Clause 7 in Report No. 9 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on May 25, 2017.

7
Financial Sustainability

Committee of the Whole recommends adoption of the following recommendations contained in the report dated May 4, 2017 from the Commissioner of Finance:

1. Council request that the Province provide York Region with the same revenue powers that are available under the *City of Toronto Act, 2006*, and the Chairman write to the Premier requesting action.

2. The Regional Clerk circulate this report to:

   a. The local municipalities

   b. The Association of Municipalities Ontario (AMO), Mayors and Regional Chairs of Ontario (MARCO), The Large Urban Mayor's Caucus of Ontario (LUMCO), Municipal Finance Officers' Association of Ontario

   c. The Minister of Finance and the Minister of Municipal Affairs

   d. The local Members of Provincial Parliament

   e. The Building Industry and Land Development Association (BILD)

   f. All upper and single tier municipalities in the Greater Golden Horseshoe, with a request that they consider passing a resolution requesting similar revenue powers

Report dated May 4, 2017 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that:

1. Council request that the Province provide York Region with the same revenue powers that are available under the *City of Toronto Act, 2006*, and the Chairman write to the Premier requesting action.

2. The Regional Clerk circulate this report to:

    a. The local municipalities

    b. The Association of Municipalities Ontario (AMO), Mayors and Regional Chairs of Ontario (MARCO), The Large Urban Mayor's Caucus of Ontario (LUMCO), Municipal Finance Officers' Association of Ontario

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    e. The Building Industry and Land Development Association (BILD)

    f. All upper and single tier municipalities in the Greater Golden Horseshoe, with a request that they consider passing a resolution requesting similar revenue powers

2. Purpose

The report explains the fiscal pressures the Region is facing, the inadequacy of current revenue sources allowed under the *Municipal Act, 2001*, and a potential path for achieving financial sustainability.

3. Background

Ontario municipalities have limited options for raising revenues

The *Municipal Act, 2001*, prescribes a limited set of revenue sources for Ontario municipalities, other than the City of Toronto. Under the *Municipal Act*, the revenue sources available are:

- Property taxes
- User fees and charges, including fees for licenses, permits and rents
- Development charges
- Fines and penalties
- Investment income

Municipalities can also establish local improvement charges on publicly or privately-owned property that will benefit directly from local infrastructure improvements. These projects can range from water and wastewater projects to roads and traffic calming infrastructure. In addition, municipalities can levy road tolls on roads they own, but they must apply to the province for an enabling regulation. To date no municipality other than Toronto has made this request, and Toronto's request was denied.

Finally, other statutes also affect municipal revenue sources:

- *Development Charges Act, 1997*
- *Building Code Act, 1992*
- *Provincial Offences Act, 1990*

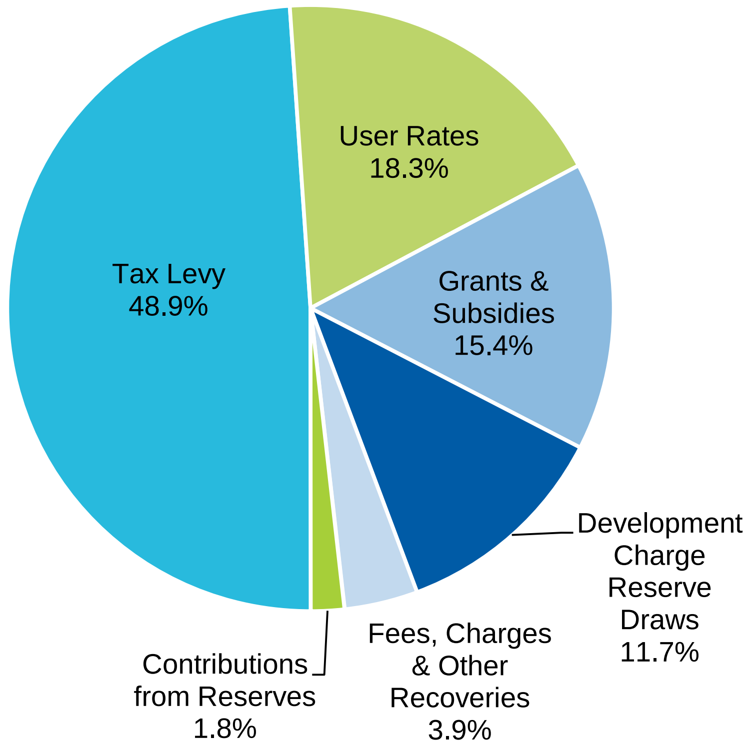
Property taxes are the main source of revenue for the Region

Property taxation is the only major field of taxation available to municipalities in Canada. It is the principal source of revenue for York Region, and is used to fund the bulk of programs and services that York Region delivers (except for water and wastewater). Examples of programs and services supported through property tax revenues include police, paramedics, road maintenance, and transit.

In 2017, the Region plans to raise approximately $1.02 billion through property taxation, which is approximately 49 per cent of the Region's total revenue requirements.

Figure 1

2017 Total Revenue
$2,097 Million



The *City of Toronto Act, 2006* offers greater financial flexibility to the City of Toronto

The *City of Toronto Act, 2006*, gave Toronto powers to levy additional direct taxes that are not available to other municipalities. These include a municipal land transfer tax, personal vehicle registration tax, third-party sign tax, alcohol tax, tobacco tax, and amusement tax

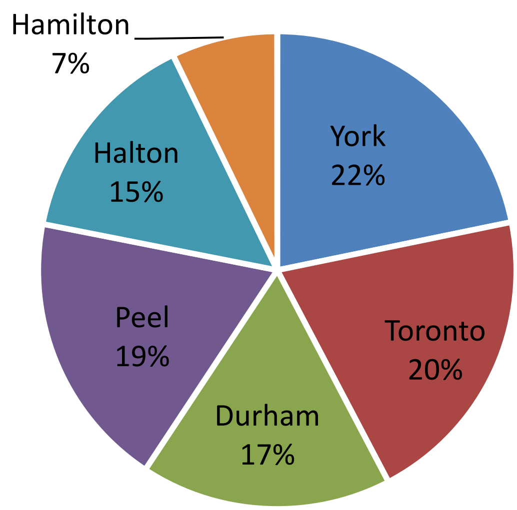
The *City of Toronto Act* also contained prohibitions with respect to the City's capabilities, including:

- No sales tax
- No tax on personal or corporate income
- No tax on wealth or payroll
- No capital tax
- No tax on gas or hotel rooms

Growth Plan implications have the Region facing similar growth pressures as Toronto

The population of the Greater Toronto and Hamilton Area (GTHA) is expected to reach more than 10 million by 2041. Between 2011 and 2041, the Greater Toronto and Hamilton Area is expected to grow by 3.3 million people, with York Region growing by 716,000 people, or 21.8 per cent of the GTHA's growth. This outpaces Toronto, which is forecast to grow by 675,000 people, or 20.5 per cent of the GTHA's growth. Figure 2 shows shares of projected population growth under the Provincial Growth Plan.

Figure 2
Share of Growth Plan population forecast (GTHA)*



*Note: Time period is 2011 - 2041

Achieving the Growth Plan targets for York Region will require large infrastructure investments

Servicing this level of growth requires significant infrastructure investments. The 2016 Transportation Master Plan outlines $16.5 billion of growth-related spending to improve the transit, roads and cycling infrastructure of the Region. The Region's Water and Wastewater Master Plan includes $3.15 billion of water and wastewater capital projects from 2016 to 2041.

