The Regional Municipality of York

Committee of the Whole
Finance and Administration
December 7, 2023
FOR DECISION

Report of the Commissioner of Finance

2024 Regional Fiscal Strategy

1. Recommendations

1. Council adopt the 2024 Fiscal Strategy outlined in this report.

2. Council affirm the 2024 Long-Term Debt Management Plan, shown as Attachment 1 to this report.

3. Council authorize contributions to the development charges reserve accounts equivalent to amounts not being collected as a result of provincial legislation (e.g. Bill 23) as follows:

    a. For shortfalls in collections for property tax supported services, from the Tax Levy Development Reserve.

    b. For shortfalls in collections for rate supported services, from the Rate Supported Development Reserve.

4. For the purposes of interpreting section 4.2 of the *Development Charges Act, 1997*, as amended, and associated regulations, Council direct staff that when considering a mixed-use building or structure developed by a non-profit corporation, as defined under the *Development Charges Act, 1997*, the residential portion of the building or structure be eligible for an exemption from development charges.

5. Council direct staff to accelerate a comprehensive, Region-wide update to the Region's 2022 Development Charges Bylaw to 2026 to help address funding challenges associated with accelerated growth expectations arising from local municipal housing targets.

6. Council direct staff, when reviewing servicing requests to accommodate unplanned or accelerated growth approved by the Province, to apply key principles shown on Table 3.

7. Council approve an amendment to the Reserve and Reserve Fund Policy to direct tax levy surplus first to the Tax Levy Development Reserve to fund the tax levy portion of development charge collection shortfalls resulting from Bill 23 exemptions, phase-ins, discounts, or the like, as shown on Table 5.

8. Council authorize annual contributions, as needed, from Water and Wastewater Rate Stabilization reserves to the Rate Supported Development Reserve to fund development charge collection shortfalls resulting from Bill 23 exemptions, phase-ins, discounts, or the like, starting in 2024.

9. Council authorize transfers, totalling $105 million, between reserve funds shown on Table 7.

10. Council endorse the proposed Roads Capital Acceleration Reserve repayment schedule shown on Table 6.

11. Council authorize a suspension of the $1 million annual contribution limit for the Courts Services Reserve, until such time as its reserve target of $5 million is reached.

12. Council authorize closing of the following reserves with any remaining balances transferred to the Debt Reduction Reserve:

    a. Cannabis Contingency Reserve

    b. Police – OMERS Reserve.

13. The Province be requested to permit upper-tier municipalities be eligible for funding under the Building Faster Fund.

14. Council authorize the Regional Solicitor to prepare and/or amend the necessary bylaws.

2. Purpose

This report seeks Council's adoption of the updated fiscal strategy, whose principles were used in preparing the 2024–2026 Regional Budget and Outlook.

It also recommends affirmation of the 2024 Long-Term Debt Management Plan to allow the Region to continue to access a growth-related cost supplement for its Annual Repayment Limit (ARL).

In addition, the report updates information regarding development charge collection shortfalls resulting from Bill 23, *More Homes Built Faster Act, 2022* (Bill 23).

Finally, the report provides an overview of fiscal challenges resulting from the North York Durham Sewage System Expansion (North YDSS) and related infrastructure and the additional or accelerated infrastructure requirements due to Minister's Zoning Orders (MZOs), unplanned growth, housing pledges or other provincial decisions.

Key Points:

- The 2024 fiscal strategy builds on achievements from successive fiscal strategies and continues to target long-term financial sustainability through the careful management of the capital plan, reserves and debt
- Annual development charge (DC) collection shortfalls, resulting from phase-ins and other discounts or exemptions, require additional non-development charge revenue to fund these shortfalls and maintain the current capital plan. This revenue may be raised through senior government funding, through tax levy and user rate funding, or partially through the annual operating surplus
- North YDSS and its related infrastructure and additional or accelerated infrastructure requirements resulting from MZOs, unplanned growth, housing pledges or other provincial decisions require striking a balance between achieving the Province's commitment of increased housing stock and the long-term financial sustainability of the Region
- The Region's capital contribution for Yonge North Subway Expansion (YNSE) has been capped by the Province at $1.12 billion for within scope costs
- Both S&P Global Ratings and Moody's Investors Service continue to rate the Region's credit ratings at their highest levels, AAA and Aaa, respectively, owing in part to Council's commitment to prudent financial management

3. Background

EVOLUTION OF THE FISCAL STRATEGY

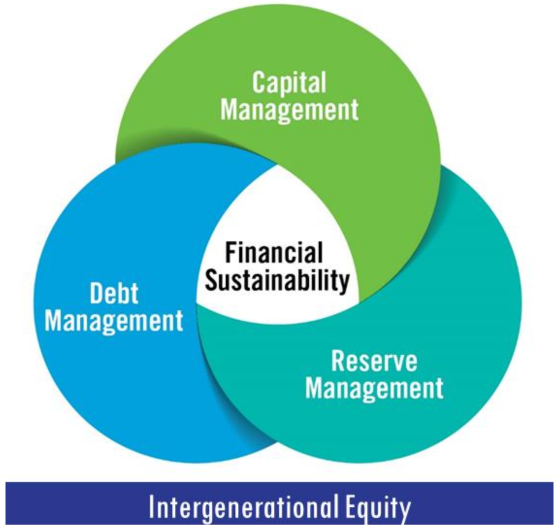
Council has adopted an updated fiscal strategy every year since 2014

Starting with the 2014 Regional Budget, Council has adopted an updated fiscal strategy each year as part of the annual budget process.

The purpose of the fiscal strategy is to help ensure the Region's long-term financial sustainability, while maintaining a balance between the needs of current and future residents. This is done through prudent management of the capital plan, reserves and debt. These elements work cohesively as illustrated in Figure 1.

Figure 1

Elements of the Fiscal Strategy



Source: York Region Finance Department

The fiscal strategy is guided by four key principles that were endorsed by Council

The fiscal strategy is guided by the following key principles previously endorsed by Council:

- Keeping growth affordable and the existing infrastructure in a state of good repair
- Maintaining a "AAA" credit rating
- Having the fiscal flexibility to respond to the evolving needs and economic changes
- Treating current and future tax and rate payers fairly by striving for intergenerational equity

Keeping growth affordable, while enabling creation of complete communities, means that the Region must prudently manage its growth capital spending and closely align it with anticipated development charge revenue. At the same time, appropriate funding must be dedicated to keeping existing infrastructure in a state of good repair.

Credit ratings are an independent assessment of an entity's creditworthiness. It measures the entity's current financial position and its future risk exposure. The Region is rated by both S&P Global Ratings (S&P) and Moody's Investors Service (Moody's). Having a triple A rating is the highest grade possible.

Having fiscal flexibility means having the financial capacity to respond to evolving needs and economic conditions by managing spending and building up reserves to meet future capital needs.

Aligning infrastructure investment with growth is a key to fiscal sustainability

Infrastructure investments often must occur in advance of when growth occurs and when development charges are collected. Debt is needed to bridge the timing between infrastructure expenditure and revenue collection. Aligning and phasing infrastructure delivery will be key to mitigating financial risks associated with planning for growth and paying for the required infrastructure.

At the Region, financial plans such as the Development Charges Background Study and Bylaw, the Corporate Asset Management Plan, the Fiscal Strategy and the Budget provide the financial guidance to invest in required growth-related infrastructure while remaining fiscally prudent.

Between now and 2051, there will be multiple updates to these infrastructure and financial plans that will provide opportunities to either confirm, or if necessary, adjust forecasts and the timing of infrastructure delivery to reflect updated growth projections for the Region.

Both S&P and Moody's continue to rate York Region as triple A

The Region's credit rating remains strong. Both S&P Global Ratings and Moody's Investor Services most recent credit ratings for the Region are AAA (stable) and Aaa respectively. These rating agencies highlight the following strengths of the Region:

- Excellent liquidity profile with growing levels of cash and reserves
- Prudent and far-sighted fiscal management
- Continued strong fiscal outcomes
- Diversified and expanding economy

However, rating agencies have express concern about the Region's elevated debt burden and associated debt servicing costs, especially relative to other similarly rated Canadian municipalities. Moody's and S&P identified three factors that could lead to a future downgrade:

- Sustained increase in the debt burden
- Material decline in liquidity
- Weak operating results

BILL 23, MORE HOMES BUILT FASTER ACT

On November 28, 2022, the Province enacted Bill 23 which will have a significant impact on the Region's funding of growth-related infrastructure.

Non-development charge revenue will be needed to make up for DC collection shortfalls from rate phase-ins, exemptions and discounts

As highlighted in June's 2023 Fiscal Sustainability Update, Bill 23 has led to significant changes in how the Region administers development charges. For any bylaw passed after January 1, 2022, DC rates must now be phased-in over five years starting at 80% of Council's approved rate, increasing by 5% each year. As of November 28, 2022, Region was no longer able to collect development charges for Housing Services, and starting with its next development charges bylaw update, will no longer be able to collect for growth-related studies and some land costs. In addition, Bill 23 provides development charges exemptions for affordable and attainable housing. Staff estimate, based on currently known information, the impact of Bill 23 could be approximately $700 million over the next ten years.

Bill 134, *Affordable Homes and Good Jobs Act,* proposes new definitions for developments to qualify for affordable ownership or rental exemptions

On September 28, 2023, the Province tabled Bill 134, *Affordable Homes and Good Jobs Act, 2023* (Bill 134), which proposed revised definitions for affordable ownership and rental housing. However, Bill 134 did not provide any further guidance on the definition of attainable housing.

The revised definitions now incorporate an income-based approach along with a market-based approach to determine qualification for the respective exemptions. To determine fiscal implications of these changes more information is required from the Province. The Ministry of Municipal Affairs and Housing is expected to provide these details as part of their Affordable Residential Units Bulletin, which could be released once these proposed changes to the *Development Charges Act, 1997* take effect. Staff will provide an updated analysis once this information is available.

The residential portion of a mixed-use building, developed by a non-profit corporation, will be eligible for an exemption from development charges

Bill 23 introduced an exemption for non-profit housing developments. There may be instances when a non-profit housing development forms part of a mixed-use building or structure (e.g., retail podium and non-profit housing above). A key policy objective of Bill 23 is to help address the identified need for more non-profit housing. Given this objective, when a mixed-use building or structure includes non-profit housing, the proposed recommendation provides that the non-profit housing portion will be eligible for the full development charges exemption under section 4.2 of the *Development Charges Act*.

EXTERNAL FACTORS WILL CONTINUE TO IMPACT THE FISCAL STRATEGY

Unplanned growth, housing pledges, MZOs and other provincial decisions are driving the need for additional or accelerated infrastructure

Since the 2023 Fiscal Sustainability Update report last June, local municipalities have received further direction from the Province regarding their housing targets. Eight of the Region's local municipalities – Aurora, East Gwillimbury, Georgina, Markham, Newmarket, Richmond Hill, Vaughan and Whitchurch-Stouffville now have housing targets which total 150,000 starts from 2022 to 2031. This pace of growth will be about two to four times higher than historic trends. Municipalities achieving 80 per cent or more of their annual target will be able to access a portion of their allocation under the Building Faster Fund.

These recent policy and legislative changes from the Province will have an impact on development within York Region and will result in additional servicing requirements and associated costs.

In late 2022, and throughout 2023, several provincial decisions resulted in changes in how the Region is expected to grow. These include changes to servicing wastewater needs, MZOs, the removal or redesignation of 330 hectares of land in the Greenbelt and Oakridges Moraine, and housing pledges, among others. A further discussion of these changes was included as part of the June 2023 Fiscal Sustainability Update report.

