THE REGIONAL MUNICIPALITY OF YORK

REPORT NO. 1
CHIEF ADMINISTRATIVE OFFICER AND COMMISSIONER OF FINANCE

For Consideration by
The Council of The Regional Municipality of York
on February 17, 2005

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YORK REGION'S POSITION ON A NEW FINANCIAL DEAL: ADVOCATING FOR LEGISLATIVE & FUNDING CHANGES

1. RECOMMENDATIONS

It is recommended that:

1. The Province of Ontario be requested to immediately initiate the process to amend the *Development Charges Act, 2001*:

   - for growth related Emergency Medical Services (EMS) capital expenditures to be 100% eligible for cost recovery, similar to the current capability of other emergency services such as Fire.
   - to class transportation projects (road and transit) as one category, that would allow the recovery of growth related capital costs to be greater aligned to York Region's strategic transportation goals.
   - to enable the recovery of costs based on a formula that puts greater emphasis on projected future service levels, particularly for those service areas that are maturing or have had historically lower levels of capital investment such as transit.
   - to reinstate growth related hospital capital expenditures as costs eligible for recovery from development charges.
   - to permit Regional Council to limit its contribution to the GO Transit growth capital budget to only the level of development charges collected.

2. The Province of Ontario be requested to reaffirm its commitment to the cost sharing agreement for the funding of EMS, both operating and capital expenditures (not eligible of development charge recovery) at a 50:50 cost sharing with the Region. (The shortfall was $9.75M in 2004 and if this shortfall continues, the projected deficit over the next five years would total approximately $41.07M).
3. The Province of Ontario be requested to further enhance funding for transit services operating within the GTA.
4. The Province of Ontario be requested to immediately remove the cap on its share of the Ontario Works administrative costs and return to a 50:50 cost sharing agreement. (The shortfall was $4.9M in 2004 and if this shortfall continues, the projected deficit over the next five years would total approximately $31.7M).
5. The Province of Ontario be requested to immediately conduct a review of the GTA pooling program in consultation with the affected municipalities in an effort to explore alternatives available to fund social assistance and social housing programs with a view of eliminating pooling in the GTA.
6. Regional staff conduct additional analysis and report further on a review of service delivery options and new revenue sources for the Region to implement in 2006 and beyond.
7. This report be forwarded to the Premier of Ontario, the Minister of Finance, the Minister of Municipal Affairs and Housing and local MPP's requesting their timely attention to these important recommendations.
8. The Regional Chair and Mayors Task Force meet with the Premier of Ontario, the Minister of Finance, the Minister of Municipal Affairs and Housing and the local MPP's to obtain a commitment for the implementation of the above mentioned recommendations for the 2006 budget year.

2. PURPOSE

This report outlines York Region's position as it relates to a new financial deal for municipalities. The report highlights current funding shortfalls and provides recommended legislative changes required by the Region that the Province can implement within a short time frame. In addition, the report discusses the need for staff to conduct further analysis regarding service delivery options and new revenue sources.

With the approval and implementation of the recommendations contained in this report, the Region would have a range of approximately $660 million to $1.1 billion over the next five years to invest in the infrastructure and human services that are important and necessary to support the needs of our existing community and the future growth of York Region.

3. BACKGROUND

At its meeting held on February 3, 2005, Finance and Administrative Committee requested the Chief Administrative Officer and the Commissioner of Finance to report to Regional Council on February 17, 2005 with recommendations advocating a new financial deal with the Province of Ontario.

Both the federal and provincial levels of government have made their intentions clear to establish a new financial deal for municipal governments. There is recognition on the part of both senior levels of government that there continues to be a growing fiscal gap between municipal needs and resources, which is threatening the long-term financial sustainability of many Canadian municipalities.