In addition, York Region's asset base is growing faster than the rate of population growth. Keeping this growing asset base in a state of good repair also requires significant capital spending.

As a result of rapid population growth and large infrastructure needs, York Region is facing financial pressures similar to those in Toronto. For example, on a per capita basis, York Region's combined upper and lower tier capital budget for 2017 is larger than Toronto's, at $1,192 per capita versus $974 per capita.

Proposed amendments to the *Municipal Act, 2001* have not addressed the issue of additional financial powers in a substantive way

In October 2015, Regional Council endorsed a staff report that included a recommendation that the Province give the Region the power to impose direct taxes similar to the City of Toronto, as part of its revisions to the *Municipal Act*.

On November 16, 2016 the province tabled *Bill 68 – Modernizing Ontario's Municipal Legislation Act, 2016.* The *Bill* amends the *Municipal Act, 2001*, the *City of Toronto Act, 2006*, the *Municipal Conflict of Interest Act, 1990* and several other Acts (e.g., *Building Code Act, 1992*, *Municipal Elections Act, 1996*).

While the Bill proposes to extend prudent investor status to municipalities in Ontario, it was silent on any additional revenue sources. The Province has indicated they will only consider this when there is "consensus or near consensus" among municipalities (and in their opinion, this was not the case during this review).

The Province appears to be looking to the municipal sector to articulate a position on new revenue sources

In December 2016, Toronto Council voted to explore the option of imposing road tolls on the Gardiner Expressway and Don Valley Parkway, both of which are owned by the City. It was estimated that road tolls could generate up to $166 million for the City in 2016 at a rate of under $2.00 per trip[1].

In rejecting the City of Toronto's request to levy toll roads, the province noted that because there were no adequate public transit alternatives to the Don Valley Parkway and Gardiner Expressway, road tolls would have had a disproportionate effect on the most vulnerable in society.

The province seems to be seeking a unified or near-unified municipal position as a condition for considering new revenue sources for municipalities other than Toronto. This position was first articulated by then Minister of Municipal Affair and Housing Ted McMeekin, who announced during question period in 2015, "There has been no call, at all, for a municipal land transfer tax, nor is there any legislation before the House that would allow this… Toronto will remain the only Ontario city allowed to charge a land transfer tax".

[1] Staff report on The City's Immediate and Long Term Revenue Strategy Direction, p 5.

At the Association of Municipalities of Ontario conference in August 2016, Premier Wynne noted that the Province will not amend municipal powers of taxation under the *Municipal Act* until Ontario municipalities have reached a consensus on which specific revenue tools they would like to use.

4. Analysis and Implications

The Region is making some progress towards financial sustainability

The key to achieving financial sustainability is taking the necessary steps to manage both short and long-term risks. For York Region, 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, ensuring inter-generational equity

In recent years, Council has made two key decisions that will help the Region achieve long-run financial sustainability: the fiscal strategy and full cost recovery for water and wastewater.

The fiscal strategy involves integrated management of the capital plan, reserves, and debt

Since 2014, the Region has prepared a fiscal strategy that is updated as part of each annual budget (Figure 3). The most recent version of the fiscal strategy was adopted by Council on December 15, 2016.

Figure 3
Regional Fiscal Strategy

The need to manage investment in growth-related capital is a major driver of the fiscal strategy. Growth-related infrastructure is largely financed by debt, and subsequently paid for by development charges, since most infrastructure must be in place before growth happens. If the development charge collections needed to repay the debt arrive more slowly than expected, the fiscal pressure becomes more pronounced. This was the case for the Region in 2013, 2014 and 2015, and the trend is expected to continue.

In response, the Region reduced planned spending in its 10-year capital plan to ensure projects aligned more closely with expected growth and to limit the amount and duration of borrowing.

In addition, the fiscal strategy involves building reserves to enable the Region to renew and replace capital assets at the appropriate time. Council's decision to increase contributions to capital asset replacement reserves was a key factor in putting the Region in a more sustainable financial position.

The Region will achieve full cost recovery for water and wastewater infrastructure by 2021

In 2015, Council approved water and wastewater rates that will achieve full cost recovery by 2021. While development charge revenue is expected to fund the majority of growth-related capital costs related to water and wastewater systems, they cannot be used to fund the operating and asset management costs. Full cost recovery means that all of the non-DC eligible costs related to the Region's water and wastewater systems will be fully funded exclusively from user rate revenue, without the need for future user-rate-supported debt.

The most significant risks to the Region's future financial sustainability are capital-related

The Region faces two significant risks to its long-term financial sustainability:

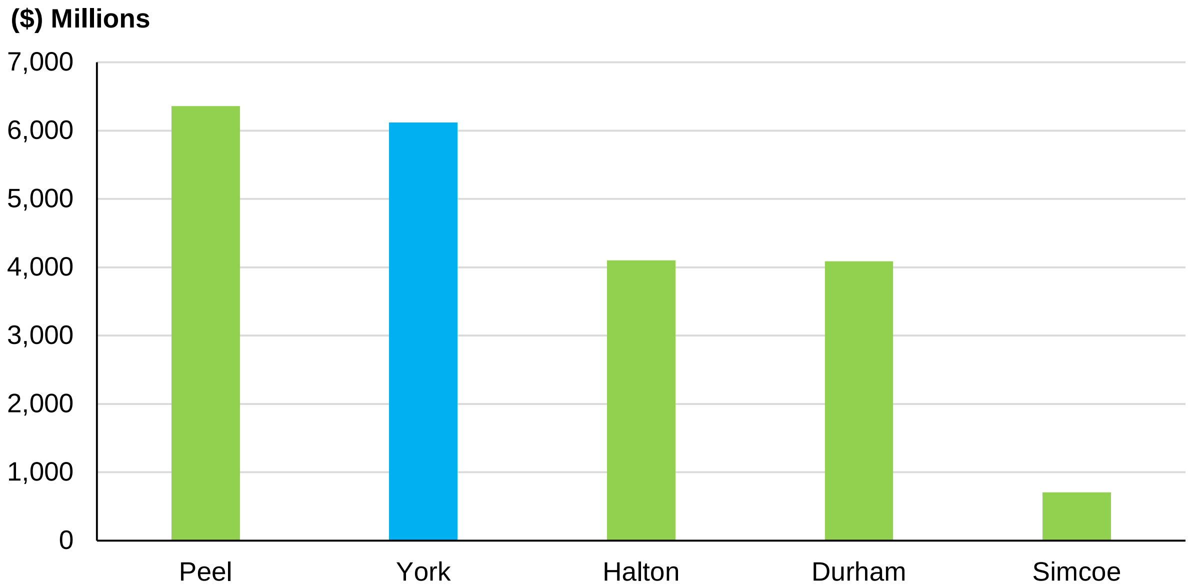
1. Inability to fund all of the needed growth-related investment
2. Inadequate funding to meet future asset management needs

These risks can be managed in the near term, but in the longer term the Region may face the prospect of higher-than-normal tax levy increases, declining service levels (e.g., excess congestion), inability to meet the Provincial Growth Plan targets in some parts of the Region on a timely basis, and deteriorating infrastructure.

York Region's 10-year capital plan is among the largest in surrounding regions

York Region's 10-year capital plan is among the largest in surrounding upper tier regions, second only to Peel's 2017-2026 capital plan of $6.4 billion (Figure 4).