Schedule 10 to Bill 23, the *Supporting Growth and Housing in York and Durham Regions Act, 2022* stipulated a new dedicated system will be required to convey wastewater from the Upper York service area to Lake Ontario through the York Durham Sewage System (YDSS) and Duffin Creek Plant. The new system, the North YDSS, requires trunk sewers, forcemains and pumping stations presenting fewer opportunities to phase design and construction of this infrastructure program (refer to March 2023 report). This project is included in the 2024 10-year Capital Plan.

MZOs are a tool used by the Province to expedite development approvals. The *Planning Act* authorizes the Minister to issue MZOs to advance the planning process for developments aligning with Provincial priorities, like long term care or housing. The Minister is not required to consider technical factors such as servicing requirements or alignment with existing Official Plans when using this authority.

Since 2021, the Province's use of MZOs has increased, with 25 applications being issued for lands in York Region, as outlined in Appendix A. These MZOs create growth in new community areas or infill development within existing communities, often at levels significantly higher than originally forecasted. Additional, unplanned growth creates pressure on existing infrastructure and servicing capacity. Although some of these lands may be spatially close to the nearest Regional wastewater infrastructure, there are pre-existing limitations related to assigned capacity and timing for already approved lands.

Since drafting the June report, the Province has reversed some of its previously announced actions

Since drafting of the June report the Province tabled Bill 136, *Greenbelt Statute Law Amendment Act, 2023* (Bill 136). Bill 136 proposes to reverse changes to the Greenbelt lands, which included all 330 hectares previously mentioned.

On November 16, 2023, Bill 150, *Planning Statute Law Amendment Act, 2023,* was tabled. If passed, this would wind back provincial changes to the Region's Official Plan, except where construction has begun or where doing so would contravene existing provincial legislation and regulations. This includes reversing changes to urban boundaries in select areas brought in through Provincial approval. The Ministry is also reviewing MZOs.

The impact of rolling back these provincial decisions, on the need for additional or accelerated infrastructure, is currently being assessed. This assessment may also be impacted by subsequent amendments to the two bills, as they make their way through the legislature, or the introduction of additional legislation.

Global economic recovery has led to higher inflation costs and a rapid rise in interest rates

Although macroeconomic pressures caused by COVID-19, including supply chain issues and labour shortages have abated, inflation remains elevated. The Consumer Price Index for Toronto is still above the Bank of Canada's 2% target, with the most recent estimate at 4.0% (October 2023). The Non-Residential Building Construction Price Index peaked in 2022 and is still significantly above long-run averages with Q1 2023 measured at 12.3% for the Toronto region and remaining elevated at 8.1% in Q2 2023.

Over the course of 2021 to 2023, the Bank of Canada raised its policy interest rate ten times from 0.25% to 5.00%. Economists believe the Bank of Canada is close to ending their tightening cycle as inflation rates are beginning to moderate. However, the impact of higher rates has been felt in the housing market as sales have slowed and prices have stagnated.

Elevated interest rates will impact the fiscal strategy through the expectation of higher costs in the capital and debt programs. Lower than anticipated growth in the housing market would impact the Region through lower development charge collections and lower assessment growth revenue.

4. Analysis

FIRST ELEMENT OF THE FISCAL STRATEGY – MANAGING THE CAPITAL PLAN

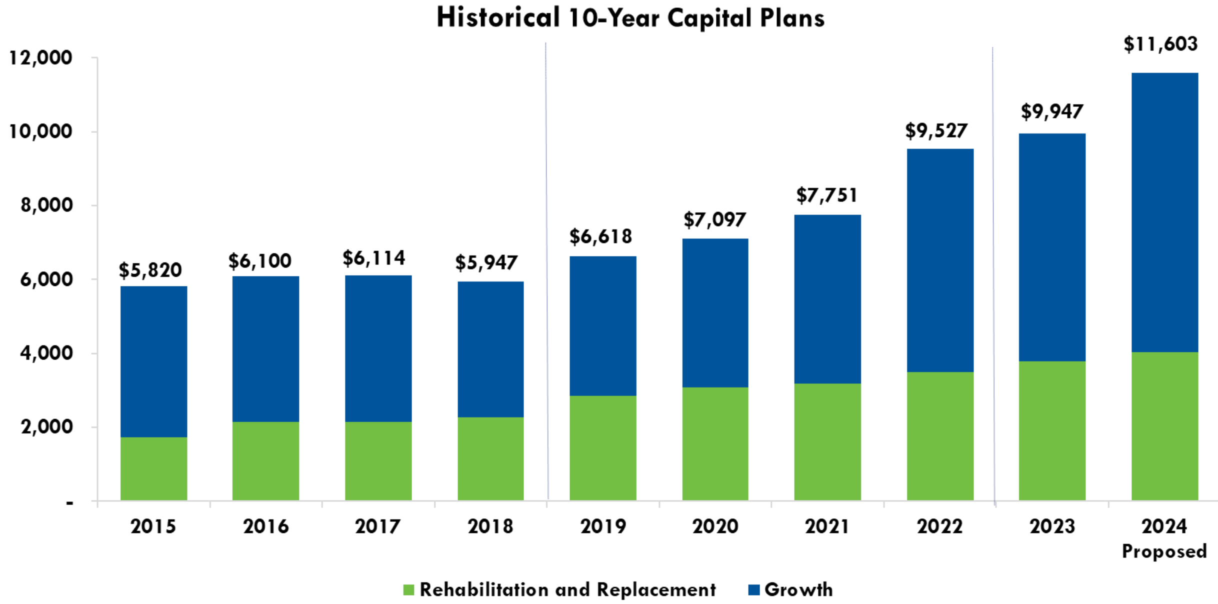
The Region continues to make significant investments in growth-related capital infrastructure

The 2024 10-year Capital Plan proposes expenditures of $11.6 billion. This includes $7.6 billion of growth-related investment (including a projected $1.12 billion for the Region's contribution towards the YNSE) as well as a further $4.0 billion of asset rehabilitation and replacement spending.

Assumptions used for the Capital Plan are premised on a robust level of DC collections resulting from growth in line with local municipalities achieving at least 60% of their provincial housing targets from 2022 to 2031, with higher-than-average growth in the near term.

The proposed 10-year Capital Plan is $1.7 billion higher than last year, as shown in Figure 2.

Figure 2
Comparison of 10-Year Capital Plans (in $millions)



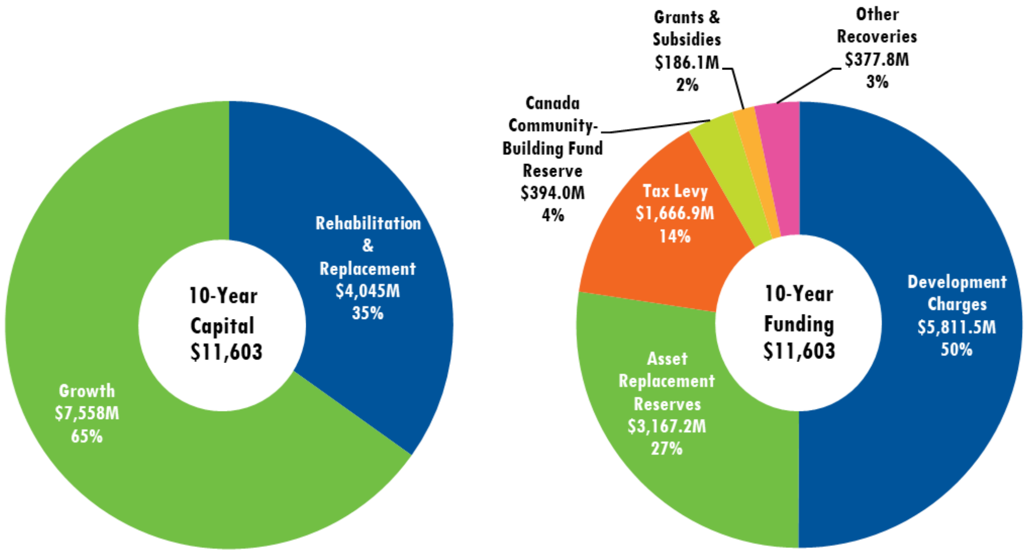
Source: York Region Finance Department

Development charges will be the main source of funding for growth-related projects; however, the portion of growth projects that benefit existing residents must be funded from the tax levy and other sources. Approximately $5.5 billion of the $7.6 billion spending is expected to be funded from development charges while the remaining $2.1 billion is expected to be funded from the tax levy or other sources. An additional $351 million in development charge funding is expected to support asset management projects with a growth component, resulting in total development charge funding of $5.8 billion. Figure 3 provides a breakdown of the 2024 10-Year Capital Plan expenditures by need category and funding source.

As noted above, recent provincial legislation has reduced municipalities' ability to collect development charges. While more guidance from the Province is needed to estimate the full impact of these changes, the 2024 Budget assumes there will be an average shortfall of approximately $70 million per year for known impacts of Bill 23 over the next 10 years which will need to be supplemented using non-DC revenue sources.

Figure 3

2024 10-Year Capital Plan Expenditures and Funding Sources



Other Recoveries includes Third Party Recoveries and Recoveries from Local Municipalities
Source: York Region Finance Department

Asset management spending, up $260 million over last year's budget, is informed by long-term asset management plans

All departments have completed asset management plans informing their long-term capital plans. Over the next 10 years, asset management spending is forecasted to be $4 billion, $260 million higher than last year's budget, mostly due to inflationary costs and updated condition information from asset management assessments.

As shown in Figure 3, $3.2 billion of this cost will be funded from asset replacement reserves, while the remainder will be funded from the Canada Community Building Fund Reserve (previously known as the Federal Gas Tax), recoveries, grants and other reserves.

Yonge North Subway Extension (YNSE) is assumed to be capped at $1.12 billion

As part of the 2024 10-year Capital Plan, it has been assumed that the Region's contribution to capital costs of the YNSE will be capped at $1.12 billion. The 1% annual incremental Rapid Transit/Infrastructure Levy, first introduced in 2022 and endorsed by Council as part of the 2023 Budget, is expected to continue through 2026 and will provide the funding needed to cover the $280 million tax levy contribution to the project.

$2.1 billion of identified priority projects for community housing and bus rapid transit are not formally included as part of the 2024 10-year Capital Plan

In response to the Region's fiscal constraints, some projects that require funding commitments from senior levels of government are not formally included as part of the 2024 10-year Capital

Plan and are instead presented “below the line”. These projects are related to the next phase of bus rapid transit construction and community housing totalling $1.8 billion and $304 million, respectively, over the next ten years. The Capital Plan does however include preconstruction dollars for initial investments to ensure these projects can reach a state of readiness as the Region continues to advocate for new funding opportunities.

2024 10-year Capital Plan includes two new housing initiatives total $177 million

The Capital Plan also includes an investment of $177.2 million for two housing initiatives – 62 Bayview Parkway and 14th Avenue Box Grove – for which significant funding commitments from senior levels of government are still required. To date, senior governments have committed a combined 7% of the cost of each project. Staff continue to advocate for further funding opportunities to achieve a targeted two-thirds of senior government funding share and expect additional funding to be secured as the projects progress to construction.

Until funding has been finalized with senior levels of government, these projects will rely on additional draws from the Social Housing Development Reserve. The Social Housing Development Reserve has a projected 2023 ending balance of $86 million, which is expected to grow to $137 million by the end of 2024, after annual contributions and the proposed transfer from the Non-Profit Housing Reserve Fund included in Table 7, below. Combined there would be a sufficient amount available in this reserve should the anticipated senior level government funding not materialize.