Municipalities have been tasked with providing a range of social supports and costly infrastructure responsibilities required to keep our cities healthy and functioning. These challenges cannot be met with the property tax base, user fees and development charges, which are the only revenue generating tools available to municipalities. Many of the federal and provincial funding programs available are limited or one-time and often simply not sustainable. Ultimately, municipalities require federal and provincial governments to provide direct access to sources of tax revenues, make the necessary legislative changes to increases the funding tools available as well as review funding formulas for cost shared programs which are no longer fair or equitable.

4. ANALYSIS AND OPTIONS

4.1 Directions on a New Financial Deal

York Region continues to grow at an unprecedented pace, over 40,000 new residents per year, coupled with significant job growth is putting significant pressures on the Region’s transportation system and its ability to keep up with the growing service delivery demands and infrastructure needs required to accommodate this growth. Recent Provincial initiatives forecast the Region’s population to increase to approximately 1.5 million by 2031. As a result, York Region has one of the largest infrastructure programs in North America and its ability to deliver its infrastructure program on time is challenging. The investment in human services (e.g. public health, long term care, child care, social housing programs) has also not kept pace with growth, which begins to threaten the quality of life in York Region.

On the financial side, the negative financial impacts of provincial Local Services Realignment (LSR) and the lack of matching provincial funds that came with LSR continue to be felt by the Region. The region’s tax rates pressures will exceed the CPI for the foreseeable future and given the limited revenue generating tools available to the Region, growth is simply not paying for growth and the Region’s property tax base cannot afford to. York Region has legitimate unfunded needs because it does not have the full range of financial resources that are needed.

There are a wide range of proposals and ideas about how to put municipalities on a stronger footing. However, given the uniqueness of York Region in comparison to other GTA regional municipalities in terms of its physical and geographical characteristics, population growth, and infrastructure and community needs, and its many growth challenges, it is important that York Region establish and communicate a made in York position on the new financial deal.

4.2 Development Charges Act, 2001

4.2.1 Emergency Medical Services Cost Recovery

Historical capital expenditures are a critical component of the eligibility criteria for recovery of growth related costs through development charges. Prior to the Local Services Realignment, the Province of Ontario committed low levels of capital investment in Emergency Medical Services (EMS). To meet the needs of the Region's rapidly increasing population, substantial capital investment will be needed.

Under current legislation, only 15% of York Region's costs for growth related Emergency Medical Services (EMS) capital expenditures are eligible for recovery through development charges. In comparison, growth related capital expenditures for other emergency services provided by municipalities are eligible for 100% costs recovery through development charges. Should this legislation not be amended, the Region would be required to fund approximately $8M over the next 5 years from non-growth sources (tax levy). It is therefore recommended that the Province of Ontario amend the *Development Charges Act, 2001* to enable full cost recovery for EMS similar to that of other emergency services.

4.2.2 Transportation Cost Recovery

As municipalities plan communities, the option for them to determine an appropriate mode of transportation for their citizens and movement of goods should be unhindered by legislative confines. Under current legislation, growth related capital investments for roads and transit are treated separately with regard to cost recovery through development charges, and therefore can influence service delivery choices based upon funding availability. York Region's current and anticipated future growth pressures have necessitated a strategic plan that integrates both road improvements and mass transit initiatives to maximize the benefit of an enhanced transportation network. As these two critical components must be considered in tandem for a truly effective transportation strategy, it is recommended that the Province of Ontario amend the *Development Charges Act, 2001* to class transportation related projects (roads and transit) as one category, and remove the mandatory 10% municipal contribution from transit capital costs.

4.2.3 Future Service Level vs. Historical Service Levels

Under current legislation, recovery of growth related capital costs is based on a historical average of service levels over the previous ten years. This severely restricts the ability of growth municipalities, such as York Region, to enhance service levels required to support growth within these communities. For example, currently the majority of growth related transit capital costs are funded by the existing taxpayer, not the growth that has created the demand for this service. All levels of government have shown a commitment towards increased service levels for transit services; however, extensive transit programs are unsustainable without changes to the current funding methodology.

