ATTACHMENT 8

REGIONAL OFFICIAL PLAN FISCAL IMPACT ANALYSIS

JUNE 2022

York Region

Fiscal Impact Analysis

Prepared for the 2022 Regional Official Plan

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Executive Summary

York Region undertook an update of its Regional Official Plan. Over the next 30 years, the Region is projected to welcome 790,000 new residents and add 341,000 jobs. This fiscal impact analysis is one component of the Region's Official Plan update. It examines the fiscal impact of the capital, operating and asset management needs to support the planned growth to 2051. This fiscal impact analysis is grounded in the Region's proposed Official Plan (ROP), infrastructure master plans, capital and operating budgets, asset management plans and the 2022 Development Charges Background Study and Bylaw. The fiscal impact analysis for ROP is one among many financial assessments prepared by the Region.

Key Findings

- Over the next 30 years, almost $20 billion of growth-related infrastructure is needed to support population and employment growth envisaged by the proposed Regional Official Plan. This includes significant investments to add water and wastewater capacity, enhance the Region's roads and higher-order transit network, and improve housing services. The Region's share of these costs is about $15 billion.
- Regional infrastructure is often required in advance of growth taking place. Almost 40% of the total gross expenditures would need to take place in the first 10 years of the horizon, while less than 30% of the growth is anticipated to happen during that time.
- A combination of development charges, user rates, tax levy, and grants, subsidies and contributions from other orders of government would be required to fund growth-related investments. About 63% of the $20 billion growth-related infrastructure costs would be eligible to be funded by development charges and 12% by tax levy. About a quarter of the gross capital costs are anticipated to be funded by other levels of government. Continued advocacy is needed to secure senior government cost sharing for major investments including higher-order transit and housing development.
- Growth-related infrastructure comes with initial tax levy costs as well as long-term asset management needs. Maintaining existing and new infrastructure in a state of good repair will require increases to our contributions to capital reserves. An estimated 0.6% incremental tax levy increase would be required each year to fund the ROP.
- The Region's water and wastewater systems (existing and planned) are projected to remain financially sustainable. The water and wastewater servicing needs to accommodate the growth envisaged in the Regional Official Plan can be accommodated within the Council approved rate increases in the 2021 User Rate Study.
- Development charges debt is a necessary tool to bridge the time between when growth-related expenditures occur and when development charge collections are realized. To finance the required growth-related infrastructure, $5.8 billion in new development charges debt would be required over the next 30 years. Careful management of the 10-year capital

plan and associated debt level will be required to help ensure the Region maintains AAA credit rating.

- The Region's financing needs are highly sensitive to the pace of development charge collections and capital expenditures. If growth is 20% below forecast over the next 10 years, the Region's debt needs could increase up to $9 billion. This level of elevated debt could result in a credit rating downgrade within the next 5 years. Therefore, aligning infrastructure investment to the actual pace of growth is key to ensuring the level of debt remains manageable.

York Region's approach to growth management integrates land use planning, infrastructure planning and delivery, and financial sustainability objectives. The path to long-term financial sustainability requires the careful balancing of three elements: capital investment, debt and reserves. The Region is well positioned to support the growth and intensification envisaged in the proposed Official Plan. However, given the magnitude and timing of the required infrastructure investments, there are financial challenges and risks.

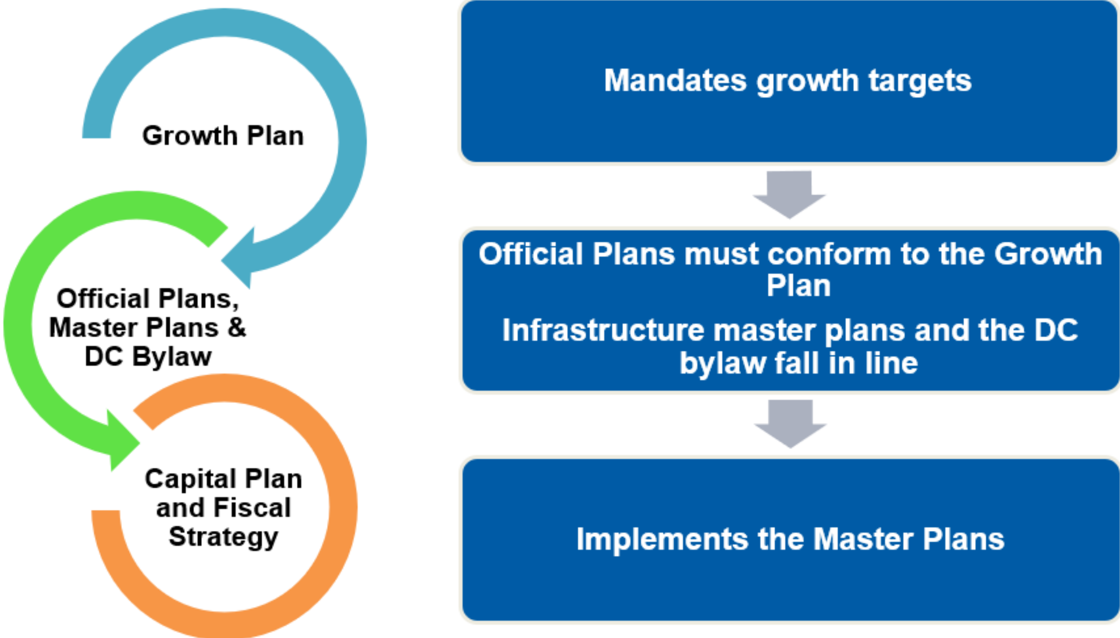
To ensure growth can be affordable and occur in complete communities, capital investments will need to be more closely aligned with the timing and location of actual growth and collection of development charges revenues to pay down debt for existing infrastructure prior to investing in additional infrastructure. The Region will continue to exercise strong fiscal discipline through the annual budget process to deliver on regional priorities in a fiscally responsible manner.

1. An Integrated Approach to Growth Management

In August 2020, the Province updated the Growth Plan's population and employment forecasts for municipalities across the Greater Golden Horseshoe (GGH) and extended the planning horizon from 2041 to 2051. York Region has been allocated a minimum target of 2.02 million people and 990,000 jobs by 2051. Provincial Growth Plan policies and the Provincial Policy Statement require municipalities to plan for growth in a financially sustainable manner, and that public infrastructure are financially viable over their full life cycle.

To support growth to 2051, an integrated growth management approach to land use planning and infrastructure delivery is required to manage the capital plan, infrastructure master plans and align with the objectives of the Council-approved Fiscal Strategy, which has been in place since 2014 and updated annually. The schematic below shows an approach for integrated land use planning and infrastructure delivery.

Figure 1. Approach for integrated land use planning and infrastructure delivery



The Region's Municipal Comprehensive Review (MCR) was undertaken using a comprehensive, collaborative and iterative approach aligning land use, infrastructure and financial planning to coordinate population allocation and staging of development with additional infrastructure provision. Under this approach, infrastructure capacity and timing considerations play a prominent role in allocating provincial growth forecasts for York Region to the local municipalities.

The proposed Regional Official Plan (ROP) policies are intended to manage growth in a fiscally sustainable way, in part by aligning investment in infrastructure with actual pace of growth through phasing. Inherent in the policy framework is that financial well-being is achieved through

the creation of “complete communities”, typified by a compact urban form, transit-oriented development, and a diverse mix of land uses, including residential and employment uses.

The Water and Wastewater Infrastructure Master Plan, Transportation Master Plan and the 2022 Development Charge Background Study and Bylaw, have been developed concurrently and are integrated with the Municipal Comprehensive Review. The Regional Fiscal Strategy, updated annually as part of the budget process, helps the Region achieve its long-term goals by carefully managing three key financial elements: capital investments, reserves and debt.

1.1 The Purpose of the Fiscal Impact Analysis

A fiscal impact analysis was completed as a part of the current Regional Official Plan update. The main purpose of this analysis is to assess the short and long-term fiscal impact of the proposed magnitude and timing of residential and non-residential growth envisaged by the Region’s Official Plan.

