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REPORT
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Regional Council

For Information

REPORT TITLE:	**Peel's Growth Management Program and Development Charge Performance – 2019 Overview and Progress Report**
FROM:	Andrew Farr, Acting Commissioner of Public Works Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

OBJECTIVE

The objective of this report is to provide Regional Council with an update on the Region of Peel's Growth Management Program, Development Charge performance, and growth-related financial risks.

REPORT HIGHLIGHTS

- The outcome of the Growth Management Program is focused on "achieving a financially sustainable complete community, where the location and servicing of growth is optimized".
- The Program's integrated approach to planning, managing and financing growth has led to $602 million in reduced debt-risk and deferral of approximately $500 million in growth related capital projects to reduce the Region's debt burden.
- The Region's development charge revenue shortfall is currently $421 million compared to the 2015 Development Charge Background Study.
- Peel remains at risk of not meeting the Council endorsed non-residential growth forecast from 2016-2026 due to the changing nature of employment.
- Peel is on-track to meet the Council endorsed residential growth forecast from 2016 – 2026 due to increased intensification in the built-up area.
- The continued monitoring and measurement of the Region's growth scenario with real-time development trends will inform the timing and location of growth-related infrastructure investments through the 10-year capital plan and annual budget process in order to reduce the Region's debt risks.

DISCUSSION

1. Background – Growth Management Program

Over the past several years, the Region has adopted an integrated approach to planning, managing and financing growth, known as the "Growth Management Program". It was established to mitigate financial risks associated with managing growth in Peel.

The Growth Management Program's (the Program) integrated approach has led to a successful reduction of the cost-revenue gap associated with growth related infrastructure:

- The Program achieved a $602 million reduction in debt-risk compared to the 2015 Development Charge By-law Background Study, which was forecasted to be $1.8 billion to service growth to 2031. The risk mitigation was achieved despite the Region issuing development charge refunds totaling approximately $55 million in accordance with the decision of the Local Planning Appeal Tribunal.

- The Program deferred approximately $500 million of growth-related water and wastewater capital project outside the 10-year budget horizon through the 2020 budget process. These adjustments were made based on real-time development activity.

2. Growth Management Program - Current Status

The Growth Management Program is now an Organizational Priority with an outcome focused on "achieving a financially sustainable complete community, where the location and servicing of growth is optimized". This outcome will be achieved throughout the delivery of four key strategies, each with their own workplan (see Appendix I).

The current status of each strategy is described below.

a) Internal and External Collaboration

Underpinning the Growth Management Program is the need for integration of Regional staff and external stakeholders to inform growth decisions through various committees for strategic and technical decision making.

These forums include an Inter-Municipal Working Group and a Development Industry Working Group, as previously endorsed by Council. Recent meetings have confirmed strong external support for the enhanced coordination between master planning, servicing and financial risk.

b) Managing Revenues and Expenditures

The Region is undertaking the 2020 Development Charges (DC) By-law Update which is scheduled for final Council approval in September. Staff have been working on the Background Study and policies along with the final growth and cost data. Both the Inter-Municipal Working Group and the Development Industry Working Group have been consulted through and will continue to be engaged in the process.

Issues identified by the recent Local Planning Appeals Tribunal appeal decision to the Region's 2015 DC By-law will be considered, as will legislative changes introduced through *Bill 108: More Homes, More Choice Act, 2019*.

c) Planning and Managing the Location and Servicing of Growth

The Water and Wastewater Master Plan requires a capital investment estimated at $5.3 billion to service new growth to 2041. Likewise, the Long-Range Transportation Plan is estimated at $412 million to service new growth to 2041. Both plans have been based on the Council endorsed growth scenario.

Extensive analysis and consultation was previously undertaken to prepare the Council endorsed growth scenario. Should the Province introduce changes to policies and legislation (i.e. Provincial Growth Forecast in Schedule 3 of the Growth Plan), the Region and its stakeholders are well positioned to undertake additional analysis.

d) Leveraging Business Intelligence:

Currently, the Program leverages business intelligence to inform planning and financing decisions related to the location and servicing of growth, as well as timing. The further development of this strategy includes enhanced monitoring and the identification of new data sources to measure performance and provide insight into future development and financial trends.

Staff will bring forward elements of the business intelligence framework through the 2021 budget process.

3. Growth Trends and Development Charge Performance Informing the Region's Financial Investment

The information below is used to inform strategic investment decisions around growth related infrastructure. It has been distributed and consulted on with the local municipalities through the Program's committees. Please see the Growth Management Program Bulletin in Appendix I which provides a visual summary of the information.

Findings and Analysis:

a) Peel remains at risk of not meeting the Council endorsed non-residential forecast (10-year growth) from 2016-2026 due to the changing nature of employment.

