5
2007 TEN YEAR CAPITAL PLAN SUPPLEMENTAL ANALYSIS

(Regional Council, at its meeting on June 21, 2007, amended the following report by adding recommendation 4 as follows:

4. That the Commissioner of Finance report to the Finance and Administration Committee in September 2007 with any new information that has become available as a result of recent Provincial announcements.)

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, May 15, 2007, from the Commissioner of Finance:

1. RECOMMENDATIONS

It is recommended that:

1. The ten year capital plan for 2007-2016 be amended to recognize the delay in timing of specific projects outlined in this report.

2. The amended ten year capital plan for 2007-2016 be approved in principle, subject to annual budget process review and approval.

3. The tax levy forecast for 2008-2010 be received and acknowledged as the basis for development of the 2008 budget, and revised forecasts for 2009-2011.

2. PURPOSE

The purpose of this report is to provide the results of analysis and impact on future capital and operating budgets of the deferral of specific capital projects contained in the Region's ten year capital plan.

3. BACKGROUND

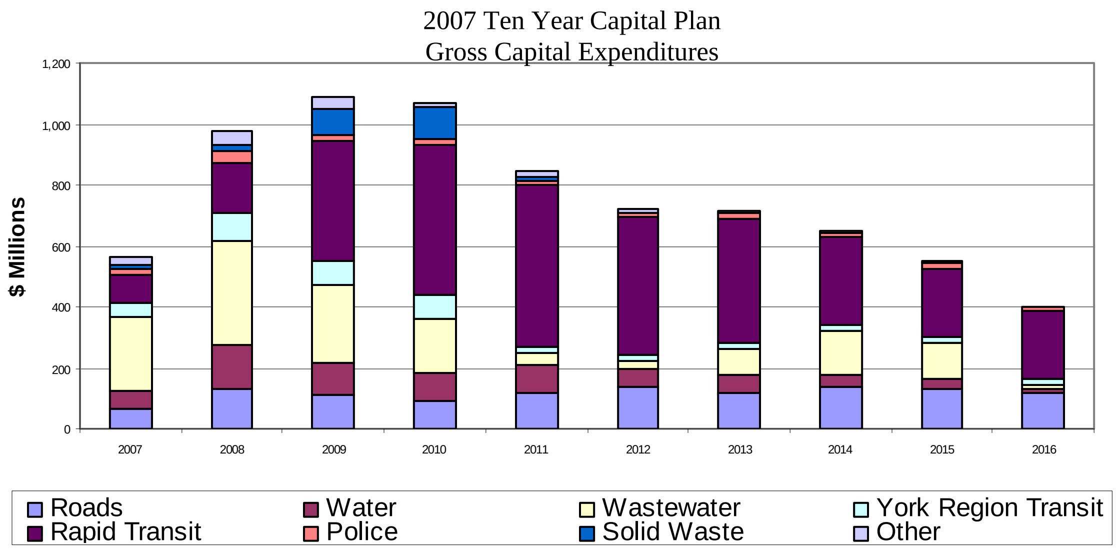
The 2007 Business Plan and Budget was submitted to Council on January 25, 2007. The ten year capital plan, as submitted, totalled $7.6 billion, with $564.1 million of expenditures budgeted for 2007. Standing Committees reviewed these plans in February and March 2007. Consolidated operating and capital budgets were brought forward to Finance and Administration Committee on April 5, 2007, along with items for discussion by the Committee.

These budgets were presented to Regional Council at its meeting of April 19, 2007. Staff also presented a tax levy forecast from 2008 to 2010 based on the budget submissions, which showed a 24.9% increase in tax levy through that period. A significant portion of that increase is the result of capital projects being funding from the tax levy through debt issuance or direct contribution. Council approved the 2007 Operating and Capital Budgets, and also directed staff to report back regarding the impact of the deferral of some key transit and solid waste capital projects on the tax levy forecast, including changes to project funding based on a revised development charge by-law and increased up-front reserve contributions.

