
From: McPhail, Roxanne <Roxanne.McPhail@york.ca> **On Behalf Of** Regional Clerk
Sent: Thursday, December 2, 2021 12:51 PM
Subject: Regional Council Decision - Yonge North Subway Extension – Funding Considerations

On November 25, 2021 Regional Council made the following decision:

1. The Regional Clerk circulate this report to:
 - a. Local Members of Parliament
 - b. Metrolinx and the Ministries of Transportation, Infrastructure, and Municipal Affairs and Housing
 - c. Local Members of Provincial Parliament
 - d. The local municipalities
 - e. The Building Industry and Land Development Association (BILD) – York Chapter

The original staff report is attached for your information.

Please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644 if you have any questions with respect to this matter.

Regards,

Christopher Raynor | Regional Clerk, Office of the Regional Clerk, Corporate Services

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Our Mission: **Working together to serve our thriving communities – today and tomorrow**

The Regional Municipality of York

Committee of the Whole
Finance and Administration
November 11, 2021

Report of the Commissioner of Finance

Yonge North Subway Extension – Funding Considerations

1. Recommendations

1. The Regional Clerk circulate this report to:
 - a. Local Members of Parliament
 - b. Metrolinx and the Ministries of Transportation, Infrastructure, and Municipal Affairs and Housing
 - c. Local Members of Provincial Parliament
 - d. The local municipalities
 - e. The Building Industry and Land Development Association (BILD) – York Chapter

2. Summary

This report is to update Council on some of the funding implications of the Yonge North Subway Extension (YNSE) project, describe key financial pressures and outline the major financial implications for the Region.

Key Points:

- There have been several YNSE developments since the 2020 signing of the [“Ontario-York Region Transit Partnership Preliminary Agreement”](#) (“Preliminary Agreement”) with many details still to be negotiated
- The Region’s share of the project is expected to be funded using development charges and property taxes
- The Region’s contribution to the YNSE would need to be managed carefully to avoid impairing Council’s commitment to the Region’s fiscal strategy and the Region’s long-term sustainability
- York Region Rapid Transit Board has recommended to Council the establishment of a 1 per cent annual tax levy surcharge commencing in 2022 for the next three years to help fund rapid transit priorities aligned with the Region's growth plan

- The Board also recommended that Council direct Regional staff to report back as part of the 2023 Budget deliberations process regarding the continuance of the annual surcharge based on the finalization of the financial framework with the Province of Ontario

3. Background

The YNSE is a major financial commitment for the Region but many project details are still to be determined

Based on currently available information, it is estimated that the YNSE will have a construction cost of approximately \$5.6 billion of which the Region's share will be \$1.12 billion to be funded from development charges and the tax levy. The \$5.6 billion cost estimate was first released as part of the 2019 Ontario Budget and the [Preliminary Agreement](#) confirmed that the Region is expected to contribute its pro rata share of the municipal contribution. The \$5.6 billion estimate includes stations at Steeles, Clark, Bridge and High Tech but does not include any additional neighbourhood stations, such as Royal Orchard.

The \$1.12 billion contribution is a significant Regional undertaking and, as a point of reference, it represents about one-third of Transportation Services' 2021 10-year capital plan. As the YNSE moves towards procurement, project details about the Region's share of construction cost and the timing of these payments will become clearer.

The Preliminary Agreement with the Province was executed in May 2020

On May 28, 2020, Regional Council authorized the execution of the [Preliminary Agreement](#) with the Province to work towards delivering the YNSE. While the formal contribution agreement has yet to be negotiated, staff are working with the province towards a Contribution Agreement.

The Royal Orchard Station could add \$400 million or more to the project's cost

In June 2021, the [City of Markham](#) and the [City of Vaughan](#) advocated for the inclusion of additional neighbourhood stations located within York Region. The addition of Royal Orchard Station would be considered a scope addition that could add \$400 million or more to the project cost. This cost estimate can be found in the [Yonge North Subway Extension Initial Business Case](#) that was released in March 2021 by Metrolinx. As part of the funding agreement, the Region may be asked to fund some or all the additional cost.

Staff will report back to Council as additional developments are known.

The Province has announced two Transit Oriented Communities at Bridge and High-Tech Stations

The Transit Oriented Community Program (TOC), as led by the Province pursuant to [legislation enacted in 2020](#), is currently underway at Bridge and High-Tech stations. The TOCs should align with municipal plans and vision to the greatest extent possible. Development of the financial framework to support the TOC's is also underway and the potential impact to the Region and local municipalities is still unclear.