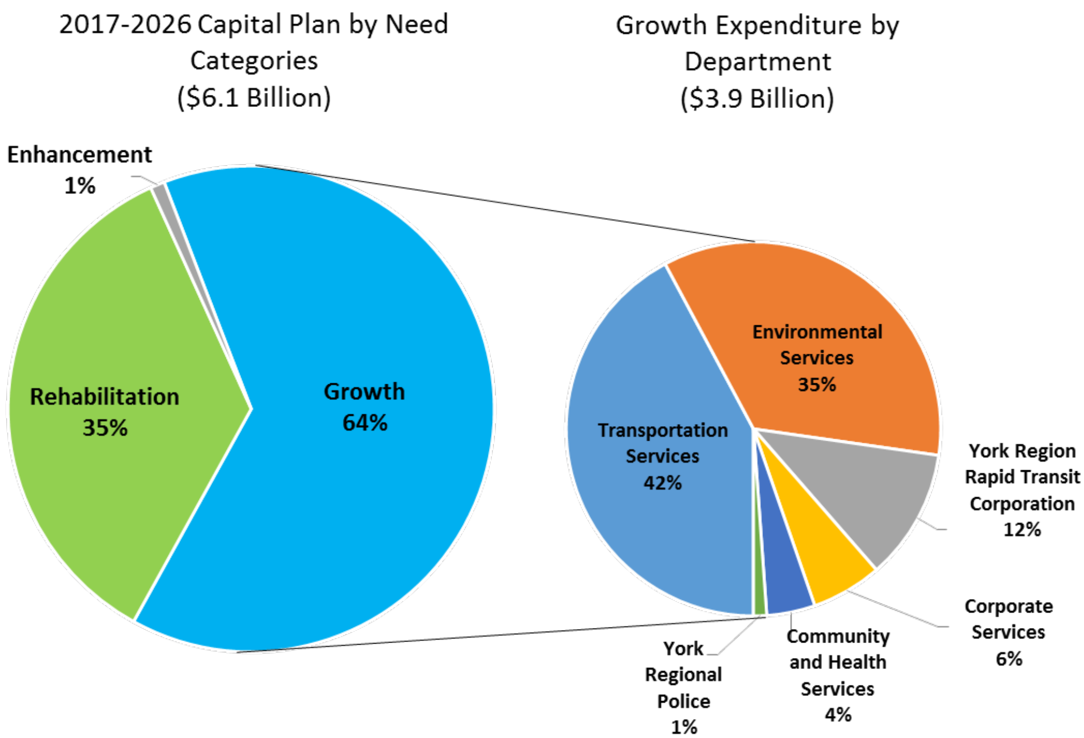
Figure 4
Interjurisdictional Comparison of Capital Plans (2017-2026)



Most of the capital plan is for growth-related infrastructure

Close to two thirds of the Region's 2017 ten-year capital plan is for growth-related infrastructure. Approximately three quarters of the growth-related capital expenditures are for water, wastewater and roads (Figure 5).

Figure 5
York Region 2017-2026 Capital Plan



Growth-related infrastructure creates four types of financial pressures

Growth-related projects create four types of financial pressures, three of which affect the tax levy, and one of which creates a development charge debt pressure (Table 1). The first consists of growth-related costs that simply cannot be recovered from development charges. The second consists of delayed development charge collections, which translates into debt. The third category is asset management costs, and the fourth is the cost of operating and maintaining new infrastructure.

Table 1
Financial pressures from growth-related infrastructure

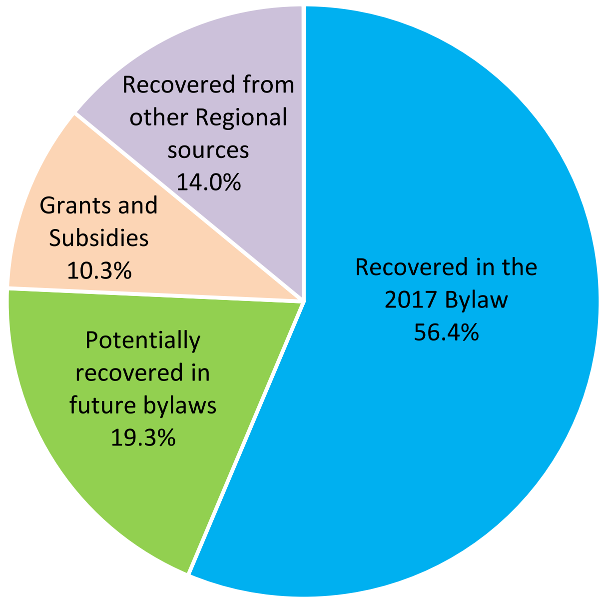
1 Non-DC Recoverable Costs	2 Delayed Recovery of Costs	3 Asset Management Costs	4 Operating Costs of New Infrastructure
• Ineligible services • 10 per cent statutory deduction • Benefit to existing • Exemptions	• Post-period benefit • Level of service (a portion) • Development charge deferrals • Exemptions	• Rehabilitation and replacement costs	• Operating and maintenance costs
Tax levy	**Debt**	**Tax levy**	**Tax levy**

Development charges do not fully fund the cost of the infrastructure projects required to support growth

Under the *Development Charges Act*, there are a number of deductions a municipality must make to the cost of growth when determining development charge rates. Deductions related to benefit to existing and the 10 per cent statutory deduction can never be recovered from development charges. They must be recovered from the tax levy or user rates. Deductions related to post-period benefit and historic level of service can potentially be recovered under future bylaws (Table 1).

In the proposed 2017 Bylaw, development charges were estimated to cover approximately 57 per cent of the gross capital costs included in the Background Study (Figure 6). Almost 14 per cent—approximately $880 million—of growth-related costs cannot be recovered from development charges. The primary source of funding for these costs will be the tax levy.

Figure 6
Share of Gross Costs to be Recovered
Draft 2017 Development Charge Background Study (March Tabling)



Post-period benefit translates directly into debt

Approximately 19.3 per cent of the $6.5 billion in infrastructure costs included in the 2017 draft development charge background study consists of post-period benefit and level of service caps (Figure 6). The intent of the post-period benefit deduction is to attribute the cost of a project to the growth occurring over its benefiting period. Post-period benefit deductions have the effect of delaying the recovery of growth-related costs through development charges.

In the 2017 draft development charge background study, police, public works, paramedic services, and court services were affected by the historic level of service cap. These deductions are similar to post-period benefit in delaying cost recovery.

Because of this, any spending on projects with post-period benefit or level of service caps creates a need for additional debt. Once the time horizon is extended (in future bylaws), these amounts can theoretically be included in the development charge rate, although the recapture of these costs is not certain and would take place over an extended time frame.

The Region has been growing at a rate below what was anticipated in the 2012 Development Charge Background Study

Despite York Region's continuing rapid growth, the Region is not meeting the Provincial Growth Plan forecast, which forms the basis for the Region's development charge background studies. According to Statistics Canada's annual population estimate, York Region added roughly 18,400 people per year from 2011 to 2016. This is approximately 73 per cent of the Growth Plan forecast. This lower-than-expected population growth resulted in the completion of fewer new housing units than were anticipated in the 2012 Background Study. The forecast for housing completions in the 2012 Background Study was about 10,200 units annually for the 2012 to 2016 period, while actual annual completions were around 7,700, or 75 per cent of forecast.