4. ANALYSIS AND OPTIONS

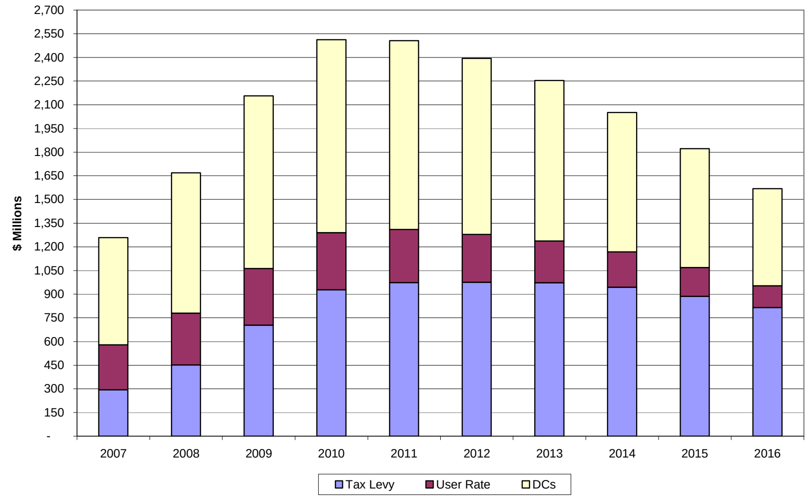
4.1 2007 Ten Year Capital Plan

The current ten year capital plan tabled with Regional Council in January consists of $7.6 billion of expenditures, with $2.2 billion being funded from the Regional tax levy, either through debt issuance or direct payment. Annual expenditures projected for the ten year plan are shown in the following graph.



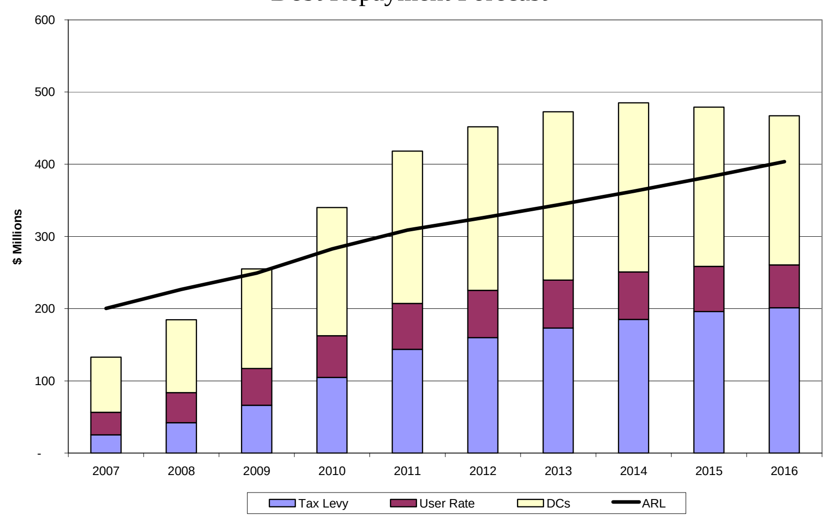
The following graph outlines the projected total outstanding debt resulting from the ten year capital plan.

2007 Ten Year Capital Plan
Outstanding Debt Forecast



The associated debt repayment for the same period, along with a projection of the annual debt repayment limit as prescribed by the Province, is shown below.

2007 Ten Year Capital Plan
Debt Repayment Forecast



4.2 Impact of Project Deferrals

The previous graph outlining the debt requirements associated with the current ten year plan shows that the Region would reach its annual debt repayment limit as prescribed by the Province by the year 2009. Deferring some significant capital expenditures would delay the timing of that occurrence, and allow the Region to complete a major portion of its capital plan without reaching the repayment limit. During the budget review process by Council some significant projects were identified whose start dates would most likely commence later than what has been outlined in the ten year capital plan. These projects are listed below.

Service	Project	Amount ($M)	Original Timing	Deferred Timing
Rapid Transit	Blue Phase 2, Stage 2	$186.4	2009-2010	2011-2012
Rapid Transit	Purple (Richmond Hill Centre-Vaughan, 407 Unionville-Don Mills)	$491.6	2009-2014	2011-2016
Rapid Transit	Gold (Bernard-Newmarket)	$605.8	2009-2014	2011-2016
Rapid Transit	Rapid Transit Vehicles	$71.4	2012	2014
York Region Transit	Transit Vehicle Garage	$12.0	2007	2008
Solid Waste	Energy from Waste Facility	$162.0	2007-2010	2008-2011

The transit projects are delayed due mainly to delays in funding arrangements with senior levels of government. The federal grant identified their contribution as being for the years 2007 through 2010. Staff are therefore suggesting a likely deferral of at least two years for the balance of the program. The Energy from Waste project requires extensive public consultation and will take longer than initially anticipated. Therefore, it is recommended that the 2007 ten year capital plan be amended to reflect the revised timing of these projects.