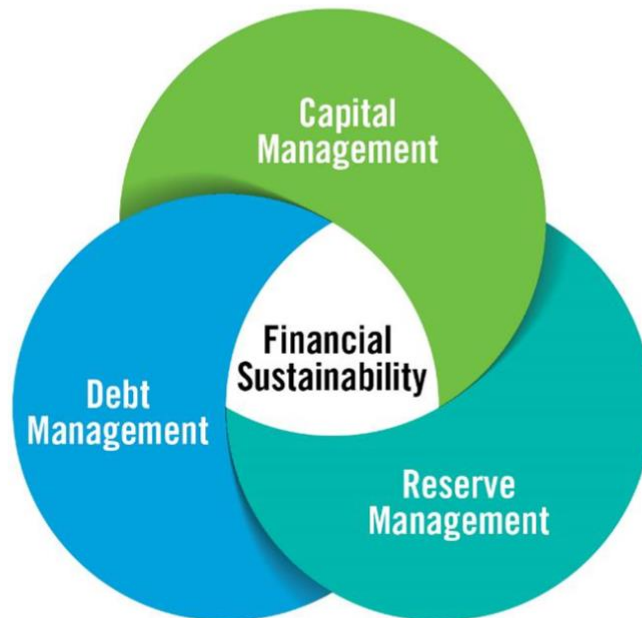
The study includes analysis of:

- Regional infrastructure required to meet growth-related servicing needs to 2051
- Asset management needs for current and growth-related infrastructure over a 100-year horizon
- Operating costs for programs and services, as well as the net operating impact of growth-related capital
- Funding sources, including tax levy and user rate revenue requirements
- Tax levy and user rate reserve adequacy
- Financing growth-related infrastructure, and the impact of growth not materializing as planned

1.2 Principles of Financial Sustainability

Financial sustainability is about making financial decisions using a long-term lens. Being financially sustainable means that the Region can keep the cost of growth affordable while maintaining its existing infrastructure in a state of good repair. It also means the Region can keep its AAA rating, treat each generation of tax and rate payers fairly and preserve fiscal flexibility in the face of changing needs. From a York Region perspective, applying the principles of long-term financial sustainability requires the careful balancing of three elements: capital investment, debt and reserves.

Figure 2. Elements of financial sustainability



1. Balancing the current and long-term investments of the Region by:
    - Managing the capital plan, which sets priorities among infrastructure projects to better align with the expected timing of growth
    - Making adequate investments to ensure capital assets are maintained in a state of good repair

2. Securing sustainable financing to bridge the gap between the time of capital investments and the availability of associated development charge collections
    - Using debt financing prudently to ensure debt can be repaid from future revenues
    - Maintaining a strong credit rating
    - Reducing the reliance on debt

3. Saving for the future by building up reserves to treat current and future tax and rate payers fairly
    - Ensuring benefiting users pay for the services they are provided and no generation is worse-off due to the actions of other generations; making sufficient contributions to reserves as assets are consumed supports the principle of inter-generational equity
    - Ensuring adequate reserves are in place to pay for asset management spending without the need to issue new tax levy or user rate debts
    - Maintaining adequate reserves to provide fiscal flexibility in responding to the Region's evolving needs and economic changes

These elements are embedded within and aligned with the objectives of the Regional Official Plan. The Regional Official Plan includes policies that emphasize an integrated and phased approach to managing growth such that land use, financial and infrastructure planning achieve compact development patterns, promote the development of complete communities, optimize investments, provide for environmental sustainability, and minimize land consumption and servicing costs. Regional infrastructure required to support growth to 2051 is to be phased by leveraging existing infrastructure investments, phasing new development and infrastructure with the ability to recover development charge collections and grow in a financially sustainable manner.

Guided by these principles, Regional Council has made key decisions that support the objective of long-term financial sustainability. These include:

- An annually approved Fiscal Strategy that reduces the Region's reliance on debt, increases savings for future capital asset management, and ensures active management of the Region's 10-year capital plan to better align the timing and magnitude of growth investment with the pace of growth

- Multi-year budgeting that aligns with the term of Council to help the Region improve fiscal discipline, provide a longer-term outlook for service planning, and reduce uncertainty regarding future tax levies

- An approved User Rate Study and Financial Sustainability Plan for water and wastewater that has enabled the Region to achieve and maintain full cost recovery starting in 2022

These positive steps have put the Region in a strong fiscal position to support the growth envisaged by the proposed Official Plan. The Region's 10-year capital plan continues to make significant infrastructure investments, including growth-related capital to accommodate what is envisioned in the Growth Plan and asset management spending as informed by departments' asset management plans.

The approved 2022 10-year Capital Plan can be funded without needing to issue new tax levy or user rate debt. Reserves are expected to fund 55% of the 10-year capital plan and the ratio of reserves to debt is projected to remain above 100% over the next 10 years.

Through the Fiscal Strategy, the debt level has been kept below the 2017 peak of $2.9 billion, a strong reserve balance of $3.98 billion has been accumulated and the Region regained its AAA credit rating with S&P Global Ratings in 2021, despite the impact of the global pandemic.

2. Fiscal Impact Analysis Methodologies and Assumptions

The fiscal impact analysis was developed for York Region as a whole, focusing on the regional infrastructure requirements and revenue base. The analysis incorporates the full operating and capital requirements related to both existing and future assets over their lifecycle, as well as service areas without capital plans or infrastructure master plans.

This fiscal impact analysis makes the following overarching assumptions:

- Responsibility for service provision does not change over the forecast horizon
- Current financial policies and practices are maintained into the future
- Current programs and service levels are maintained. This analysis does not estimate the potential impact of technology changes or changes to program uptake patterns over the long term
- Program and service costs maintain trends observed over the past several years
- The current legislative framework governing municipal service provision and revenue sources are maintained
- Asset management costs for current and growth-related infrastructure are estimated using a 100-year time horizon

This fiscal impact analysis is grounded in the Region's proposed Official Plan, infrastructure master plans, capital and operating budgets, asset management plans and the 2022 Development Charge Background Study and Bylaw, as outlined in Table 1.

Table 1. Summary of key assumptions and information sources

Assumption	Details
Growth and Development Forecast	Based on the proposed Regional Official Plan growth target of 2.02 million residents and 990,000 jobs by 2051. The residential and non-residential development forecast is based on the phased 50% to 55% intensification target and 60 people and jobs per hectare density target for new greenfield development as approved by Regional Council. The proposed densities for the Transit Oriented Community (TOC) sites are not fully included in the proposed Regional Official Plan and the infrastructure master plans as it is likely that the full build-out of these areas will occur well beyond 2051. The ROP forecast assumes a portion of the growth of the TOC sites will be realized by 2051.
Growth Infrastructure Requirements	The growth infrastructure requirements are obtained through the Region's infrastructure master plans. These include: 1. 2022 Transportation Master Plan 2. 2022 Water and Wastewater Master Plan 3. Draft Paramedic Services Master Plan

Assumption	Details
	4. The 10-year Housing and Homelessness Plan, Housing York 2021-2024 Strategic Plan, and long-term (40 years) housing development projects endorsed by Housing York Inc. Board of Directors in April 2022 Where a 30-year capital plan does not exist, the Region's approved 2022 Development Charges Background Study is used to provide an estimate. Infrastructure requirements to 2041 are consistent with what is included in the Region's 2022 Development Charge Background Study and Bylaw. ***Costs not captured:*** The Regional Official Plan contemplates growth where permitted by Provincial Plans. Consequently, this analysis does not consider the provision of water and wastewater servicing in communities restricted by current Provincial policies i.e., Ballantrae, Gormely, Vandorf – Preston Lake as well as expansion of Nobleton systems beyond the population identified in the 2021 Class Environmental Assessment. Preliminary servicing options and associated cost estimates for extending servicing to these areas are identified in Appendix 7 of the Water and Wastewater Master Plan Update. The Transportation Master Plan recognizes that transportation network is an interconnected system and requires improvements that are to be delivered by or in partnership with senior levels of government, Metrolinx, the City of Toronto, and adjacent regional municipalities. As such, not all improvements recommended in the Transportation Master Plan have been included in this analysis. Projects that are beyond the jurisdiction of York Region, such as future bus rapid transit along Steeles Avenue, or require agreements with third-parties such as the Langstaff Road missing link between Jane Street and Keele Street over the CN Macmillian Yard are not included in the assessment. Regional funding for these projects would be subject to Council Approval and identified on a project-by-project basis. This approval would require an assessment and re-prioritization of the Regions capital projects, identification of the operating and long-term rehabilitation impact.
Cost Recovery through Development Charges	The 2022 Development Charges Bylaw, approved by York Region Council in May 2022, is used as the guide to determine the development charge eligible share of growth-related infrastructure. The 2022 Bylaw has a 20-year planning horizon (2041). Necessary modifications were made (where applicable) to the calculations such that the development charge eligible shares are aligned to the 30-year planning horizon of this fiscal impact analysis. As part of the 2022 Development Charges Background Study, staff completed an Asset Management Plan, which demonstrated that the infrastructure proposed to be funded through development charges

Assumption	Details
	contained in the 2022 Bylaw can be financially sustainable over their lifecycle. Finally, for this analysis, the development charge collections forecast accounts for the impact of development charge exemptions.
Life cycle costs estimates	Asset management and lifecycle assumptions were derived from service area asset management plans. The Region's Asset Management framework streamlines asset management activities across all infrastructure service areas. The framework incorporates leading industry asset management knowledge and provides templates for service areas to follow in advancing their asset management programming. Key areas of the framework include: • Standardized State of Infrastructure Report for annual updates related to condition, capacity, and reliability • Risk Assessment System for understanding asset condition risks across the portfolio • Level of Service Framework to adhere to regulatory requirements • Climate Change Workbook to incorporate climate change impacts into infrastructure decision making • A 100-year horizon to understand long-term costs of each service area portfolio, and to act as a mechanism for reserve fund planning for the Region's asset portfolio as a whole To facilitate analysis of assets yet to be constructed, life-cycle costs have been estimated based on the estimated useful life provided by the Region's tangible capital asset guideline. It is acknowledged that these assets might be further componentized into smaller asset elements as they come on-line but since they are similar to assets currently in use, the estimated useful life is deemed to be a reasonable proxy.
Operating Impact	A comprehensive financial model was developed by the Region to support various types of fiscal analysis, including the impact of the Regional Official Plan. The model takes the most forward-looking Council-approved operating budget and produces a forecast of future costs using cost drivers. These drivers have been developed through various means including regression analysis on historical spending. A key assumption is the continuation of existing programs and services at the same level of service.

