Infrastructure Funding and Financing Tools

Building Homes Faster

Creating Livable and Fiscally Sustainable Communities

Panelists

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Chief Administrative Officer
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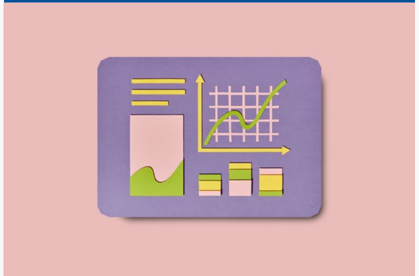
Regional Municipality of York

Agenda

Funding with
Development Charges

Debt
as a Financing Tool

Use of Reserves



Why?

Population Growth

Housing Targets

Housing Affordability

Financial Constraints

Limited Revenue Tools & Funding Precarity

Tools not fully understood or utilized

Prince Edward County

Tier Single	Land Mass 1,050.45 km ^{2}	Population 25,700	Forecasted Population (2041) 32,900
Proximity to Water Yes	Water Responsibility Water treatment, Water Distribution	Using DCs? Yes	% of Growth Capital covered by DCs 27%
How remaining Growth Capital is covered Tax levy, grants	Accumulated Surplus (2022) $229 million	Long-Term Liability (2022) $35.9 million	Net Investor or Debtor Net debtor
2024 Operating Budget $86.9 million	2024 Capital Budget $126.8 million		

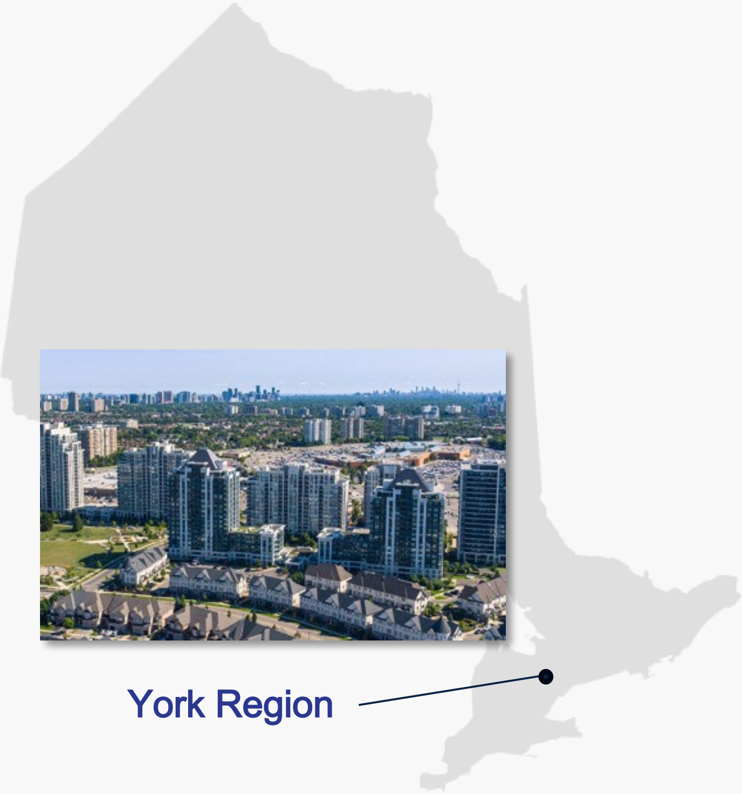
Bracebridge

Bracebridge

Tier **Lower**	Land Mass **628.22 km ^{2}**	Population **17,305**	Forecasted Population (2041) **21,500**
Proximity to Water **Yes**	Water Responsibility **Upper-tier is responsible**	Using DCs? **Yes**	% of Growth Capital covered by DCs **50%**
How remaining Growth Capital is covered **Tax levy, user fees**	Accumulated Surplus (2022) **$134 million**	Long-Term Liability (2022) **$31.7 million**	Net Investor or Debtor **Net debtor**
2024 Operating Budget **$19.7 million**	2024 Capital Budget **$30.4 million**	10-Year Capital Budget **$108.4 million**	

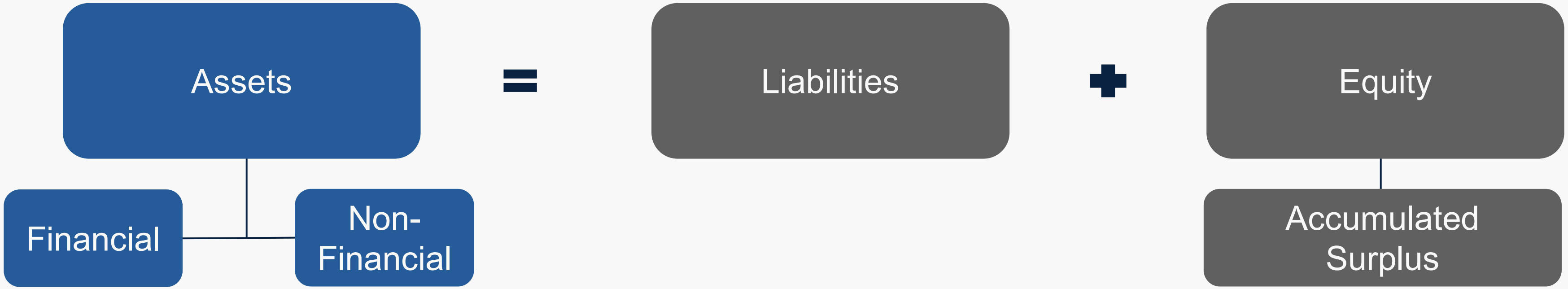
York Region

Tier **Upper**	Land Mass **1,758.27 km²**	Population **1,239,464**	Forecasted Population (2041) **1.79 million**
Proximity to Water **Partial**	Water Responsibility **Water Treatment, Wholesale Water Distribution**	Using DCs? **Yes**	% of Growth Capital covered by DCs **64%**
How remaining Growth Capital is covered **Tax levy, grants, other sources**	Accumulated Surplus (2022) **$10 billion**	Long-Term Liability (2022) **$3.6 billion**	Net Investor or Debtor **Net Investor**
2024 Operating Budget **$3.2 billion**	2024 Capital Budget **$1 billion**	10-year Capital Budget **$11.6 billion**	



What is Funding and Financing?

