Overview

• Financial sustainability
• The need for additional revenue
• The fiscal gap: tax levy pressures
• The fiscal gap: the debt challenge
• Increasing revenue
• Conclusion
Financial Sustainability
Financial sustainability means…

• Growth can be accommodated without unacceptable tax levy or debt increases

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

• Service levels can be increased as the Region urbanizes

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

• Financial responsibility is fairly shared between current and future residents (inter-generational equity)
Financial sustainability is about the stewardship of the long-term

- Financial sustainability requires long-term planning; it does not just happen
- The key to financial sustainability is taking the necessary steps now to manage both short and long-term risks
- This is mostly about managing two things: service levels and infrastructure
Past is future: growing municipalities tend to keep growing

Historic and Projected Population Growth
Ontario Census Divisions (2001-2041)

Projected Population Growth – Annualized (2016-2041)

Historic Population Growth - Annualized (2001-2016)

Sources: Projected population growth from Ontario Ministry of Finance; Historic population growth from Statistics Canada
Population growth in Southern Ontario (2001-2041)

Source: Ontario Ministry of Finance, Spring 2016 Population Projections Update
Growing municipalities tend to have more fiscal capacity

Sources: Fiscal capacity = Weighted average assessment per household, 2013, FIR; Household, 2013, MPAC; population, 2009-2013, Ontario Ministry of Finance
Council has approved two major initiatives that will contribute to long-term financial sustainability

- Fiscal Strategy
- Intergenerational Equity
- Capital Management
- Debt Management
- Reserve Management
The Region will achieve full cost recovery for water and wastewater by 2021

• Council approved a Financial Sustainability Plan for water and wastewater in 2015
• The plan achieves both full cost recovery and intergenerational equity
The Region should become a net investor by 2020

The reserve to debt ratio is forecast to increase in 2017 and exceed 100% by 2020
Council has identified two broad fiscal objectives

- Annual tax levy increases of 3% or less
- A reduction in debt
The Need for Additional Revenue

So why is more revenue needed to achieve financial sustainability?
Two big challenges facing the Region

1. A potential disconnect between actual growth and Growth Plan targets

2. The future cost of asset management for a large and aging asset base
The Growth Plan Disconnect
Infrastructure is being built for the Growth Plan population

- **Growth Plan**
- **Official Plans and Master Plans**
- **Capital Plan**

**Mandates growth targets**

- **Official Plans must conform to the Growth Plan**
- **Infrastructure master plans fall in line**

**Implements the Master Plans**
Population growth in the 905 regions has been slower than expected

Source: 2006 Provincial Growth Plan, CANSIM 061-0062
Toronto is capturing a higher than expected share of growth

Source: Statistics Canada

Annual Population Growth, 2001 to 2016

Source: Statistics Canada
The future looks mostly like the past

Per cent of GTA Population

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth Plan Amendment II</th>
<th>Ministry of Finance Spring 2016 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toronto</td>
<td>38%</td>
<td>41%</td>
</tr>
<tr>
<td>Peel</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>York</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Durham</td>
<td>12%</td>
<td>10%</td>
</tr>
<tr>
<td>Halton</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Growth Plan, Ministry of Finance Spring 2016 Demographic Outlook
Slower than expected growth means lower than expected development charges

Note: Compared to the last background study
*York Region’s average annual expected development charge revenue is based on the 2012 development charge background study implied collections of $555 million per year.
Source: York Region Office of the Budget
Development charge collections have been well below expectations in York Region

<table>
<thead>
<tr>
<th>Type</th>
<th>2012 Mid to 2016 Mid</th>
<th>Collection</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>$1,357 M</td>
<td>$890 M</td>
<td>60%</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>$889 M</td>
<td>$247 M</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Implied DC Collections**: mid 2012 to mid 2016
$2.2 Billion

**Actual DC collections**: mid 2012 to mid 2016
$1.1 Billion

*Gross collections based on 2012 development charge background study
Source: 2012 DC Background Study, York Region Treasury Office
Key points

• Toronto is capturing a larger than expected share of growth in the GTA, and this trend will likely continue

• Because municipalities are required to conform to the Growth Plan, the 905 regions (and possibly others) may be over-investing in capital

• If growth and development charges remain below expectations, there is a risk of stranded debt and/or stranded infrastructure, which could necessitate capital deferrals
Asset Management
You can’t have sustainability… without good asset management
In the last half century, there has been a dramatic shift in responsibility for infrastructure