The non-residential sector also saw lower-than-expected growth. Actual non-residential development was around 44 per cent of the annual 9.38 million square feet anticipated in the 2012 Background Study. This was mainly attributable to three factors:

- Lower-than-expected employment growth
- Higher intensification in new non-residential space
- Increasing share of employment growth not needing new space, such as those being accommodated through intensification of existing work spaces, work-at-home and no-fixed-place of work

The Region only collected around half of the revenues anticipated in the 2012 Development Charge Background Study

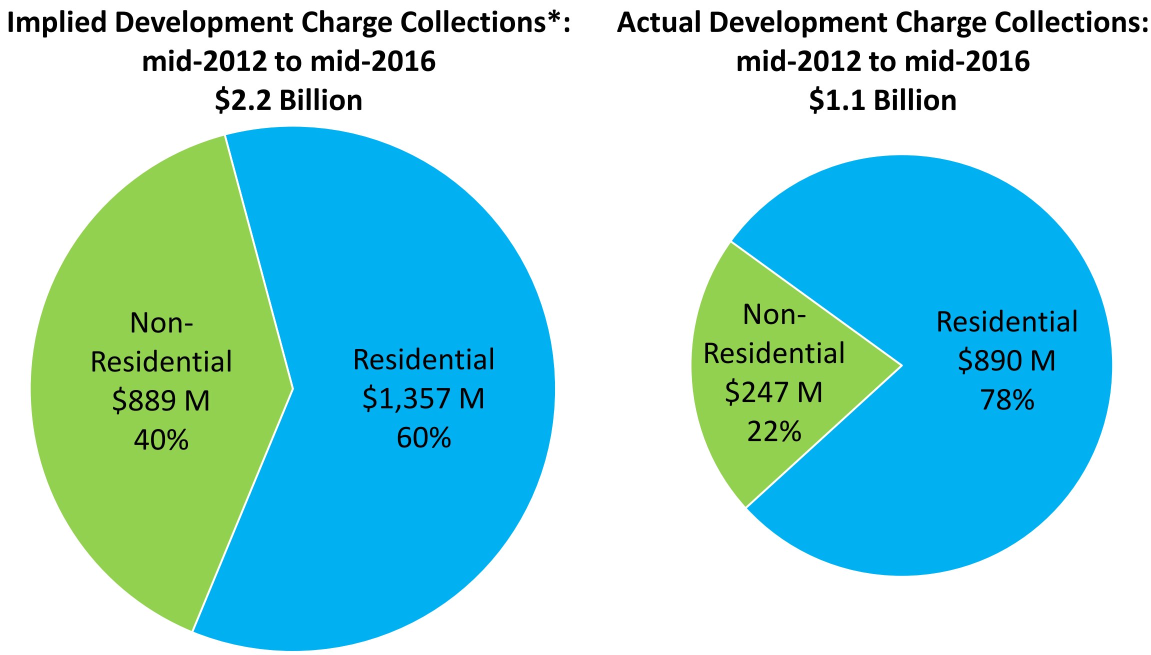
The realization of development charge revenues depends on the realization of growth. When growth is slower than expected, development charge collections will also be lower than expected. While the Region may be able to recover for this shortfall in future bylaws, it creates a further debt pressure.

Achieving the anticipated level of growth would mean that more infrastructure could be funded through revenues collected rather than debt. While this would help to alleviate debt pressure, it would not address the tax levy and user rate pressures arising from investment in growth-related infrastructure.

Development charge exemptions also lead to lower-than-expected development charge collections. Some of the exemptions are statutory exemptions mandated by the *Development Charge Act*. Because of this, even if growth had occurred at the anticipated pace, there would still be a development charge collection shortfall due to exemptions.

From mid-2012 to mid-2016, the Region collected around $1.1 billion, or about half of the collections implied by the 2012 Development Charge Background Study (Figure 7).

Figure 7
Development Charge Collections Forecast vs Actual



*Gross collections based on 2012 Development Charge Background Study

As shown in Figure 8, 36 per cent of the total collection forecast over the mid-2012 to mid-2016 period was not realized due to lower-than-expected growth, with the balance of the shortfall due to exemptions, prepayments and credits.

Staff estimate that slower-than-expected growth in residential and non-residential development accounted for three-quarters or $813 million of the total $1.1 billion of unrealized development charge collections over the mid-2012 to mid-2016 period. Of the $813 million, the residential growth shortfall made up about $386 million and non-residential growth shortfall made up about $427 million.

The remainder of the $1.1 billion collection shortfall can be explained by exemptions, prepayments and credits. They made up about one-quarter of the collections shortfall or about $294 million over the four year period:

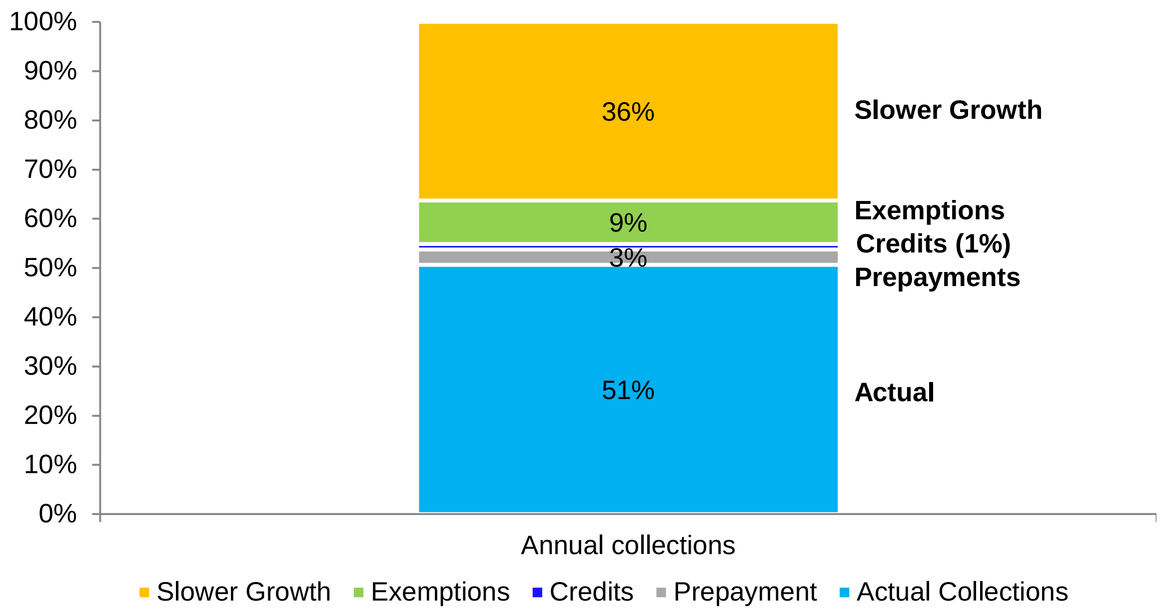
- An estimated $199 million is due to development charge exemptions
- $71 million is due to prepayment agreements, which were a transitional provision that allowed qualified developers to pay at the pre-2012 bylaw rate

- $24 million is due to pre-paid development charge credits, which reimburse developers for infrastructure they help finance

The exemptions include statutory exemptions, and were predominantly in the non-residential sector, specifically institutional and industrial development (e.g., public schools, expansion of industrial spaces up to a certain limit). Under the *Development Charges Act*, municipalities cannot exclude development that is exempt from development charges from the rate calculation. In other words, municipalities cannot pass on the cost of exemptions offered to one class of development to another class of development.