A Preliminary Design Business Case is expected in summer of 2022

Metrolinx is expected to release the Preliminary Design Business Case for the YNSE in summer of 2022. The Preliminary Design Business Case would provide updates on the additional planning and design work that have taken place since the release of the Initial Business Case in 2021. In addition, construction of the YNSE is currently in the pre-procurement phase and is expected to move towards contract award in the summer of 2023.

The YNSE project will be included as part of the Region's 2022 Budget and its 2022 Development Charges Bylaw

A \$1.12 billion contribution towards the YNSE project will be included as part of the 2022 Budget. This will allow staff to better integrate the impact of the YNSE with the Region's other capital priorities.

The work to update the Region's Development Charges Bylaw ("Bylaw") continues, working towards tabling in February 2022 with Council consideration of passage in May 2022. Once approved, the Bylaw, including the new rates, would come into effect on June 17, 2022.

Proposed amendments to the *Development Charges Act, 1997*, if passed, will be incorporated in the Bylaw

On October 7, 2021, the Province introduced changes to the *Development Charges Act, 1997* ("Act") through the tabling of Bill 13, *Supporting People and Businesses Act, 2021* ("Bill 13"). Bill 13 is an omnibus bill intended to support post-pandemic recovery. The proposed amendments include Council's previous request to treat the YNSE as a discrete service, extending the planning horizon from 10 to 20 years, with a forward-looking planned level of service. Staff have previously informed Committee of the Whole of these proposed changes through an October [memorandum](#) of the Acting Commissioner of Finance.

The proposed amendments to the *Act* will help to accelerate the recovery of the YNSE costs through development charges and would, if passed, inform the Bylaw.

However, Bill 13 did not address Council's request to repeal the freezing provision from the *Act* or exempt the YNSE from it. While the removal of the freezing provisions would further speed up cost recovery for the development charges funded share of the YNSE, staff assumed the freezing provisions would remain in place when modeling the forecasted impact on the inclusion of the YNSE on the Region's financial sustainability.

The York Region Rapid Transit Corporation Board has recommended the establishment of a 1% annual tax levy surcharge

On September 23, 2021, the YRRTC Board recommended to Council that the Region “establish a 1% annual tax levy surcharge commencing in 2022 for the next three years to help fund Regional rapid transit priorities aligned with the Region's growth plan”. Council received the correspondence from YRRTC's and referred it to staff. As a result, the tax levy surcharge has been incorporated into the 2022 Budget deliberations.

The Board also recommended that Council direct Regional staff to report back as part of the 2023 Budget deliberations process regarding the continuance of the annual surcharge based on the finalization of the financial framework for the YNSE with the Province of Ontario.

4. Analysis

The Region's share of the YNSE will need to be funded through development charges and property taxes

With its currently available funding sources, the Region needs to plan for the possibility that funding for the YNSE is only sourced from development charges and property taxes.

Development charges can only be used to fund the growth-related component of the subway costs. The *Act* requires that any benefits afforded to existing population and employment must be deducted from the development charge rate calculation. This requirement is consistent with the growth paying for growth principle.

The portion of YNSE costs that is eligible for development charge recovery will be determined through the Bylaw update process, which is under way. This methodology considers population, employment, the capacity of the subway, and ridership growth forecasted by the Regional Travel Demand Forecasting model. This model is a key input to the Region's Transportation Master Plan, which supports the need for the YNSE.

All remaining costs would need to be funded through property taxes.

Funding the Region's contribution to the YNSE will need to be carefully managed

The Region would need to fund the YNSE with development charges and property taxes. The development charge funded portion of the project would likely be debt-financed, where the debt repayments would be repaid from future development charges.

The YNSE is expected to require a substantial amount of external debt financing. A higher level of outstanding debt heightens the risk that future development charges collections may be insufficient to cover the cost of servicing the DC-funded debt. A shortfall in development charges collections could mean that Council may have to consider the deferral of other growth-related projects that are in the capital plan.

Without any other capital deferrals, the Region's \$1.12 billion contribution to the YNSE could bring its net debt outstanding to over \$3.4 billion by 2028. This will likely adversely impact the

Region's credit rating with both Moody's and S&P Global, which may increase the cost of debt and present a challenge to the principle that debt be kept at manageable levels.

The inclusion of Royal Orchard Station may lead to an even higher level of outstanding debt, unless significant deferrals of some projects within the capital plan are made, or another funding or revenue source can be secured.

The timing of contributions needed for YNSE will impact the ability to fund from reserves alone

Based on a targeted opening date in 2030, it has been assumed that the cash flow requirements for the YNSE will be spread out between 2022-2030, and that funding will be contributed on a "pay-as-you-go" basis. However, the timing of those cash flows would have a major impact on the Region's reserve management strategy. If more money is required earlier than currently estimated, such as in the case of milestone payments, then tax levy supported debt issuance or temporary borrowing from other reserves may be needed.

