Fiscal Sustainability Update

Laura Mirabella, Commissioner of Finance and Regional Treasurer
eDocs #9330786
1. Fiscal sustainability: overview

2. The challenge of funding growth-related infrastructure

3. Continuing to fund asset management needs

4. Other pressures and risks

5. Summary
Fiscal Sustainability: Overview
WHAT DOES FISCAL SUSTAINABILITY LOOK LIKE IN YORK REGION

<table>
<thead>
<tr>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth can be accommodated without unacceptable tax levy, user rate or debt increases</td>
</tr>
<tr>
<td>Infrastructure can be kept in a state of good repair and replaced at the right time</td>
</tr>
<tr>
<td>Service levels can be maintained in the face of urbanization and changes in economic conditions</td>
</tr>
<tr>
<td>Full Cost Recovery – careful consideration of who should pay, and that they pay their fair share</td>
</tr>
</tbody>
</table>
THE REGION CONTINUES TO WORK TOWARDS FISCAL SUSTAINABILITY

A sound financial management framework is in place.

Debt peaked in 2017 and is expected to fall.

The Region will be a net investor by 2020.

Reserves to meet future asset management obligations are growing.

Full cost recovery for water and wastewater will be achieved by 2021.
Fiscal Sustainability: Challenges of Funding Growth
## The Region’s Revenue-Raising Powers are Legislated

<table>
<thead>
<tr>
<th>Revenue power</th>
<th>Relevant legislation</th>
<th>What it is used for</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes, including the Vacant Unit Tax</td>
<td><em>Municipal Act, 2001</em> <em>Assessment Act, 1990</em></td>
<td>Operating and asset management costs</td>
</tr>
<tr>
<td>User fees and charges (including fees and charges, permits and rents)</td>
<td><em>Municipal Act, 2001</em></td>
<td>Operating and asset management costs (e.g., water and wastewater rates)</td>
</tr>
<tr>
<td>Development charges</td>
<td><em>Development Charges Act, 1997 and Municipal Act, 2001</em></td>
<td>Growth-related infrastructure (e.g., Roads, Transit, Public Health Services)</td>
</tr>
<tr>
<td>Fines and penalties</td>
<td><em>Municipal Act, 2001</em> <em>Provincial Offences Act, 1990</em></td>
<td>Operating costs (e.g., related to court administration)</td>
</tr>
<tr>
<td>Investment income</td>
<td><em>Municipal Act, 2001</em></td>
<td>Contributions to reserves</td>
</tr>
<tr>
<td>Road tolls</td>
<td><em>Municipal Act, 2001</em></td>
<td>Not applicable</td>
</tr>
</tbody>
</table>
Projected and Actual Population Growth
2012 - 2017

GTA Annual Population Growth

Growth Plan: 97,600
StatsCan Estimate: 100,600

Data Source: Growth Plan Amendment II technical addendum, Hemson Consulting Ltd., StatsCan Table: 17-10-0084-01 (formerly CANSIM 051-0062)
LOWER-THAN-EXPECTED GROWTH RESULTS IN DEVELOPMENT CHARGE SHORTFALLS

Implied average annual development charge revenue vs. actual (2012-2017)

$ Millions

- York
- Peel
- Halton
- Ottawa
- Durham
- Simcoe

- Implied average annual DC revenue
- Actual average annual DC collections
WHILE MAJOR OFFICE EMPLOYMENT GROWTH IS ON TRACK TO MEET FORECASTS, GROSS FLOOR AREA IS NOT
Net Debt by Repayment Source
December 31, 2018
($2.7 Billion)

Development Charges
90%

User Rate
6%

Tax Levy
3%

Other
1%
**2017 Development Charge Bylaw (as amended) - share of gross costs to be recovered 2017-2031 ($8 Billion)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2017 Development Charge Bylaw – as amended in 2018 ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recovered in 2017 Development Charge Bylaw</td>
<td>5,025</td>
</tr>
<tr>
<td>Potentially recovered under future bylaws</td>
<td>1,261</td>
</tr>
<tr>
<td>Recovered from other Regional sources</td>
<td>1,053</td>
</tr>
<tr>
<td>Grants and Subsidies</td>
<td>669</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,009</strong></td>
</tr>
</tbody>
</table>
Fiscal Sustainability: Funding Asset Management Needs
10-year Projection of Tax Levy Funded Asset Management Reserves

- Contributions
- Draws
- Closing Reserve Balance (secondary axis)
RESERVE CONTRIBUTIONS MUST GROW TO MEET ASSET MANAGEMENT NEEDS