<table>
<thead>
<tr>
<th>Share</th>
<th>1961</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal</td>
<td>28%</td>
<td>15%</td>
</tr>
<tr>
<td>Provincial</td>
<td>36%</td>
<td>26%</td>
</tr>
<tr>
<td>Local</td>
<td>36%</td>
<td>59%</td>
</tr>
</tbody>
</table>

Sources: StatsCan, CANSIM Table 031-0005: Flows and stocks of fixed non-residential capital, by industry and asset, Canada, provinces and territories, annual.
The Region’s infrastructure is growing much faster than its population

Tangible Capital Assets per Capita
($2017)

Historic and Projected Asset Base per Capita

Source: historic population from Statistics Canada; projected population from Ministry of Finance Spring 2016 Population Projections; historic asset base from York Region Annual Statements; and, projected asset base from 2017 Budget amended with draft 2017 development charges background study
York Region’s infrastructure base is expected to continue growing quickly

Replacement Cost in 2015 based on 2015 State of Infrastructure Report ($11 Billion*)

- Wastewater: $3.9B (35%)
- Water: $1.6B (14%)
- Roads: $3.4B (31%)
- Transit: $0.8B (7%)
- Other: $1.4B (12%)

Projected Replacement Cost in 2031 based on Draft 2017 DC Background Study ($17.2 Billion)

- Wastewater: $5.6B (33%)
- Water: $12.2B (13%)
- Roads: $5.9B (34%)
- Transit: $1.3B (8%)
- Other: $2.2B (13%)

*Land not included
Asset replacement reserves will need to continue to grow

In 2013, Council approved incremental increases to capital asset replacement reserve contributions to achieve a 2% increase in 2017
Key points

• Municipalities are responsible for a much bigger slice of the infrastructure pie than in the past
• Sound asset management will become increasingly important as the Region’s infrastructure base grows and existing assets age
• Increased investment in asset management will be required
The Fiscal Gap Part 1: Tax Levy Pressures
What is the fiscal gap?

• The tax levy portion of the fiscal gap is desired spending that cannot be accommodated within a 3% tax levy increase, other things being equal.
What makes up the fiscal gap?

1. Costs for growth-related infrastructure that cannot be recovered through development charges

2. Asset management costs that cannot be accommodated within the current ten-year capital plan

3. The Region’s share of federal-provincial-municipal mega-projects
The inadequacy of development charges creates a tax levy pressure

York Region Growth-Related Expenditures Draft 2017 Background Study ($6.5 Billion)

Debt $1,262M 19.3%
Primarily Tax Levy $878M 13.5%
Grants and Subsidies $669M 10.3%
Recovered in the 2017 Bylaw (debt required) $3,713M 56.9%
The Region will need an additional $24 million annually to maintain a good state of repair for non-water & wastewater assets

Variance between the Region's asset management needs and dedicated funding, excluding water and wastewater assets (2017-2031)

- $233 million per year on average will be required to fully fund asset management activities
- There is a projected $24 million average annual gap in asset management investments
- $128 million per year on average is allocated to asset management in the current capital plan
It is possible that the Region will be expected to contribute to cost-shared mega-projects

- The Region’s share of the Yonge subway is assumed to be one-third (for illustrative purposes)
- Depending on the assumptions used, 74% to 80% of the Region’s costs are assumed to be paid for by development charges, with the remaining 20% to 26% from the tax levy

### Additional revenue needed for Yonge subway funding

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>Gross Costs</th>
<th>Region’s Share</th>
<th>DC Eligible Costs</th>
<th>Tax Levy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yonge Subway (portion in York Region)</td>
<td>3,090</td>
<td>1,020</td>
<td>755 to 820</td>
<td>200 to 265</td>
</tr>
</tbody>
</table>
An initial estimate of the fiscal gap is approximately $125 million per year

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>DC Main List</th>
<th>Contingency List</th>
<th>Yonge Subway</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unfunded Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-DC-eligible costs</td>
<td>57</td>
<td>9</td>
<td>13 to 18</td>
<td>79 to 84</td>
</tr>
<tr>
<td>Asset management costs</td>
<td>24</td>
<td>19</td>
<td>-</td>
<td>42</td>
</tr>
<tr>
<td><strong>Fiscal Gap</strong></td>
<td>81</td>
<td>28</td>
<td>13 to 18</td>
<td>122 to 127</td>
</tr>
</tbody>
</table>
The Fiscal Gap Part 2: Managing Debt
York Region has relatively high levels of debt