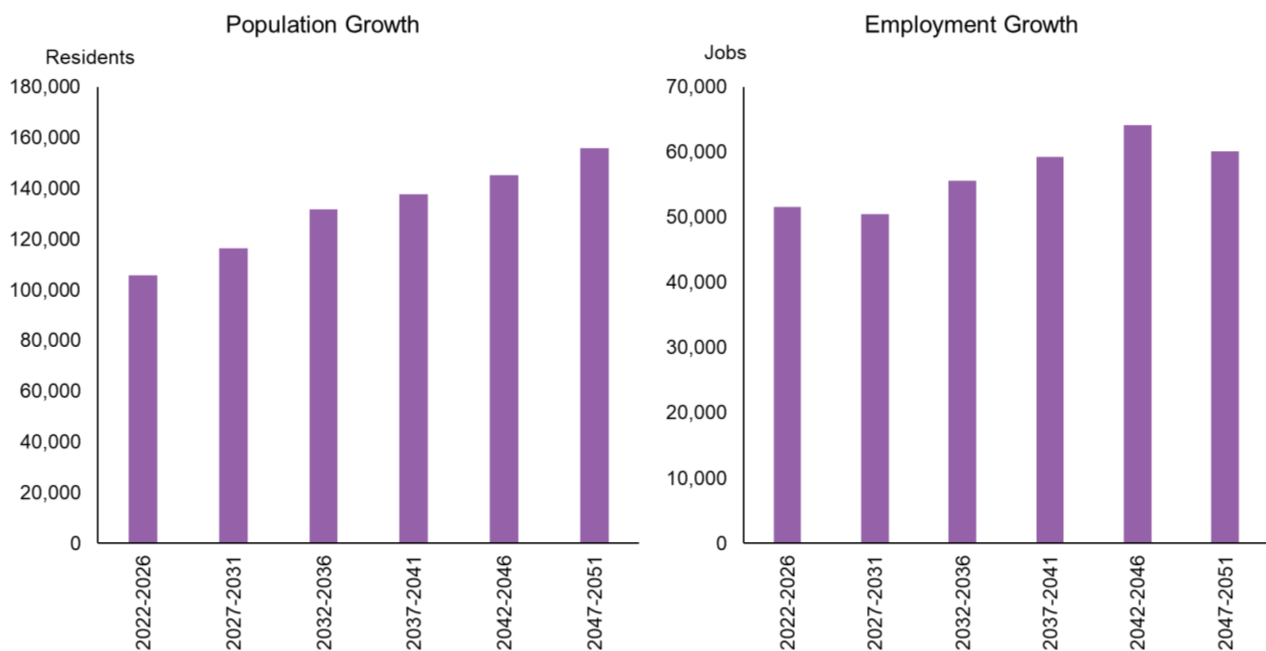
Assumption	Details
	The model incorporates assumptions and estimates of key inputs like population growth trajectory, inflation, interest rates, assessment growth, and non-tax revenue. The model takes growth-related infrastructure as an input and calculates the contributions to capital reserves that are required to pay for the tax levy portion of this infrastructure, as well as for the asset management needs for existing and planned capital. With these inputs, the model can produce an estimate of future tax levy needs.
User rate	Water and wastewater infrastructure lifecycle costs are funded through water and wastewater rates while all other infrastructure is funded primarily through the tax levy. In September 2021, Regional Council approved six years of water and wastewater rate increases that achieve and maintain full cost recovery. Water and wastewater rate-setting is guided by goals and principles that recognize the importance of both operational excellence and long-term financial sustainability. For financial sustainability, the goal is to set prices that cover the full cost of providing services, a goal to which York Region has been committed for more than a decade. Full costs include both day-to-day operating expenses and contributions to reserves to cover current and future rehabilitation and replacement costs. The approved rate increases ensure that asset management activities can be afforded when they are required to minimize lifecycle costs and that there will be adequate reserve balances to avoid any future user rate debt. A description of the work that supported Council's 2021 rate approval can be found in the Water and Wastewater Financial Sustainability Plan.
Taxable Assessment Base	In this analysis, tax revenues are a direct function of the assessment base and the Region's tax ratios, which are anticipated to remain constant over the forecast horizon. Population and employment growth envisaged by the proposed Regional Official Plan results in growth in the taxable assessment base. The Region's weighted taxable assessment base used for this analysis is $378 billion in the first year. For this analysis the following is assumed: • New assessment growth is calculated based on the average assessment value of recently built properties, which tend to have higher value than the existing housing stock • Housing mix in local municipalities is based on proposed Official Plan forecast which is in conformity with the Provincial Growth Plan

3. Growth and Development Forecast

York Region is anticipated to achieve a growth target of 2.02 million people and 990,000 jobs by 2051. This corresponds to anticipated population growth of 792,300 and employment growth of 341,330 over the 30-year period. Annually, that is growth of about 26,700 people and 11,400 jobs. York Region's forecast represents approximately 22% of the growth in the Greater Golden Horseshoe area to 2051.

As shown in Figure 3, the pace of population and employment growth is anticipated to trend upwards over the 30-year period.

Figure 3. Population and employment growth to 2051



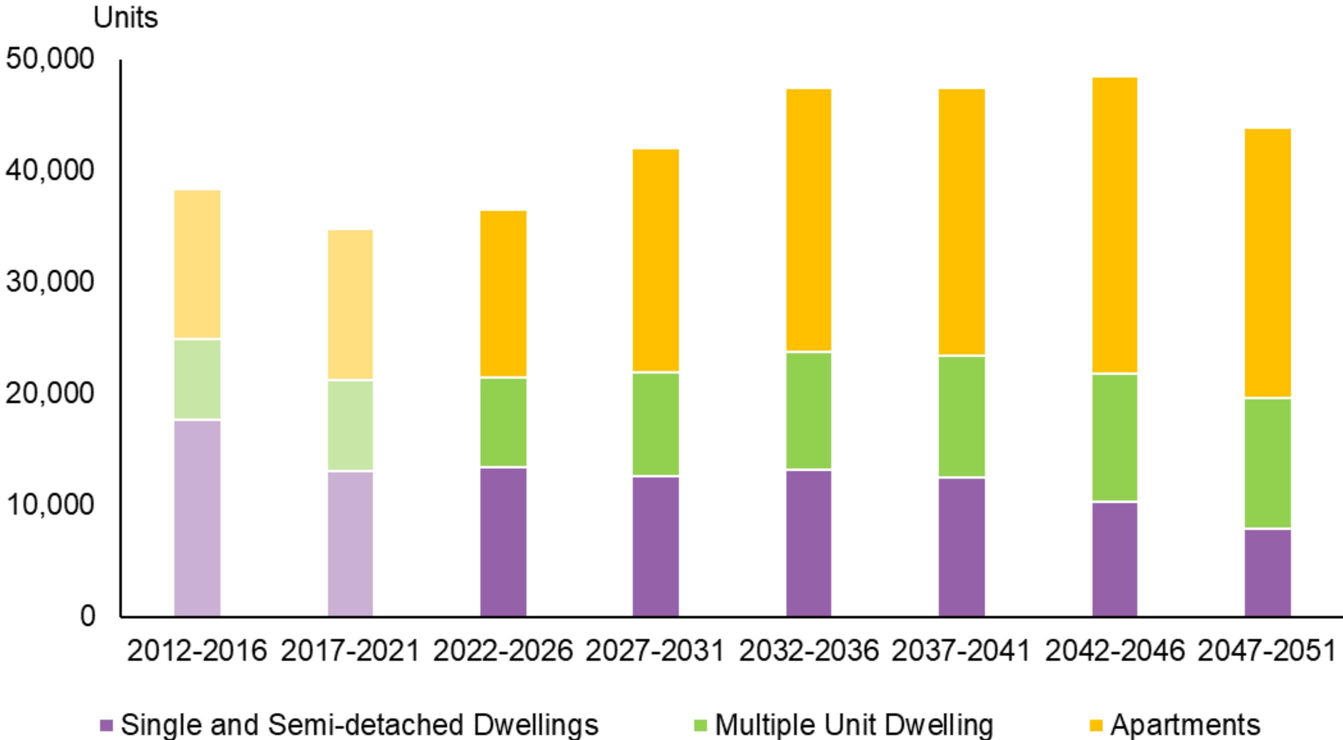
Source: York Region Long Range Planning

The proposed Regional Official Plan land needs and forecast work is based on a phased minimum intensification target of 50% to 2041 and 55% from 2041 to 2051 and a minimum new greenfield density area target of 60 people and jobs per hectare. These targets influence the forecast housing mix, the employment forecast and resulting non-residential gross floor area (GFA) which in turn are used to determine the fiscal impact.

