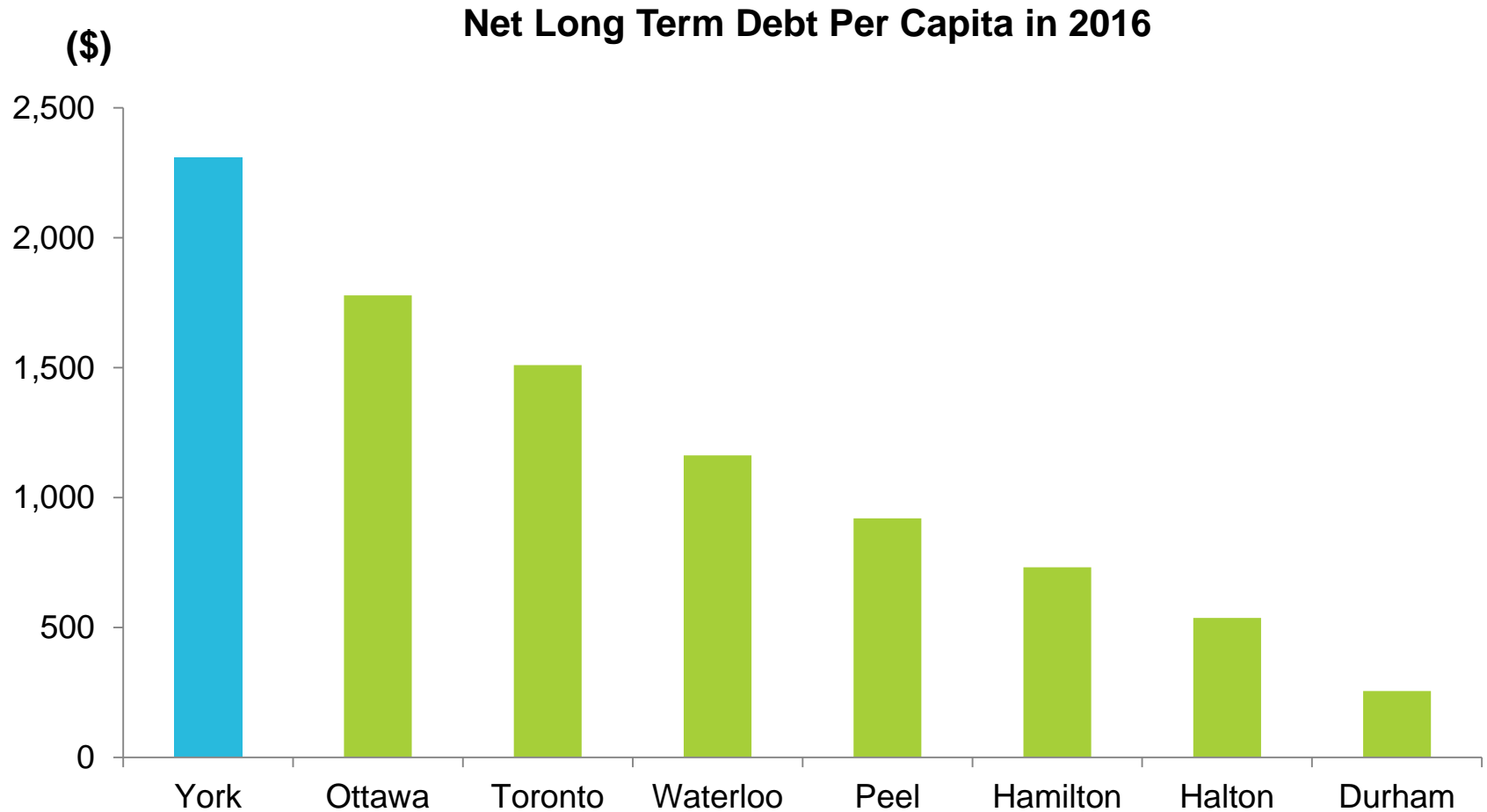
\$ Millions



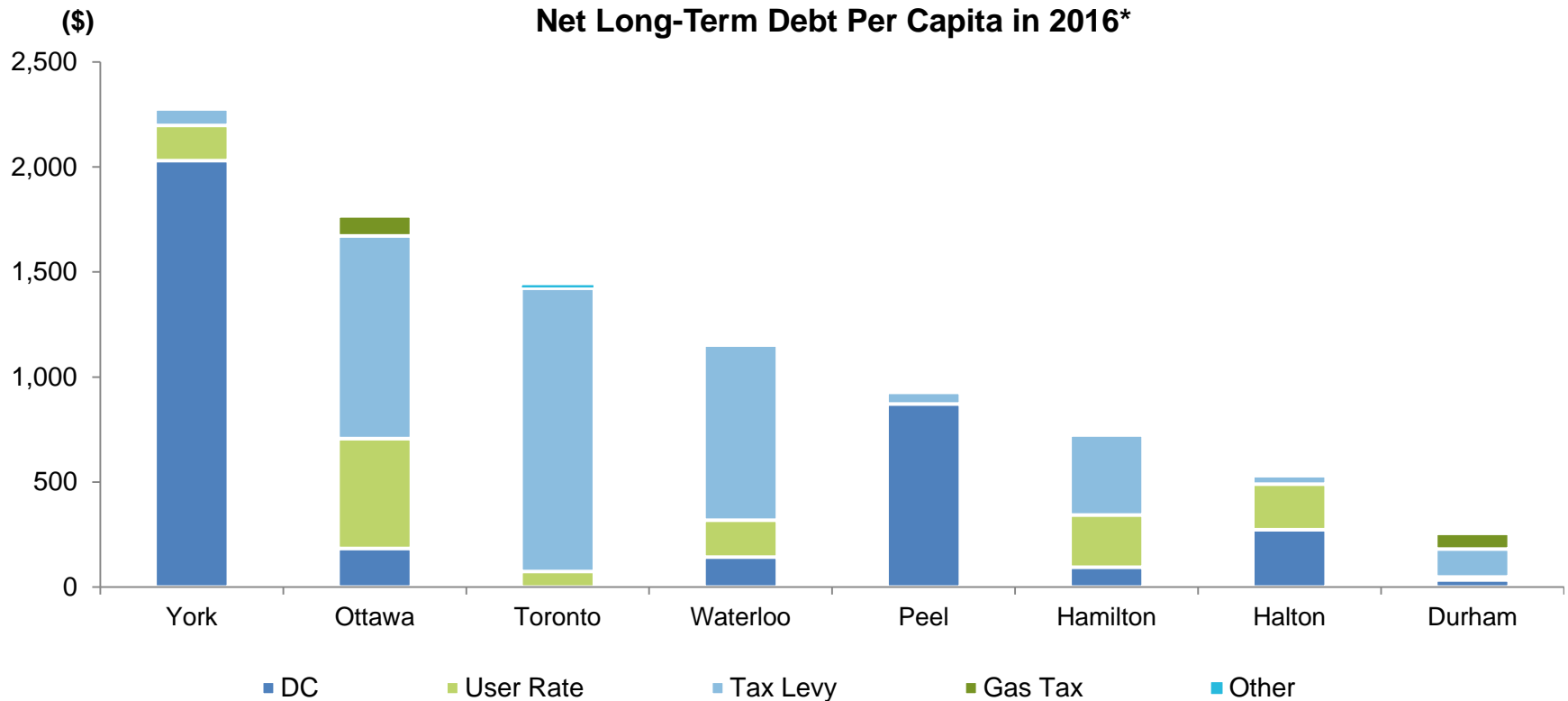
Approximately 90% of the Region's outstanding net debt is development charge debt