Outstanding Debt Per Capita, 2015

- York: $2,731
- Ottawa: $2,017
- Toronto: $1,879
- Peel: $992
- Hamilton: $716
- Waterloo: $654
- Halton: $629
- Durham: $306

Source: BMA Management Consulting Inc. Municipal Study 2016
Major growth-related capital projects have required significant debt

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Project Name</th>
<th>Total Budgeted Cost ($ millions)</th>
<th>2016 Debt ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wastewater</td>
<td>YDSS Southeast Collector</td>
<td>572</td>
<td>479</td>
</tr>
<tr>
<td>Water</td>
<td>Peel Water Supply Cost Shared Work</td>
<td>582</td>
<td>359</td>
</tr>
<tr>
<td>Wastewater</td>
<td>YDSS Duffin Creek Expansion</td>
<td>626</td>
<td>288</td>
</tr>
<tr>
<td>Transit</td>
<td>Spadina Subway Expansion</td>
<td>1,329</td>
<td>181</td>
</tr>
<tr>
<td>Water</td>
<td>Toronto Water Supply Cost Shared Work</td>
<td>460</td>
<td>172</td>
</tr>
<tr>
<td>Wastewater</td>
<td>Duffin Creek Stage 1 &amp; 2 Upgrades and Refurbishment</td>
<td>208</td>
<td>118</td>
</tr>
<tr>
<td>Wastewater</td>
<td>Keswick Water Pollution and Control Plant</td>
<td>98</td>
<td>74</td>
</tr>
<tr>
<td>Water</td>
<td>Kennedy Water Main</td>
<td>76</td>
<td>63</td>
</tr>
<tr>
<td>Water</td>
<td>East Vaughan pumping station</td>
<td>53</td>
<td>50</td>
</tr>
<tr>
<td>York Region Police</td>
<td>Investigative and Support Services facility</td>
<td>67</td>
<td>48</td>
</tr>
</tbody>
</table>
Peak debt will be realized this year

Outstanding Debt Projection
2017 Approved Budget

Peak Debt
2017 Budget - $2.9 B in 2017

Historical Outstanding Debt
2017 Proposed Budget
The debt profile deteriorated between 2016 and 2017

- 2017 Approved Budget: $2.9B in 2017
- 2016 Budget: $2.9B in 2017
Most of the debt is supported by future development charge revenue

New tax levy and rate supported debt have been eliminated as a result of the fiscal strategy
Debt servicing costs are significant

Forecast Principal and Interest Payments
(2017 Budget)

|$ Millions |
|--- |--- |
|2017 |250 |
|2018 |275 |
|2019 |290 |
|2020 |305 |
|2021 |320 |
|2022 |335 |
|2023 |350 |
|2024 |365 |
|2025 |380 |
|2026 |395 |
|2027 |410 |
|2028 |425 |
|2029 |440 |
|2030 |455 |
|2031 |470 |
The capital plan and the debt management plan are highly reliant on development charge collections.

Net DC Collections

- First 10 years: $4.1 billion
- Second 10 years: $4.2 billion

Lower-than-expected DC collections would mean some combination of more debt or capital deferrals.
The draft DC Background Study projects would result in significantly higher debt.
The Background Study plus the Contingency B list would result in still higher debt

Outstanding Debt Projection
2017 Approved Budget vs.
Draft 2017 DC Background Study
(Main Project List and Contingent B List)
With the Transportation Master Plan and Yonge Subway added to the Background Study, the debt would be even higher.
New revenue sources could allow projects to be added to the capital plan without increasing debt

- The Region could consider a DC debt reduction reserve (similar to the current tax levy debt reduction reserve) to temporarily fund the DC portion of growth-related projects not currently in the capital plan
- Draws on the reserve would be repaid through development charge collections

<table>
<thead>
<tr>
<th>Annual seeding of DC debt reduction reserve</th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>90</td>
</tr>
</tbody>
</table>
Key messages

• Debt management remains a significant challenge for the Region
• The Region needs approximately $215 million per year in additional revenue to achieve long-term financial sustainability:

<table>
<thead>
<tr>
<th></th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax levy fiscal gap</td>
<td>125</td>
</tr>
<tr>
<td>Annual seeding of DC debt reduction reserve</td>
<td>90</td>
</tr>
<tr>
<td>Annual requirement for long-term financial sustainability</td>
<td>215</td>
</tr>
</tbody>
</table>
Increasing Revenue
Two questions

• Will the Province give municipalities big new revenue sources?