Figure 8

Share of York Region development charge collections 2012 background study forecast vs. actuals (mid-2012 to mid-2016)

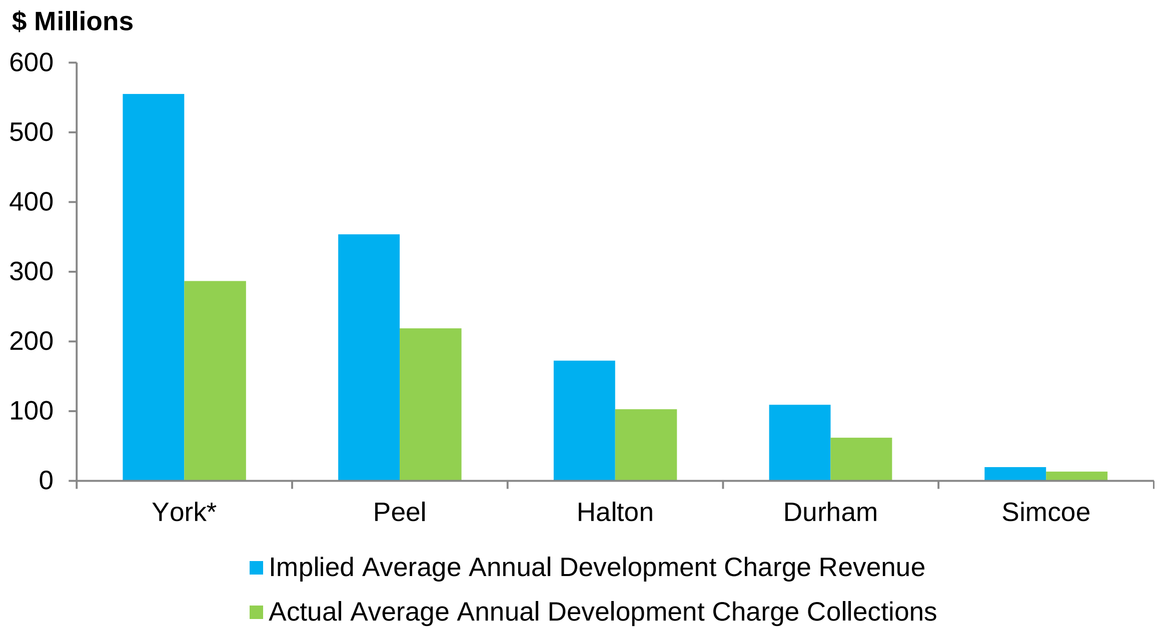


Other municipalities are also seeing lower-than-expected development charge collections

Figure 9 shows that all neighbouring upper tier municipalities also experienced much lower development charge collections than forecast. Overall, the actual average annual collections as a percentage of implied average annual collections ranged from 52 per cent in York Region to 68 per cent in Simcoe County.

Figure 9

Interjurisdictional scan of development charge collection gap (2012-2014)



*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

The primary reasons for the collection shortfall are that:

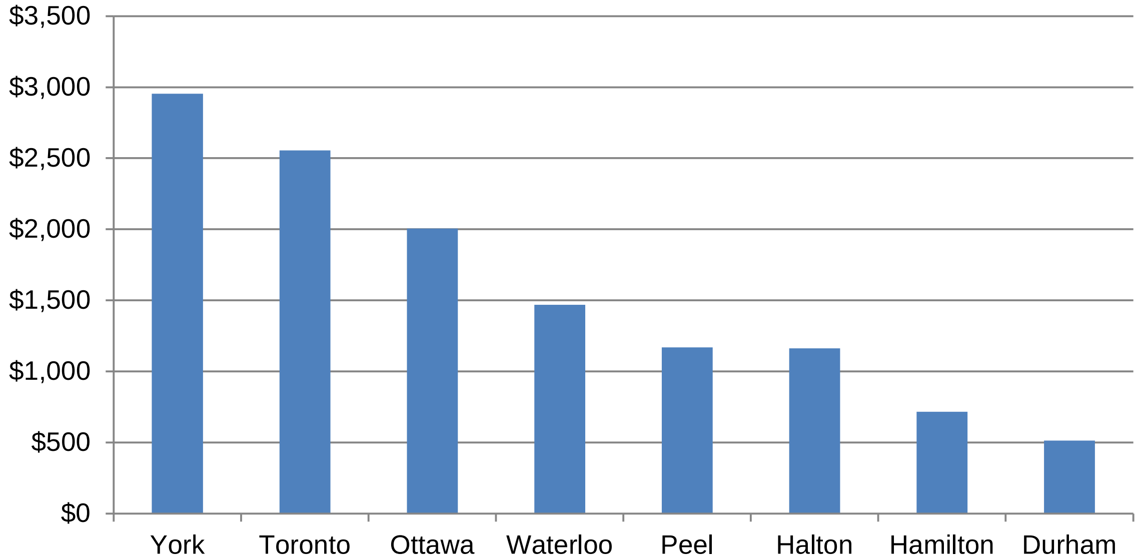
- Growth forecasts used in development charge background studies must be consistent with the Provincial Growth Plan and Official Plans
- Growth in most 905 regions has been below Growth Plan targets
- Development charge rates therefore are being set too low in relation to realized growth

The Region's debt burden constrains spending on growth-related infrastructure

York Region has a relatively high level of debt compared to other municipalities, as shown in Figure 10.

This debt enabled the construction of infrastructure needed to support growth. The Region invested approximately $1.85 billion in water and wastewater infrastructure from 2012 to 2016. During this period, development charge debt for water and wastewater infrastructure increased by 27 per cent.

Figure 10
Total Long-Term Debt per Capita (2015)

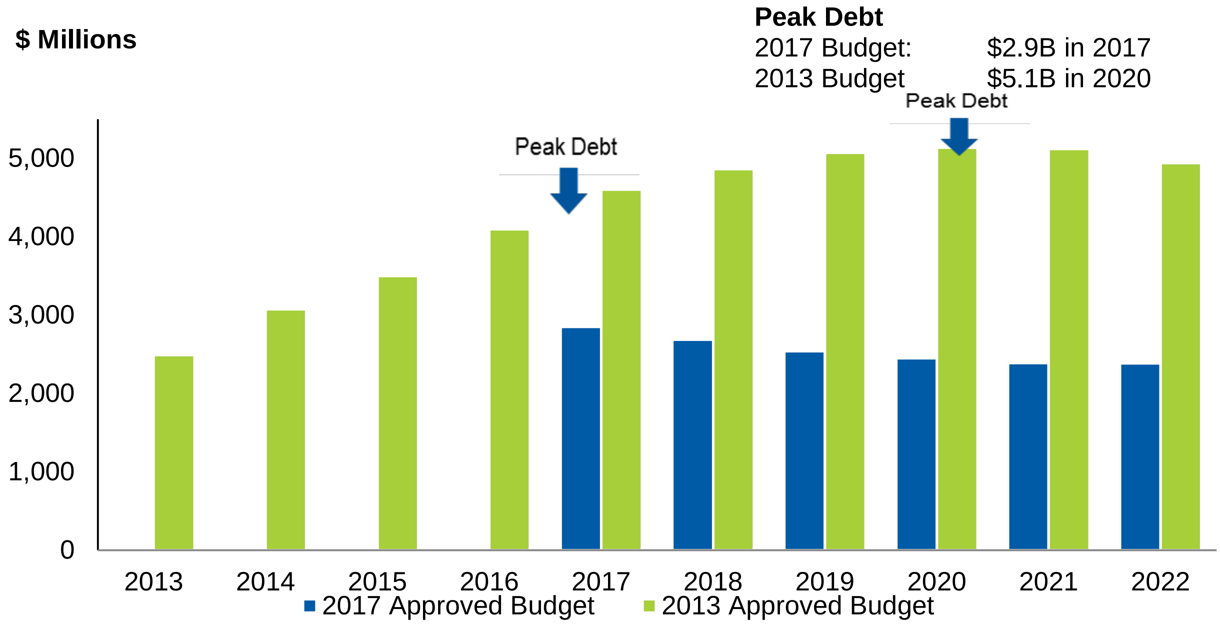


Source: FIR 2015

A key element of the fiscal strategy is to reduce the Region's reliance on debt, including debt issued to finance growth-related capital. Reducing future borrowing needs is one way to manage the risk that growth may be slower than expected, since the Region is committed to servicing its debt whether or not growth occurs. It also preserves fiscal flexibility by keeping interest costs down relative to own-source revenue.