While the Region has turned the corner on debt, debt per capita remains relatively high



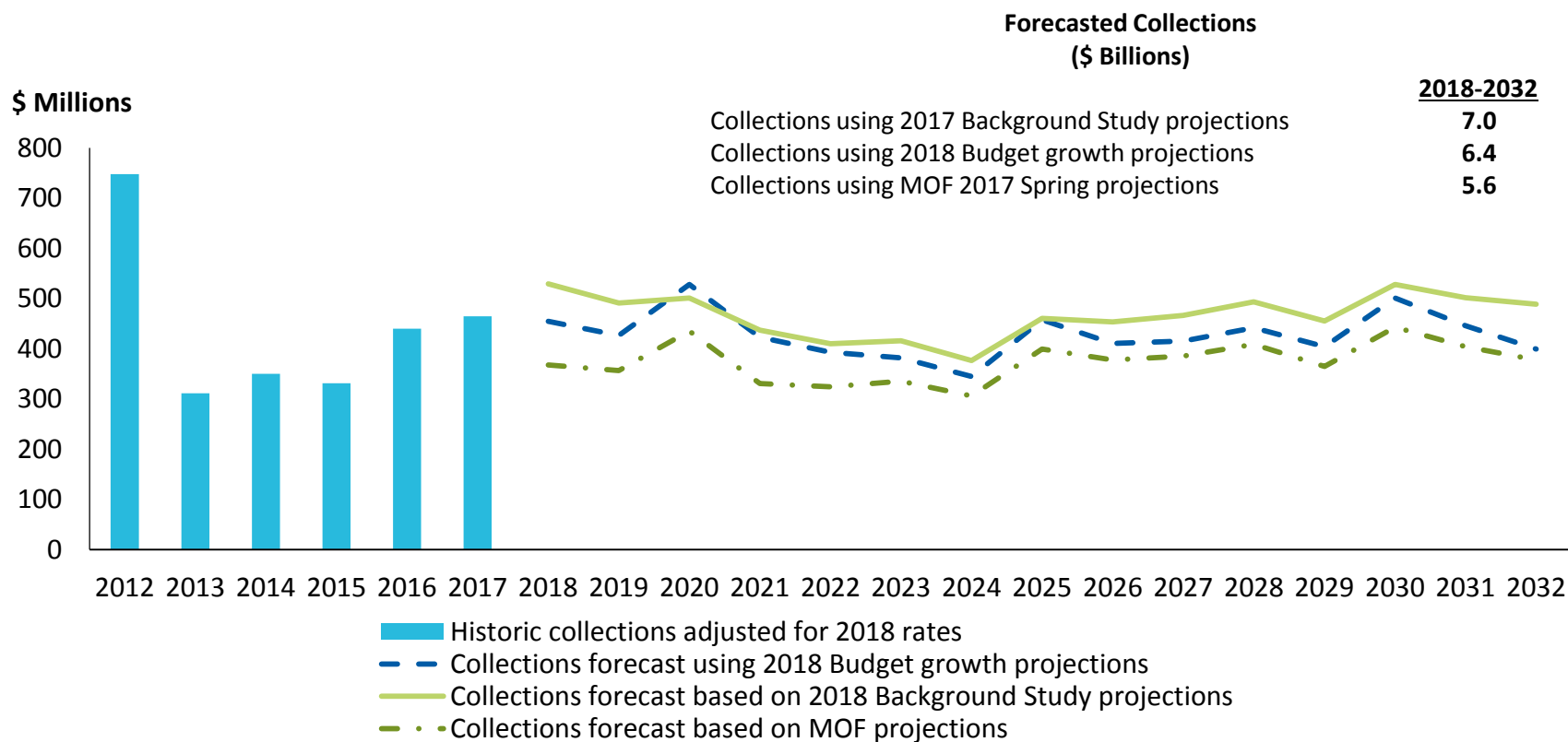
York Region is more reliant on development charge collections to service debt than other municipality



*Debt per Capita by funding source as provided by most municipalities. Amounts exclude social housing related debt and debt assumed by others, including other municipalities and school boards.

Development charge collections vary significantly with the amount of growth

Actual and Forecasted DC Collections

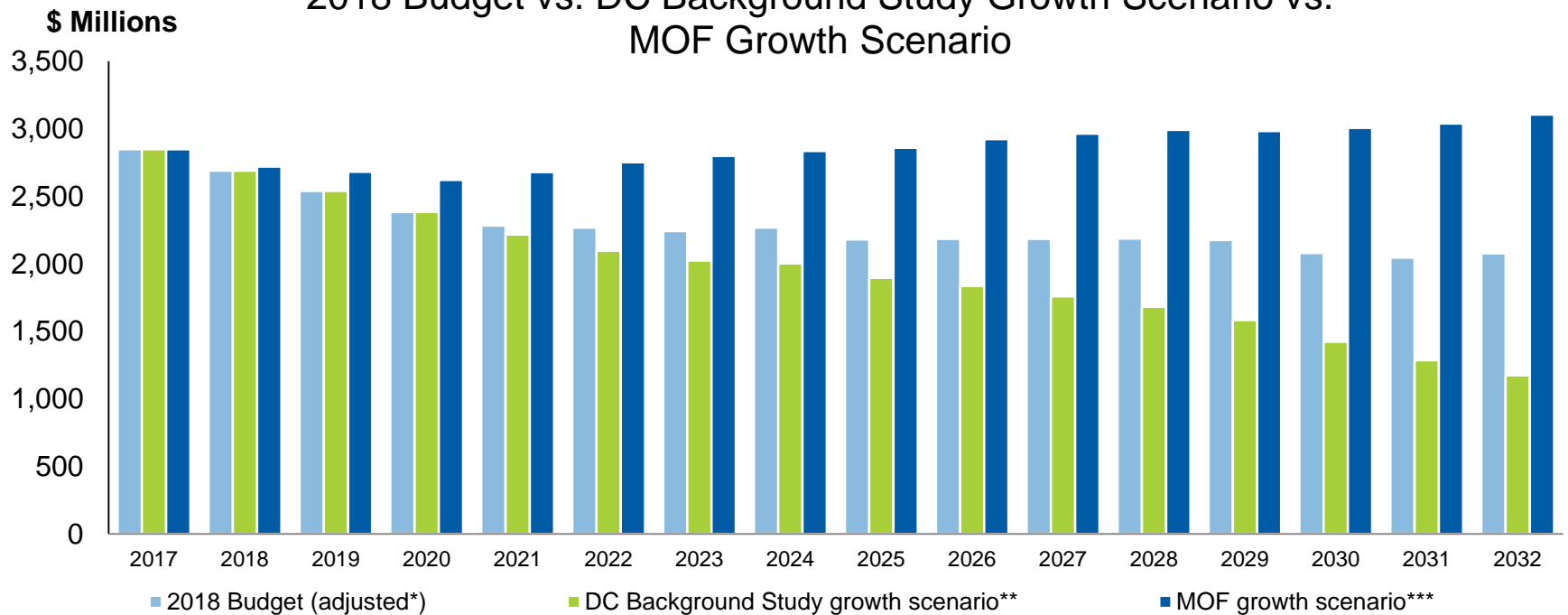


Note: Forecasts account for the impact of exemptions

The Region's ability to reduce debt and maintain the capital plan depends on achieving the level of growth envisaged by the Growth Plan