End of term mortgage savings from community housing projects will be reinvested into rehabilitating and repairing existing units and constructing new housing units

As a result of changes in 2022 to the *Housing Services Act*, the Region must develop a service agreement framework to guide negotiations of new agreements with community housing providers as their Region-subsidized mortgages end. The Region could realize up to $1 billion in savings over the next 40 years as these mortgages end and a subsidy is no longer required. In December 2020, Council endorsed, in principle, that mortgage savings be reinvested into the system. In 2020 it was estimated that 40%, or $400 million of the anticipated savings will be required for capital repairs within the York Region community housing system, while the remainder, approximately $600 million, would be available for new construction. Reinvestment of mortgage savings in York Region is critical to realizing commitments in the Corporate Strategic Plan and the Region’s 10-year housing and homelessness plan.

Following Council’s approval of a framework, expected in 2024, and subject to further financial analysis, the Region will begin to negotiate service agreements with community housing providers whose mortgages have expired. The framework will include financial assumptions and a projection of available subsidy savings over time. As more information is known through financial modeling and service agreement negotiations, staff will have a better understanding of subsidy savings available to include in the capital budgeting process to increase supply.

Achieving 100% of housing targets by 2031 could require up to $2.6 billion of additional capital infrastructure

Over the next 30 years, the Region's master plans assumed $13 billion of growth-related infrastructure would be required for water, wastewater and transportation services. Those plans were based on achieving the Regional Official Plan target of 2.09 million people by 2051.

The 2024 10-year Capital Plan provides for achieving at least 60% of new provincial housing targets from 2022 to 2031. The near-term forecast reflects the local municipalities' intention to achieve the level of growth required to receive funding from the provincial Building Faster Fund.

However, with the introduction of the Province's housing targets, the Region would need to grow to 1.6 million residents by 2031, about twice as fast as originally included in the Regional Official Plan. The significant advancement of population growth creates new infrastructure pressure for the Region.

Over the next 10 years, approximately $7.6 billion for growth capital spending is included in the 2024 Budget. To meet 100% of the Province's housing target, the Region would need to accelerate $2.5 billion of capital projects included in the Region's master plans into the 2024 10-year Capital Plan. In addition, there needs to be $90 million of investment in water and wastewater servicing that was not previously planned. These costs are outlined in Table 1.

Table 1
Estimated New Capital Needed to Meet 100% of Provincial Housing Target ($ millions)

Plan	Water and Wastewater	Roads	Transit and YNSE	Housing	Other	Total
2024 10-Year Capital Plan (Growth Component)	2,941	1,547	1,782	258	1,030	**7,558**
Planned infrastructure required to be accelerated into 10-year Capital Plan	150	1,163	874	304*	0*	**2,491**
New capital costs	90	0	0	0*	0*	**90**
Total	**3,181**	**2,710**	**2,656**	**562**	**1,030**	**10,139**

Source: York Region Finance Department
*Further Analysis required to assess additional capital needs to meet 100% of Housing Targets

SECOND ELEMENT OF THE FISCAL STRATEGY – RESERVE MANAGEMENT

Contributions to reserves are mostly on target to meet the Region's future needs

The Region maintains several reserves and reserve funds and these reserves are projected to hold a combined total of approximately $4.6 billion as of December 31, 2023. The majority of these will be used to fund future capital needs and have been grouped into categories as shown in Table 2.

The largest category, at $2.3 billion, will be for future rehabilitation and replacement of the approximately $25 billion of Regional assets. Growth capital reserves ($906 million) are the second largest component and include the Debt Reduction Reserve and funding for the non-development charge portion of growth. The third largest component are corporate reserves, which include stabilization reserves and future liabilities. Development charges, provincial gas tax and Canada Community-Building Fund, considered to be deferred revenue rather than a reserve, are held separately, as required by law, to be managed along with development charge debt to fund growth-related capital projects.

Table 2

Projected Reserves and Reserve Funds as at December 31, 2023 and 2024 Planned Contributions ($ millions)

	2023 Forecasted Balance	2024 Planned Contribution	Progress
Funded from Operating Budget:			
Asset Replacement: Tax Levy	1,448	196	Under Target
User Rate	803	206	On Target
Growth Capital	906	169	On Target
Corporate Reserves*	753	31	On Target
Total from Operating Budget	3,910	603	
From Deferred Revenue:			
Development Charges	603	551	On Target
Provincial Gas Tax	6	16	On Target
Canada Community-Building Fund	97	37	On Target
Total from Deferred Revenue	707	604	On Target
Total	**4,617**	**1,207**	

* Excludes Provincial Gas Tax and Canada Community-Building Fund Reserves, shown separately under Deferred Revenue

Source: York Region Finance Department

The figures and discussion above do not include the Region's sinking fund reserve, which is a segregated fund that can only be used to repay existing debt. The amount in this reserve has been netted against total outstanding debt to arrive at the "net" outstanding debt figure shown elsewhere in this report. The reserve consists solely of the cumulative amount of principal repayments that the Region made each year for existing debt as well as any interest earned on the balance. As of December 31, 2023, the balance in the sinking fund is forecasted to be approximately $1.3 billion.

Reserves are expected to continue to grow as the Region looks to build capacity to meet future asset management needs and fund the non-development charge portion of growth.

Contribution targets for asset replacement ensures funding will be available to meet future rehabilitation and replacement needs for a growing asset base

Asset replacement reserves are the largest category of the Region's reserves. Approximately $1.4 billion of these reserves are for tax levy-supported assets while the remaining $803 million is for user-rate supported assets.

The current replacement value of the Region's entire asset base is $25.3 billion, up 33% from the prior year and 73% since 2018. Steady and significant growth in the asset base is driven by several factors, including addition of new assets through the Region's ambitious growth-capital program; inflationary pressures since the value of assets is reported in current-year dollars; and better information about asset condition through continuous improvement in asset management planning.

In addition to the current asset base, the proposed 10-year Capital Plan includes $7.6 billion of additional infrastructure. While the initial cost of new infrastructure is largely covered from development charge collections, the future cost of rehabilitation and replacement will need to be primarily funded from the tax levy and user rates.

The Region's Reserve and Reserve Fund Policy reflects Council's commitment to contributing to asset management reserves once a new asset is commissioned. Because the initial cost of emplacements is predominately covered through DCs, contributions to asset management reserves starting at the time of asset commission creates better alignment between those who use the asset and those who pay for it. This alignment supports the Fiscal Strategy principle of inter-generational equity. Building sufficient asset management reserves also supports Council's commitment to avoid issuing new tax levy or user rate debt.

Corporate reserves are for known liabilities and provide financial flexibility

In addition to the capital reserves discussed above, the Region contributes to corporate reserves, for known liabilities, such as self-insured WSIB and non-insured losses, human resources reserves and other reserves that provide financial stability and flexibility. The Region's human resources reserves are supported by actuarial studies.

Stabilization reserves include the Tax Stabilization, Fiscal Stabilization, User Rate Stabilization, Fuel Cost Stabilization and Waste Management Stabilization reserves. They provide funding for unexpected expenditure or revenue shortfalls. The Pandemic Management and Recovery Reserve is included in this category.

Targets for these reserves are reviewed annually and updated as required.

THIRD ELEMENT OF THE FISCAL STRATEGY – DEBT MANAGEMENT

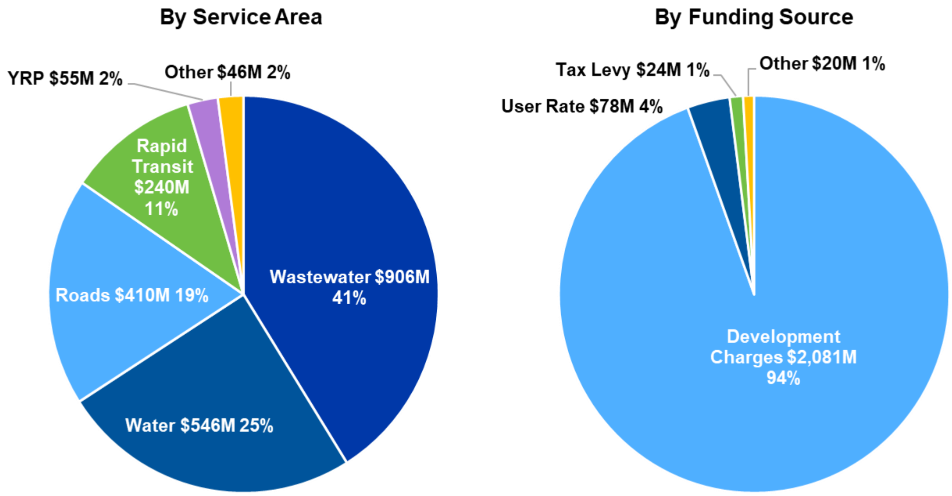
The amount of debt the Region assumes is constrained

As discussed above, debt is used to bridge the timing between infrastructure expenditures and revenue collection. To ensure growth can be accommodated, infrastructure may need to be put in place ahead of time, particularly for water and wastewater. As a high growth municipality, the

Region has invested significantly in growth-related infrastructure. Currently, the Region has $2.2 billion of outstanding debt, with approximately 94% of debt issued for development charge funded projects as shown in Figure 4. Since Council's long-term strategy has been to issue debt only for growth-related assets, the amount of debt for non-development charge funded projects has been steadily decreasing and now represents less than 6% of total debt outstanding.

Figure 4

Outstanding Net Debt as at December 31, 2023
$2.2 Billion

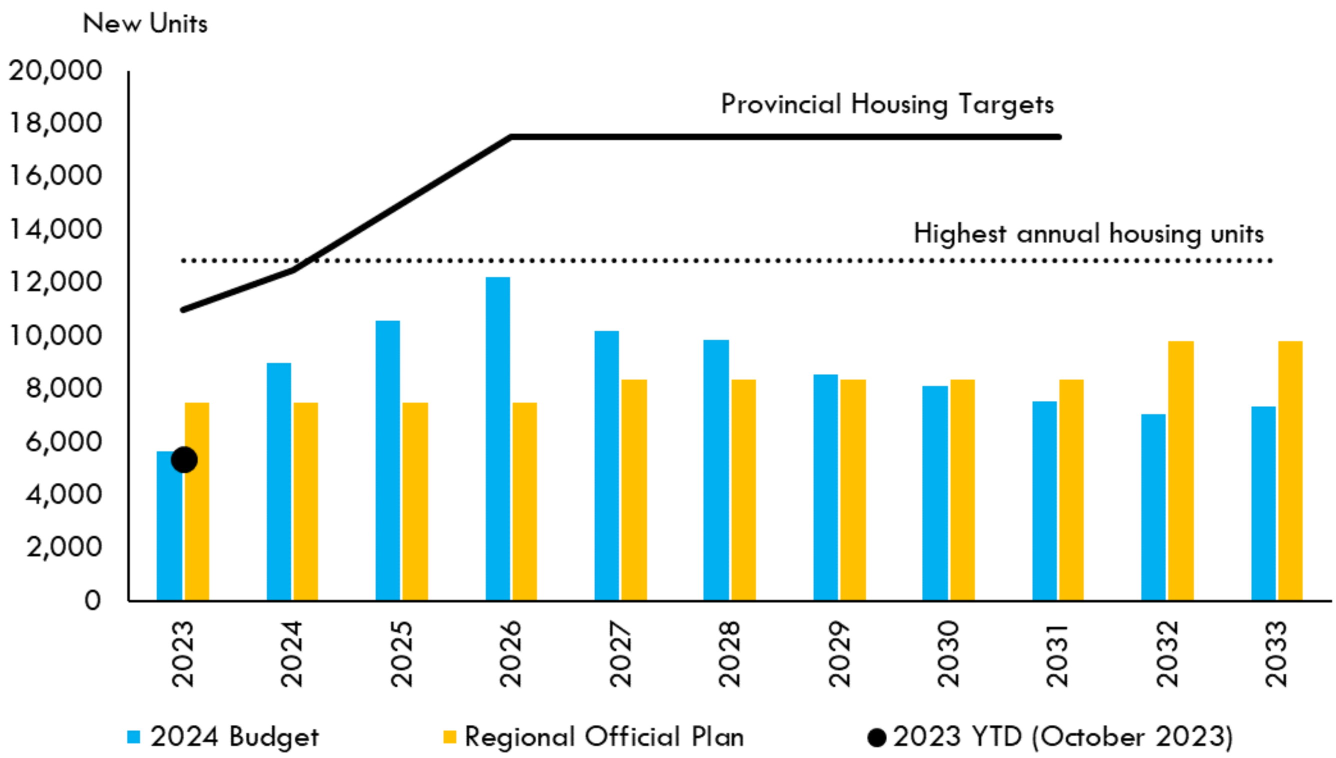


Source: York Region Finance Department

Growth forecasts are used to determine the amount of debt needed in the 10-Year Capital Plan since development charges are used to pay for much of the growth-related infrastructure. However, if actual growth is slower than forecasted, and resulting DC collections do not materialize, the amount of debt needed would increase along with debt servicing costs.