Prior to the introduction of the fiscal strategy in 2014, the Region's peak outstanding debt was anticipated to be more than $5.0 billion by 2020. However, as a result of the measures taken over the last three budget cycles, the peak debt forecast has dropped to $2.9 billion in 2017, as shown in Figure 11. This was achieved through better matching of growth-related capital investment with the forecast of development charge collections, and using the development charge reserve as much as possible to fund projects, while preserving liquidity levels.

Figure 11
Outstanding Debt Projection
2017 Approved Budget vs. 2013 Approved Budget (before Fiscal Strategy)



Since the 2016 budget, the Region's forecast debt has been edging up

Figures 12 and 13 show the levels of debt forecast in the 2016 budget compared to the 2017 budget, and the 2017 budget compared to the debt profile implied by the 2017 Development Charge Background Study. Although peak debt remains at $2.9 billion in 2017, the reduction in debt after 2017 is slower and smaller.

A decreasing debt profile is important because:

- It reduces the Region's overall financial risk
- It frees up funding that can be spent directly on infrastructure, rather than debt servicing
- It is a metric of financial sustainability – credit rating agencies have said that "greater-than-forecast debt" could lead to a potential downgrade
- It is expected to help the Region regain a triple A credit rating with S&P
- The Region must comply with the Province's annual debt repayment limit

Using current revenue sources, funding growth-related projects above and beyond the Region's 10-year capital plan would mean higher peak debt and could reverse the planned downward trajectory of outstanding debt.

Figure 12

Outstanding Debt Projection: 2017 Approved Budget vs. 2016 Approved Budget

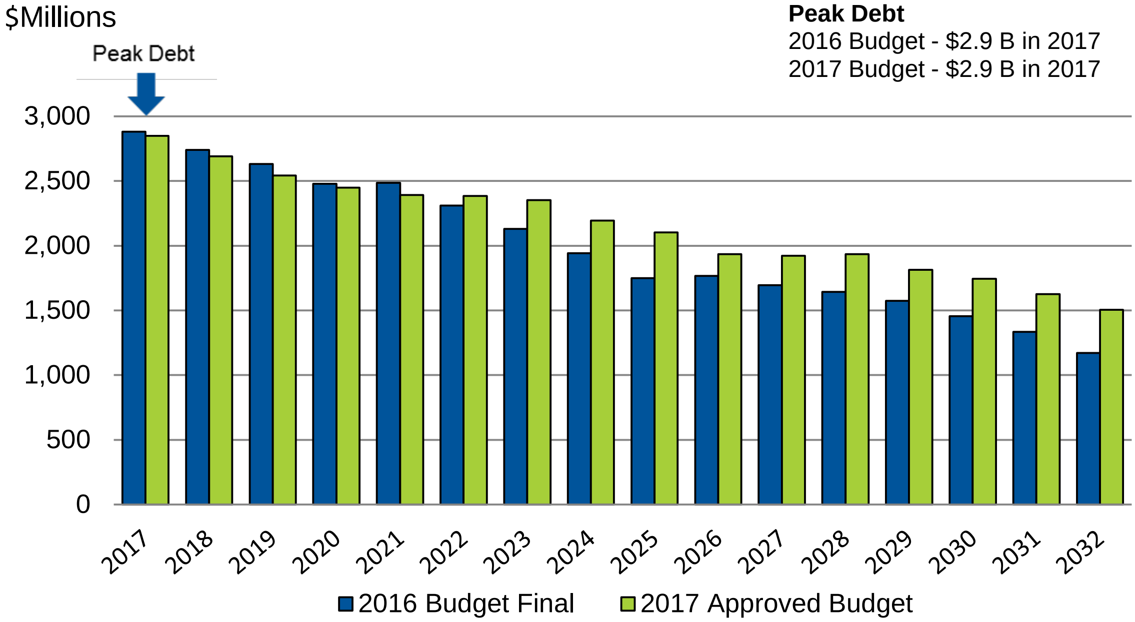
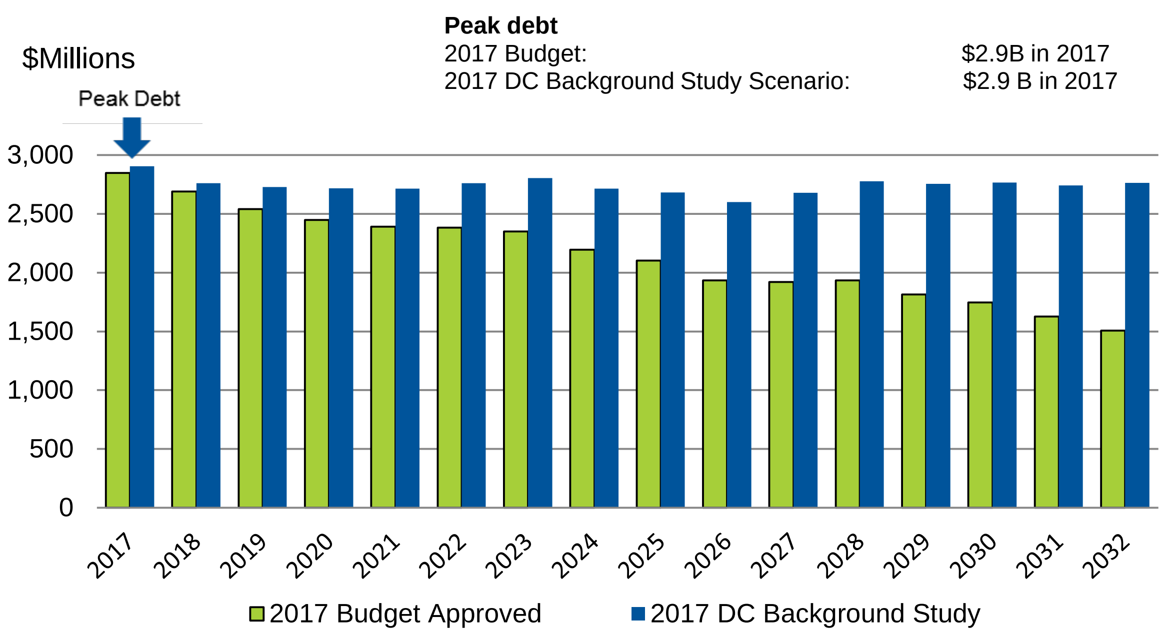


Figure 13

Outstanding Debt Projection: 2017 Approved Budget vs. 2017 DC Background Study Scenario



Note: 2017 DC Background study debt forecast does not include contingent projects (Contingent List A and Contingent List B)

Council has indicated a preference to keep tax levy increases below three per cent per year, after assessment growth

As part of the multi-year budget process, Council directed staff to keep tax levy increases at or below three per cent per year (after assessment growth). The Region has been able to do this while increasing spending on a real per capita basis due to growth in non-tax revenue.