The development charges legislation needs to be amended to permit increased service levels and to have these costs funded by the growth creating the demand for these services. It is therefore recommended that the Province of Ontario amend the *Development Charges Act, 2001* to enable the recovery of costs based on a formula that puts greater emphasis on projected future service levels, particularly for those service areas that are maturing or have had historically lower levels of capital investment

4.2.4 Hospital Capital Funding

Since the early 1980's, expenditures for hospital capital expansions were included as part of the Region's lot levies/development charges. In 1998, the Province removed hospital capital expenditures as costs eligible for recovery from development charges. Although not a mandated responsibility, the Region has historically provided some financial support to hospitals. Hospitals continue to request financial support from the Region which creates additional pressure on existing taxpayers and should be borne by the new development that is creating this pressure. This inequity equates to a pressure of $7.3M per year to the Region's annual budget.

It is therefore recommended that the Province of Ontario amend the *Development Charges Act, 2001* to reinstate growth related hospital capital expenditures as costs eligible for recovery from development charges.

4.2.5 GO Transit

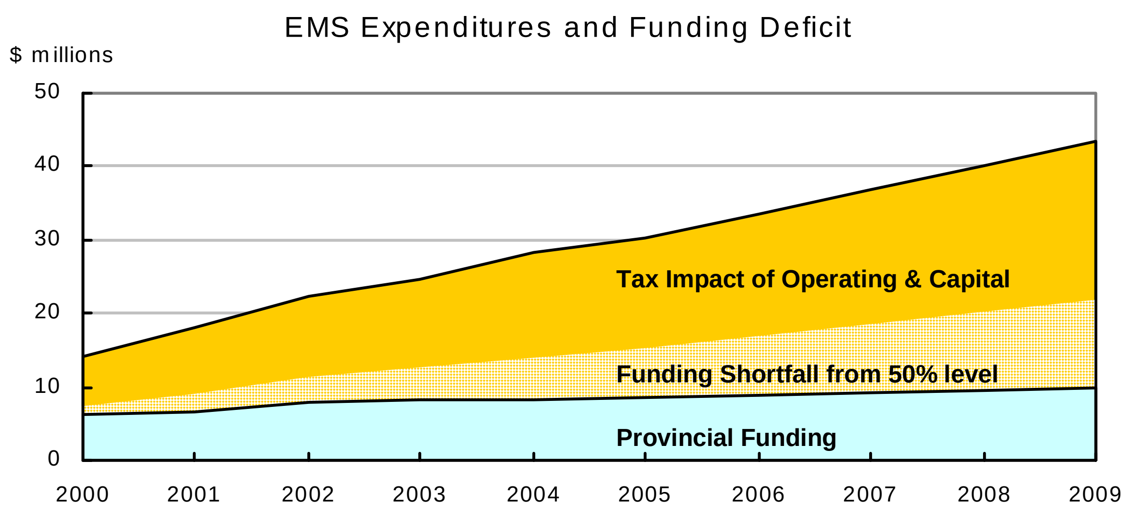
In 2002, the Province assumed 100% of the operating costs for GO Transit while the GTA municipalities would share in the growth related capital investments. The Province assumes two-thirds of GO Transit's $1 billion 10 year growth related capital plan while the GTAH municipalities share the remaining one-third. The current DC legislation permits less than 50% of these costs to be recovered though development charges. The remaining costs projected to be $28M over the next 5 years must therefore be funded through property taxes.

It is therefore recommended that that the *Development Charges Act 2001* be amended to permit Regional Council to limit its contribution to the GO Transit Growth Capital budget to only the level of development charges collected.

4.3 Emergency Medical Services

In January 2000, the responsibility for land ambulance services was transferred to The Regional Municipality of York. At the time of the transfer, the provincial government committed to funding municipalities 50% for operational costs associated with land ambulance services. Actual subsidies received from the Province have never been realised at this 50% level. The current provincial funding formula does not provide for any similar cost sharing agreement for capital expenditures. Currently, the provincial funding allocation to the Region was approximately 24% of the total EMS expenditures resulting in a $9.75M shortfall (operating and capital) in 2004.