Figure 5 shows the growth assumed in the 2024 10-Year Capital Plan compared to the Regional Official Plan and annual growth required to meet the Province's Housing Target. Provincial housing targets are significantly above what is assumed in the Regional Official Plan. Starting in 2025, housing targets also exceed the highest annual housing starts the Region has seen in the last 30 years. The highest level of new housing starts was back in 2000, when there were just under 13,000 new units.

Figure 5
Historic and Forecasted New Housing Units



Source: York Region Treasury Office and Planning and Economic Development, Province of Ontario
*Housing targets as proposed by the Province of Ontario.

The amount of new debt the Region can assume is also constrained by its Annual Repayment Limit, Council's policies, and the amount of revenue, particularly from development charges, it expects to collect in the future to service new debt. The Region restricts debt, where necessary, to ensure a strong financial position will be maintained both for its current and future residents – this is measured independently by credit rating agencies, with a triple A credit rating representing the top score.

Timing of growth will significantly impact the amount of debt required and the risk to fiscal sustainability

As highlighted earlier, infrastructure investments often must occur in advance of when growth occurs. Debt is used to bridge the timing gap between when infrastructure expenditures are made by the Region and when it receives the revenue needed to pay for them, which could be up to 20 or 30 years later.

The 2024 10-Year Capital Plan assumes that DC collections will occur at a rate needed to achieve at least 60% of the new provincial housing targets during this period. However, municipalities are not able to control when new development takes place as there are many economic factors that drive developer decisions in this matter. The tempered forecast used in the Plan helps mitigate against possible delays that could dampen housing construction and lower new unit sales in the Region. This estimate can be adjusted in future fiscal strategies using updated economic and housing market outlooks.

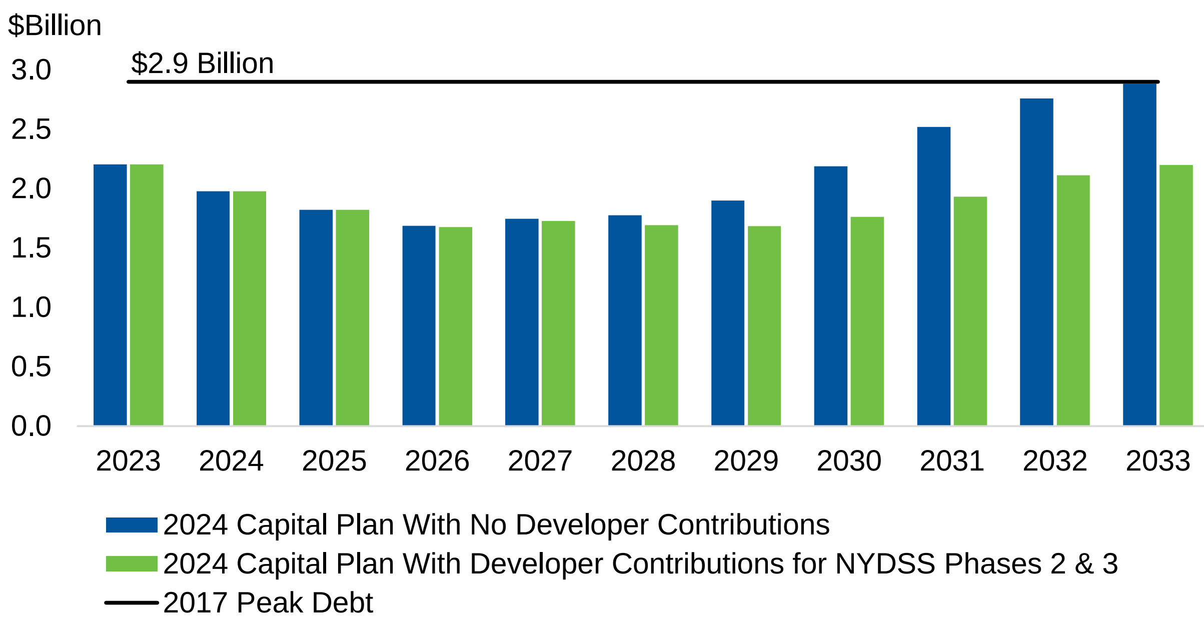
The 2024 10-Year Capital Plan includes an additional $593 million for advancing phases 2 and 3 of the North YDSS needed to service housing targets. However, if the Region finances these projects using its own resources, it will cause debt levels to elevate and be maintained well above the $2.9 billion level (a level recognized in previous analyses to be sustainable) starting in the mid 2030s.These debt levels would be higher and occur earlier if there was any delay in assumed growth during the period.

As noted, the Region does not control when growth occurs. Asking developers to share the risk of advancing Phases 2 and 3 of the North YDSS project by contributing funding for it until the development charges are received, not only benefits the Region but also incentivizes development. Therefore, to support fiscal sustainability, this option has been used when developing the 10-year Capital Plan.

A comparison of net outstanding debt projections between Regional and developer funding of Phases 2 and 3 of North YDSS is included in Figure 6.

Figure 6

Net Outstanding Debt Projection 2023 to 2033



Note: debt forecast assumes that contributions are made annually to DC reserves to offset Bill 23 shortfalls

Source: York Region Finance Department

The majority of projected Development Charge collections over next 10 years will be used to service debt

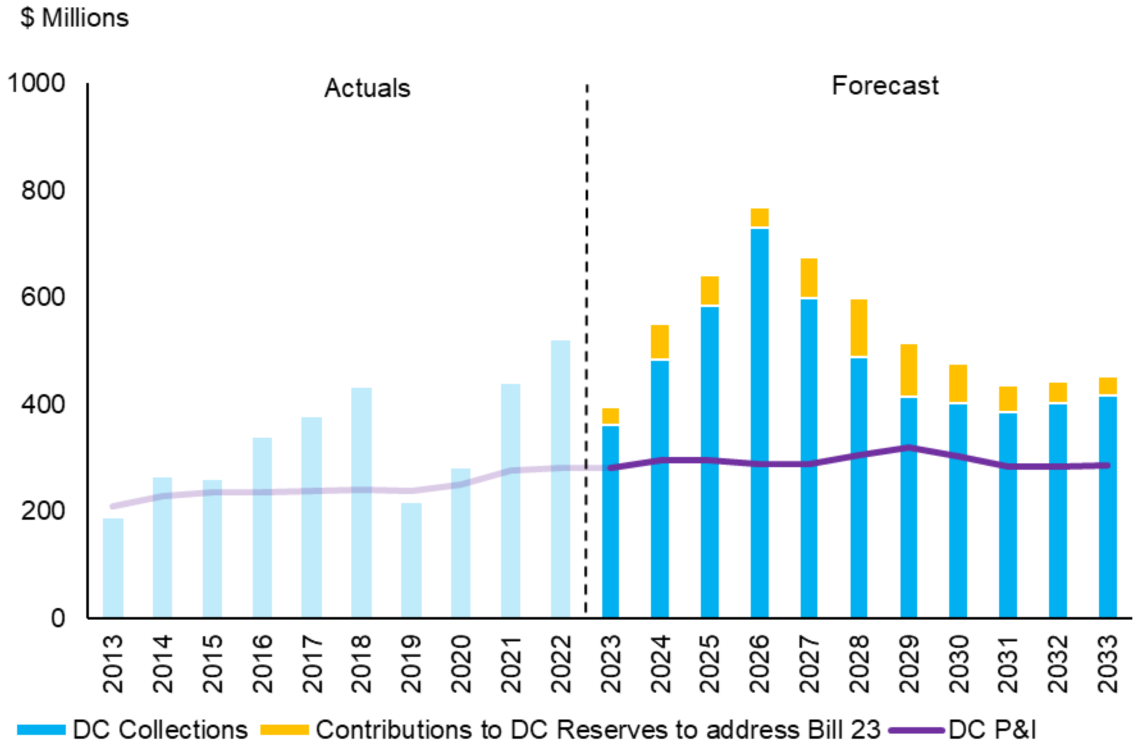
Development charges are the main source of funding for growth-related infrastructure. Figure 7 compares forecasted development charge collections against the anticipated principal and interest payments for the proposed 10-year capital plan.

It is anticipated the Region will collect $362 million in development charges during 2023. Over the next ten years, average annual development charge collections are forecasted to be $490 million, after accounting for known impacts of Bill 23. This includes DC rate phase-ins, removal of Housing Services, removal of growth-related studies and land costs upon the next DC bylaw, rental DC rate discounts and capping interest rate at prime plus 1%. This forecast assumes a robust level of growth in line with achieving at least 60% of new provincial housing targets overall from 2022 to 2031, with higher-than-average growth in the near term. It is anticipated that there may be significant year-over-year fluctuations in collections, due to changes in construction activities and the economy.

During the same period, the 2024 budget assumes the average annual principal and interest payments will be $295 million per year, which is premised on annual contributions to development charge reserves to address Bill 23. Contributions are forecasted to average $64 million annually.

Figure 7

Historical and Forecasted Development Charge Collections and P&I



Source: York Region Finance Department

The 10-Year Capital Plan supports the Region's Triple A credit rating

Based on the 10-year Capital Plan, the Region will pay $2.4 billion in principal and interest for its existing debt. In addition, there will be further spending of $7.6 billion on growth related infrastructure, for which the Region will need to issue $2.1 billion in new debt over the same period.

York Region's net debt is expected to peak at $2.2 billion in 2033 which will be lower than 2017 peak level of $2.9 billion. This is an important threshold as one of the key parameters considered by credit rating agencies is the level of debt and associated principal and interest costs. S&P requires interest costs to be lower than 5% of the Region's operating revenue for a AAA credit rating. Managing the level of debt is key to ensuring the Region's borrowing costs remain below this threshold and a AAA credit rating is maintained.

A further analysis of risks associated with debt, as well as mitigation strategies used by the Region, are discussed in Section 3 of the 2024 Long-Term Debt Management Plan.

Council affirmation of the 2024 Long-Term Debt Management Plan is required to access growth-related borrowing capacity

In 2011, the Province provided a York-specific growth cost supplement for ten years that allowed the Region to borrow a higher amount than what is permitted under the regular Annual Repayment Limit, based on its development charges collections. In April 2021, the Province renewed the Region's growth-related cost supplement component of the ARL for another ten years, expiring on December 31, 2031.

To qualify for this additional growth-related borrowing capacity, Council is required to affirm a Long-term Debt Management Plan for the Region's long-term debt and financial obligations on an annual basis. This Plan is provided as Attachment 1 to this report.