Outstanding Debt Projection

2018 Budget vs. DC Background Study Growth Scenario vs. MOF Growth Scenario



Note: All forecasts account for impact of exemptions

* Adjusted to include additional road projects from List B plus Steeles Ave. and lower DC Collections

** Includes Steeles Ave. and population growth targets close to Growth Plan

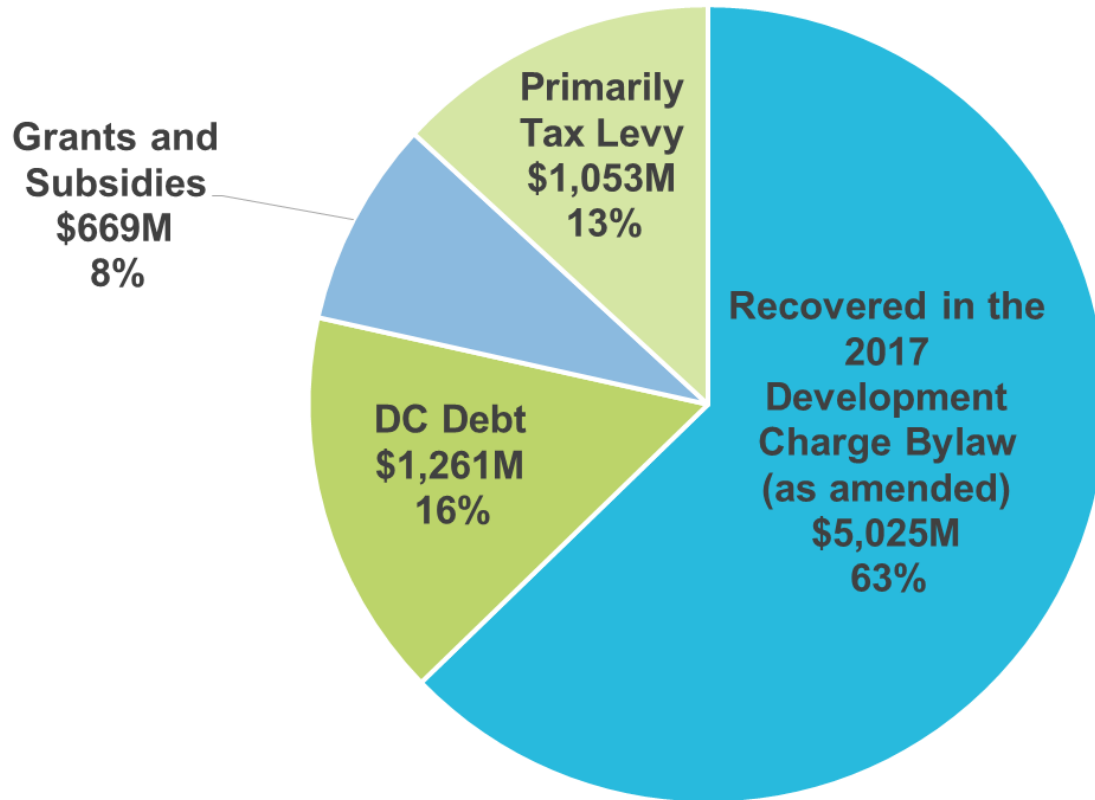
*** Includes additional road projects from List B plus Steeles Ave. and much lower DC Collections according to MOF growth projections

2. Growth does not pay for growth

Non-Development Charge Recoverable Costs	Delayed Recovery of Development Charges	Asset Management Costs	Operating Costs of New Infrastructure
<ul style="list-style-type: none"> • Ineligible services • 10% statutory deduction (for some services) • Benefit to existing deduction • Exemptions 	<ul style="list-style-type: none"> • Post-period benefit • Level of service deductions (for some services) • Development charge deferrals • Exemptions 	<ul style="list-style-type: none"> • Rehabilitation and replacement costs 	<ul style="list-style-type: none"> • Operating and maintenance costs
Impact on:			
Tax levy and user rates	Debt	Tax levy and user rates	Tax levy and user rates

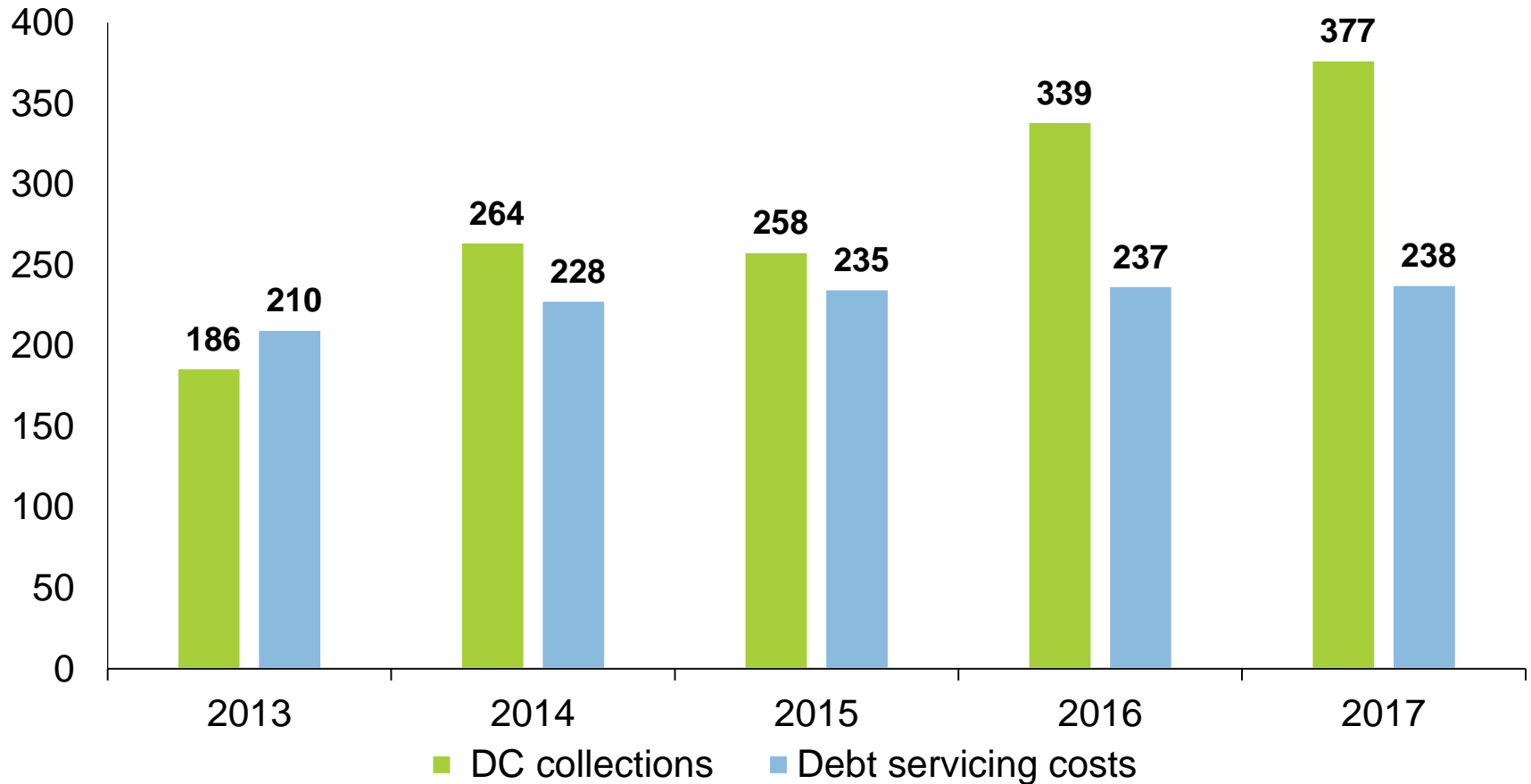
Growth-related infrastructure creates both tax levy and debt pressures