Should this trend of EMS subsidy shortfall continue, the projected funding deficit for EMS over the next five years would total $41.07M.

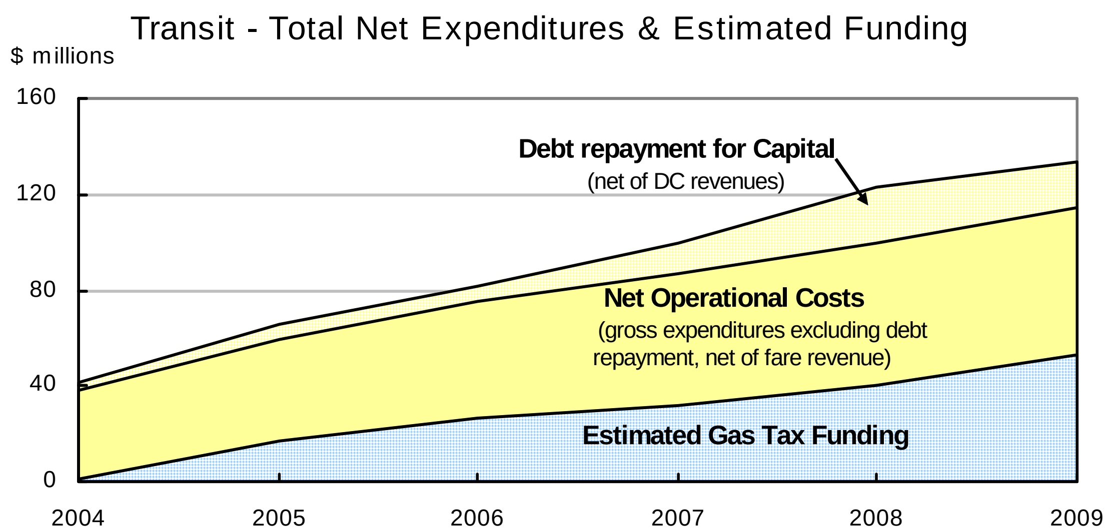


It is therefore recommended that The Region of York request the Province of Ontario to develop and implement a new funding agreement for York Region EMS services that provides 50% funding for both operating and capital costs of land ambulance services, and takes into account the current health care system pressures, hospital pressures and ambulance communications that negatively impact response times and remain outside the control of the Region. Until such time that the Province is committed to a 50:50 cost sharing agreement for operating and capital EMS expenditures, it is further recommended that Regional Council defer any growth related capital project funding to EMS stations and all operating costs related to growth or service level enhancements.

4.4 Transit

Transit has been identified as a key interest in York Region's new deal. Conventional transit expenditures represent approximately 10% of the total budget in the Region. Currently, about 45% of the total transit budget is financed through the tax levy. Based on the Transportation Master Plan and the 10-year capital programs, the Region requires a capital investment of $3.4 billion over the next 10 years, and between $5.6 billion and $7.3 billion over the next 30 years in order to build the necessary road and transit infrastructure. This investment is beyond the capacity of the Region's property tax base.

The recently received share of the Provincial gas tax and the anticipated share of the Federal gas tax is no where near adequate to sustain the required investment.



Up until 1994, the Provincial Government provided transit capital funding of 75% to municipalities and 50% funding of transit operating costs. In order for York Region to provide the necessary transit services demanded by its residents, sustainable funding from other levels of government is required. It is therefore recommended that the Province of Ontario further enhance funding for transit services operating within the GTA.

4.5 Ontario Works (OW)

The Province currently subsidizes entitlement costs for the Ontario Works program at 80% and the Region is responsible for 20%. Through a proactive and increased emphasis on eligibility reviews, fraud investigation and process verification, York Region strives to keep these entitlement costs to a minimum. However, the increased administrative costs associated with these activities are only subsidized at a 50% level and are constantly under scrutiny by the Province.