FRAMEWORK FOR UNPLANNED OR ACCELERATED INFRASTRUCTURE

The Development Charge Credit Policy provides a framework for accelerating infrastructure

The Region has an established framework for developers to request accelerated construction of infrastructure already included in a development charges bylaw. Subject to Council's approval, developers can pay to advance the works through a Prepaid Development Charges Credit Agreement. Subject to meeting the criteria set out in Council's policy, a developer would then be eligible for reimbursement of its costs through credits when development charges are payable.

Fiscal Sustainability Update proposed a principled approach when addressing requests for new unplanned or accelerated infrastructure

The June 2023 Fiscal Sustainability Update report included recommendation #3 providing key principles to address servicing requests for unplanned or accelerated growth. These principles have been consolidated into what is shown in Table 3.

On June 29, 2023, Council deferred this item until the fall to consider options for advancing infrastructure that was not included in the 2022 Development Charges Bylaw (2022 DC Bylaw).

Table 3
Key Principles to Address Servicing Requests for Unplanned or Accelerated Growth

Principles
a. Development Charge Credit Policy (Appendix B), will be considered to advance infrastructure that is unplanned for and not in Regional Plans where technically and operationally feasible
b. Water and wastewater servicing capacity will be provided through the local municipality's existing capacity assignment
c. Ownership of servicing infrastructure will follow the Water and Wastewater Infrastructure, Regional Jurisdiction Policy
d. Delivery of Regional infrastructure will follow the Region's project delivery process including route and location selection through Environmental Assessment consistent with Region's design guidelines, standards, and specifications

Advancing a comprehensive Region-wide update of the 2022 DC Bylaw would help address pressures of new unplanned or accelerated infrastructure needed to meet Provincial housing targets

The 2022 DC Bylaw (DC Bylaw) was passed by Council in May 2022, and is due to expire in June 2027. Some infrastructure that will be needed to accommodate the Provincial housing targets was not included in the DC Bylaw as they were not required to meet planned growth to 2041 originally contemplated in the Region's Official Plan. As noted in the June 2023 memorandum titled, "Potential timeline for advancing update of the 2022 Development Charges Bylaw to accommodate unplanned infrastructure", one option to address this need would be to advance an amendment or update of the DC Bylaw to 2026.

Staff engaged Hemson Consulting Ltd. (Hemson) to help with reviewing strategies to advance and finance major unplanned infrastructure not currently in a development charges bylaw (Appendix C). Hemson confirmed that, in their opinion, the most prudent approach would be for the Region to consider advancing a comprehensive, Region-wide (for all services), update of the DC Bylaw to the second quarter of 2026, if Council so directs (and if possible). One of the reasons for a comprehensive, Region-wide, update relates to transition provisions associated with Bill 23's changes to the *Development Charges Act, 1997*. These provisions require changes be made to other services when a bylaw is 'opened' (e.g., removal of all growth studies, introduction of 15-year historic service level for some general services). Other reasons for a comprehensive, Region-wide, update are discussed in the Private Attachment to this report (which provides legal implications associated with the review and recommendations proposed by Hemson). In support of the potential update of the DC Bylaw, staff procured Hemson to assist it with this work.

ADDRESSING DEVELOPMENT CHARGE COLLECTIONS SHORTFALLS

The Province has said it will keep municipalities whole but has not made any firm commitments to the Region

The Province has recognized that Bill 23 poses a challenge to municipalities and indicated it will assist in transition by keeping municipalities financially whole.

On November 30, 2022, Minister Clark sent a letter to the City of Toronto and the Association of Municipalities of Ontario (AMO) stating that, “There should be no funding shortfall for housing enabling infrastructure as a result of Bill 23, provided municipalities achieve or exceed their housing pledge levels and growth targets. That is why we are taking immediate action to launch a third-party audit of select municipalities to get a factual understanding of their finances, including their reserve funds and development charge administration.”

While the Region continues to advocate for the Province to keep its promise of keeping municipalities financially whole, to date, it has not made any funding commitment to address the Region’s expected shortfalls, as the Region is not eligible for the Building Faster Fund. To maintain long-term financial sustainability, the 2024 Fiscal Strategy provides options for addressing these shortfalls.

Known development charge shortfalls from Bill 23 are estimated to total approximately $700 million over the next ten years

Over the next ten years, 2024 to 2033, development charge collection shortfalls are estimated to be approximately $700 million (in 2024 dollars) for known impacts of Bill 23. This estimate reflects DC rate phase-ins, removal of Housing Services, removal of growth studies and land costs, discounts for rental development and interest rates capped at prime plus 1%. Further guidance from the province is needed to estimate the remaining changes related to residential exemptions from Bill 23.

As part of the 2023 Fiscal Strategy, the Tax Levy Development Reserve and Rate Supported Development Reserve were established as a means to fund development charge collections shortfalls.

Council could choose to raise additional revenue needed to fund shortfalls now

While the Region awaits provincial funding, annual shortfalls could either be addressed through year-end surpluses, if available, or a one-time tax levy and user rate increase. The potential one-time additional tax levy and user rate increases required to fund the 2024 to 2033 shortfall would be 3.7% in 2024 and 7.9% in 2025, respectively as shown on Table 4. This option is not recommended at this time while the Region continues to advocate for the Province to keep its promise.

Table 4

Tax Levy and User Rate Increases Required to Fund Bill 23 Shortfall

Tax Levy Increase	2023 Approved	2024	2025	2026
Tax Levy Increase	2.90%	2.75%	2.60%	2.60%
Rapid Transit / Infrastructure Levy	1.00%	1.00%	1.00%	1.00%
Bill 23 Impact	-	3.70%	-	-
Total Tax Increase	**3.90%**	**7.45%**	**3.60%**	**3.60%**

User Rate Increase	2023 Approved	2024	2025	2026	2027
Approved User Rate Increase	3.3%	3.3%	3.3%	3.3%	3.3%
Bill 23 Impact	-	-	7.9%	-	-
Total User Rate Increase	**3.3%**	**3.3%**	**11.3%**	**3.3%**	**3.3%**

2024 Budget has not assumed a new source of funding for future shortfalls

The 2024 Budget assumes that shortfalls will be funded from the surplus. However, as annual surpluses are not budgeted nor guaranteed, there is a risk that shortfalls could exceed operating surpluses. Where surpluses are insufficient funds would be drawn from the Debt Reduction Reserve for tax levy-related service areas and the Water and Wastewater Rate Stabilization Reserves for user rate-related service areas.

Development charge shortfalls for 2022 and 2023 are expected to total $48 million and can be funded from existing reserves

Staff estimate a total DC collections shortfall of $48 million for 2022 and 2023 due to Bill 23. It is recommended that funds from the Tax Levy Development Reserve and User Rate Development Reserve be used to offset to their respective Development Charge reserves for annual statutory development charge collection shortfalls in future years.

As part of the 2022 Financial Results - Unaudited Budget to Actual Comparison report, $22.2 million was allocated from the 2022 Operating Surplus to the Debt Reduction Reserve to help fund the 2022 and 2023 impact of Bill 23, estimated to be $30 million by the end of 2023. The user rate portion of the 2022 and 2023 shortfall, estimated to be $18 million, will be funded through the Water and Wastewater Rate Stabilization reserves.

Included in Table 7 are transfers between the Debt Reduction Reserve and the Tax Levy Development Reserve and the Water and Wastewater Rate Stabilization Reserves and the Rate Supported Development Reserve to fund development charge collection shortfalls, resulting from Bill 23 exemptions, phase-ins, discounts, or the like, for 2022 and 2023.

Until another funding source has been determined, it is recommended that the Surplus Management Policy be amended to allow its use for funding development charge shortfalls

As part of the Reserve and Reserve Fund Policy, the Surplus Management Policy dictates how operating surpluses, if any, can be used to provide funding for some of the Region's reserves such as: the Working Capital Reserve; human resources reserves and the Debt Reduction Reserve.

Operating surpluses could also be used fund the development charge collection shortfall for property tax supported services, until such time as another funding source has been determined. It is recommended that the Surplus Management Policy be updated to allocate any operating surpluses to reserve funds that are below target in the priority order outlined in Table 5 below.

Table 5
Proposed Update to Surplus Management Policy

Allocation of Operating Surplus in Priority Order
• First to the Tax Levy Development Reserve, to fund the tax levy portion of development charge collection shortfalls resulting from exemptions, phase-ins, discounts, or the like • Then to the Working Capital Reserve • Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve, Group Benefits and the Insurance Reserve • Then to the General Capital Reserve • Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions • Then any remaining funds to the Debt Reduction Reserve

The Surplus Management Policy is contained within the Reserve and Reserve Fund Policy. The proposed amendment is included in Attachment 2.

PROPOSED UPDATES TO RESERVES

A repayment schedule for the Roads Capital Acceleration Reserve (RCAR) is recommended

Through the 2019 Budget, Council approved establishment of RCAR, an internal borrowing mechanism to fund priority growth-related roads projects without additional development charge debt. The reserve will be funded with approximately $200 million from an annual contribution of $10.7 million (equivalent of a 1% increase in the 2019 tax levy) plus contributions from the 2018 operating surplus and transfers from other reserves.

Projects accelerated using RCAR draw from the reserve during the accelerated design and construction period and then repay those draws using development charge funding based on the original (i.e., not accelerated) project timelines. In accordance with the Region's Reserve and Reserve Fund Policy and the June 20, 2019 Council report, all RCAR draws would be repaid with interest. An interest charge is included in the Public Works – Transportation Services operating budget starting in 2024.

The 2020 10-year capital plan included RCAR funding for 14 priority Roads projects, with RCAR draws planned from 2020-30 and principal repayments starting in 2028. Total draws and repayments were $217.5 million within the overall $200 million reserve funding allocation (this was achieved through the overlap between draws and repayments such that some RCAR funding could be drawn and repaid twice).

The principal repayment schedule, shown in Table 6, was largely beyond the horizon of the 10-year capital plan and was not published as part of the 2020 Budget. Principal repayments will be made in accordance with this schedule through the Public Works operating budget, starting in 2028.

Table 6

RCAR Principal Repayment Schedule

Year	Principal Repayment $000s
2028	4,609
2029	5,672
2030	18,709
2031	17,064
2032	14,994
2033	17,075

Year	Principal Repayment $000s
2034	36,359
2035	49,873
2036	27,652
2037	12,675
2038	9,590
2039	3,274
Total	**217,546**

Reserves are reviewed annually to ensure adequate funds will be available to meet future needs identified in the 10-year Capital Plan

Funding requirements of the 10-year Capital Plan are assessed annually alongside projected balances in each reserve and reserve fund. Periodically, transfers between reserves are required when funding sources change, or new needs are identified.

Table 7 provides an overview of proposed balance transfers between capital reserves.

Table 7

Proposed Reserve Fund Transfers

Reserve Fund	Contribution to	Contribution from
Roads Infrastructure Reserve Fund		$18,800,000
Roads Capital Acceleration Reserve Fund	$18,800,000	
Non-Profit Housing Reserve Fund		$38,175,166
Social Housing Development Reserve Fund	$38,175,166	
Debt Reduction Reserve		$30,000,000
Tax Levy Development Reserve	$30,000,000	
Water Rate Stabilization Reserve		$6,000,000
Wastewater Rate Stabilization Reserve		$12,000,000
Rate Supported Development Reserve	$18,000,000	
Total	**$104,975,166**	**$104,975,166**

It is recommended the Cannabis Contingency Reserve Fund and Police – OMERS Reserve be closed and any remaining funds allocated to the Debt Reduction Reserve Fund

The Cannabis Contingency Reserve was established in 2019 to fund unanticipated operating and capital costs related to legalization of recreational cannabis. With recreational cannabis being legalized for several years now there have not been unanticipated operating and capital costs in recent years. Therefore, this reserve is no longer required, and it is recommended that the reserve be discontinued with any remaining funds being transferred to the Debt Reduction Reserve.