- Due to changes in Peel's employment landscape, non-residential building permit activity and new developments in the approvals process indicate non-residential gross floor area will not meet the 6,150,600 sq. m of floor space set out in the forecast.

- The non-residential shortfall is attributed primarily to the lack of new office space being constructed.

b) Peel is on-track to meet the Council endorsed residential growth forecast (10-year growth) from 2016 – 2026 due to increased intensification in the built-up area.

- Residential building permit activity and new developments in the approval process indicate future residential growth may exceed the 73,800 new residential units required to be to meet Peel's population growth.

- Future growth will be led by large scale, higher density redevelopments proposed in Brampton and Mississauga. Sixty-three per cent of new residential units in the development approvals process are for apartments.

c) The annual gap between forecasted and actual DC revenues was approximately $40 million in 2019

- The gap between forecasted and actual residential DC revenues was approximately $38 million in 2019.
  - The shortfall is attributed to the changing composition of unit types, as collections for medium and high-density projects (which collect lower rates) exceeded low density projects.

- The annual gap between forecasted and actual non-residential DC revenues was approximately $3 million in 2019.
  - Higher DC revenues were a result of large-scale industrial developments (i.e. Amazon)
  - The remaining shortfall may be attributed to the 65,007 sq. m of industrial building expansions (20 per cent of all industrial gross floor area), which are not DC eligible.

d) The cumulative DC development charge revenue shortfall is approximately $421 million compared to the 2015 Development Charge Background Study

- Between 2015 to 2019, the cumulative gap between forecasted and actual residential DC revenues is approximately $220 million. This represents 17 per cent of the residential DC revenue forecast.
  - A large percentage of the DC revenue shortfall is attributed to lower than forecasted performance in the construction of single and semi-detached housing.

- Between 2015 to 2019, the cumulative gap between forecasted and actual non-residential DC revenues is approximately $202 million. This represents 40 per cent of the non-residential DC revenue forecast.
  - The non-residential DC revenue shortfall in part was due to lower than forecasted activities in office development and was partially attributed to the changing nature of employment, including factors such as automation and changing work preferences and arrangements.

Risks to Growth Paying for Growth

At a high-level, Peel's continuing debt-risk is attributable to four major factors:

1. Continued shortfalls in non-residential development charge revenue pose increases the Region's debt risk and may result in additional pressure on future tax and rate funding sources in order to bridge the funding and cash flow gap. This may also result in decisions to delay infrastructure investments to service new growth areas in response to rising debt levels.

2. The closing consolidated development charge reserve fund balance remains negative $125 million as of December 31, 2019. This negative reserve balance reflects the gap between revenues and expenditures and partially resulted from the DC refund ordered by the Local Planning and Appeals Tribunal. Staff will closely monitor revenue flows in 2020 to inform expenditure and potential borrowing decisions.

3. Globalization and technological shifts are changing the nature of work in the Region. This has been marked by changes to the demand, type and scale of new employment buildings constructed in the Region, resulting in lower than forecasted non-residential floor space and associated revenues. The Commissioner of Finance and Chief Financial Officer co-presented to Council (along with the Mowat Centre), on the changing nature of work last March and has pursued an advocacy strategy aimed at working with the Province on the risks associated to municipal fiscal sustainability.

4. The Region's ability to maintain the principle that 'growth pays for growth' continues to be threatened by the Provincially legislated changes, introduced through the *Bill 108: More Homes, More Choice Act, 2019*. The Region is bringing forward an update on proposed regulations attached to the Community Benefits Charge.

CONCLUSION

While the Region continues to face risks to financing growth related infrastructure, the strategies and ongoing collaboration through the Growth Management Program has successfully delivered positive outcomes both financially and in our ability to respond to changes in Provincial legislation.

The long-term nature of Peel's Growth Management Program involves managing the risks associated with economic downturns (including those related to COVID-19) through the planning horizon to 2041. Staff will continue to make evidence-informed decisions related to the timing of infrastructure projects and pace investments to match development trends.

Additional updates to Council on key elements of the Program (i.e. Peel 2041, Development Charges) along with an annual progress report that includes growth trends impacting our infrastructure decisions, capital programs and financial risk will continue to be brought forward.

APPENDICES

Appendix I – Growth Management Program Integrated Workplan
Appendix II – Growth Management Program and Development Charges Bulletin

For further information regarding this report, please contact Adrian Smith, Acting Director of Regional Planning and Growth Management and Chief Planner, adrian.smith@peelregion.ca, 905-791-7800 ext. 4047 and Stephanie Nagel, Treasurer and Director of Corporate Finance, stephanie.nagel@peelregion.ca, 905-791-7800 ext. 7105

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Reviewed and/or approved in workflow by:

Department Commissioners, Division Directors and Financial Support Unit.

Final approval is by the Chief Administrative Officer.

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