**2017 Development Charge Bylaw (as amended)
Share of Gross Costs to be recovered 2017- 2031
(\$8 Billion)**



Development charge collections service existing debt and help avoid future growth-related debt

\$ Millions

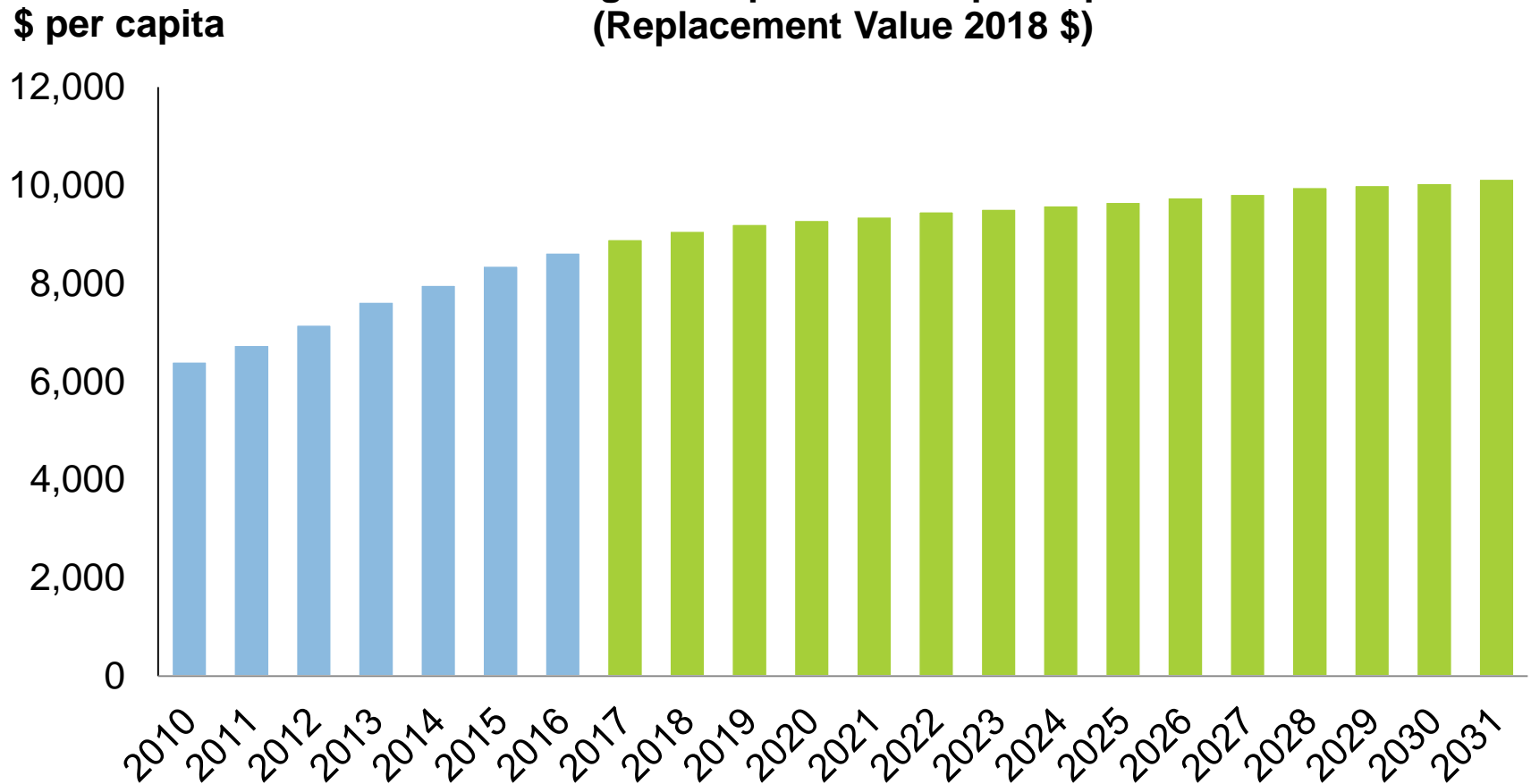


3. As the Region grows and urbanizes, infrastructure needs become more complex, expensive, and subject to elaborate planning and approval processes

Project	Estimated cost (\$ Millions)
Yonge Subway Extension (Construction)	5,100
Bus Rapid Transit Plan (Metrolinx 2041 Regional Transportation Plan)	5,350
Upper York Sewage Servicing	715
Langstaff Road Extension (Crossing the Macmillan CN rail yard)	620

4. The Region's asset base is growing much faster than its population

**Historic and Projected Asset Base per capita
Tangible Capital Assets per capita
(Replacement Value 2018 \$)**



The fiscal gap

There are four components to the fiscal gap, primarily driven by growth

1. Additional revenues to pay for the non-development charge eligible portion of growth-related capital costs
2. Additional reserve contributions to avoid higher levels of development charge debt
3. The Region's share of the cost of large federal-provincial infrastructure projects
4. Asset management needs that cannot be accommodated within a 3 per cent tax levy increase

The Region is facing a fiscal gap of approximately \$220 million annually

Annual Fiscal Gap	(\$ Millions)
Growth-related costs not eligible to be recovered through development charges	69
Annual contribution to development charge debt reduction reserve to avoid debt	60
Regional contribution to federal-provincial infrastructure projects*	69 to 92
Shortfall to accommodate full asset management needs	22
Annual requirement for long-term financial sustainability	220 to 243

Note: Numbers may not sum due to rounding

*For example the Yonge Subway Extension

1. The cost of growth-related projects not eligible to be recovered through development charges results in a fiscal pressure of approximately \$69 million per year
 - The majority of the initial capital costs related to growth projects are eligible to be recovered through development charges
 - However, growth-related infrastructure costs that benefit existing development and the 10 per cent statutory deduction cannot be recovered through development charges

(\$ Millions)	Total: 2018 Budget and 2017 Development Charge Bylaw (as amended)*
Total Non-Development Charge Eligible Costs	1,038
Average Annual Amount	69

*2017 Development Charge Bylaw (as amended) includes the main list projects and Contingency List B projects

2. A Development Charge Debt Reduction Reserve could be used to help manage future debt pressures

- A development charge debt reduction reserve could be established to:
 - Allow additional growth-related infrastructure projects to proceed without adding new debt, if development charge collections materialize according to Growth Plan projections
 - Hedge against lower-than-forecast development charge collections
- The current estimate of annual contributions is \$60 million, with approximately three to five years of accumulation before draws from the reserve are made
 - The development charge debt reduction reserve would be similar to the existing tax-levy debt reduction reserve
 - Draws on the reserve would be repaid through future development charge collections