The Police – OMERS Reserve was established in 1995 and held a portion of the employer's share of surplus funds in the OMERS supplementary pension plan for Police. The reserve was drawn down to zero in 2015 and has not been used since. Therefore, this reserve is no longer required, and it is recommended the reserve be discontinued.

The $1 million annual contribution limit for the Court Services Reserve be suspended until such time as the reserve reaches its target balance of $5 million

The Court Services Reserve is funded from surplus net revenue related to the Provincial Offences Act ("POA") among other sources. Contributions are capped at $1 million per year, with any further surplus net revenue contributing to the Region's operating surplus. Through the 2024 Budget process, a pressure was identified related to the Courts Administrative Penalty Tribunal revenues due to processing delays. To address these pressures, a draw of $5.6 million will be made from the Court Services Reserve with a contribution back to the reserve when there are surplus net POA revenues. To replenish this reserve, it is recommended that the $1 million limit on annual contributions from net POA revenues be removed while the reserve balance is below its $5 million target. Once the reserve balance reaches $5 million, the maximum contribution would revert to a maximum of $1 million per year.

The Regional Fiscal Strategy supports the Strategic Plan

The Regional Fiscal Strategy supports the 2023 to 2027 Strategic Plan priorities under the following Vision's Areas of Focus:

- Foster Economic Prosperity under the Economic Vitality,
- Support Community Well-Being under the Healthy Communities,
- Drive Environmental Stewardship under the Sustainable Environment, and
- Efficiently Deliver Trusted Services under the Good Government

The aim of the Fiscal Strategy is to support the annual budget which ensures resources needed to achieve the Strategic Plan goals are available when needed. In developing the budget, departments and other service providers assess their existing and planned activities considering Strategic Plan priorities, which helps determine the best use of available resources.

5. Financial Considerations

Under the fiscal strategy framework, the Region will manage its capital plan, reserves and debt towards the goal of achieving long-term financial sustainability. The 2024 10-year Capital Plan will result in capital investments of $11.6 billion while maintaining outstanding debt peak below $2.2 billion.

6. Local Impact

Local municipalities will benefit from the fiscal strategy as it manages the Region's debt level and supports a superior credit rating. Debt issued by the Region represents a direct, joint and several obligations of the Region and local municipalities. Since local municipalities must issue all debentures through the Region, a good credit rating helps to ensure that both the Region and local municipalities obtain the lowest possible cost of financing.

7. Conclusion

The 2024 Fiscal Strategy updates Council on the capital plan, reserves, and debt, and makes recommendations intended to help the Region achieve financial sustainability.

The fiscal strategy is updated annually and evolves as circumstances change and as further analysis is incorporated.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

Recommended by: **Laura Mirabella**
Commissioner of Finance and Regional Treasurer

Approved for Submission: **Erin Mahoney**
Chief Administrative Officer

November 24, 2023
eDOCS 15714948

Appendix A – Ministers Zoning Orders in York Region
Appendix B – Development Charge Credit Policy
Appendix C – Hemson Memorandum - Mechanisms to Advance and Finance Unplanned Infrastructure

Attachment #1 – Long-Term Debt Management Plan (eDOCS #15722689)
Attachment #2 – Reserve and Reserve Fund Policy (eDOCS #15822493)
Private Attachment #1 – Mechanisms to Advance and Finance Unplanned Infrastructure – Legal Implications

APPENDIX A

Ministers Zoning Orders in York Region

#	Municipality	External Reference Number	Location	Issuance	Description	Units Estimated	Total Area (Ha)
1	Vaughan	O.Reg 76/19	640, 670 & 700 Applewood Crescent	Apr 29, 2019	Retail Warehouse in Employment lands	0	4.6
2	Markham & Whitchurch-Stouffville	O.Reg 172/20	11776 Highway 48	Apr 24, 2020	Urban Boundary Expansion to permit mix of Residential	507	11.9
3	Vaughan	O.Reg 173/20 & O. Reg 456/22	11110 Jane Street	Apr 29, 2020	Industrial Warehouse	0	6.2
4	Aurora	O.Reg 449/20	50 Bloomington Road	Aug 12, 2020	Long Term Care and Residential uses	177	5.3
5	Vaughan	O.Reg 445/20	7231 Martin Grove Road	Aug 12, 2020	Long Term Care	310	4.6
6	East Gwillimbury	O.Reg 451/20	1656 Herald Road	Aug 13, 2020	Auto Campus	0	11.5
7	Vaughan	O.Reg 643/20	Jane Street & Rutherford Road	Nov 6, 2020	High-rise Residential	2,324	8.0
8	Vaughan	O.Reg 644/20	Part Lots 26-30, Concession 6	Nov 6, 2020	Block 41 Secondary Plan uses	4,840	0.0

9	Whitchurch-Stouffville	O.Reg 610/20	Highway 48 & 19th Avenue	Oct 30, 2020	Urban Boundary Expansion to permit mix of Residential	651	9.4
10	Richmond Hill	O.Reg 698/20 & O.Reg 90/23	Major Mackenzie & Highway 404	Dec 2, 2020	High-rise and Long-Term Care in Employment lands	1,312	29.0
11	Markham	O.Reg 169/21	36 Apple Creek Boulevard	Mar 5, 2021	Long Term Care in Employment Lands	250	2.2
12	Vaughan	O.Reg 170/21	Keele street & Highway 7	Mar 5, 2021	Future Development	0	15.4
13	Markham	O.Reg 172/21	5474 & 5662 19th Avenue	Mar 5, 2021	Urban Boundary Expansion to permit Residential uses	1,008	32.0
14	Vaughan	O.Reg 156/22	11260 & 11424 Jane Street	Mar 4, 2022	Employment uses	0	78.9
15	Vaughan	Pending	137,163 & 175 Bowes Road	Requested	Residential uses in Employment lands	2,907	5.9
16	Richmond Hill	O.Reg 474/73	8755 Bathurst Street	Mar 24, 2022	Mix of Medium and High- density Residential uses & Commercial uses	0	43.0
17	Markham	O.Reg 599/21	3143 19th Avenue	July 13, 2021	Employment uses	0	40.3

18	Richmond Hill	O.Reg 39/22	9853 Leslie Street & 1577 Major Mackenzie Drive	Jan 28, 2022	Mix of Residential, Commercial and Institutional uses	0	9.4
19	Whitchurch- Stouffville	O.Reg 770/21	11861 & 12045 McCowan Road	Nov 15, 2021	Mixed uses	0	30.7
20	Markham	O.Reg 345/22	Yonge Street & Langstaff Road	Apr 14, 2022	Mix of Residential, Commercial and Civic uses	20,490	25.4
21	Richmond Hill	O.Reg 344/22	Yonge Street & Highway 7	Apr 14, 2022	Mix of Residential, Retail, Office, Community and Civic uses	21,116	17.4
22	Georgina	O.Reg 251/22	Woodbine Avenue & Boyers Road	Apr 1, 2022	Environmental Protection Area	0	360.0
23	Markham	O.Reg 482/22	19th Avenue & Warden Avenue	Sept 9, 2022	Business Park	0	0.0
24	Newmarket	O.Reg 516/22	Mulock Drive & Yonge Street	Nov 4, 2022	Emergency Shelter and Transitional Housing	0	0.0
25	Newmarket	Pending	835 Gorham Street	Requested	Residential Uses	14	0.2
					Total	**55,906**	**751.3**

York Region

STATUS: Final
Council Approved: Y
CAO Approved: N/A

TITLE: Development Charge Credit Policy	Edocs No.: 5257910 Original Approval Date: November 21, 2013 **Policy Last Updated: November 21, 2013** **Posted on Intranet: November 25, 2013**

POLICY STATEMENT:

A developer or developer groups that need certain Regional infrastructure to build out a development earlier than the Region had planned to construct it may pay to advance the timing of the construction of the infrastructure in the Region's capital program. These developers will be entitled to receive a credit against the Regional development charges payable on their developments.

APPLICATION:

This policy applies to developers or developer groups developing in York Region who need certain Regional infrastructure earlier than the Region had planned to construct the works.

PURPOSE:

This policy provides a framework for developers to accelerate the construction of infrastructure in the Region's capital program, while protecting the Region from potential financial risks associated with advancing infrastructure and providing development charge credits.

DEFINITIONS:

Annual Repayment Limit: A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board.

Developer: A person, corporation, group of persons and/or corporations, or agent for a person, corporation or group of persons and/or corporations that have submitted a development application to the Region for review.

Development Charges: A charge imposed pursuant to the Region's Development Charges Bylaw.

Development Charges Bylaw: Bylaw No. 2012-36 approved by Regional Council on Thursday May 17, 2012 under the Development Charges Act, 1997 and as may be amended from time to time, or any successor bylaw.

Development Charge Credit(s): A credit, approved by the Region for work performed by a Developer that relates to a service for which a credit is provided within the Development Charges Bylaw.

Growth–related costs: The capital costs to be recovered under the Development Charges Bylaw based on the Region's capital spending plans identified in the Background Study to the Development Charges Bylaw.

Non-growth costs: The capital costs that are not related to new development and cannot be recovered under the Development Charges Bylaw and are funded by tax levy, user rates or other non-development charge sources.

Throw-away costs: The portion of the works that are temporary or are deemed not to be usable by the Region.

Ultimate location: The portion of the works that are permanent and do not require any modification or enhancement to meet Regional standards and are usable by the Region.

DESCRIPTION:

Developers who pay to advance the timing of Regional infrastructure may be provided a Development Charge Credit against the Development Charges payable at building permit issuance or plan of subdivision registration.

The Region has established a framework for a Developer to advance the construction timing of Regional infrastructure in the Region's capital program and receive credits for the amount paid to advance the works.

A. <u>Requirements for all Development Charge Credit applications</u>

1. Development charge credits shall be provided in accordance with the policy for all works except for works eligible for reimbursement under Part C.

2. A developer seeking a development charge credit/reimbursement must submit a request to the Region and receive approval before construction of the works.
    -

3. Credits are subject to Regional approval and there is no entitlement to credit prior to approval.
4. The Region is under no obligation to approve a request or advance capital projects through this policy as a result of a request.

5. Development Charge Credit requests for works less than $5 million may be approved by the Commissioners of Finance and either Environmental Services or Transportation and Community Planning. Development Charge Credit requests that have a value that is greater than or equal to $5 million require Council approval. This limit applies to the total of the works being advanced (i.e., sewer works that require the advancement of road works).

6. Development charge credits will only be provided if the works are included in the Regional Development Charge Bylaw. The eligible credit shall be limited to the value of the works in the Development Charge Bylaw. If the value of the works is adjusted as part of a future Development Charge Bylaw update, the amount for any unused credits will be revised.

7. Advancement of the project cannot result in a negative impact to the Region's Annual Repayment Limit, as determined by the Commissioner of Finance.

8. Development charge credits will not be offered unless the previous year's DC collections exceed the estimated current year DC-related debt servicing obligations (principal and interest) by at least the amount of the DC credit requested, both in total and for the specific service.

9. If development charge credits are deferred for financial reasons, the credits will be paid on the anniversary the credit would have been earned, provided the thresholds noted above in Sections 7 and 8 have been met. If Sections 7 and 8 have not been met, the credits would continue to be deferred until they have been met, and they would then be paid on the applicable anniversary of the credit being earned.

10. To be considered for advancement, generally, subject to Part A sections 3 to 5, the service-specific development charges, and in all cases the total development charges generated by the development associated with the capital works, must be twice the value of the works for which the credit /reimbursement is being requested.

