Region of Peel
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REPORT
Meeting Date: 2022-06-23
Regional Council

For Information

REPORT TITLE:	**Peel's Growth Management Program, Development Charge Performance, and Census Results – 2021 Overview and Progress Report**
FROM:	Kealy Dedman, Commissioner of Public Works

OBJECTIVE

To provide an update on the Growth Management Program and a report on monitoring the Region of Peel's growth forecast, development charge performance, and 2021 Census results.

REPORT HIGHLIGHTS

- Recent historic annual housing growth in Peel has been below forecast growth. While high density residential development activity strengthened in 2021, low density residential development continues to perform below forecast levels.
- Industrial development continues to be a stronger performer in Peel while office and retail/commercial uses are underachieving relative to forecast levels of development.
- The Region collected approximately $288 million in development charge (DC) revenue in 2021 (excluding GO Transit), exceeding the annual average of the previous five-year period but well below the DC background Study forecast.
- The Region's DC funded capital program continues to rely on debt to finance increased capital needs, especially for water and wastewater infrastructure.
- Recent planning applications in the pipeline suggests the potential for moderate development activity in the short term; however, the economic environment and changing employment landscape alongside rising uncertainties will pose challenges on future growth performance.
- According to the Census results, Peel reached a Census population of 1.45 million in 2021 which was lower than forecasted by about 64,000 people. The Region remains well-positioned to meet the long-term population forecast to 2051.
- Peel Region had the highest amount of population growth in the 2016 to 2021 Census period in the Greater Toronto and Hamilton Area (GTHA).
- While the Region's population continues to age, Peel's population is the youngest among other GTHA regions and cities.
- While Peel's economy continues to recover from the impacts of the pandemic, there are a number of key risks to the Region to monitor including escalating inflation rates and construction costs, rising interest rates, supply chain challenges, systemic shortfalls in growth paying for growth as well as continuing uncertainties associated with the pandemic and the conflict in the Ukraine.

DISCUSSION

1. Background – Growth Management Program

Over the past several years, the Region of Peel has adopted an integrated approach to planning, managing and financing growth, known as the Growth Management Program. In 2015, Plan and Manage Growth was approved as a Term of Council priority which focused on the Region's debt levels associated with development charge (DC) revenues and expenditures, also known as the cost-revenue gap.

The purpose of this report is to provide an update on:

- The status of the Growth Management Program and its four implementation strategies.
- Data and information on growth trends relative to the Regional forecast, including results from the first two data releases from the 2021 Census; and,
- The Region's development charge performance.

2. Growth Management Program – Current Status

a) Strategy 1: Planning and Managing the Location and Servicing of Growth

Regional Forecast to 2051

The new Regional Official Plan, including the population and employment forecasts to 2051 by local municipality was adopted by Regional Council on April 28, 2022. The Region is forecast to reach a population of 2.28 million and 1.07 million jobs by 2051. This forecast is based on accommodating growth of approximately 500,000 people and 270,000 jobs in the Region's existing urban areas, including intensification in Urban Growth Centres, Major Transit Station Areas and other Strategic Growth Areas. The remaining growth is planned to occur through a New Urban Area in southern Caledon comprised of approximately 2,850 hectares of community land and 1,530 hectares of employment land. Regional staff will work with Town of Caledon staff to develop a phasing strategy for the newly added settlement expansion area to support the provision of complete communities and the efficient extension of infrastructure and other services in an environmentally and fiscally responsible manner.

b) Strategy 2: Managing Revenues and Expenditures

Region of Peel Development Charges By-law

Development charges fund growth-related infrastructure projects and are the primary source of funding for the growth-related portion of the Region's capital plan. The Region's 2020 Development Charge By-law was passed by Council in December 2020 and has been appealed by the Building Industry and Land Development Association (BILD). Starting in July 2021, meetings between Regional staff and Regional consultants with representatives from BILD and their consultants have been facilitated to try to resolve and scope appeal issues in advance of the Ontario Land Tribunal hearing, currently scheduled for later in 2022. Those efforts continue.