3. The Region's share of the Yonge Subway Extension amounts to over \$1 billion

- The Regional share of the Yonge Subway Extension project is expected to create a financial pressure of \$69 million to \$92 million per year

(\$ Billions)	York Region's Contribution Assuming Toronto is <u>NOT</u> paying for its portion	York Region's Contribution Assuming Toronto is paying for its portion
York pays for 27%	1.38	1.03

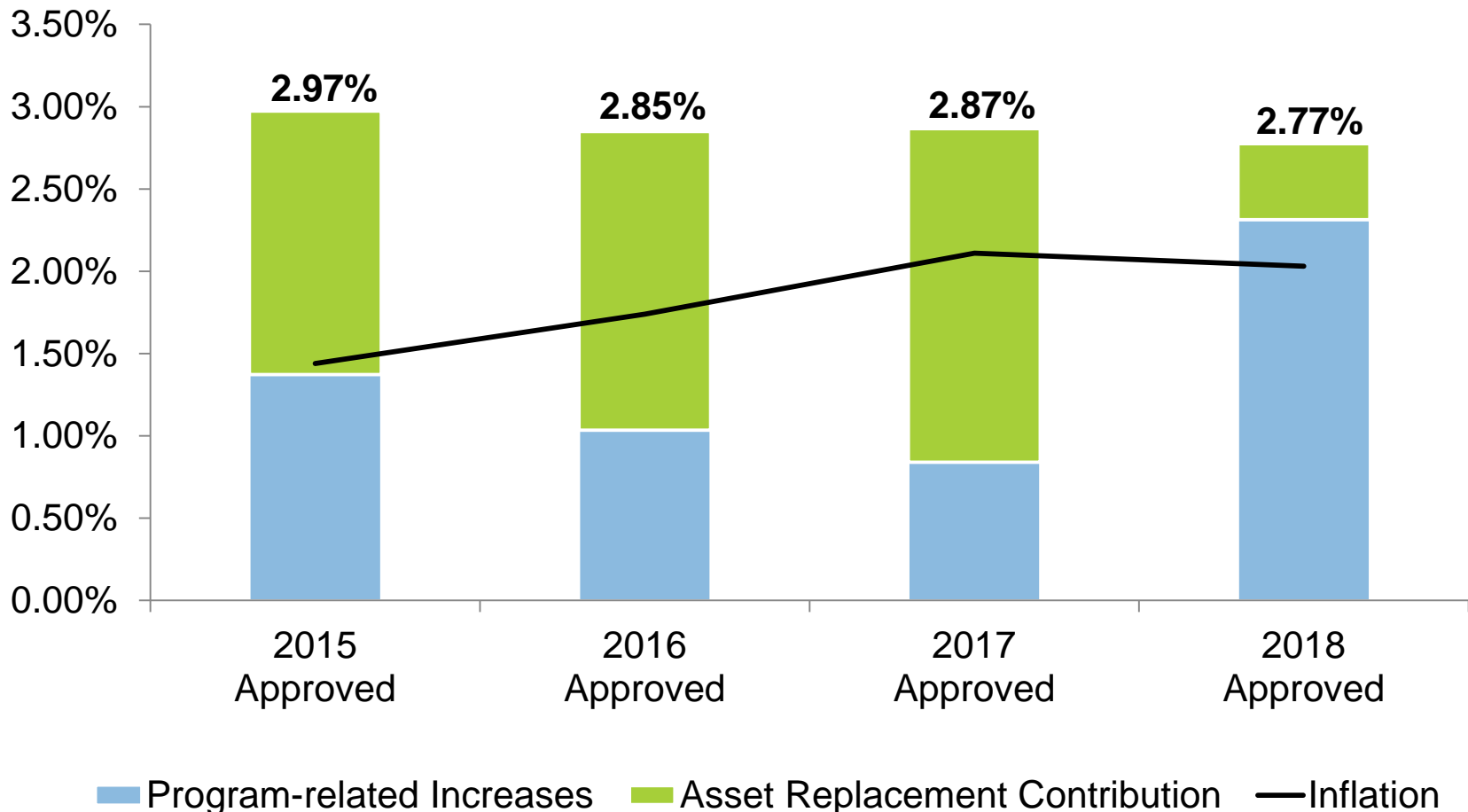
4. Fully funding asset management needs will put additional pressure on the tax levy

(\$ Millions)	Total: 2018 Budget and 2017 Development Charge Bylaw (as amended)
Full asset management needs (Replacement value basis)	224
Minus Needs supported by tax levy increases capped at three percent	202
Average Annual Shortfall	22*

*Note: Numbers may not sum due to rounding. The full asset management needs incorporate current estimates of asset management requirements for existing assets and growth assets

Regional spending has been well controlled, enabling contribution to asset replacement reserves

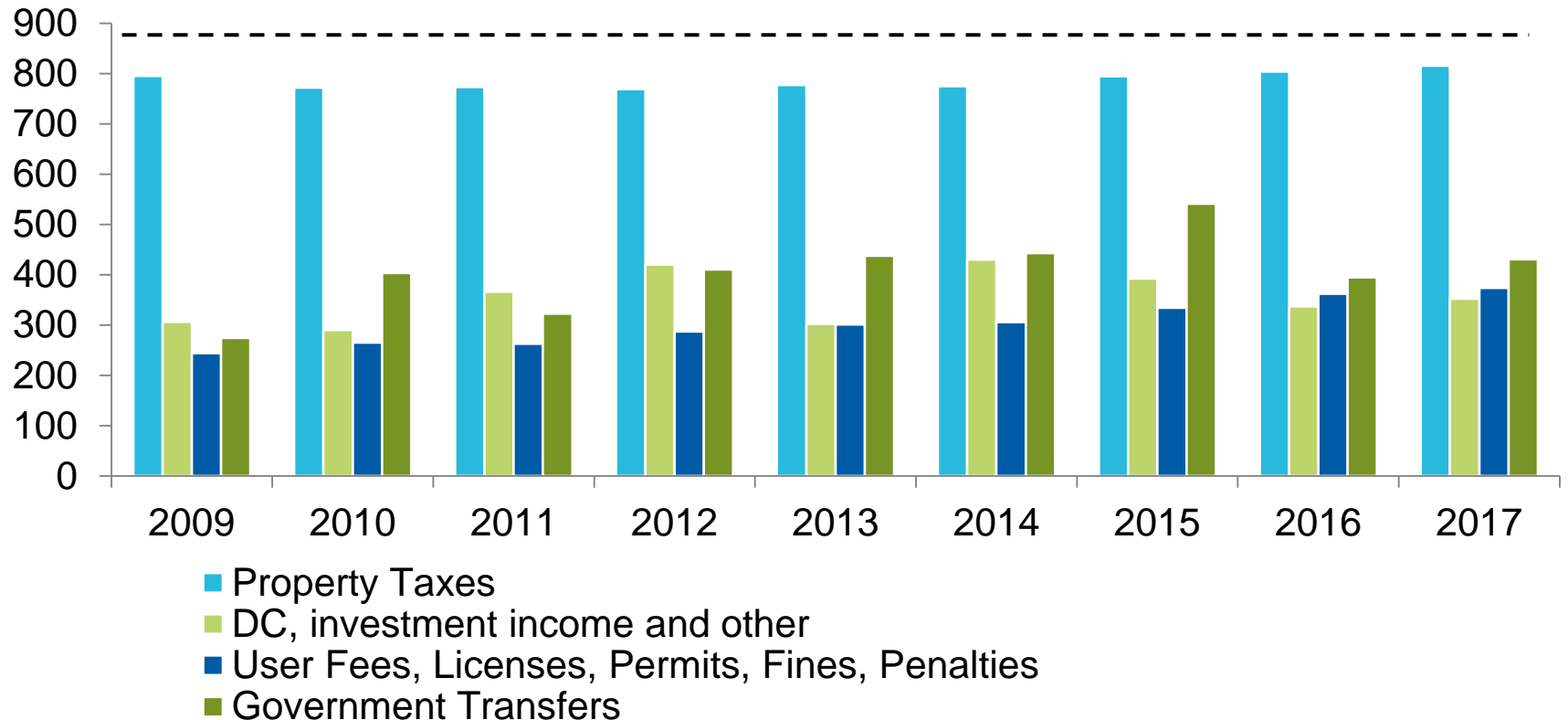
Program Spending and Asset Replacement Contribution (2015 – 2018)



