

The Regional Municipality of York

Regional Council
June 20, 2019

Report of the Commissioner of Finance

Transportation Capital Acceleration Reserve Fund

1. Recommendations

1. Council approve that the Roads Capital Acceleration Reserve be renamed to Transportation Capital Acceleration Reserve Fund.
2. Council authorize funding required for the Transportation Capital Acceleration Reserve Fund from the following tax levy sources:
 - a. The one per cent additional tax levy approved as part of the 2019 Budget for the Transportation Capital Acceleration Reserve Fund, equivalent to \$10.7 million per year, plus
 - b. A \$10.1 million contribution from the 2018 operating surplus, plus
 - c. Draws from the Roads Infrastructure Reserve using money freed up by the one-time 2019 Federal Gas Tax Municipal Top-Up funding, plus
 - d. Transfers from the Debt Reduction Reserve as required, plus
 - e. Interest earned on this reserve, plus
 - f. Any additional future contributions as per Council direction.
3. Funds advanced from this reserve would be repaid from development charge collections in the year the accelerated projects were originally scheduled to be funded in the Region's capital plan.
4. Council amend the Reserve and Reserve Fund Policy to include the addition of the Transportation Capital Acceleration Reserve Fund, as described in this report.
5. The Regional Solicitor be authorized to prepare the necessary bylaws for this reserve.

2. Summary

The purpose of this report is to seek Council's authorization on the additional funding required for the Transportation Capital Acceleration Reserve Fund, and to report back on the option 'Transfer funds from the Debt Reduction Reserve to balance cash flow needs' which was [considered by Council at the special meeting on April 25, 2019](#).

The Transportation Capital Acceleration Reserve Fund will be used to finance development charge funded construction costs of approved growth projects that can be accelerated from within the Region's capital plan.

Key Points:

- The Transportation Capital Acceleration Reserve Fund was a response to Council's discussion about the need for more investment in growth-related transportation projects over the near term.
- The reserve is dedicated to the acceleration of growth-related transportation projects with a development charge funded component
- The one per cent additional tax levy approved as part of the 2019 Budget for the Transportation Capital Acceleration Reserve Fund, equivalent to \$10.7 million per year, would continue to fund the reserve beyond 2022
- The reserve would include funding from the 2018 operating surplus, funds freed up from the Federal Gas Tax Top-Up, interest earned and the Debt Reduction Reserve to balance the cash flow needs
- The reserve would be repaid from future development charge collections at the time the projects were originally shown in the 2019 Budget

3. Background

The Transportation Capital Acceleration Reserve Fund was considered as part of the 2019 Budget

Table 1 shows the approval timeline of when the Transportation Capital Acceleration Reserve Fund was first considered and established.

Table 1
Approval Timeline of the Transportation Capital Acceleration Reserve Fund

	Event
February 28 2019	<ul style="list-style-type: none"> • The 2019 Budget was approved which included a one per cent tax levy contribution to the Roads Capital Acceleration Reserve in 2019 • Council approved that future tax levy contributions of up to one per cent per year between 2020-2022, conditional on the overall tax levy increase not exceeding 2.96 per cent in any given year • The Roads Capital Acceleration Reserve was established • Council reviewed a list of potential roads capital projects that could be accelerated with the Roads Capital Acceleration Reserve • Staff were directed to report back on non-tax levy options to fund the Roads Capital Acceleration Reserve at a special meeting of Council
April 25 2019	<p>A special council meeting was held to discuss four possible non-tax levy options to fund the Roads Capital Acceleration Reserve</p> <ul style="list-style-type: none"> • Council directed staff to report back on the option to ‘Transfer funds from the Debt Reduction Reserve to balance cash flow needs’ for further consideration, coincident with information on potential service level adjustments that could yield operating savings.
June 20 2019	<ul style="list-style-type: none"> • Staff recommend that Council adopt the option ‘Transfer funds from the Debt Reduction Reserve to balance cash flow needs’ as discussed at the April 25 2019 meeting; and as presented in this report as Recommendation 2 • Staff recommend that the Roads Capital Acceleration Reserve be renamed to Transportation Capital Acceleration Reserve Fund • The reserve could also be used to fund other growth-related transportation projects • Council to consider the information on potential service level adjustments that could yield operating savings.

A list of potential roads capital projects that could be accelerated was presented to Council in February

The list of Roads projects that could be accelerated was first presented to Committee of the Whole on February 21, 2019 and later [received by Council on February 28, 2019](#). The total value of the projects is estimated to be \$260 million of which \$200 million would be funded from future development charge collections. The remaining portion would be funded from the tax levy and from local municipal partners.