Since 2006, annual intensification in York Region has ranged between 29% to 75%, with an overall average of 51% within the built-up area. York Region is well-positioned to accommodate intensification owing to changing market demand and the significant infrastructure investment and the existing planning framework for Regional Centres and Corridors and other intensification areas.

Looking forward, a total of approximately 266,000 housing units are required to accommodate the population growth over the 30-year horizon (Figure 4). Apartment units are anticipated to form the largest component of the overall housing mix, accounting for 50% of all housing unit growth over 30 years. Singles and semi-detached dwellings are anticipated to account for 26% of the total mix, and 23% will be from multiples. The forecast shows through intensification, apartments will account for a greater share of York Region's housing growth at 50%, compared to the 2012 to 2021 period, when apartments units accounted for 37% of the total housing completions.

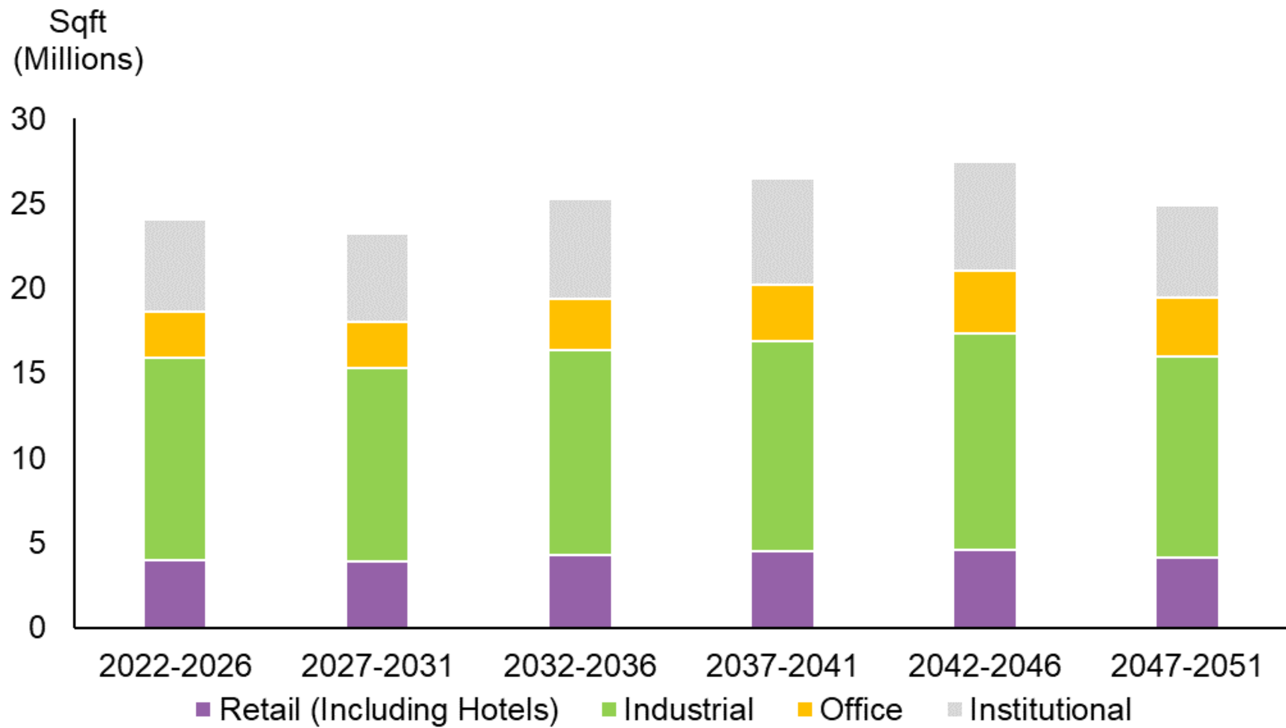
Figure 4. Historic and forecasted housing growth in York Region



Source: CMHC and York Region Long Range Planning

An estimated 151.5 million square feet of non-residential gross floor area (Figure 5) is needed to accommodate the employment growth to 2051. The industrial use continues to account for the largest share of the space requirement (48%), followed by institutional use (23%).

Figure 5. Anticipated non-residential GFA growth in York Region (Sqft)



Source: York Region Long Range Planning

The proposed densities for the Transit Oriented Community (TOC) sites are not fully included in the proposed Regional Official Plan as it is likely that the full build-out of these areas will occur well beyond 2051. The ROP forecast assumes a portion of the growth of the TOC sites will be realized by 2051. The proposed densities and TOC agreements, once finalized, may necessitate a review of the Region's spatial distribution of growth as well as the infrastructure solutions to support that growth.

4. Planning for Long-term Capital Needs

Population and employment growth is a key driver of costs for the Region. Additional residents and businesses drive the need for new infrastructure and add usage to existing infrastructure. To plan for this growth, the Region prepares several documents that evaluate and outline the infrastructure needs. These documents have planning horizons ranging from 10 to 30 years.

The Regional Official Plan sets out the framework for long-term infrastructure plans. Master plans like the Water and Wastewater Infrastructure Master Plan and the Transportation Master Plan assess the amount and timing of infrastructure needed to meet the growth envisaged by the Regional Official Plan. These master plans have been developed concurrently with the current Municipal Comprehensive Review.

The financial sustainability of these long-term plans is also assessed on a regular basis. As part of the 2022 Development Charge Background Study and Bylaw, the Region developed an asset management plan which demonstrated that the assets proposed to be funded through the 2022 Bylaw are financially sustainable over their full lifecycle.

Starting in 2017, the Region has published annual fiscal sustainability reports that evaluate the fiscal health of the Region and outline potential challenges the Region may face in the long run. Among others, funding and financing growth investments in a financially prudent manner and saving enough in reserves to ensure that assets can be kept in a state of good repair have been the focus areas, which requires careful management of the timing of spending and availability of resources, such as tax levy and development charges collections.

The Region also develops a 10-year capital plan that is approved by Council as part of the annual budget process. The capital plan establishes Council's commitment to the timing and cost of projects, including details about how the projects will be funded. The fiscal strategy which is developed alongside the capital plan and assessed annually, helps to ensure that the Region has the fiscal capacity to deliver on its long-term capital requirements, through the careful management of debt, reserves and the capital plan.

4.1 Growth-related Infrastructure Requirements

To support the population and employment growth to 2051, about $19.6 billion in growth-related infrastructure would be needed, 23% of which is for Water and Wastewater infrastructure, 24% for Roads and 41% is for Transit. This amount includes the Region's $1.12 billion share of the Yonge North Subway Extension. Not included in this cost summary is the provincial and federal government funding commitments to this project. Table 1 in Section 2 of this document provides additional details regarding how these costs are generated.

The composition of infrastructure investment is consistent with the infrastructure needs of a Region that is continuing to grow, intensify and urbanize. As a comparison, in the 2017 York Region Development Charge Background Study (as amended), it was anticipated 85% of the

gross growth capital costs needed to service growth to 2031 were for Water, Wastewater and Roads infrastructure.

As shown in Table 2, to support growth from 2022 to 2051, these services are anticipated to make up 47% of the portfolio, while the overall investments in transit, which includes higher order transit, account for 41%. Table 2 and Figure 6 below summarize the gross growth-capital costs needed to support growth to 2051.