B. Advancement of Regional Works

Subject to meeting the requirements outlined in Part A:

1. The developer will be required to fund 100% of the cost of the capital works, and recover eligible growth-related costs discounted for financing costs based on the project's timing in the Capital Plan. Non-growth costs will not be eligible for recovery.

2. Any related capital works that are required to be simultaneously advanced with the works for which a credit is being requested must be included in the DC credit request.

3. The credit will be restricted to the service component of the Regional development charge the developer is required to pay at the registration/subdivision agreement or building permit stage (e.g., road credits restricted to the road development charge).
4. Development charge credits will be issued up to a maximum of 50% of the service- specific DCs payable upon each subdivision registration or building permit issuance, as applicable, until the total eligible growth-related costs are recovered.

5. In the event that there is a remaining balance of development charge credits, the Regional will reimburse the remaining balance on the anniversary of the registration of the last unit.

C. <u>Reimbursement of Development Charges for Intersections and Minor Road Improvements</u>

Subject to meeting the requirements in Part A:

1. The Region will pay for intersection and minor road improvements that are recommended in a development-related traffic study approved by the Region and are constructed in their ultimate location. The works must be designed in accordance with the approved traffic study recommendations and to Regional standards.

2. Throw-away costs or works that are not deemed to be at the ultimate location by the Commissioner of Transportation and Community Planning at the time of the next programmed road upgrade or reconstruction will not be eligible for reimbursement.

3. Intersection and minor road work reimbursement is only for works that serve a regional or community-wide purpose, either along Regional roads or at intersections with arterial roads, collector roads, or local roads deemed significant, as determined by the Region. Development Charge reimbursement will be provided for the following:

    a. Improvements in the Regional right-of-way at existing public intersections, including the installation of warranted traffic signals or auxiliary turn lanes

    b. Construction of new public intersections, including the installation of warranted signals or accommodation for future traffic signals

    c. Widening of existing Regional roads or construction of new Regional road sections when related to intersection improvements

    d. Utility relocations (Regional share of the cost)

    e. Boulevard urbanization that is reflected in the DC Bylaw

    f. Any other related works determined by the Region to be eligible for reimbursement.

4. Works not eligible for reimbursement include:

    a. Land purchases

b. Voluntary and/or statutory land dedications to the Region
c. General project management, coordination or administration
d. Construction contingency allowances

e. Road improvements required for the exclusive use of a private entrance or development, including new signals or signal alterations, turning lanes, etc.

f. Intersections that service a site-specific or local function (such as minor local or cul-de-sacs).

5. At the Draft Plan of Subdivision approval stage, the Region can provide the developer with a preliminary assessment of whether the works will be eligible for reimbursement.

6. As part of the engineering approval process, the developer must submit an application for cost recovery, which includes a list of detailed items that are to be considered for recovery in a tender format satisfactory to the Region.

7. The Region will determine the cost of the works eligible for DC Credit or any other applicable reimbursement.

8. The developer is entitled to recover the eligible growth-related cost of the works based on the standard Regional unit rates in the year the works are approved. Non-growth costs will not be eligible for recovery.

9. Reimbursement will be provided from the Roads DC reserve in the year the works are completed, provided sufficient funds are available in the Regional annual budget to provide the reimbursement.
    -

10. In the event that the Region cannot provide all the requested reimbursements for a given year, priority will be determined using the approval date of the reimbursement request.
    -

11. If funds are not available, reimbursement will be provided the following year, contingent upon funding being available in that year's Regional annual budget.

12. The final amount of the reimbursement may be subject to review and revision by the Region based upon a final inspection to ensure that all eligible works were constructed to the Region's standard and in accordance with approved drawings.

13. The developer shall secure the total costs of the works by a Letter of Credit or Certified Cheque (both eligible and non-eligible components) in accordance with standard Regional practices and in a format satisfactory to the Regional Treasurer.

14. After satisfactory construction of the works, a 10% holdback will be retained by York Region for a two-year maintenance/warranty period and the balance of the Letter of Credit will be released.

D. Administration of Development Charge Credit Applications

1. All approved Development Charges Credit applications shall be subject to a Development Charge Credit Agreement, with the exception of approved applications for the reimbursement of Development Charges for Intersections and Minor Road Improvements.

2. A trustee representing the interests of the developers is required where there are more than five developers in a group requesting a DC Credit through this policy.

3. For roads (intersections and minor road improvements) reimbursement requests, the Commissioner of Transportation and Community Planning shall be authorized to approve the eligible cost of the works.
   -

4. For capital projects identified in the DC bylaw, the Commissioner of Transportation and Community Planning or the Commissioner of Environmental Services, or applicable, shall be authorized to approve the eligible costs of the works.

5. The Commissioner of Finance shall be authorized to approve and provide development charge credits and/or reimbursements for advanced regional infrastructure.

6. For development charge credit agreements and for intersections and minor road improvement reimbursement requests, a cost recovery, to be determined by the Commissioner of Finance of up to 1.0% (minimum $1,000) of the value of the works will be changed for costs related to the administration of the development charge credits and reimbursement.

7. In instances where Regional costs to prepare and administer a prepaid development charge credit agreement are beyond the above noted cost recovery provisions, the costs shall be separately quantified and invoiced to the developer.

8. The developer will be required to pay the Region's legal fees for the preparation of the credit requests.

9. Any development charge credit request that is not consistent with this policy will require Regional Council approval.

RESPONSIBILITIES:

Commissioner of Finance and Regional Treasurer and/or designate:

- Approves Development Charge Credit requests for works less than $5 million
- Approves and provides development charge credits and/or reimbursements for advanced regional infrastructure
- Determines whether requests received by the Region meet the financial criteria under Part A, Sections 6 to 10
- Maintains administrative authority and responsibility for the Development Charges Credit Policy, and
- Approves departmental operating procedures and process under this policy.

Commissioner of Environmental Services and/or designate:

- Approves Development Charge Credit requests for works less than $5 million, and
- Approves total eligible costs for the works.

Commissioner of Transportation and Community Planning and/or designate:

- Approves Development Charge Credit and/or reimbursement requests for works less than $5 million, and
- Approves total eligible costs for the works.

Regional Solicitor and/or designate:

- Prepares Development Charge Credit Agreements in accordance with approved principles.

All staff involved in the evaluation and administration of Development Charge Credits:

- Evaluate Development Charge Credit requests and recommend approval/non-approval to the Commissioner of Finance and the Commissioners of Environmental Services or Transportation and Community Planning, as applicable
- Abide by the requirements set out in this Policy, and
- Forward any Development Charge Credit request received to the Director, Controllership Office, and/or designate.

NON-COMPLIANCE WITH POLICY:

Non-compliance with this Policy will result in the Region not entering into an arrangement under this policy, or disallowing any Development Charge Credit or reimbursement.

Revises Development Charge Credit Policies approved by Regional Council on May 9, 1996 and May 23, 1996, as well as the revisions adopted by Regional Council June 25, 1998.

Development Charges Act, 1997, S.O. 1997, c. 27

Regional Development Charges By-law

Ontario Regulation 403/02 – Debt and Financial Obligation Limits, Section 4.1

CONTACT:

Director, Controllership Office, Finance Department.

APPROVAL INFORMATION **CAO Approval Date: N/A**			
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APPENDIX C

HEMSON

Hemson Consulting Ltd
1000 - 30 St. Patrick Street, Toronto, ON M5T 3A3
416-593-5090 | hemson@hemson.com | www.hemson.com

MEMORANDUM

To:	Committee of the Whole, York Region
From:	Craig Binning and Julia Cziraky, Hemson Consulting Ltd.
Date:	November 9, 2023
Re:	Mechanisms to Advance and Finance Unplanned Infrastructure

This memorandum provides members of Committee of the Whole with additional information in response to the June meetings of Committee of the Whole and Regional Council, as it relates to mechanisms to advance and finance unplanned infrastructure.

A. Background

In recent years, the Province of Ontario has released a series of legislative changes and strategies geared toward addressing the housing affordability crisis by prioritizing housing construction. Through the More Homes, More Choice Act (Bill 108), the More Homes for Everyone Act (Bill 109), the COVID-19 Economic Recovery Act (Bill 197), and the More Homes Built Faster Act (Bill 23), a number of changes have been made to municipal development approvals processes as well as the use of municipal funding tools to support growth, including several substantive changes to the Development Charges Act (DCA). The Province has also assigned housing targets to 50 Ontario municipalities, including all of York Region's municipalities except King, to achieve an overall target of 1.5 million new homes over the next 10 years.

York Region, along with many other municipalities, is now challenged with advancing the infrastructure required to accommodate this additional unplanned growth. A share of this additional growth will be in geographic areas of the Region that were not anticipated to develop in the Region's most recent Development Charges (DC) Background Study. The Region will be required to plan for and emplace new infrastructure beyond what has previously been included in the Region's budget documents and most recent DC Background Study. As such, the Region currently does not have a formal mechanism in place to advance the timing of these infrastructure costs prior to their incorporation in the next DC Background Study. Currently, these additional "unplanned" infrastructure requirements are not fully known, however staff anticipate additional clarity is forthcoming.

At the June meeting of Committee of the Whole and Council, it was requested that staff review the timelines to amend or update the 2022 DC By-law to include the unplanned infrastructure. Staff proposed a timeline to advance a full update of the 2022 DC By-law, as opposed to an amendment. A full update was proposed due to the changes to the DCA, as a result of Bill 23, and the associated transition provisions.

Hemson was retained to assist staff with a review of available mechanisms to advance and finance these unplanned works. This memorandum summarizes Hemson's review and recommendations.

B. DC Background Study and By-law Review: Timelines and Challenges

York's current Region-wide DC By-law No. 2022-31 came into force on June 17, 2022. In order for the Region to continue to collect development charges, a new by-law must be in force by the time it expires on June 16, 2027.

The Region's DC credit policy requires developers to finance unplanned infrastructure with no ability to recover the costs if the project is not included in the DC by-law. Until a new DC by-law is in place, the Region does not have a formal mechanism to provide credits/reimburse developers who have financed the unplanned projects. Under York Region's DC Credit Policy, a capital project must be included in the current DC by-law in order to allow a developer to advance the financing of the works and receive DC credits/be reimbursed. Advancing the timing of unplanned projects not identified in the current DC by-law and most recent Background Study may result in fiscal challenges to the Region.

The Region is currently preparing to advance an update of its DC by-law, should it be so directed. Staff have indicated that due to the legally prescribed steps, and time needed to collect additional project details and undertake the necessary policy work and stakeholder engagement, the earliest possible time that a new Region-wide DC by-law may be in place is Q2 2026. Should the unplanned works advance ahead of that timeline, interim measures will be needed to upfront the costs of the unplanned projects and be able to provide associated DC credits/reimbursements.

i. Ongoing Legislative Changes Present Risks to Region's Advancement of Policy Initiatives

In recent years, the Province has introduced a number of legislative changes with significant impacts to municipal planning and finance. These legislative changes have occurred suddenly, and municipalities are challenged with having limited time to adjust their policies and practices to align with the new frameworks. In addition to the legislation listed previously in this memorandum, on October 23, 2023, the Province announced that legislation would soon be introduced to reverse official plan decisions for a number of municipalities, including York Region. This legislation is anticipated to include reversals of urban boundary changes and minister's zoning orders (MZOs).

It is unknown whether additional legislative changes will be proposed and implemented though we do expect additional provincial Housing Supply Actions Plans in the coming years. As such, notwithstanding the limitations that the required capital planning and DC Background Study processes have on the Region's ability to advance a DC by-law update ahead of 2026/2027, **the Region should carefully consider the risks that may be associated with rushing policy and**

capital planning decisions. **Further reversals of recent legislative changes or directions from the Province could have significant impacts**.