10-year Projection of User Rate Funded Capital Reserves
(Water replacement and wastewater replacement reserves)
Fiscal Sustainability: Other Pressures & Risks
**OTHER PRESSURES AND RISKS**

<table>
<thead>
<tr>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1 Implications of Bill 108, More Homes, More Choice Act, 2019</td>
</tr>
<tr>
<td>2 Region’s share of the additional transit growth infrastructure</td>
</tr>
<tr>
<td>3 Potential cost overruns on existing capital program</td>
</tr>
<tr>
<td>4 Projects that are in the master plan, but are not in the capital plan due to affordability (e.g., Langstaff Road Extension over the CN Railyard)</td>
</tr>
<tr>
<td>5 The need to build infrastructure faster to support growth</td>
</tr>
</tbody>
</table>
THROUGH BILL 108, THE PROVINCE HAS CHANGED HOW MUNICIPALITIES RECOVER GROWTH-RELATED INFRASTRUCTURE COSTS

1. Development charge rates ‘frozen’ at earlier stages of development

2. Delayed and phased payments for certain classes of development

3. The Region can continue to collect development charges for water, wastewater, roads, policing, transit, waste diversion and paramedic services

Purpose-built secondary suites would be exempt from development charges
Changes to the Development Charges Act will further limit the region’s ability to fund growth-related infrastructure

- Changes through Bill 108 shifts significant financial risks to municipalities

- Permitting rates to be ‘frozen’ at an earlier point in the development process limits the Region’s ability to collect development charges to fund new projects such as the Yonge Subway Extension

- The delay and planned collection of development charges over a period of 5 – 20 years, puts downward pressure on collections particularly in the short and medium term
  - Early estimates show that this provision could reduce collections by $300M over the next five years compared to the 2019 budget forecast

- It is unclear how much growth-related costs can be recovered through Community Benefit Charge

- Early analysis indicates that there is increased complexity in terms of administration of the DC bylaw and more clarity is needed
PRELIMINARY DEBT PROJECTION

2019 Budget Peak Debt: $2.7B in 2019
2019 Capital Plan with Bill 108 Scenario Peak Debt: $2.8B in 2023
2019 Capital Plan with Bill 108 and additional Transit Growth Infrastructure Scenario Peak Debt: $3.3B in 2028
Capital Contingency Reserves Balances – funding additional transit growth infrastructure

Capital Contingency Reserves could be used to fund additional transit infrastructure.
POTENTIAL COST OVERRUNS ON CAPITAL ARE MITIGATED BY SAVING IN RESERVES

Projected Reserve Balance

$Billions

- 2018: 0.8
- 2019: 0.7
- 2020: 0.8
- 2021: 0.8
- 2022: 0.9
- 2023: 1.0
- 2024: 1.2
- 2025: 1.3
- 2026: 1.4
- 2027: 1.5
- 2028: 1.5

- User Rate - All
- DC
- Tax - Asset Replacement
- Tax - Other
TO REMAIN AFFORDABLE, THE REGION’S CAPITAL PLAN DOES NOT INCLUDE ALL OF THE DESIRED PROJECTS IN THE TRANSPORTATION MASTER PLAN

The Langstaff Bridge is a Regionally significant project that requires commitment from other agencies.
COUNCIL APPROVED A 1% LEVY IN 2019 FOR ROADS ACCELERATION

The 2019 Budget approval:

<table>
<thead>
<tr>
<th>Tax Levy Change</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>2.96%</td>
<td>2.96% including</td>
<td>Roads Capital</td>
<td></td>
</tr>
<tr>
<td>Roads Capital Acceleration</td>
<td>1.00%</td>
<td>2.96% including</td>
<td>Acceleration</td>
<td>Base</td>
</tr>
<tr>
<td>Total</td>
<td>3.96%</td>
<td></td>
<td>Reserve</td>
<td>Contribution</td>
</tr>
</tbody>
</table>

Council adopted an additional recommendation that:

“The reserve be funded by a 1% tax levy contribution in 2019, and future tax levy contributions of up to 1% per year between 2020-2022, conditional on the overall tax levy increase not exceeding 2.96% in any given year, and the transfer of $82.7 million from the Debt Reduction Reserve in 2022.”

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Fiscal Sustainability: Summary
IN ORDER TO CONTINUE ON THE PATH TO FISCAL SUSTAINABILITY

Stay the course on prudent financial decisions already made

Vigilant oversight of the capital plan

Further increases in contributions to asset replacement reserves

Federal and provincial subsidies for infrastructure mega-projects
THANK YOU