Based on an amended ten year capital plan, the following table outlines the incremental decrease of the total tax levy associated with the capital plan.

Tax Levy Supported
Deferred Projects
Incremental Decrease of Total Tax Levy
($ millions)

Incremental Decrease	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Outstanding Debt	$23.6	$35.7	$176.1	$260.5	$198.7	$218.1	$225.9	$237.2	$156.6	$73.2
Debt Repayment	0.0	3.1	4.9	23.9	37.4	32.0	37.5	42.0	47.5	41.1
Tax Levy Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Impact	$0.0	$3.1	$4.9	$23.9	$37.4	$32.0	$37.5	$42.0	$47.5	$41.1

4.3 Potential Impact of Development Charge By-law Review

Approximately 75% of the ten year capital plan is identified to support growth-related requirements. Development charges are a key source of funding growth-related capital expenditures. The Region imposes a charge to new residential and non-residential development to help recover the cost of the growth-related infrastructure required to service this new development. However, as an economic incentive to non-residential development, the Region has chosen to not impose the full non-residential development charge rate. In accordance with Provincial legislation, the revenue shortfall resulting from not charging the full non-residential development charge must be recovered from non-growth sources, i.e. tax levy or user rates. This "discounting" of the development charge rate is estimated to require an average of $17 million of tax levy per year to fund the current ten year capital plan.

The Region's development charge by-law is due to expire on June 22, 2007. During the review to enact a revised by-law, staff has been directed to prepare options that eliminate the current non-residential discounting policy. The following table summarizes the incremental decrease of the total tax levy impact of the proposed phase-out of the discount of development charge rates on funding the ten year capital plan.

Tax Levy Supported
Revised DC Rates
Incremental Decrease of Total Tax Levy
($ millions)

Incremental Decrease	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Outstanding Debt	$17.7	$36.2	$45.8	$46.7	$90.0	$137.7	$193.9	$225.4	$289.4	$331.1
Debt Repayment	0.0	2.3	4.9	6.6	7.3	13.8	21.5	31.0	37.9	49.9
Tax Levy Reserve	2.1	1.3	4.3	4.0	6.1	14.4	11.7	13.8	12.3	10.7
Operating Impact	$2.1	$3.6	$9.3	$10.6	$13.4	$28.2	$33.2	$44.7	$50.2	$60.6

4.4 Debt Reduction Initiatives

In March 2007, the Province announced the planned phasing out of GTA Pooling contributions by year 2013. For York Region, this represented a $6.4 million impact to the 2007 Budget. Council approved the use of these funds to reduce the amount of debt anticipated to be issued in 2007. In addition, Council approved funding equal to 1% of the current tax levy requirement, or $6.2 million, to be directed towards the reduction of future debt issuance, and an additional $6.2 million to be contributed to a rehabilitation and replacement reserve, in place of issuing debt for these expenditures. The incremental net impact of these financing initiatives on the Region's debt requirements are shown in the following table.

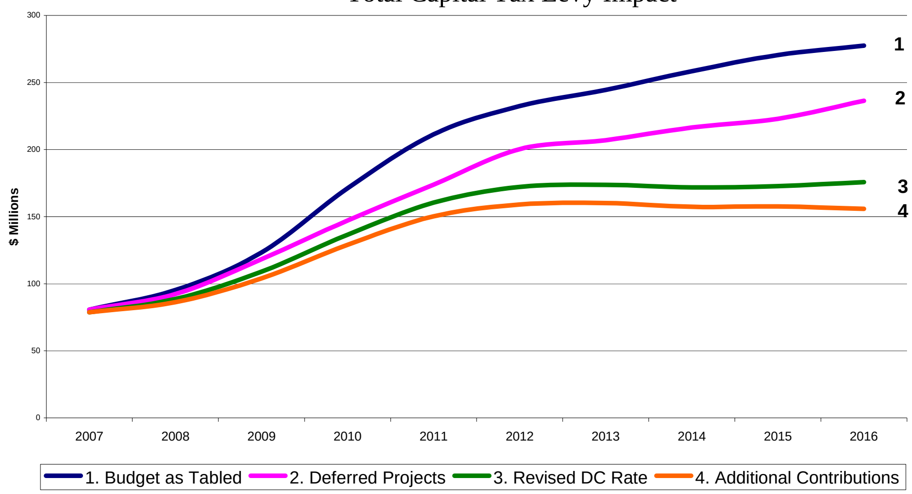
Tax Levy Supported
Additional Contributions
Incremental Decrease of Total Tax Levy
($ millions)