On a real per capita basis, property tax increases stayed almost flat, while service levels increased

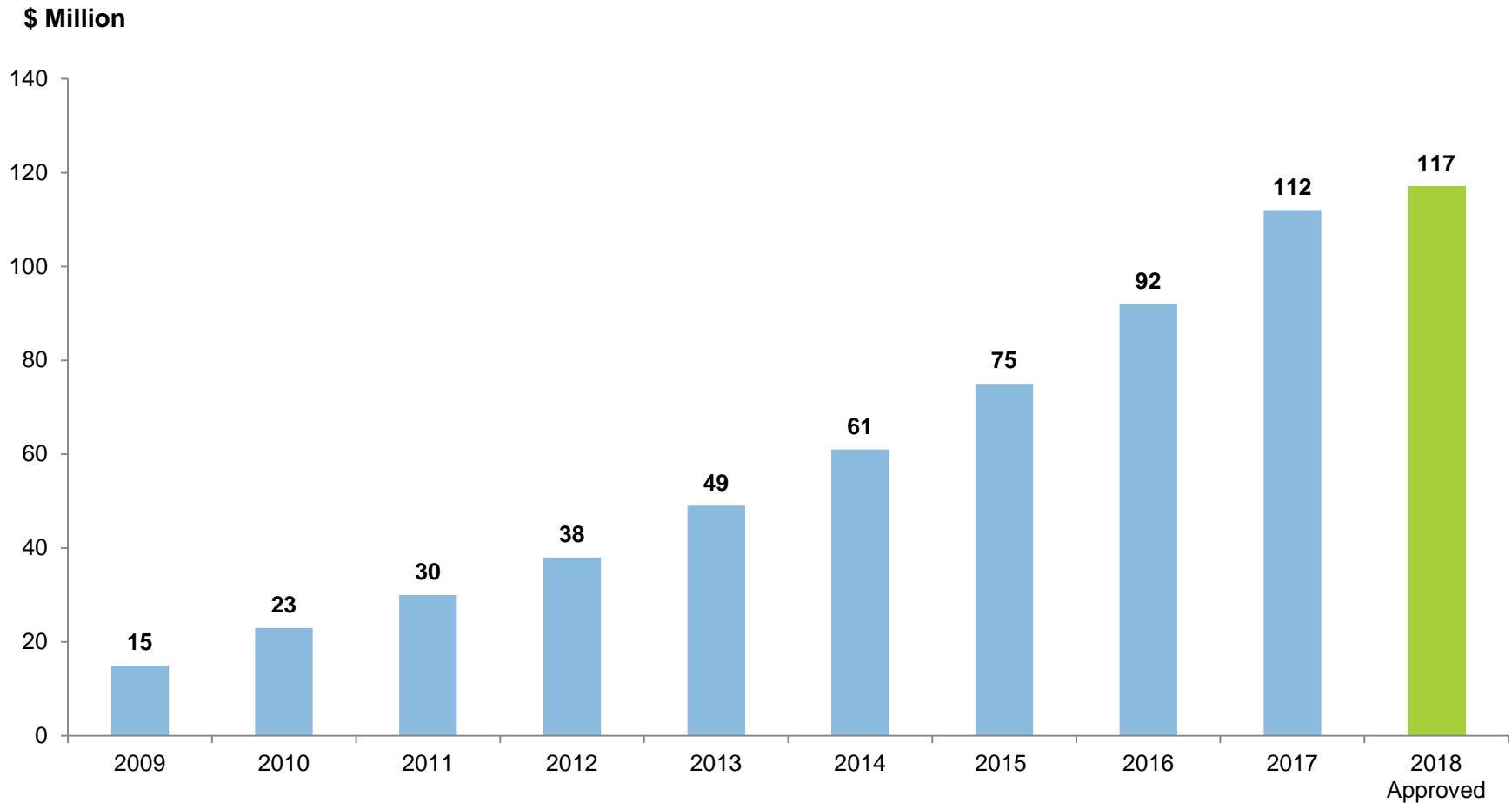
York Region Revenues, real per capita (2011\$ per capita)

\$ per capita



Source: Financial Information Returns, CANSIM Tables 051-0062 and 362-0021
Meeting Growth Plan Infrastructure Demands and
Financial Sustainability: 2018 Update

Asset replacement reserves will need to continue to grow



The asset management gap could be addressed with tax increases above three percent

- Full asset management funding is calculated based on current replacement values, life cycle events over the expected life of each asset class, and inflation
- Current fiscal modeling for the 2019 to 2022 multi-year budget includes an annualized 5 per cent per year increase in asset management reserve contributions
- This is not enough to fund all asset management needs
- Additional tax levy increase of 0.6 per cent above the 3 per cent cap would be needed each year from 2019 to 2022