Financial Risk Management Strategy

The COVID-19 pandemic has been with us for over two years and in addition to the devastating health impacts on human lives and society in general, the pandemic has elevated uncertainty around growth and development within Peel Region. In response to the potential impacts of the COVID-19 pandemic, the Region's Financial Risk Management Strategy was established to manage the Regional Capital Program and was endorsed by Council in July 2020. The purpose of the strategy was to defer or slow water, wastewater and transportation capital projects based on an assessment of financial, legal and safety risks, level of service, prior commitments, regulatory requirements as well as reputational risks to the Region.

Regional staff continue to work on an ongoing basis to monitor and refine the timing of short-term growth-related water and wastewater projects. This includes consultation with local municipal staff and the development industry to discuss the potential impacts of proposed project timing on growth. Currently, the value of water and wastewater projects under active consideration through this work is approximately $1 billion.

As part of the annual capital budget process, staff will continue to evaluate the deferrals and make adjustments where required in order to manage both operational and financial risks.

c) Strategy 3: Leveraging Business Intelligence

A key objective of the Business Intelligence strategy in the Growth Management Program is to develop enhanced data capabilities and analytics to make evidence-based decisions on the prioritization of growth-related infrastructure. A key foundational principle of this strategy is to support the efficient utilization of infrastructure and aligning infrastructure investment with growth.

In 2021, Price Waterhouse Coopers was retained to develop a data road map that integrates land use planning, infrastructure, and financial data to help support decision-making on the prioritization of infrastructure investments. Key deliverables achieved include the development of a data road map and implementation playbook in alignment with the Enterprise Business Intelligence Strategy for an Integrated Forecast Monitoring Solution.

Business Intelligence Implementation - Integrated Forecast Monitoring Solution (IFMS)

The vision of the IFMS is to support decision-making on the prioritization of growth-related infrastructure investments by building the capability to bring together, analyze, and visualize data from various Regional program areas and local municipalities. When fully implemented, the IFMS will deliver on three key outcomes: validating adherence to short term growth forecasts, understanding infrastructure pinch points and understanding the financial implications of growth and infrastructure investments. The first phase of the implementation of the IFMS is planned to be completed in the Fall of 2022 and will focus on assessing development trends in comparison to short term growth forecasts to support growth-related infrastructure and financial planning.

d) Strategy 4: Internal and External Collaboration

A key part of the Growth Management Program is integration and collaboration with multiple Regional program areas including Finance, Water and Wastewater, Transportation, Planning, Housing, Climate Change and Public Health to inform growth-related decisions. There is also engagement with local municipalities and the development industry.

Forums for engagement include an Inter-Municipal Working Group and Development Industry Working Group as well as Regional meeting groups comprised of a Core Team, Advisory Committee and Steering Committee. These meetings include regular updates on growth management related matters including the Municipal Comprehensive Review, the Region's Infrastructure Master Plans, Development Charge By-law, the Financial Risk Management Strategy, the Business Intelligence projects and others.

3. Growth Monitoring Findings and Analysis

a) Peel is positioned to meet the short-term residential growth forecast, but ground-related housing may be at risk of underperforming

- In 2021, according to Canada Mortgage and Housing Corporation data, there were 5,375 housing completions in Peel, which is above the previous five-year average, but well below the forecast annual average in the 2020 DC Background Study of 8,058 units for the 2020-25 period and the Hemson forecast annual average of 9,928 units per year for the 2021-26 period (see Figure 1). It should be noted that the housing completions in Figure 1 do not include second units which contribute to the Region's housing growth. Various data sources suggest that an increasing number of second units are being built in Peel, however, it is very difficult to measure the actual net new second units being created. Second units are one of the key components of gentle intensification but unfortunately, from a municipal finance perspective, pose challenges as they generally do not contribute to providing development charge revenue.
- 2021 saw the highest level of apartment completions in Peel since 1990. Increased levels of apartment development will continue to contribute towards meeting the Region's intensification target.
- As of year-end 2021, there were 57,360 residential units in the development pipeline in various stages in the approvals process, with approximately 76% of those units being apartments.
- As of year-end 2021, according to local municipal data, over 10,000 units in Peel have received the necessary approvals to proceed to apply for building permits. In addition, in Mississauga, there is approved zoning for 14,000 units that are currently inactive, providing further housing supply potential.
- The Region is positioned to achieve the short-term residential housing forecast. With a relatively large supply of units in the pipeline, Peel is positioned to meet its forecast apartment growth over the short and medium term (see Figure 2). Ground-related housing (singles, semis, and rows) may be at risk of underperforming; however, there is still time for additional ground-related development proposals to be brought forward in the next few years in order to meet the short-term forecast.