Currently staff are engaging in consultations with the local municipalities to finalize the list of roads projects that could be accelerated. Once the list is finalized, staff will update the capital plan and seek Council approval through the budget process. The list of projects that could be accelerated would be reviewed annually.

The proposed list of projects [was presented to Council on April 25, 2019](#).

Council approved a one per cent tax levy contribution in 2019 to accelerate growth-related Roads capital projects

The 2019 Budget included an additional one per cent in the base tax levy for the Roads Capital Acceleration Reserve that is equivalent to an annual contribution of \$10.7 million per year. Staff were directed to review other options to fund the remaining amount needed for this reserve that did not result in a tax levy increase beyond 2.96% for 2020 to 2022 and to report back on those options at a Council meeting on April 25, 2019.

In addition, Council also approved the creation of the Roads Capital Acceleration Reserve as part of the 2019 Budget.

A Council meeting was held in April 2019 to discuss options to fund the reserve

On [April 25, 2019, Council held a meeting](#) to review four options for funding the Roads Capital Acceleration Reserve. Council directed staff to report back on the option to ‘transfer funds from the Debt Reduction Reserve to balance cash flow needs’ for further consideration. This option would fund the reserve using the tax levy allocation approved as part of the 2019 Budget, plus contributions from the 2018 operating surplus, funds freed up from the one-time Federal Gas Tax Top-Up, and the Debt Reduction Reserve.

This option is presented in this report as Recommendation 2, should Council wish to proceed with accelerating the roads capital projects.

Subsequent to the 2019 Regional Budget, Provincial announcements have changed the financial landscape

Subsequent to the approval of the 2019 Regional Budget, the Province announced two major developments that have the potential to change the Region’s long-term debt and funding forecasts.

The first development came as part of the Provincial budget on April 10, 2019, and may impact the Region's debt. The Province announced that it would begin work on the Yonge North Subway Extension, and that it was looking for the Region to provide a "significant" financial contribution towards the project.

The second development came as part of Bill 108, *More Homes, More Choice Act, 2019*, which was tabled by the Province on May 2, 2019. Changes to the *Development Charges Act, 1997*, through Schedule 3 of Bill 108, which received Royal Assent on June 6, 2019, will impact the amount and timing of development charge funding that the Region can recover. In addition, the proposed changes could further reduce the share of growth-related costs that can be funded through development charges. Finally, the changes may significantly limit the Region's ability to take on development charge debt.

The Transportation Capital Acceleration Reserve Fund could be used for other growth capital needs

In light of these provincial announcements, the Transportation Capital Acceleration Reserve Fund could be used in the future to fund growth transportation projects including the Yonge Subway Extension to reduce Region's external debt burden. Future contributions to Transportation Capital Acceleration Reserve Fund may be funded by tax levy or non-tax levy sources as per Council's direction.

4. Analysis

Staff recommend the option to 'transfer funds from the Debt Reduction Reserve to balance cash flow needs'

At the [special meeting of Council on April 25, 2019](#), Council reviewed four non-tax levy options to fund the Transportation Capital Acceleration Reserve Fund, including issuing external debt and using money from the asset management reserves. Staff recommended the option 'Transfer funds from the Debt Reduction Reserve to balance cash flow needs', which matches contributions to the draws of the projects identified to be accelerated. Council directed staff to report back on this option, which is presented in this report as Recommendation 2.

The sources of funding for this option are outlined in more detail below.

The approved one per cent tax levy would continue to fund the reserve beyond 2022

The one per cent tax levy approved as part of the 2019 Budget, equivalent to \$10.7 million per year, will remain in the tax base and could continue to be contributed to the Roads Capital Acceleration Reserve beyond 2022. Over the next 10 years, the total contributions from the tax levy would be approximately \$107 million, as shown in Table 2.

The amounts contributed beyond the current term of Council would be contingent on future Council direction.

A one-time doubling of the Federal Gas Tax could free up funding room in the capital plan

In March 2019, the Federal budget was announced and included a one-time doubling of the Federal Gas Tax. Under this announcement, the Region received an additional \$32.9 million of funding. Federal Gas Tax money may be used for various capital purposes, including roads.

The Federal Gas Tax funding could be used for a range of projects in the capital plan, and thus could free up capital funding room in the approved budget for the accelerated projects. The proposal would see the \$32 million Top-Up applied to projects funded from the Roads Infrastructure Reserve between 2020 and 2023, which would free up money that could be used to fund the accelerated projects.