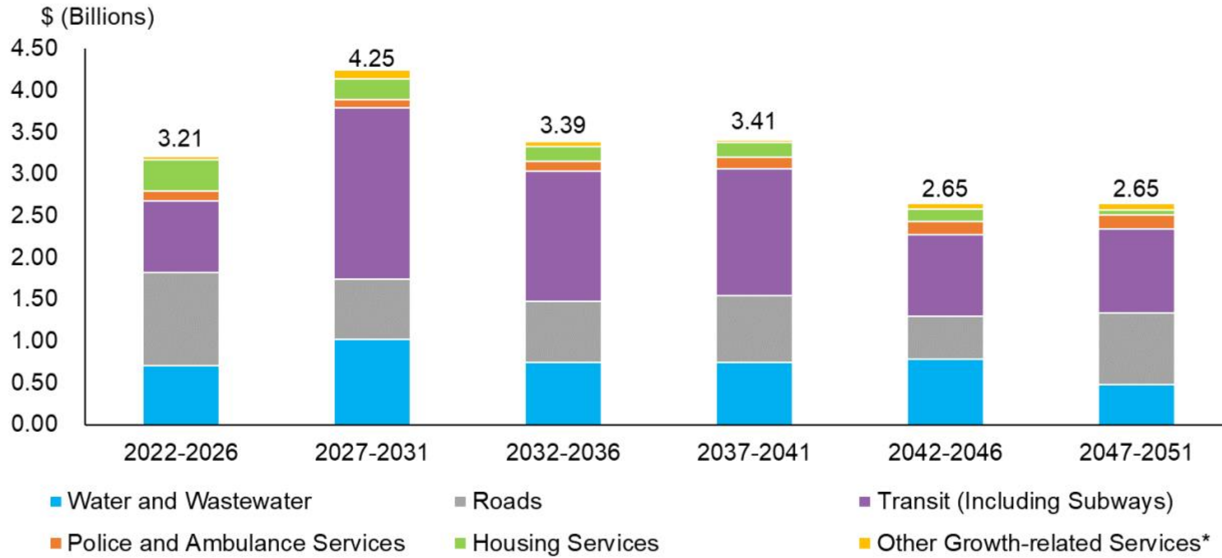
Table 2. Total Gross growth-related capital costs to support growth to 2051

Service	Gross growth-related infrastructure costs to support growth to 2051 ($ Billions)*	Share of Total Gross capital costs
Water and Wastewater	$4.49	23%
Roads	$4.73	24%
Transit (Including Subways)**	$7.96	41%
Police and Ambulance Services	$0.81	4%
Housing Services	$1.17	6%
Other Growth-related Services***	$0.39	2%
Total	**$19.55**	**100%**

Notes:
*This table does not include outstanding prepaid development charge credits, and asset management costs that are eligible for recovery through development charges
** Transit costs include the roads-related portion for Bus Rapid Transit
***Other Services include: Waste Diversion, Growth Studies, Court Services, Public Health and Long-Term Care/Seniors Services
Figures may not sum due to rounding.

To meet the population and employment growth target, and to ensure growth occurs in complete communities, regional infrastructure is planned to be made available prior to growth materializing. Approximately 40% of the growth-related infrastructure investment is planned to occur in the first 10 years of the 30-year horizon of the proposed Regional Official Plan (Figure 6). However, only 30% of the total population and employment growth is anticipated during that period. In particular, the high levels of infrastructure investment in the 2022 to 2031 period are driven by major investment needs in wastewater servicing, and transit (e.g., Yonge North Subway Extension and Bus Rapid Transit).

Figure 6. Gross growth-related capital costs in five-year increments



*Other Services include: Waste Diversion, Growth Studies, Court Services, Public Health and Long-Term Care/Seniors Services
Note: Figures may not sum due to rounding

In addition to the project costs identified above, the Region currently has over $2 billion outstanding net development charges debt. Section 7 provides additional information on financing growth-related infrastructure.

Given the substantial size of capital investments to be put in place prior to growth (and related revenues) materializing, the Region should continue to proceed carefully with its capital spending program. Advancing investments further ahead of growth could create additional debt pressures. In addition, the associated operating and asset management needs would also need to be incurred earlier than planned, creating tax levy and user rate pressures.

Careful management of timing of projects contained in the 10-year capital plan, and associated debt level is required. Optimizing existing investments before advancing additional infrastructure is key to meeting provincial growth targets while aligning to the principles of the Region's Fiscal Strategy.

The Region has a prepaid development charge credit policy[1] that can be used to advance timing of infrastructure works through developer front-end financing. The Region's policies provide the principles and framework to ensure that the risks associated with advancing infrastructure ahead of plan are transferred to the developer.

[1] Outstanding prepaid development charge credit balances for completed projects are not included in the $19.6 billion identified above. Outstanding development charges debt and prepaid credits are funded through future development charge collections.

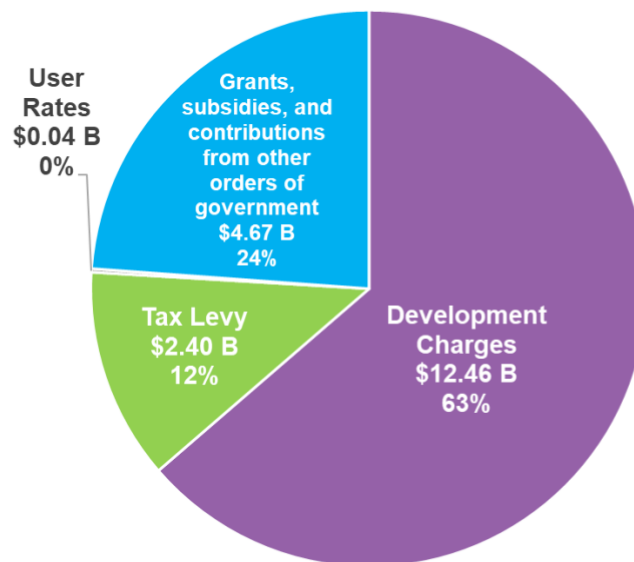
4.2 Funding Sources for Growth-Related Infrastructure

Development charges cannot recover the full emplacement costs of growth-related infrastructure due to statutory deductions. Thus, the growth infrastructure identified in the section above will be funded through a combination of development charges, user rates, tax levy, and grants, subsidies and contributions from other orders of government. In addition, once put in place, the Region must also fund the operation of the asset, and ensure it is kept in a state of good repair. The fiscal impact and funding sources for these costs are discussed in the ensuing sections.

The Region's 2022 Development Charge Background Study and Bylaw was approved by Council in May 2022. The 2022 Bylaw determined the share of growth-related project costs that are eligible to be recovered through development charges. The background study also identified portions of costs to be funded through non-development charge sources, including tax levy, user fees, and grants, subsidies and contributions from other orders of government.

Using the 2022 Background Study as a guide, 63% of the growth-related investment over the next 30 years is eligible for development charge recovery, 12% would be funded by tax levy and the remainder would be funded through user rates and grants and subsidies and other contributions (Figure 7).

Figure 7. Gross growth-related capital costs by funding source



Note: Figures may not sum due to rounding

Achieving the planned growth target also requires a strong funding partnership with senior levels of government. As indicated by Table 3 below, transit and housing are the two priority areas that require funding support from senior levels of government.

Table 3. Gross growth-related capital costs by funding source by service

Type of infrastructure	Development Charges	Tax Levy	User Rates	Grants, subsidies and contributions from other orders of government
Water and Wastewater	95%	0%	1%	4%
Roads	86%	9%	0%	6%
Transit (Including Subways)*	40%	11%	0%	49%
Police and Ambulance Services	57%	43%	0%	0%
Housing Services	20%	51%**	0%	29%
Other Growth-related Services***	63%	35%	0%	2%
Total	**63%**	**12%**	**0%**	**24%**

*73% of BRTs is assumed to be funded by senior levels of government. Only the Region's share of the YNSE is included, and it assumes no grants, subsidies or contributions from other orders of government
**This includes portions funded through tenant rents. HYI pays up to 15% of capital development costs through tenant rents.
***Other Services include: Waste Diversion, Growth Studies, Court Services, Public Health and Long Term Care/Seniors Services
Figures may not sum due to rounding

The Region's Bus Rapid Transit (BRT) network provides a critical connection to and from the Region's centres through the main corridors as part of the Region's Centres and Corridors Strategy. For the network to be completed to service the Region's growth to 2051, the Region would need substantial investment to extend the BRT dedicated lanes on existing and new routes. These projects are vital to ensure that York Region has a completely connected system, making the most of the investment already made into BRT.

The province fully funded the initial phase of the Region's Bus Rapid Transit network, including the life cycle costs. The provincial and the federal government also cost shared the Toronto York-Spadina Subway Extension and committed funding to the Yonge North Subway Extension. While new funding opportunities from senior levels of government for the bus rapid transit program are continuously being pursued, based on the recent experience with the Yonge North Subway Extension, a similar level of senior government contribution (73%) is assumed.

Increased and sustained senior government investment is required to meet the growing demand for community housing. This is housing that provides the deepest level of affordability for the

Region’s growing population. Over the next 30 years, it is assumed that approximately 30% of the growth-related housing investment would be supported by senior government funding.

The Region will continue to advocate for the Federal and Provincial governments to commit increased funding to support major infrastructure investments, including the community housing program and the Bus Rapid Transit Network.

4.3 Assessing Asset Management Needs

The Region regularly prepares a detailed assessment of asset management needs. This work is guided by the Region’s Corporate Asset Management Plan that was first approved in 2018, and reflects estimates of current asset condition as well as information on expected useful life. Asset management planning uses a time horizon of 100-years. This ensures that the analysis captures at least one replacement of even the longest-lived assets, which supports the Fiscal Strategy objective to build reserves in a way that spreads the costs of asset management fairly across generations.