Incremental Decrease	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Outstanding Debt	$18.8	$36.5	$53.0	$68.2	$82.0	$77.5	$74.5	$69.5	$94.2	$129.1
Debt Repayment	0.0	2.4	5.0	7.6	10.3	13.0	13.6	14.4	15.1	20.0
Tax Levy Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Impact	$0.0	$2.4	$5.0	$7.6	$10.3	$13.0	$13.6	$14.4	$15.1	$20.0

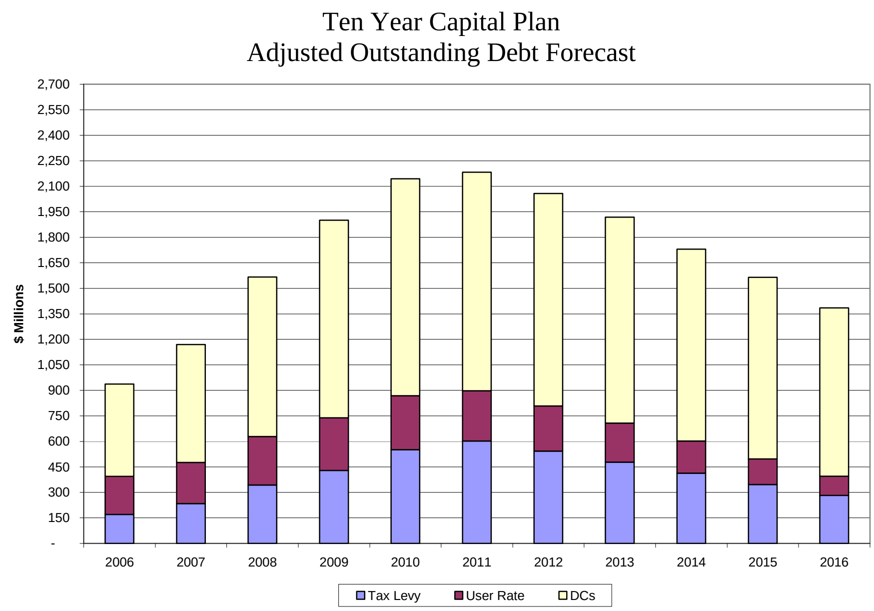
5. FINANCIAL IMPLICATIONS

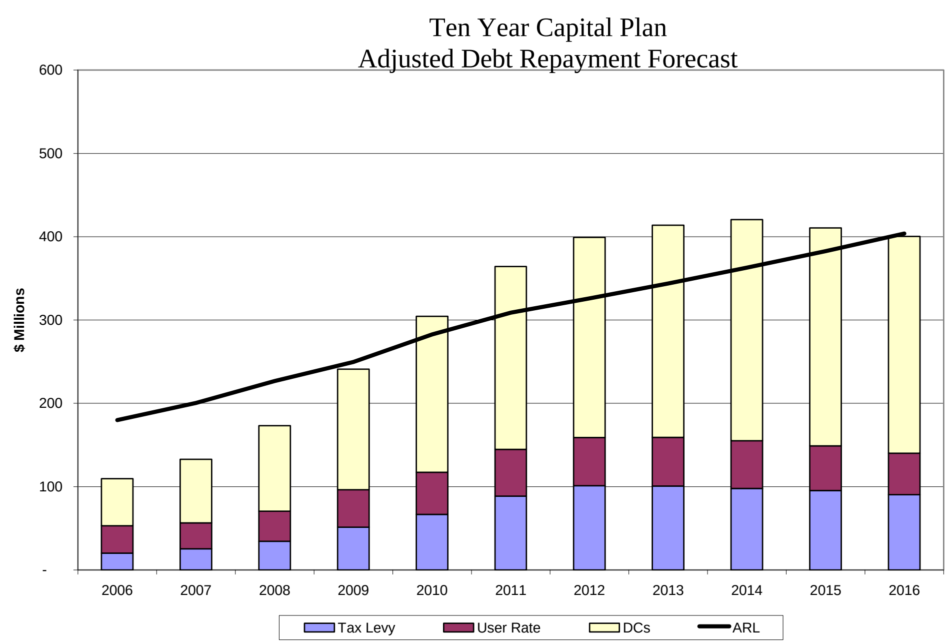
The 2007 Capital Budget as tabled to Council proposed $55.5 million to be funded from current tax levy reserve and net operating impact implications of $ 25.3 million in debt repayment for the tax levy portion only. The analysis shown in the previous sections of this report identifies potential adjustments that would impact the tax levy forecast. The following graph compares the Capital tax levy forecast originally submitted to the four scenarios based on the adjustments outlined in the previous section of this report.