While most of the costs of growth-related capital projects are paid for through development charge revenue, the non-DC eligible costs, operating costs and asset management costs are not. These costs fall on residents, putting pressure on the tax levy.

Debt and tax levy constraints limit the Region's ability to increase the capital plan

The combined effect of the debt and tax levy constraints is that the Region's scope to increase its capital investment beyond the $6.1 billion already included in the 10-year capital plan is limited.

The most important risk to the capital plan lies with development charge collections, which is an uncertain and variable source of revenue. If development charge collections are significantly below forecast, the Region would need to reduce or defer planned projects to stay within its debt and tax levy constraints.

Staff modeled the debt and tax levy components of the fiscal gap faced by the Region

To achieve financial sustainability while investing in additional growth-related infrastructure, the Region must address two fiscal gaps:

1. The need to manage debt
2. The tax levy portion of the fiscal gap, which is desired spending that cannot be accommodated within a three per cent tax levy increase, other things being equal

Staff modeled the tax levy and debt implications associated with:

- Funding the projects in the draft 2017 Background study, and
- Funding additional regionally-owned roads projects in the Transportation Master Plan that are currently not captured in the main project list of the draft 2017 Background Study. These projects are contained in Contingent List B of the draft background study.

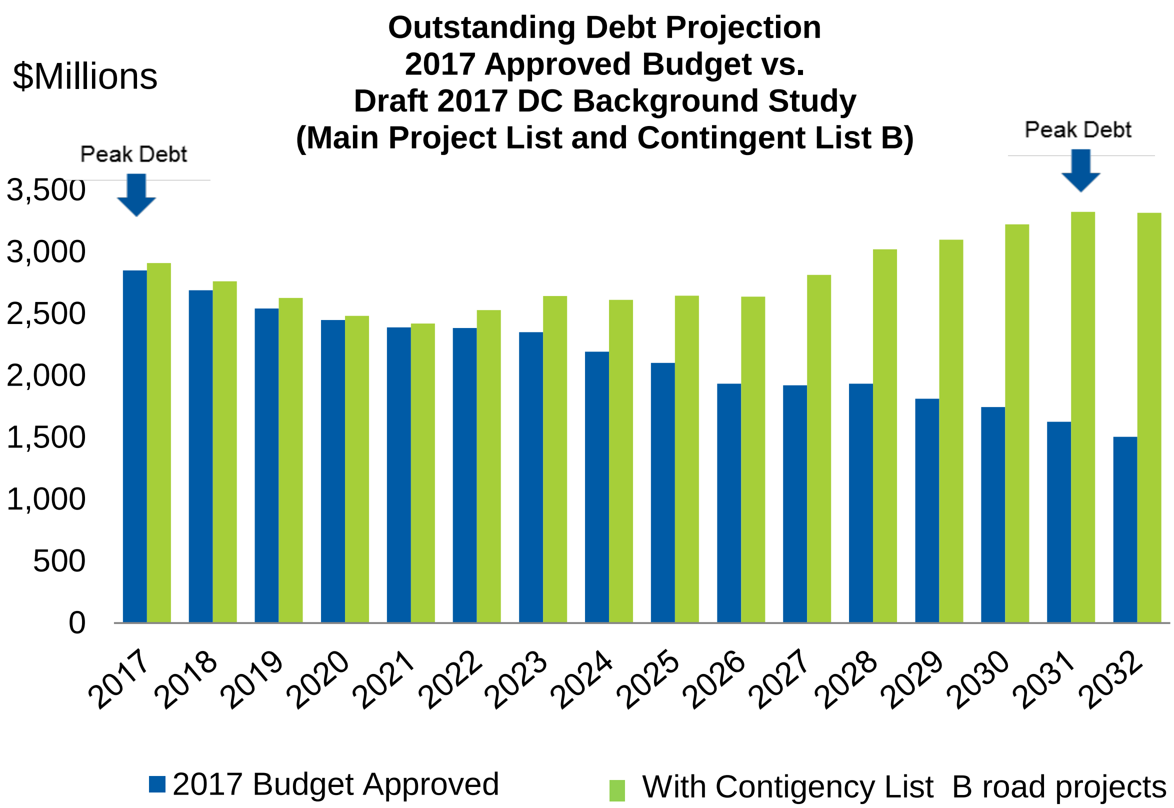
The Transportation Master Plan, updated in 2016, sets out road and transit improvements to help support the Provincial Growth Plan targets for 2041.

Funding additional road projects identified in the 2016 Transportation Master Plan would require a significant amount of new debt

The 2017 DC Bylaw captures road projects that require additional funding sources to complete under “Contingent List B”.

Contingent List B projects would require a significant amount of new debt, despite the additional development charge collections they would bring. In the absence of new revenue sources, adding these projects would increase peak debt to approximately $3.3 billion in 2031, versus the current budget forecast of $2.9 billion in 2017 (Figure 14).

Figure 14



An estimated $90M annual contribution to a development charge debt reduction reserve would be required to offset the development charge debt pressure of additional roads capital projects

Staff are exploring the possibility of creating a Development Charge Debt Reduction Reserve that will have similar characteristics to the Region's Debt Reduction Reserve. Money received from new revenue sources could be placed in this reserve and used to fund growth projects temporarily. This arrangement may permit adding projects on Contingent List B to the capital plan. Future development charge collections would be used to replenish the reserve.

A preliminary estimate indicates that the Development Charge Debt Reduction Reserve would need contributions of approximately $90 million per year.

The Region can afford approximately half of the growth-related project costs in the Transportation Master Plan

The Transportation Master Plan, which was endorsed by Council in June 2016, was based on Provincial Growth Plan population and employment targets. The Master Plan included an estimated $22.1 billion in spending for growth and asset rehabilitation and replacement to 2041. This included $8.9 billion for new transit assets, $7.6 billion for new roads capital, and $5.6 billion for state-of-good-repair investments.

The growth-related transit and roads projects in the Transportation Master Plan that involve funding from York Region over the next fifteen years total approximately $7.6 billion. The remaining projects in the plan are assumed to be either funded exclusively by other parties or carried out beyond that time period. Specifically, it is assumed that the federal and provincial governments will fully fund the initial cost of the Yonge North Subway Extension and the next wave of Bus Rapid Transit projects.

Staff's preliminary analysis indicated that the Region could fund approximately $3.8 billion (or 49%) of these growth-related capital needs, with tax levy increases in the 3.5% to 4% range. The analysis considered the operating impact and long-term asset management requirements of Transportation Services' growth capital, along with those of the Region's other service areas.

Additional revenue sources would be required to implement the full roster of projects included in the Transportation Master Plan in a financially sustainable manner.

The initial costs of growth projects that are not recovered through development charges will require additional revenue

Although the majority of the initial capital costs related to growth projects are paid for through development charges, there are still substantial costs that are not. Table 2 outlines the municipal costs that are not eligible to be recovered through development charges. These costs consist of both benefit to existing development and 10% statutory deduction components of the 2017 Development Charge Background Study.