Through the Region’s Fiscal Strategy, successive Regional Councils have increased contributions to capital reserves to save for future asset management needs. Significant progress has been made. However, contributions to asset management reserves currently built in the Region’s fiscal plans are expected to remain slightly below the amount needed to meet full spending needs while supporting the principle of inter-generational equity.

The replacement value of the Region’s existing assets is over $16 billion. To date, the Region has accumulated about $2 billion in asset management reserves. This compares to $3.2 billion in accumulated amortization, which is one measure of how much asset value has been consumed.

In addition to the growth-related investments already built into the Region’s 10-year capital plan, a further investment of roughly $14 billion is required to service the growth envisaged by the proposed Regional Official Plan. The Region is expected to retain ownership and responsibility for the majority of these assets. For those additional assets under the Region’s purview, the Region’s Fiscal Strategy objectives require contributions to asset management reserves to begin once the assets come into service to save up for the rehabilitation and eventual replacement of those assets.

Consistent with the assumption made in the asset management plan for the 2022 Development Charges Background Study, the province is expected to maintain ownership of current and future Bus Rapid Transit assets. For this analysis, lifecycle costs for these assets would remain the responsibility of the province.

The fiscal impact analysis, including the impact on the tax levy and user rates discussed in Section 6, assesses the costs associated with delivering the full needs of the proposed ROP with the full needs from the 2022 budget plan.

5. Assessing Operating Impact of Growth

Many of the programs and services provided by the Region are impacted by population growth. Whether it is demand for water and wastewater, or program demands related to public health, or additional calls for paramedic services, population is a key driver of operating spending.

To support an analysis of how population growth and other factors could impact the Region's budget going forward, the Region developed a comprehensive financial model. The model looks at the programs and service levels funded through the approved budget, and forecasts the costs of providing these into the future. A key assumption is that the status quo is maintained – existing programs and service levels continue, and the legislative framework that sets out areas of responsibility similarly continues. The analysis incorporates policies and programs in effect as of Spring 2022 and does not make assumptions or accommodation for potential future changes.

The financial model applies cost drivers to the approved budget to produce a forecast of future spending needs. Each cost driver has an associated 'factor' so that the impact of the driver can be 1-to-1 or more or less. A comprehensive analysis was undertaken to develop drivers for each revenue and expenditure category in each Regional service area.

One of the key cost drivers is population growth. This ensures that the financial model is capturing the impact of growth. The factor that is applied depends on the revenue or expenditure item in question. Based on an assessment of historical spending patterns, the impact of population growth may be 1:1, or something different.

Other common drivers include inflation and contract costs. There are also department-specific drivers to capture the unique circumstances of these areas. For example, some expenditure areas in Transportation Services are best understood in terms of changes in the underlying asset base.

While not tied to specific assets, the model provides an estimate of future net operating impacts of capital at a rate that is in line with the impact of recent additions to the asset base.

The model result is a detailed forecast of future revenues and expenditures.

6. Impact of Growth on Tax Levy and User Rates

The fiscal impact analysis shows that full implementation of the Regional Official Plan would create additional tax levy needs above the base case scenario (i.e., the 2022 Budget plan). The additional needs are largely driven by infrastructure requirements. It is estimated that of the $20 billion growth-related infrastructure needs over the next 30 years, about 12% would need to be funded by tax levy and user rates. In addition to the costs associated with the initial construction of new infrastructure, prudent fiscal planning requires annual contributions to reserves to pay for the eventual asset management needs of these assets. Much of the additional tax levy needs are related to these costs.

Using the Region's financial model, the average annual incremental tax levy increase is estimated at 0.6% . This represents the additional annual tax levy increase that would be required compared to the base case scenario from the 2022 Budget.

As noted above, this estimate captures the incremental impact of new infrastructure and asset management needs, as well as the operating implications of extending the planning horizon out to 2051. The analysis assumes the continuation of existing programs and service levels, as well as current policy and legislative frameworks. The cost drivers in the financial model have been derived based on recent spending patterns, and therefore assume the impact of population growth on program continues at a similar rate.

While the growth forecasted in the proposed ROP could require an increase in tax levy needs, the Region will continue to exercise strong fiscal discipline through the annual budget process to deliver on Regional priorities in a fiscally responsible manner.

One of the elements of the Regional Fiscal Strategy is to build reserves to fund capital costs without the need to issue tax levy or user rate debt. Successive Councils have committed to this objective and in 2019 the Region reached net investor status, where the Region held more in reserves than outstanding debt.

In September 2021, Regional Council approved the 2021 User Rate Study. This comprehensive financial and policy plan examined the water and wastewater system and established wholesale rates that achieve and maintain full cost recovery. The approved plan includes annual rate increases of 3.3% for six years starting April 1, 2022, followed by projected rate increases of 2.9% thereafter.

Subsequent to the September 2021 approval, analysis was undertaken to review the impact of the proposed infrastructure needed to deliver the ROP. Staff concluded that the ROP can be delivered within the 2021 User Rate Study.

7. Financing Growth

Development charges related debt is a necessary tool to bridge the timing of expenditure for growth infrastructure and DC collections. Since 2015, the Region has not issued tax-levy debt. Currently, the Region has $2.5 billion of net debt outstanding and approximately 94% of it is growth-related and will be funded through future development charge collections.

To finance the growth-related infrastructure needed to support growth envisaged in the Region's proposed Official Plan, $5.8 billion of new debt is required during the next 30 years, with net outstanding debt expected to peak at $3.2 billion in 2031, see Figure 8. This exceeds the $2.9 billion peak in 2017, mainly driven by the inclusion of the Yonge North Subway Extension and the additional capital projects identified in master plans but not yet in the capital plan, such as the Regions' share of the Bus Rapid Transit infrastructure.

Figure 8. Net outstanding debt forecast

The Region's debt requirements are very sensitive to the timing of infrastructure expenditures and development charge collections. Firstly, the gap between growth expenditure and available development charge collections will need to be financed through debt issuance. Secondly, development charge collections are used to service outstanding debt and some of the remaining amounts are available to directly fund new growth-related projects or service new debt issuances. In addition, the Region has a policy to keep a minimum balance in the development charge reserves equivalent to 75%-100% of the following year's debt servicing costs. The

reserve will be made available to pay for next year's debt charges in the event of unexpected shortfalls in the development charge collections.

In recognition of these factors, an important aspect of the Region's fiscal strategy is to manage outstanding debt by optimizing the use of the reserves and timing of capital delivery to ensure that the level of debt outstanding continues to be manageable.

Over the next 30 years, if growth is realized as projected, DC collections, after applicable exemptions, are expected to consistently exceed principal and interest payments, which is expected about to average $300 million per year. On average, about 50% of the annual development charge collections would be needed to service DC related debt, with the rest available to directly fund infrastructure investments.

Over time, as the Region pays down its outstanding debt, the P&I obligations is expected to decrease. During the 2022 to 2041 period, DC related principal and interest payments are projected to average $360 million per year. This translates to development charges collections associated with approximately 6,000 new housing units annually (or an annual growth of 16,400 people), and 3.3 million square feet of non-residential development, before applicable exemptions. In other words, this is the minimum amount of average annual development activities necessary to cover the projected principal and interest payments over the next 20 years.

One of York Region's fiscal sustainability principles is maintaining an AAA credit rating. Some of the key parameters assessed by the Region's credit rating agencies (S&P and Moody's) are the level of net debt and the percentage of interest costs in relation to the operating revenue. Based on the current projections and estimated revenue, there could be a negative impact on the Region's rating toward the end of the first 10 years. Careful management of the Region's Capital Plan and associated debt level and servicing costs will be required to help ensure the Region maintains a AAA credit rating.