The Province has reduced and ‘capped’ its OW administration subsidy to the Region so that in effect, the Region now funds approximately 75% of administration costs and the Province funds only 25% (rather than a 50:50 cost share). This has resulted in a funding shortfall of $4.9M in 2004. Should this trend of OW administration subsidy shortfall continue, the projected funding deficit for OW over the next 5 years is approximately $31.7M.

It is therefore recommended that the Province of Ontario immediately remove the cap on its share of the Ontario Works administrative costs and return to a 50:50 cost sharing agreement.

4.6 GTA Pooling

GTA Pooling was introduced in 1998 to mitigate the financial burden faced by the City of Toronto as a result of Local Service Realignment using the equalization tax room available in the surrounding 905 municipalities. The social assistance and social housing costs for the City of Toronto were aggregated with that of the Regions of York, Peel, Halton and Durham. The aggregated costs are billed by the Province to these five municipalities using an equalization formula that is based on the value of assessment of properties in GTA municipalities.

The 905 Regions have continued to point out to the Province the inequities of pooling including the averaging of GTA tax ratios, the lack of accountability to contributing municipalities, service levels and cost predictability, the use of current assessment levels vs. 1997 level of service for social housing, and no “pay for say” .

Since the introduction of GTA pooling in 1998, the Region has budgeted over $570M, including $79M in 2004 and $86.7M in 2005. Pooling represents the second largest item in the Region’s budget, second only to York Regional Police Services. Approximately 15 cents of every tax dollar goes toward pooling costs. If the Region continues to pay its share based on the current formula, it is estimated the Region will contribute an additional $460M over the next five years.

It is therefore recommended that the Province of Ontario immediately conduct a review of the GTA pooling program in consultation with the affected municipalities in an effort to explore alternatives available to fund social assistance and social housing programs with a view of eliminating pooling in the GTA.

4.7 Relationship to Vision 2026

York Region continues to deliver many programs and services that reflect the Region’s vision and meets the needs and realities of it residents. If successful, a new financial deal for municipalities will increase the Region’s ability to support and implement the broad community goals and objectives of Vision 2026

5. FINANCIAL IMPLICATIONS

With the amendments to the *Development Charges Act*, the elimination of GTA Pooling, enhanced funding for transit services and the Province honouring its cost sharing arrangements for EMS and Ontario Works, it is projected that the Region could have funds in the range of approximately $660 million to $1.1 billion over the next five years to invest in the infrastructure and human services that will be required to support the needs of our existing community and the future growth of York Region.

The New Financial Deal for municipalities has several components each requiring thorough analysis and understanding of the implications for York Region. Regional

Council has taken positions and lobbied the various levels of government in the past on a variety of funding and program issues. Over the next few months, staff will specifically undertake a review and develop positions for Council consideration in the areas of alternative revenue sources and service delivery options.

6. LOCAL MUNICIPAL IMPACT

Local municipalities would also benefit from a new financial deal. The area municipalities are encouraged to endorse the Region's position on the new financial deal.

7. CONCLUSION

In light of the ongoing discussions taking place at the federal and provincial levels regarding a new financial deal for municipalities, it is important for York Region to establish and communicate its position on the need to increase funding and revenue opportunities for municipalities. As a growth municipality, York Region must continue to meet the demands and associated costs that have come with this unprecedented growth. However, no one single level of government acting alone, can meet all of these growth needs. Increasing the revenue sources that municipalities have at their disposal is a major step in the right direction. York Region will continue to work with the senior levels of government to provide direct access to these new sources of revenue, in order to increase our ability to pay for roads, sewers, transit and other human services that our residents need.

The Senior Management Group has reviewed this report.

Respectfully submitted,

February 14, 2005
Newmarket, Ontario

M. Garrett
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S. Cartwright
Commissioner of Finance

(Report No. 1 of the Chief Administrative Officer and the Commissioner of Finance, was adopted, without amendment, by Regional Council at its meeting held on February 17, 2005.)