Table 2
Non-DC Eligible Capital Costs, Excluding Water and Wastewater

($ Millions)	DC Main List	Contingent List B	Total
Total Non-DC Eligible Costs (2017-2031)	900	138	1,038
Average Annual Amount	**60**	**9**	**69**

While tax levy increases of 3% are sufficient to fund increases in the operating budget, including those related to growth assets, they are not sufficient to pay for these non-DC eligible initial capital costs.

Fully funding asset management needs will put pressure on the tax levy

As of 2015, the Region owned approximately $11 billion worth of infrastructure assets, not including land. This includes $3.9 billion in wastewater assets, $1.6 billion in water assets, $3.4 billion in roads assets, and $792 million in transit assets. The Region's asset base is expected to grow significantly over the next 15 years as new infrastructure is built.

Through the user rates that were approved by Council in 2015, it is anticipated that the asset management needs for water and wastewater infrastructure can be fully funded by user rate reserves.

For the Region's other assets, current estimates suggest that an annual average of $231 million will be required from 2017-2031 (Table 3) to maintain a state of good repair. It is estimated, however, that an average annual expenditures of $209 million over the same period can be supported by tax levy increases capped at three per cent, creating a shortfall of approximately $22 million per year (Table 3). The Region is continuing to develop its asset management plans and refine its estimates of the related financial requirements.

Table 3
Asset Management Pressures, Excluding Water and Wastewater assets (2017-2031)

($ Millions)	DC Main List	Contingent List B	Total
Asset Management Needs*	231	19	251
Investment in Asset Management	209	0	209
Average Annual Shortfall	**22**	**19**	**41**

*The asset management needs incorporate current estimates of asset management requirements for existing assets and growth assets.

If the Contingent List B projects were to be added to the Region's capital plan, the gap in asset management funding would increase significantly. While development charges are expected to recover approximately 91% of the growth-related costs (or $1.35 billion of the total $1.49 billion in gross costs), all of the asset management costs would have to be raised through alternative means. It is currently estimated that $19 million annually would be required to fully fund the asset management needs of these projects alone, in addition to the $9 million in initial costs shown in Table 2 above.

The Region will need new revenue sources to overcome the fiscal gap

The non-DC eligible capital costs and unfunded asset management activities described above currently represent the greatest financial constraint to the Region. While Council has significantly increased contributions to asset replacement reserves in recent years, additional revenue is required to fully fund these needs in a manner that is consistent with the fiscal strategy while simultaneously keeping tax levy increases under three per cent per year.

To fund the non-DC eligible capital costs related to the main development charge background project list and asset replacement needs, $82 million per year in additional revenue would be required. If the Contingent List B projects were to be added to the capital plan, a further $28 million annually would be required, for a total additional revenue need of approximately $110 million to fully fund all of these projects (Table 4).

Table 4
Summary of the Tax Levy Shortfall/Fiscal Gap
Annual Average Amount

($ Millions)	DC Main List	Contingent List B	Total
Unfunded Expenses			
Non-DC Eligible Costs	60	9	69
Asset Management Costs	22	19	41
Shortfall/Fiscal Gap	**82**	**28**	**110**

*Numbers may not add due to rounding

New revenue sources could be obtained with *City of Toronto Act* powers

The *City of Toronto Act*, *2006* gave Toronto several revenue-raising powers that are not available to other Ontario municipalities.

Implementing revenue measures similar to those that already exist in Toronto could generate significant revenue for York Region. Table 5 contains preliminary staff estimates of the potential revenue that could be generated from the revenues available under the *City of Toronto Act*.

Table 5
Potential Revenues under the *City of Toronto Act, 2006**

Revenue Source	Implemented by Toronto?	Detail	Annual York Region Net Revenue Estimates
Municipal Land Transfer Tax (MLTT)	✓	A MLTT is levied on the purchase price of any sale of land or property, with the purchaser paying. This estimate is based a graduated rate similar to Toronto's (Toronto is mirroring the Province's structure).	$200 million to $250 million
Vehicle Registration Tax (VRT)	✓	The VRT is a fee to renew one's license plate every year. The estimate assumes $100 to $120 per renewal, administered with the assistance of Service Ontario.	$67 million to $80 million
Third Party Sign Tax	✓	An annual charge per sign or billboard that varies depending on the size and quality of the sign	N/A
Alcohol Tax	✘	A 1% to 5% sales tax on the purchase of alcohol from LCBOs, Beer Stores and bars/restaurants	N/A
Entertainment and Amusement Tax	✘	A tax on the ticketed cost of entry to entertainment venues such as sporting events, concerts, movies, rodeos, nightclubs and amusement parks	N/A
Parking Levy	✘	A daily charge levied on all parking spots (as opposed to a levy on commercial parking revenues), which would be applied on a per m^2 basis	N/A
Tobacco Tax	✘	A 1% to 5% sales tax on the purchase of tobacco products	N/A

*Note: The City of Toronto, like all municipalities in the province, has the option to levy road tolls (subject to a regulation under the *Municipal Act*). Toronto asked the province to allow tolling on the Gardiner Expressway and the Don Valley Parkway and was rejected.

If the Region were to obtain *City of Toronto Act* powers, specific revenue measures would be determined by Council

If the province were to give York Region the revenue-raising powers available under the *City of Toronto Act*, it would then be up to Council to determine whether and when to apply any of these measures.

Advocating for new revenue sources will likely require sustained effort

Legislative change would be required for the Region to obtain *City of Toronto Act* revenue powers, either through the *Municipal Act* and regulations or through entirely new legislation. The approval process will likely require multiple touch points with the province. For example, it took the City of Toronto nearly four years to negotiate the changes to the old *City of Toronto Act, 1997* that culminated in the *City of Toronto Act, 2006*.

The Region may wish to consider joining with other like-minded municipalities in seeking *City of Toronto Act* revenue powers.

5. Financial Considerations

Preliminary estimates of the fiscal gap indicate that the Region needs additional revenue in the order of $200 million annually to achieve financial sustainability. Overcoming this fiscal gap will require new revenue sources.

Table 7
Annual funding requirement for financial sustainability

	($ Millions)
Annual contribution to development charge debt reduction reserve	90
Tax levy shortfall/fiscal gap*	110
Annual requirement for long-term financial sustainability	**200**

* Assumes that the federal and provincial governments will fully pay for the Yonge North Subway Extension and the next wave of Bus Rapid Transit Projects

The analysis in this report suggests that any new revenue sources the Region is able to obtain should be dedicated to capital.

6. Local Municipal Impact

New revenue sources would help fund infrastructure that would benefit local municipalities

New revenue sources could be used to help fund additional growth-related infrastructure projects necessary for growth in the Region's local municipalities and to ensure adequate funding for future asset management.

New revenues sources could be shared with local municipalities

If the province grants the Region new-revenue raising powers, Council could consider sharing a portion of any new revenue with the local municipalities to help them meet their infrastructure needs.

7. Conclusion

The key to financial sustainability is taking the necessary steps to manage both short and long-term risks. For the Region, the twin objectives of accommodating growth and achieving financial sustainability can only be met with new revenue sources. A logical path forward would be to seek the revenue-raising powers that the province has already granted to the City of Toronto.

For more information on this report, please contact Ed Hankins, Director, Treasury Office, at 1-877-464-9675 ext. 71644.

The Senior Management Group has reviewed this report.

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