Using existing reserves alone to fund the YNSE would impact the Region's long-term fiscal sustainability

Depending on the final DC-tax-levy split, the tax levy portion of the YNSE could be up to \$450 million of the expected total contribution of \$1.12 billion.

Funding the entire tax levy requirement of the YNSE from currently planned reserves would impact the Region's long-term fiscal sustainability. Strong reserve balances are an indication of liquidity and financial flexibility and is viewed as an important credit strength by the Region's rating agencies.

Successive Councils have approved growing the Region's reserves for specific purposes including funding actuarial liabilities. To redirect those funds towards the YNSE would leave gaps in the Region's ability to fund other Council priorities that are already in the budget - such as funding for roads, YRP infrastructure and social housing. Redirecting existing reserves to fund the YNSE would likely lead to the deferral of some of these projects.

Fiscal sustainability also means setting money aside for the rehabilitation and replacement of the Region's assets. The Region has \$7.7 billion dollars of assets that are currently supported by the tax levy¹ and is forecasted to add another \$2.7 billion² more over the next 10 years. The current balance in the asset management reserves of \$1.3 billion³, plus planned contributions, is required to replace and/or rehabilitate those assets as they reach the end of useful life.

¹ Based on figures from York Region 2019 State of Infrastructure Report

² Based on 2021 Approved Budget

³ Expected balance at the end of 2021

A dedicated Rapid Transit Infrastructure Levy will be tabled for consideration in the 2022 budget

To help fund the tax levy capital requirements of the YNSE, Council could consider a tax levy surcharge dedicated to the YNSE. The inclusion of this surcharge will be presented to Council as part of the 2022 Budget deliberations.

An incremental 1% Rapid Transit Infrastructure Levy would translate to approximately \$12 million per year which would be built into the tax base in the subsequent years. At least three years of a 1% increase would be needed to fund the minimum the tax levy requirements of the expected YNSE costs. The additional cost of the Royal Orchard station may require the duration of the tax increase to extend beyond three years.

The impact of a 1% tax levy surcharge in 2022 on an average household in the Region would generate approximately \$12 million, or an additional \$26 on the average residential property tax bill.

Many municipalities have implemented an infrastructure levy to meet their capital needs, including Toronto, Ottawa and many of the local municipalities in York Region. Although the Province allows municipalities to create area-specific tax levies, those municipalities which implemented additional levies as a general levy applied it to the entire tax base.

In the event of further unforeseen costs, additional funding may be necessary

As part of previous budgets, Council has set aside funds for ‘future infrastructure’ – specifically \$14.1 million in 2020 and \$17.4 million in 2021. While these amounts would be insufficient to fund the YNSE on their own, they could be available to help offset unforeseen costs related to the subway, if it goes beyond the currently committed \$1.12 billion.

The Region’s contribution towards the operating and maintenance cost of the YNSE is still to be determined

The City of Toronto/Toronto Transit Commission will be responsible for the day-to-day operations of the YNSE; however, it is expected that the Region will be asked to contribute to a share of its operating cost. Responsibility for day-to-day operations of bus terminals and the associated costs of bus terminals and other assets constructed in York Region continues to be developed.

The [Preliminary Agreement](#) states that the Province, in partnership with the Region, intends to develop an operating funding agreement for the YNSE that will specify the ongoing operating contribution required from the Region.

This may increase the annual cost of providing transit in York Region.

YNSE-related costs incurred by YRRTC and the Region will also have to be considered

In addition, there may be costs incurred by York Region Rapid Transit Corporation such as legal or administrative costs; to represent the Region's interests in the YNSE. Funding for these costs will need to be determined through negotiations with Metrolinx.

The Rapid Transit Infrastructure Levy could be used for other purposes once the construction of the YNSE is completed

Once the construction of the YNSE is complete, the proceeds from the Rapid Transit Capital Levy could be repurposed towards future Council priorities which may include the funding of any potential Regional operating contributions to the YNSE, or towards the completion of the Region's Bus Rapid Transit network.

5. Financial

A 1% dedicated Rapid Transit Infrastructure Levy starting in 2022 would generate approximately \$12.2 million of tax revenue a year.

Through the Bylaw update, staff are conducting the technical work to determine the specific DC rate impact.

6. Local Impact

The YNSE is a major priority project for the Region and its local municipalities. Any fiscal pressures that may result from the timing delivery, maintenance and enhancement of this infrastructure must be monitored and managed.

7. Conclusion

This report provides an update on the status of the YNSE and the funding and financing implications for the Region.

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



Recommended by:

Jason Li, CPA, CA

Acting Commissioner of Finance and Regional Treasurer



Approved for Submission:

Bruce Macgregor

Chief Administrative Officer

October 29, 2021

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