FUNDING | **FINANCING**



CASH & TANGIBLE CAPITAL ASSETS

- DCs, tax levy, water and wastewater rates, grants
- Infrastructure provides services over time

DEBT | **RESERVES & INVESTMENT INCOME**

- Timing of cash flows
- Bridging time between receiving funding and paying expenses – either borrowing or using money collected in advance

Funding Source Options

	Growth -Related Infrastructure	State of Good Repair
DCs	Yes	No
Tax Levy	Yes	Yes
User Rate	Yes	Yes
Grants*	Eligibility criteria?	Eligibility criteria?

*Grants are funds received from senior levels of government, which are ultimately funded by federal or provincial taxpayer

Considerations for using DCs

HOMEOWNERS	• Fund infrastructure and support complete communities • Can be amortized in mortgage	• Make up about 7% of the new home purchase price
DEVELOPERS	• Complete communities increase marketability of new homes • Promote acceptance of developments	• Add to financing costs; may impact leverage • Scope of infrastructure spending (what, when, why) • Can be challenging to navigate
MUNICIPALITY	• Dedicated revenue tool • Prevent shifting costs to those who have already paid their share	• Growth does not always pay for growth • Bylaw process requires specialized technical review and consultation
Ontario	• Reduces pressure on provincial fiscal capacity to provide infrastructure grants • Support population growth and foreign investment leading to GDP growth	• Challenging to balance needs of homeowners, developers and municipalities • May require regular legislative reviews

Creating an Optimal Capital Structure

Capital plan aligned with fluctuations in population growth

Investments aligned with revenue growth and expenditures

Balancing debt and reserves

Healthy balance between growth and asset replacement

Considerations for Debt

- Credit Risk
- Cost of Capital
- Financial Capacity

Risk Tolerance

- Growth Component
- Asset Management Component

Capital Plan

Investing Reserves

Risk Tolerance

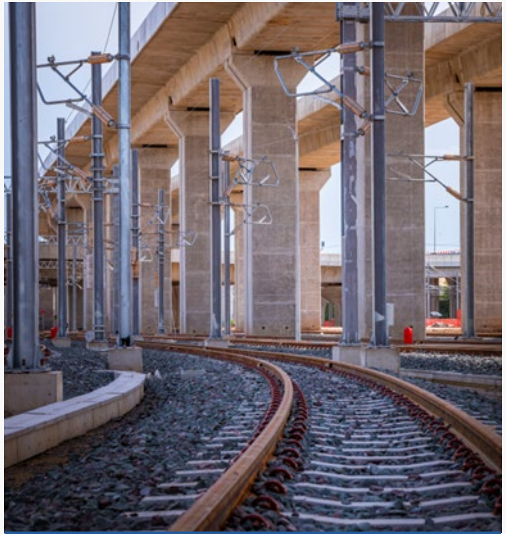
Return on Investment

Need for Liquidity

Planned Repayments

Unanticipated Contingencies

Summary



Lots of infrastructure investment needed to meet housing targets

Matching the right funding tool (DCs) to the right investment

Matching the right financing tool (debt, reserves) to the size and capacity of the municipality

Thank you!

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Additional Reference Material

Dispelling DC Myths

01

DCs are a primary driver for high new home prices

Many factors impact new home prices, such as land and construction costs, profit margin, housing demand, and interest rates.

02

Removing DCs will improve housing affordability

If DC are removed, a sizable one-time tax levy or user rate increase of up to 20% would be required to make up for the financial shortfall.

03

DC rates have been growing unreasonably

DC rates are affected by many factors including pace of growth, infrastructure costs, borrowing costs and size of infrastructure projects.

04

DC reserves go unspent

The Development Charges Act, 1997 requires reserves for engineered services (e.g., roads, water, wastewater) be at least 60% spent or allocated

Development Charges (DCs)

- DCs are fees collected on new residential and non-residential developments, to recover some costs of growth-related infrastructure
- In the absence of this financial tool, growth-related infrastructure needs to be fully funded from property taxes, utility rates or grants
- In 2022, about half of Ontario municipalities charged DCs

Growth Costs in Bylaw

$$\text{DC Rate} = \frac{\left(\text{Gross growth-related capital costs} - \text{Statutory Deductions}\right)}{\text{Units of Growth (population or sq.ft.)}}$$

DCs are about 7% of new home prices

Source: York Region Treasury Office

Debt

- Under the Municipal Act, 2001, debt can be issued to finance capital projects, many municipalities use it only for growth projects

- Debt allows to bridge the timing gap between infrastructure emplacement and DC revenue collection. Debt can also be used for state of good repair in advance of including them in property tax collections.

- Debt needs to remain affordable

- Regulatory framework to follow (annual repayment limit)

Sources of Debt

Infrastructure Ontario

CIB BIC | Canada Infrastructure Bank

Building Ontario Fund

Capital Markets

What is Annual Repayment Limit?

Annual Repayment Limit (ARL) regulates the amount of municipal debt and other financial obligations through Ontario Regulation 403/02.

The ARL does not allow for the inclusion of growth - related revenue.

The Municipality's Own Source Revenue