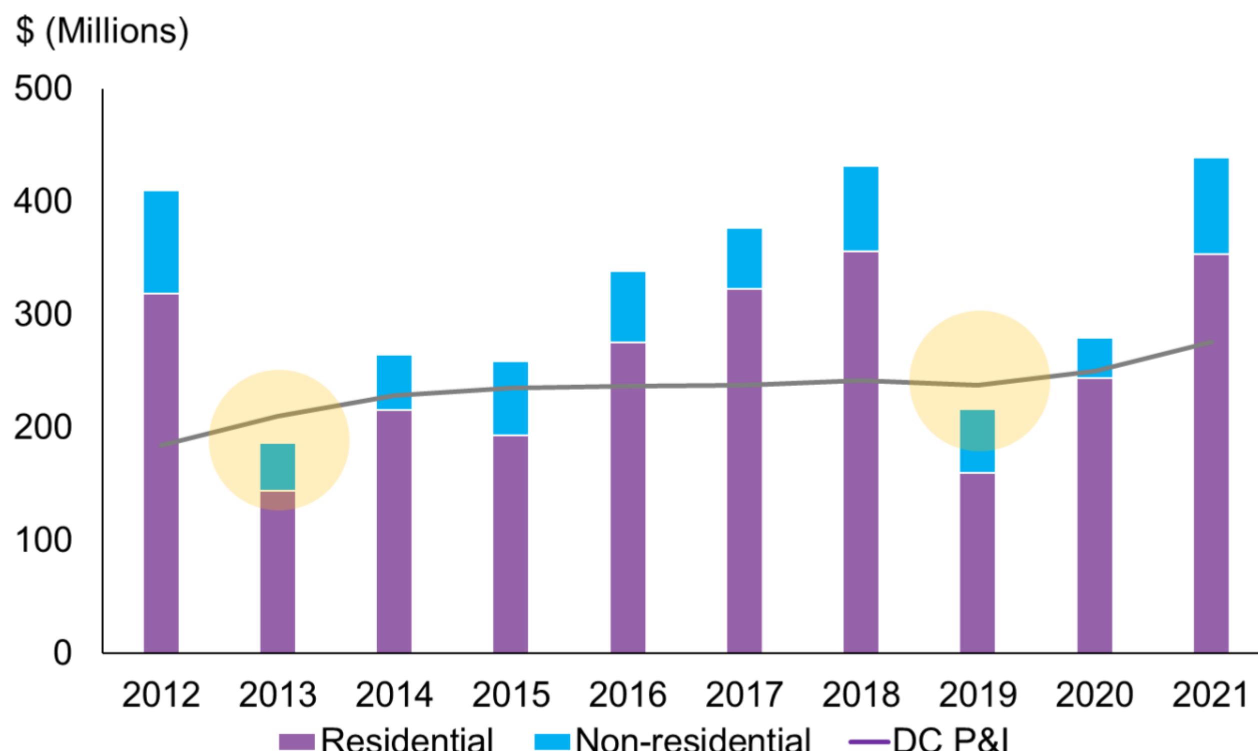
7.1 Risks of Slower Than Anticipated Growth

The debt levels projected above assume that the Region can achieve the pace and level of growth envisaged by the proposed Official Plan. Achieving the 2051 ROP forecast assumes an average annual growth of about 26,700 people. This is a faster pace of population growth than what the region had experienced in the last 10 years. Historically, the pace of growth in the Region has been cyclical. While the Region saw robust growth in the early 2000s, from 2006 to 2021, the Region's population growth has been 23% lower than what was projected in the 2010 ROP.

Additionally, in practice, development charge collections are expected to fluctuate year over year. Collections are mainly driven by the amount of development activities, which ebb and flow along with the economic cycle. Other factors impacting the pace of cost recovery through development charges include statutory deductions (e.g., Post period benefit deduction and the level of service cap), as well as development charge exemptions. In the past 10 years,

development charge collections were below the annual principal and interest payment in 2013 and 2019, see the orange circles in Figure 9.

Figure 9. Historic development charge collections and DC debt P&I



If the growth contemplated by the proposed ROP materializes slower than expected, development charge collections would be lower than projected. After servicing existing debt obligations, there would be less funds available for new capital infrastructure investments. Slower than expected growth could lead to a further disconnect between the planned timing of infrastructure investment and timing of when revenues can be generated, creating additional debt pressures.

For example, if slower-than-expected growth result in DC collections that is 20% lower for the 2022-2031 period (and the 30-year total being the same), the debt pressure would be notably higher with total new debt at $9 billion and the net outstanding debt peaking at $3.82 billion in 2032. (Figure 10). Under this scenario, the DC collections could fall below the associated P&I over the 2026 to 2031 period, potentially driving DC reserves to negative balances.

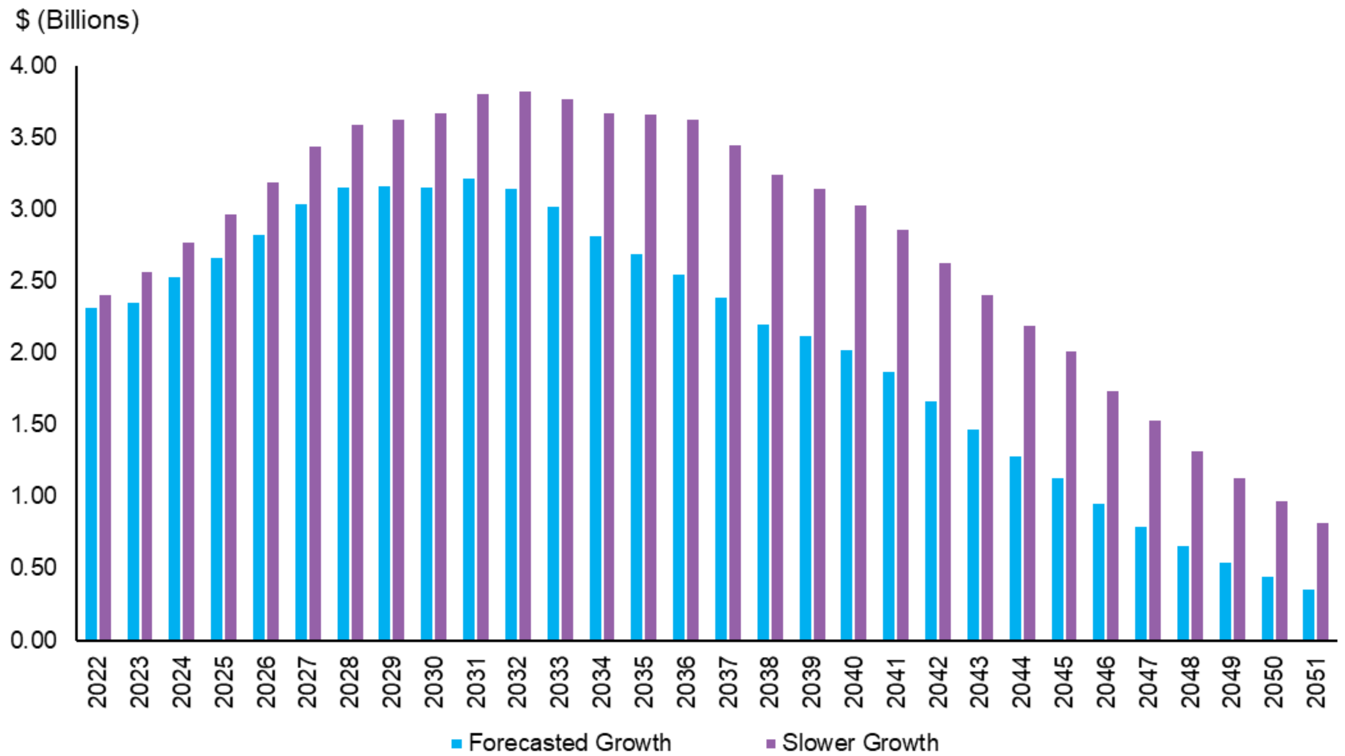
With this slower growth scenario (Figure 10), the elevated debt level will put pressure on the Region's credit rating ratios. This level of elevated debt could result in a credit rating downgrade within the next 5 years. Close monitoring of DC collections and DC expenditure is required to better align the timing of investments with the pace of actual growth.

Additional pressure may be placed on municipalities where built servicing capacity sits unused, incurring operating and maintenance costs without the necessary property assessment and user

fee revenue to pay for these costs, thereby creating the risk of higher property tax and user fee increases for existing and future residents and businesses

The Region regularly monitors growth and development activities. Through the annual budget process and fiscal strategy, the pace of capital investment is reviewed in light of actual pace of growth and adjusted if necessary.

Figure 10. Net outstanding debt, forecasted versus slower growth



8. Phasing and Integrated Growth Management and Other Policy Considerations

8.1 Growth and Infrastructure Alignment

To ensure growth can be affordable and occur in complete communities, capital investments will need to be more closely aligned with the timing and location of actual growth and collection of development charges revenues to pay down growth era debt for existing infrastructure prior to investing in additional infrastructure. The Region will not be able to make all investments listed in Table 2 at once without accelerating the accumulation of debt. There may also be the risk of growth occurring faster than forecast. Under this scenario, infrastructure capacity may be constrained and service levels may not be sufficient to meet demand.

A nimble approach that prioritizes and stages capital investments to align with actual pace of growth is required to ensure that complete communities are made available to accommodate growth, and that growth is affordable. Rather than making capital investments strictly based on the Region's long-term growth forecast, this is a more financially sustainable approach. Focusing development to align with existing infrastructure and prioritizing and staging future investments will be key mechanisms for achieving better integration of land use and infrastructure planning in a fiscally sustainable fashion.

The growth forecast and policies embedded in the proposed Regional Official Plan provide the framework for the Region's infrastructure master plans and capital and operating budgets. Between now to 2051, there will be a number of Municipal Comprehensive Reviews. These reviews will provide opportunities to confirm and if necessary, adjust forecasts and infrastructure delivery timing to reflect actual growth and updated projections of planned growth within the Region. The Region's 10-year capital plan and fiscal strategy are reviewed annually and adjustments to the timing of infrastructure delivery can be made based on actual growth and the Region's fiscal capacity.