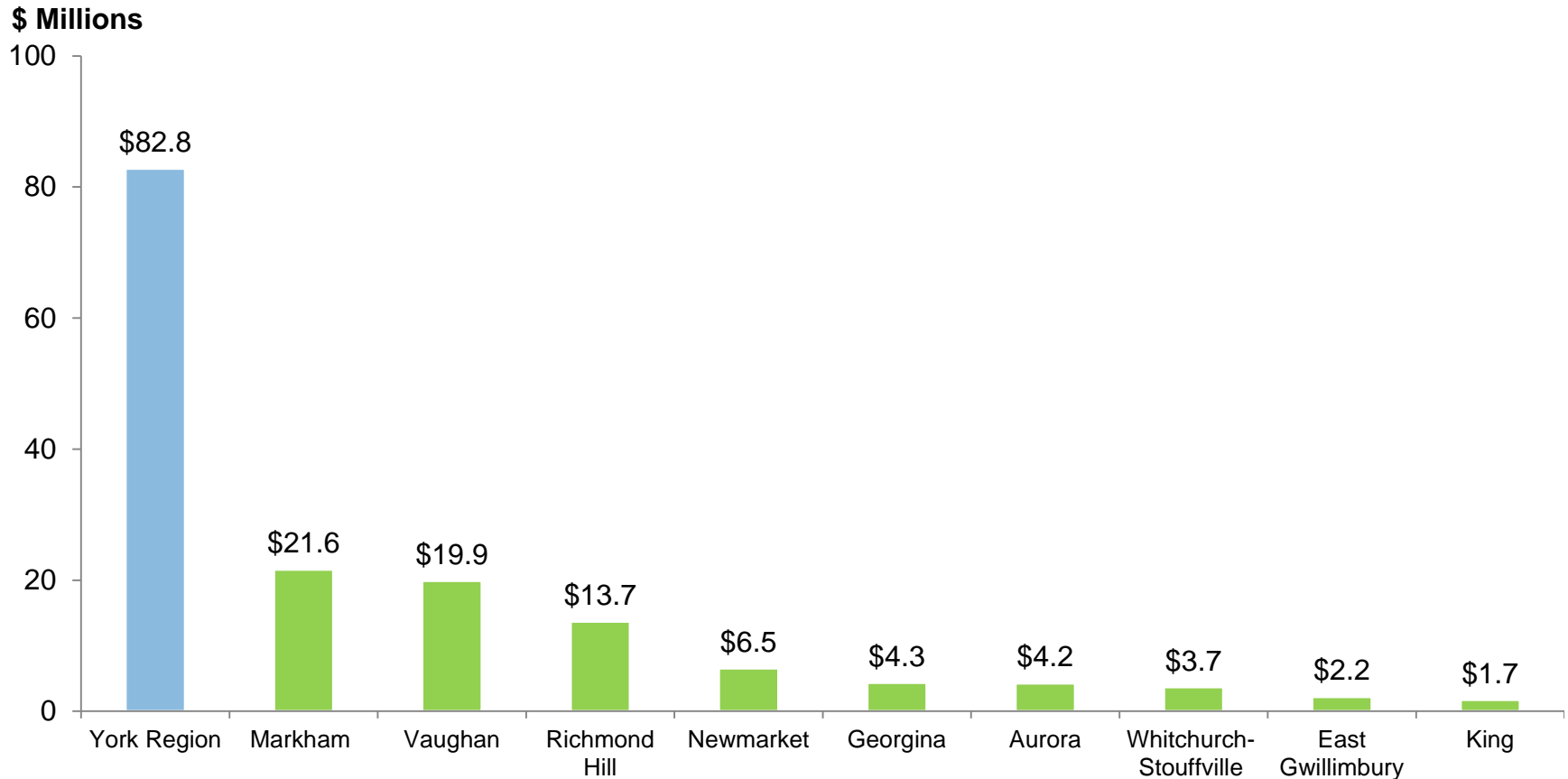
Increasing revenues

AMO's Local Share is a proposal for transfer payments from the Province

- In August 2017, AMO launched the “Local Share” campaign to seek a share of HST revenues for municipal infrastructure
- A one percentage point increase on the HST could generate \$2.5 billion annually net of administrative costs and rebates
- AMO suggests that municipal accountability for the revenue would be provided through municipal asset management plans and long-term capital plans

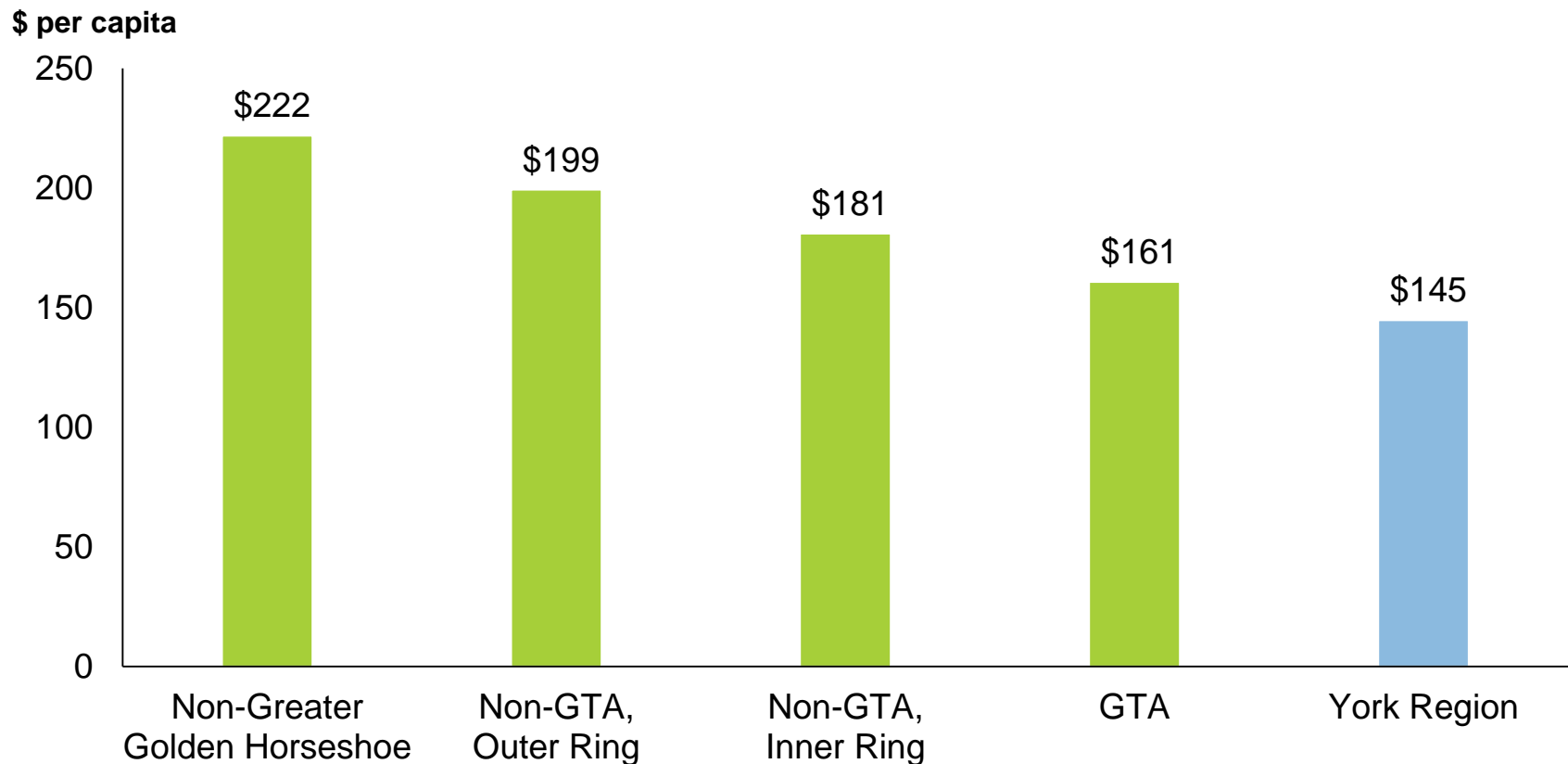
AMO's Local Share campaign is unlikely to generate sufficient revenues to address the Region's needs

AMO Local Share, estimated annual allocation



On a per capita basis, York Region's overall allocation is among the lowest

AMO Local Share funding per capita
(upper and lower tier total for two tier jurisdictions)



The province is unlikely to concede major fields of revenue to municipalities

- The Province's fiscal plan remains challenging
 - Annual Provincial program expenditures have been decreasing on a real per capita basis and are now slated to increase moderately
 - The Provincial government has been running deficits and accumulating significant debt
 - The Province will be challenged to pay for increasing health care needs
- The Province will be reluctant to cede its big revenue generators to municipalities

Substantial revenues could be raised using *City of Toronto Act, 2006* taxing powers