This uncertainty contributes to the difficulty of the Region identifying additional unplanned infrastructure required to meet the needs of development not anticipated in the current DC Background Study.

ii. Region-Wide Approach to Calculating Development Charges Should be Maintained

York Region has a long history of calculating and charging DCs on a Region-wide basis. While some municipalities use area-specific DCs (ASDCs) to account for significant differences in (typically water and wastewater) servicing needs between benefitting geographic areas, York Region's infrastructure is highly integrated and it is difficult to delineate benefitting area boundaries. The Region's infrastructure responsibilities for water and wastewater services are to provide water supply, wastewater treatment and the main trunk distribution and collection systems. Water supply and wastewater treatment are not sensitive to the location of growth and not DC area-rated. The Region's major distribution and collection systems are designed to provide integrated servicing across the entire defined service area and are not easily, or appropriately, attributed to sub-areas within the Region.

Maintaining a comprehensive, Region-wide approach to development charges would be most consistent with York's past practices. This is likely the most equitable option in incorporating the unplanned projects into York's DC regime, as it allows for all DCs to be calculated on the basis of the most up-to-date forecast information, and allows for comprehensive policy reviews as part of the DC by-law update process. The Region would also be able to maintain its typical practices with regards to extensive stakeholder consultation, which are believed to have achieved stakeholder buy-in and allowed the Region to avoid appeals to the Ontario Land Tribunal (OLT) as part of the 2018 and 2022 DC by-law updates. **York Region's 2022 DC by-law was the first of its Region-wide updates not to be appealed**.

It should be noted that recent changes to the DCA have introduced a number of new statutory exemptions, discounts, and other restrictions, including a mandatory five-year phase-in of calculated DC rates. The revenue losses associated with these restrictions would most likely need to be funded through other sources, such as property taxes and utility rates.

C. York Region's DC Credit Policy: Limitations and Recommendations

When a developer or group of developers seeks to accelerate the construction of growth-related works ahead of a municipality's budgeted timeline, they may upfront finance or construct the works themselves and receive DC credits in return. Under s.38 of the DCA, a developer can recoup the costs of constructing infrastructure by receiving credits against their payable DCs. These credits can only be applied to the applicable service charge of the municipality's DC by-law. For instance, a developer that upfronts the construction costs of a water treatment plant may only receive credits against their water DCs.

The benefit of a DC credit agreement is that it protects municipalities from the financial risks related to the pace of development. Cost overruns can be controlled by placing controls on the value of credits; for instance, a municipality can limit credits and reimbursement to the project costs as stated in the DC background study. A municipality can approve and review tender prices in order to maintain control over costs and prevent wasteful spending.

Municipalities may also include administrative and legal fees in their credit agreements in order to recover the costs of administering these agreements.

A potential risk related to s.38 agreements is that the municipality may incur additional operating costs earlier than anticipated because the infrastructure will come online earlier. These costs may or may not be offset by an increase in property taxes resulting from the development that is being advanced.

Like many municipalities, York Region has a Council-approved DC credit policy in place which governs the use of credit agreements and ensures a uniform treatment of how credit agreements are applied. The Region has been using DC credits since 1997, and the policy was most recently updated in 2013.

York Region's DC credit policy has a number of provisions that are geared toward protecting the Region's debt limits, such as requirements that DCs generated by the development must be at least twice the value of the works being advanced, non-growth costs are not eligible for recovery, and advancement of the project cannot result in a negative impact to the Region's Annual Repayment Limit (ARL). There is also a requirement that the works must be included in the Region's current DC Background Study, which ensures that the Region has planned to construct the works and has forecast that sufficient DCs will be generated Region-wide to provide the DC credit without affecting other projects in the by-law.

It is common for municipalities to require the works to be included in a DC Background Study in order to enter into a DC credit agreement. Similar language is written into the DC credit policies in London, Markham, Barrie, Georgina, and East Gwillimbury. However, this is at the municipality's discretion and is not a statutory requirement of the DCA. The DCA only requires that the works relate to one of the services within the municipality's current DC by-law:

> ***38*** *(1) If a municipality agrees to allow a person to perform* ***work that relates to a service to which a development charge by-law relates****, the municipality shall give the person a credit towards the development charge in accordance with the agreement. 1997, c. 27, s. 38 (1).*

Kitchener is an exception in that its DC credit policy states that a DC credit policy may be administered for projects identified in the DC Background Study or the City's capital budget forecast. Further, there have been several recent OLT decisions resulting in DC credits for projects that were not included in a DC Background Study:

- In 2020, the Tribunal ordered that the City of Toronto pay over $2 million in DC credits to developers who filed complaints that certain works that were funded as local services were external works, and not local in nature under the provisions of the City's Local Service Guidelines.
- In 2022, an OLT decision required the City of Ottawa to re-classify a road, which the City had required a development project to fund directly as a local service, as an arterial road that would therefore be eligible for funding through DCs. This decision implied that it would be appropriate for the developer to seek DC credits for the works, without any requirement for the works to be included in the DC Background Study.

In order to allow for the flexibility needed for developers to front-end unplanned projects prior to a new DC by-law being in place, the Region would need to amend its policy to allow for DC credit agreements related to projects that are "unplanned". It is noted that DC credit agreements are administered in accordance with the Region's DC Credit Policy; allowances made for certain projects would not necessarily result in pressures to allow for additional DC credit agreements outside of the DC by-law. To provide additional protection, the Region may choose to set strong parameters around the projects or types of projects that may be eligible for DC credits outside of the current by-law. For example, the Region could maintain a separate listing of DC credit-eligible projects that are intended to be included in the 2026/2027 DC Background Study. It is noted that should a DC credit agreement for an unplanned project advance ahead of the DC by-law update, it is likely that by the time credits are due, the new by-law would be in place incorporating the unplanned projects.

In Hemson's view, these policy amendments could be done immediately or as soon as the unplanned project details are known in 2024. While it is the Region's typical practice to only amend the DC credit policy alongside a DC update, we see no legislative requirement that prevents a policy amendment outside of the DC Background Study and by-law process. It should be noted that this approach would still require a sufficient timeframe to accommodate a review of the effectiveness of the policy (including as it relates to the Region's financial viability), consideration of best practices, and sufficient Council and stakeholder engagement.

While adding greater flexibility to the DC credit policy could increase the financial risk to the Region, this risk is small as long as strong parameters are set, eligibility is clearly identified, and the approval of individual DC credit agreements is carefully considered.

D. Other Options Considered

Hemson reviewed a number of additional mechanisms that would potentially be available to the Region to advance unplanned infrastructure costs and provide associated credits/reimbursements to developers who financed the infrastructure. The table below describes each of these mechanisms along with a rationale for not proceeding with the mechanism in the context of York Region.

MECHANISM	DESCRIPTION	RATIONALE FOR NOT PROCEEDING
Standalone Project-Specific DC By-law	Option to advance a standalone or project-specific Region-wide DC by-law whose rates would be layers over the Region's current DC rates. The current Region-wide DC by-law would be maintained until the next update (which must occur by June 2027), at which time the unplanned projects may be incorporated into the new Region-wide by-law along with a repeal of the standalone / project-specific by-law.	▪ Similar timing challenges anticipated; likely not possible to enact by-law before 2026. ▪ Potentially higher risk of appeal due to inconsistency of approach. ▪ May set precedent for treatment of other standalone projects.

MECHANISM	DESCRIPTION	RATIONALE FOR NOT PROCEEDING
Area-Specific Development Charges	Introduce an area-specific DC (ASDC) by-law for the unplanned works, to be layered over the current Region-wide DCs. An ASDC by-law would require defining benefitting areas, and a forecast of benefitting development, for the unplanned projects.	▪ Similar timing challenges anticipated; likely not possible to enact by-law before 2026. ▪ Would be difficult / not feasible to define project benefitting areas due to nature of servicing in York Region. ▪ Likely significantly higher rates for applicable development than maintaining municipal-wide approach. ▪ May set precedent for treatment of other standalone projects.
Front Ending Agreements (DCA s.44)	Formal mechanism under s. 44 which functions similarly to DC credits under s. 38. **These agreements are rarely used** due to their more prescriptive requirements, administrative burdens, and possibility of appeal to the OLT.	▪ Prescriptive & administratively onerous. ▪ DC credit agreements under s. 38 offer similar advantages without the prescription requirements of s. 44. ▪ These agreements are subject to appeal to OLT.
Impost Charges (Municipal Act s.391)	Broad reaching tool under the Municipal Act that allows municipalities to levy a charge for a service delivered. Requires a cost analysis as the charge cannot be greater than the cost to the municipality to deliver the service. Impost charges can only be levied if the payee receives a current benefit or will in the future; unlike DCs, impost charges likely could not be levied Region-wide. Funds collected under this tool cannot be used for the same purpose/projects as DCs.	▪ Risk of further legislative changes resulting in Province revoking impost charge powers. ▪ Use related to certain services is limited to legislated spheres of jurisdiction. ▪ Defined benefitting area/developments are required; difficult to define in York Region due to integrated nature of servicing.
Developer Cost-Sharing Agreements (Municipal Act s.401)	When a group of developers are mutually interested in advancing the timing of development-related infrastructure, they may enter into a developer cost-sharing agreement. Often, cost-sharing agreements apply to local infrastructure that is being sized up to meet the needs of a well-defined broader area.	▪ Unplanned projects are not likely to have narrowly defined benefitting areas. ▪ Requires high level of developer cooperation. ▪ Few precedents; uncommon and rarely used.
Municipal Front-End / Debt Financing	Region may dip into capital reserves, borrow internally from other DC reserve accounts (i.e. cross-service), or debt finance a piece of infrastructure. DCs allow for the recovery of negative reserve fund balances and debt principal and interest payments.	▪ Municipality bears the financial risk of slower-than-anticipated development. ▪ Impacts on debt capacity and ability to respond to other financial shocks. ▪ Should be treated as a "last resort" and only if Region maintains sufficient debt capacity.

E. CONCLUSIONS AND RECOMMENDATIONS

In consideration of York Region's unique context, the status of the unplanned projects, as well as recent and ongoing changes to various legislation, Hemson's recommendations for the Region's consideration are summarized below.

i. If Council so directs, Move Forward with a Comprehensive Region-wide 2026/2027 DC By-law Update

Due to the Region's highly integrated water and wastewater system, as well as the similar timing challenges that would be associated with advancing a project-specific or area-specific DC by-law, it is recommended that, if Council so directs, the unplanned projects be incorporated into the next comprehensive Region-wide DC by-law update. To clarify, this would not be an amendment, but rather a full/comprehensive update of the by-law (e.g., every service, development forecast, etc.).

A new DC by-law is not required until June 2027. Staff have indicated that it may be possible to advance a full update of the DC by-law so that the new by-law is in place by Q2 2026. Although project details are not anticipated to be available until late 2024, it is recommended that, should Council so direct, the Region advance components of the DC Background Study and by-law update as appropriate and feasible. For example, certain policy reviews may take place in the near term in advance of the by-law work.

ii. Review and Amend the DC Credit Policy to Allow for Interim Developer Front-End Funding

Should development pressures, and the need for the unplanned works, advance ahead of a potential 2026 timeframe, interim measures will be needed to ensure development can advance. The simplest and most appropriate method to advance projects ahead of a new DC by-law would be to revise the DC credit policy to allow for DC credit agreements for projects that are not yet included in a DC Background Study. This approach does present the potential for financial risk to the Region; measures can, however, be taken to reduce some of the financial risk of introducing greater flexibility around DC credit agreements. For example, the Region could maintain a list of eligible projects outside of the 2022 DC Background Study, which are intended to be included in the 2026/2027 DC by-law update. Agreements would remain at the discretion of the municipality.