8.2 Housing Affordability and Growth

In January 2021, Watson & Associates Economists Ltd prepared a Foundational Housing Analysis in support of the Regional Official Plan update. Key amongst its conclusions was that York Region's population has been growing slower than the York Region Official Plan population forecasts. This analysis identified the lack of affordable housing, particularly affordable ground-related ownership housing and purpose-built rental as a key factor contributing to the slower pace of growth. The analysis further noted that this lack of supply is constraining the Region's growth potential.

In February 2021 Regional Council recognized that a Housing Affordability Crisis exists in the Region and later established a Housing Affordability Task Force (HATF) to help address it. As part of this work, staff and Council have been reviewing policies and potential new revenue tools

and sources that could help address the housing affordability challenges. The two sections below highlight this work.

Following upon the Foundational Analysis and the work done by the HATF, in November 2021, Regional Council received the proposed Regional Official Plan for the purposes of ongoing public engagement and review. The draft ROP includes a strong policy foundation for affordable housing including maintaining affordable housing targets, increased residential land requirements, introduction of a purpose-built rental target (1,000 units per year), and incorporation of updated second suite parameters. Additionally, a commitment was made to work in collaboration with local municipalities, senior levels of government, the development industry, community stakeholders and other partners to increase housing options, including affordable and purpose-built rental options.

The proposed ROP provided strong policy guidance for many of the policies captured in the Region's recently approved 2022 Development Charges Bylaw, and which are premised upon support of a mix and range of housing options (e.g., development charge exemptions for second suites). These policies build on the Region's many existing programs and policies to facilitate non-profit and purpose-built rental housing (see Appendix).

Guided by the proposed ROP commitment to work collaboratively with all stakeholders to increase housing options, Regional Council has begun the work to develop an Affordable Private Market Housing Implementation Plan (AHIP). The AHIP will help identify actions, advocacy, and partnership approaches to address housing affordability.

8.3 Sustained and Predictable Senior Government Funding

As demonstrated by this fiscal impact analysis, grants, subsidies and contributions from other orders of government cover almost a quarter ($4.7 billion) of the growth-related infrastructure needs over the next 30 years, most of which relate to senior government cost sharing for rapid transit and housing services. While the Region has actively pursued funding opportunities, senior government cost share for the future BRT program as well as for housing services have not yet been secured. In addition to cost sharing the initial emplacement of growth-related infrastructure, sustainable and predictable funding is required to operate and maintain growth-related infrastructure.

Without increased federal and provincial funding for development as well as rent subsidies, the Region will not be able to sustain or increase the number of households offered housing in future years. Continued advocacy to the Federal and Provincial governments, as approved by Council in June 2021, is critical to support the Region's 10-year housing and homeless plan.

8.4 New Revenue Tools and Sources

Other than the City of Toronto, the Region's, like all other Ontario municipalities, revenue tools are limited to: property taxes, development charges, fines and penalties and investment income. New revenue tools and/or sources could be used to help fund long-term growth infrastructure

needs, address/increase housing supply, as well as fund affordable housing initiatives. Some of these such revenue tools and sources, previously identified by Council, are:

- *City of Toronto Act* revenue powers
- Vacant Homes Tax
- A share of the provincial Non-Resident Speculation Tax generated in York Region

Table 4 below provides a summary of the advocacy efforts related to these tools.

Table 4. Advocacy pertaining to new revenue sources and tools

Revenue Tools/Sources	Advocacy
City of Toronto revenue-raising powers	2015, ’17, ’18, ’20 – Council reports 2017, ’18, ’20 – Letters from Regional Chair **October 2, 2018 – Official notice from Province that it would not be providing new revenue-raising powers at this time** 2020, ‘22 – Provincial Budget Consultation submissions
Vacant Homes Tax	Not yet applicable
Non-Resident Speculation Tax (share of)	2018, ‘20 – Council reports 2018, ‘20 – Letters from Regional Chair 2020, ’21, ‘22 – Provincial Budget Consultation submissions **No official response from the Province has been received**

Vacant Homes Tax

The Vacant Homes Tax was one of 16 initiatives under the Province’s Fair Housing Plan in 2017 and is aimed at helping to address housing affordability. Designated municipalities may, by bylaw, impose a tax on vacant residential units in certain circumstances (this tax would not apply to primary residences).

In October 2021, Regional Council directed staff to develop a feasibility study and public benefits review for a Vacant Homes Tax in York Region. Council also directed that any revenues, net of costs, were to be used in support of affordable housing initiatives. In addition to its revenue raising potential, a Vacant Homes Tax is a policy tool aimed at changing

homeowner behaviors. It is expected to dampen speculative activities and help release more housing units to the secondary market. Staff expect to report back on this during the fall of 2022.

Non-Resident Speculation Tax

In 2017, the Province introduced a 15% Non-Resident Speculation Tax (NRST) on the purchase of residential properties in the Greater Golden Horseshoe, by non-Canadians. This was subsequently increased to 20% in March 2022, and now applies to residential transactions throughout Ontario. While the NRST revenues in Ontario accrue to the Province's general revenues, a similar tax in British Columbia is reinvested into affordable housing projects.

The Region has previously requested that the Province allocate funds from this tax, collected in York Region, to help support rental housing initiatives; both existing and new. The Region will continue to advocate for the Region's share of the NRST.

9. Conclusion

To support growth of 790,000 new residents and 341,000 jobs in the York Region by 2051 envisaged by the proposed Regional Official Plan, approximately $19.6 billion in growth-related infrastructure is required. This portfolio of projects includes significant water and wastewater capacity expansion, prioritized road infrastructure investments focusing on improvements in development areas and congested corridors, higher order transit investments including the Region’s share of the Yonge North Subway Extension and the Bus Rapid Transit system, Housing York Inc. projects to provide housing to residents across the income spectrum, and projects that support the region’s first responders in York Regional Police and York Region Paramedic Services.

To fully fund the asset management, capital and operating needs associated with this level of growth-related infrastructure, an incremental tax levy increase of 0.6% would be needed each year compared to the 2022 Budget.

In addition, substantial development charge debt is required to finance this level of capital expenditures. Should growth fall below levels envisaged by the proposed Regional Official Plan on a sustained basis, debt requirements could increase substantially, and there may be the risk that development charges collections are insufficient to fully fund the required principal and interest payments, creating a risk of credit rating downgrade. There may be additional tax levy and user fee pressures as property tax assessment growth revenue falls below projections.

Funding from senior levels of government is needed to support almost a quarter of the total growth-related infrastructure needs over the next 30-years. Continued advocacy and engagement with the provincial and federal government is needed to secure funding for priorities such as higher order transit and housing. The Region could support the level of growth envisaged in the proposed Regional Official Plan to 2051.

In light of the high-level of investments required and the anticipated timing of growth, achieving and maintaining financial sustainability requires alignment of capital delivery to the actual pace of growth, managing debt and continued contribution towards reserves to fund capital replacement and rehabilitation.

The Region’s integrated growth management approach which emphasizes phasing of infrastructure to match the Region’s actual pace of growth is key to ensuring the Region can manage its debt and reserves sustainably. The Region will continue to exercise strong fiscal discipline to manage required tax levy increases. Between now to 2051, there will be many opportunities to review and recalibrate the timing of the Region’s infrastructure delivery through regular updates of the Municipal Comprehensive Review, infrastructure master plans, development charges bylaws, user rate studies, budget and fiscal strategy.

Appendix

Regional Council has put in place many other policies to facilitate non-profit and purpose-built rental housing. Table A1 below summarizes some of those policies.

Table A1. Regional Council policies to support non-profit and rental Housing

Area	Detail	Year introduced
Development Charges		
Non-profit (Habitat for Humanity)	Development charges deferrals/exemptions for Habitat for Humanity developments, dependent on matching from local municipalities	2001
Purpose-built rental	Conditional development charges exemptions (full or partial) to private and non-profit developers of affordable rental housing under the Municipal Housing Facilities Bylaw	2002
	Interest free development charges deferrals for purpose built rental buildings, the duration of which ranges from 3 to 20 years, dependent on level of affordability, number of units, and location	2017 and 2019
Property Taxes		
Purpose-built rental	Property tax ratios for purpose-built rental buildings aligned with those of residential, thereby providing that they pay the same rate as regular homes	2001*
Water and Wastewater Servicing Capacity Allocation		
Non-profit	Non-profit housing capacity allocation reserve established to support non-profit housing initiatives	2005
Purpose-built rental	Purpose-built rental capacity reserve established to support rental housing initiatives (subject to area constraints)	2019

*Note: The multi-residential class under the property taxation regime refers to housing that contains seven or more self-contained residential units and has rental tenure. The equalization of tax ratios of multi-res and res was introduced in 2001 and was phased in over 3 years. In 2003, the multi-res ratio was eventually reduced to 1.0