A portion of the 2018 operating surplus could be allocated to fund the reserve

The Region's unaudited 2018 operating surplus was \$35.5 million or approximately 3.3 per cent of the 2018 net tax levy budget. As per the Region's Surplus Management Policy, part of the surplus could be allocated to the Debt Reduction Reserve, of which \$10.1 million could be redirected to help fund the Transportation Capital Acceleration Reserve Fund.

The remaining portion could be funded by a transfer from the Debt Reduction Reserve as needed

The combination of the one percent tax levy over the next 10 years (\$107 million) and a portion of the 2018 operating surplus (\$10.1 million) would bring the total contributions to \$117.1 million. The remainder of the Transportation Capital Acceleration Reserve Fund could be funded by a transfer from the money freed up by the Federal Gas Tax Top-Up and the Debt Reduction Reserve as needed.

Combined with the reserve's earned interest this brings the total expected contributions to \$200 million, as shown in Table 2.

Table 2
Projected Reserve Balance 2019 – 2028
Transportation Capital Acceleration Reserve Fund

\$Millions	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	Total
Opening Balance	-	21.0	32.5	44.4	56.8	49.3	31.8	11.4	0.1	0.0	-
Approved 1 %	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	107.0
Funds Freed up from Federal Gas Tax Top-Up	-	3.0	5.8	18.8	5.3	-	-	-	-	-	32.9
2018 Surplus	10.1	-	-	-	-	-	-	-	-	-	10.1
Transfer from Debt Reduction Reserve	-	-	-	-	-	-	-	15.2	14.2	12.6	42.0
Interest Earned	0.2	0.8	1.2	1.7	1.8	1.4	0.7	0.2	0.0	0.0	8.0
Spending on Transportation Capital Acceleration Reserve Fund (DC Portion)	-	(3.0)	(5.8)	(18.8)	(25.3)	(29.6)	(31.8)	(37.4)	(25.0)	(23.1)	(200.0)
Closing Balance	21.0	32.5	44.4	56.8	49.3	31.8	11.4	0.1	0.0	0.1	-

The non-growth components of the projects would have to be funded from offsets to other projects or through other reserves

The transportation projects that could be accelerated may also require tax levy funding in addition to the funding from the Transportation Capital Acceleration Reserve Fund, in the amount of approximately \$20 million. Currently there isn't a predetermined funding source, but it may be funded from additional draws from reserves such as the Federal Gas Tax reserve. The funding may also come from offsets from other tax levy supported projects. In addition, approximately \$40 million is expected to be cost recovered from our local municipal partners.

Reserve repayment would be from future development charge collections

Development charge collections would be used to repay the growth portion of the funding that was advanced in the year that the accelerated roads project was originally scheduled to be funded in the capital plan. In addition, there would also be annual draws from development charge reserves for the interest on the amount advanced.

As funds are repaid to the reserve they could also be used for other purposes

As repayments are made to the reserve, these tax levy funds could be repurposed to other capital priorities at Council's direction. The balance of this reserve could also be used as a revolving fund to accelerate additional roads projects in the future.

The Transportation Capital Acceleration Reserve Fund supports the 2019-2023 Strategic Plan and the Regional Official Plan

The Transportation Capital Acceleration Reserve Fund supports the 2019-2023 Strategic Plan priority of delivering trusted and efficient services. It also supports the Region's Vision 2026 goal of responding to the needs of our residents and building infrastructure for a growing Region.

5. Financial

If the Transportation Capital Acceleration Reserve Fund projects are approved, the 2019 approved capital budget would have to be adjusted to reflect spending on the advanced projects and the corresponding offsets. The revisions as well as any changes to the capital spending authority would be brought to Council as part of the 2020 Budget.

6. Local Impact

The Region provides essential services and capital infrastructure for residents and business in all local municipalities in York Region. The Transportation Capital Acceleration Reserve Fund could help unlock additional growth in the local municipalities by allowing priority growth-related roads projects to be built earlier than what is in the approved 2019 Budget.

7. Conclusion

This report seeks Council authorization for the additional funding required for the Transportation Capital Acceleration Reserve Fund. The additional funding will come from the following sources: the operating surplus, funds freed up from the one-time Federal Gas Tax Top-Up and a transfer from the Debt Reduction Reserve.

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

Recommended by:

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Approved for Submission:

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June 12, 2019
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