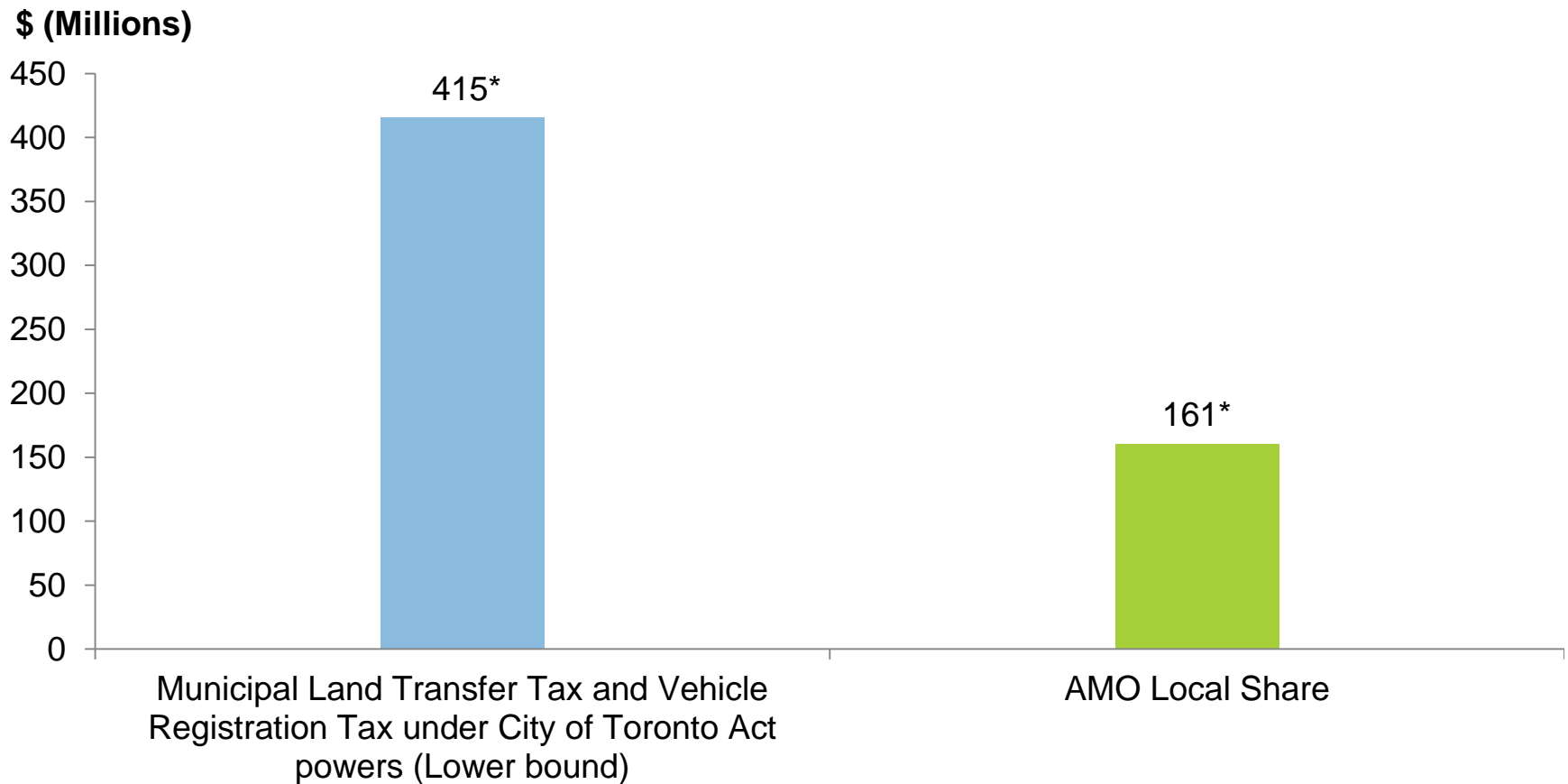
- The *City of Toronto Act, 2006* provides a number of revenue-raising powers including:
 - Municipal Land Transfer Tax
 - Personal Vehicle Registration Tax (implemented and later repealed)
 - Third Party Sign Tax (Billboard Tax)
 - Alcohol, Parking Levy, Tobacco and Amusement Taxes (not implemented)

<i>City of Toronto Act, 2006</i> revenue raising power*	Annual potential for York Region (\$ Millions)**
Municipal land transfer tax	350 – 430
Vehicle registration tax	65 - 80
Total	415 - 510

*Note: Revenue raising powers with the greatest revenue potential are evaluated for the purposes of this analysis

** Revenue estimates do not account for administrative costs and potential rebates

The revenue potential of *City of Toronto Act, 2006* taxing powers significantly exceeds the AMO Local Share



*Numbers have been rounded

Should new revenue-raising powers be granted, Regional Council would be accountable

- Regional Council would be accountable for:
 - Deciding which taxing powers to implement
 - Setting tax rates and policies
 - Deciding how to use revenues

New revenues could be dedicated to infrastructure

- Fund the non-development charge recoverable portion of growth-related capital
- Creation of a Development Charge Debt Reduction Reserve
- Fund the municipal share of large federal-provincial infrastructure projects
- Address future unmet asset management needs
- Invest in infrastructure that is not development charge eligible or mostly ineligible (e.g., housing)

New revenues could be shared with local municipalities

- Council can decide whether and how new revenue sources could be shared with local municipalities
- There would be two key decisions:
 1. How to share between the Region and local municipalities
 2. How to allocate the local portion among the local municipalities

Revenue sharing between the Region and local municipalities could be based on capital responsibilities

- A formula-based approach would provide greater transparency and certainty for local municipalities
- A formula based on capital responsibilities would tie the share of revenues to the degree of capital-related needs
- Possible measures could include any or a combination of the following:
 - Size of historical capital budgets or actual historic capital spending
 - Replacement value of infrastructure
 - Overall growth-related infrastructure responsibilities
 - Growth-related portion of capital plans not eligible for development charge recovery

Advocating for *City of Toronto Act, 2006* revenue-raising powers will require consistent efforts over a number of years

Timeframe*	Touchpoint
Q4 2018	Council transition documents
2019	As part of the multi-year budget process
	Financial Sustainability update (Council report)
	As part of the Municipal Comprehensive Review
2020	As part of the 2020 Development Charge Background Study (update)

*Note: Dates are tentative and subject to change

Summary of recommendations

Summary of recommendations

It is recommended that:

1. Council endorse the principle that the infrastructure required to meet Provincial Growth Plan directions requires that the revenue-raising powers currently only available to the City of Toronto be extended to York Region and other Growth Plan municipalities who request it
2. The Chairman, once again, appeal to the Province regarding the continued need for *City of Toronto Act, 2006* revenue-raising powers

Summary of recommendations continued

It is recommended that:

3. The Regional Clerk circulate this report to:
 - The local municipalities
 - The Association of Municipalities of Ontario (AMO), Mayors and Regional Chairs of Ontario (MARCO), the Large Urban Mayors Caucus of Ontario (LUMCO), and the Municipal Finance Officers' Association of Ontario (MFOA)
 - The Minister of Finance and the Minister of Municipal Affairs
 - The local Members of Provincial Parliament
 - The Building Industry and Land Development Association (BILD)
 - All upper and single tier municipalities covered by the Provincial Growth Plan