• If not, what new revenue sources might be workable in the current context?
AMO’s What’s Next campaign is targeting big generators of tax revenue that reside with the Province.

### Different Financing Tools for Different Services

<table>
<thead>
<tr>
<th>Private</th>
<th>Public</th>
<th>Redistributive</th>
<th>Spillovers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water</td>
<td>Police</td>
<td>Social assistance</td>
<td>Roads/transit</td>
</tr>
<tr>
<td>Sewer</td>
<td>Fire</td>
<td>Social housing</td>
<td>Culture</td>
</tr>
<tr>
<td>Garbage</td>
<td>Local parks</td>
<td></td>
<td>Social assistance</td>
</tr>
<tr>
<td>Transit</td>
<td>Streetlights</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **User Fees**
- **Property Tax**
- **Income tax**
- **Transfers**

But the Provincial fiscal plan is very challenging

Annual Growth in Provincial Program Expenditures
2013-14 to 2017-18

- Nominal Annual Growth in Program Expenditures
- Real Annual Per Capita Growth in Program Expenditures

Source: Ontario Budget 2016: Section B: Fiscal Outlook, Table 3.18 and York Region Finance Department
*Includes transportation, tourism, economic development, employment, agriculture, employee and pensioner benefits, housing and natural resources. Does not include interest on debt.
And the elephant in the room is health care

Provincial Health Care Expenditures (Constant dollars)

- Healthcare Expenditures
- Annual Growth Rate (%)

Source: Ontario Public Accounts, 1994-95 to 2015-16; Statistics Canada
Annual spending is in constant 2016 dollars
A tsunami of cost is about to hit the system with the aging of the baby boom

Ontario Per Capita Health Expenditures by Age Group, 2014

$000s per capita

Source: National Health Expenditure Database, 2014, Canadian Institute for Health Information.
The Province is unlikely to come to the rescue

• Uploads agreed to as part of the Provincial-Municipal Fiscal and Service Delivery Review will come to an end in 2018

• The Province will be reluctant to cede its big revenue generators to municipalities

• New municipal revenue sources will likely require municipal political accountability
The City of Toronto Act provides revenue-raising powers, which the city must choose to exercise.

<table>
<thead>
<tr>
<th>City of Toronto Act (2006) – Permitted Taxation Options</th>
<th>Revenue Estimate for York Region (if implemented)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Implemented by Toronto</strong></td>
<td></td>
</tr>
<tr>
<td>Municipal Land Transfer Tax</td>
<td>$200 to 250 million</td>
</tr>
<tr>
<td>Personal Vehicle Registration Tax</td>
<td>$67 to 80 million</td>
</tr>
<tr>
<td>Third Party Sign Tax</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Not Implemented by Toronto</strong></td>
<td></td>
</tr>
<tr>
<td>Alcohol Tax</td>
<td>N/A</td>
</tr>
<tr>
<td>Tobacco Tax</td>
<td>N/A</td>
</tr>
<tr>
<td>Amusement Tax</td>
<td>N/A</td>
</tr>
<tr>
<td>Road Tolls</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Key messages

• City of Toronto Act revenue-raising powers may be a path to additional revenue for the Region (and potentially other municipalities)
• The province would need to put an appropriate legislative and regulatory environment in place
Conclusion
If new revenue sources become available, they could be allocated to capital

- Fund the non-development charge recoverable portion of growth-related capital
- Address future unmet asset management needs
- Provide funding for municipal share of mega-projects
- Allow more projects to be included in the development charge bylaw

- Accelerate implementation of the Transportation Master Plan
- Enable investment in infrastructure that is not development charge eligible or mostly ineligible
- Help ensure that current prohibition on tax levy debt can remain
- Enable faster debt reduction
Conclusion

• Long-term financial sustainability cannot be achieved within the current provincial-municipal fiscal framework

• New revenue sources are necessary to address both growth management and asset management needs, since the property tax increases and debt increases that would be needed are not likely to be acceptable for the foreseeable future

• A feasible option may be for Growth Plan upper and single tier municipalities to seek the revenue powers available under the City of Toronto Act