2007 Ten Year Capital Plan
Total Capital Tax Levy Impact



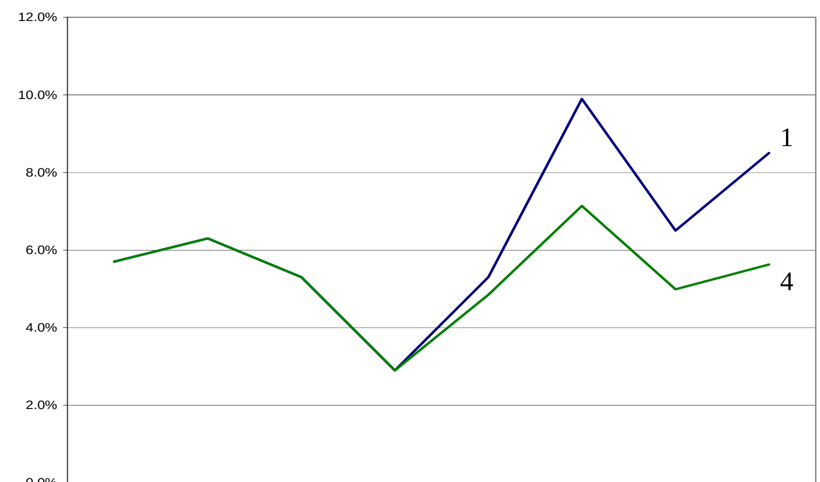
The impact of the above noted adjustments to the ten year capital plan on the Region's debt forecast is shown in the following graphs.





The 2007 Business Plan and Budget as submitted to Council approved a 4.8% tax levy increase for 2007. Based on the budget submission, a tax levy increase of 24.9% was forecasted for the years 2008 to 2010. The analysis shown in the previous section of this report identifies potential adjustments that would impact the tax levy forecast. The following graph compares the tax levy forecast originally submitted to forecasts based on the adjustments outlined in the previous section of this report.

Net Tax Levy Requirement
After Assessment Growth



	2003 Budget	2004 Budget	2005 Budget	2006 Budget	2007 Budget	2008 Outlook	2009 Outlook	2010 Outlook
1. Budget as Tabled	5.7%	6.3%	5.3%	2.9%	5.3%	9.9%	6.5%	8.5%
4. Scenario 4	5.7%	6.3%	5.3%	2.9%	4.8%	7.1%	5.0%	5.6%

The above graph shows that, based on the deferral of some key capital projects and adjustments to funding assumptions, the Regional tax levy is forecast to increase by 17.8% for the three years 2008 to 2010 for an average of 5.9%. It is noted that this chart does not reflect any additional reductions that may be related to GTA pooling.

6. LOCAL MUNICIPAL IMPACT

The annual Regional tax levy requirement is apportioned to each area municipality once approved by Council. The tax levy forecast provides area municipalities with an indication of the magnitude of future Regional tax levy increases.

7. CONCLUSION

It is recommended that the 2007 ten year capital plan be amended to reflect the revised anticipated timing of several key projects outlined in this report, and that the amended plan be approved by Council. Based on the amendments to the capital plan, and the consideration of specific financing strategies, the tax levy forecast projects a cumulative 7.2% for years 2008 to 2010 from that forecast at the start of the budget process.

The Senior Management Group has reviewed this report.