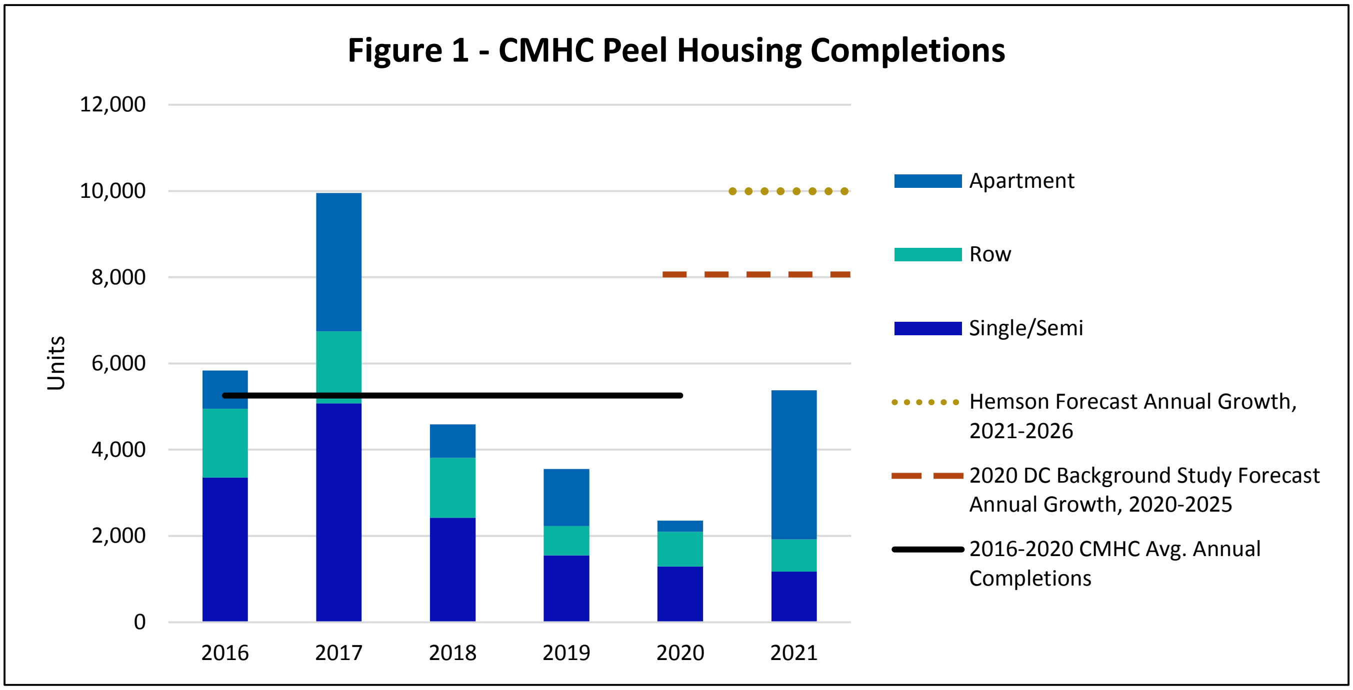


Figure 1 - CMHC Peel Housing Completions
Units
12,000
10,000
8,000
6,000
4,000
2,000
0
2016
2017
2018
2019
2020
2021
Apartment
Row
Single/Semi
Hemson Forecast Annual Growth, 2021-2026
2020 DC Background Study Forecast Annual Growth, 2020-2025
2016-2020 CMHC Avg. Annual Completions

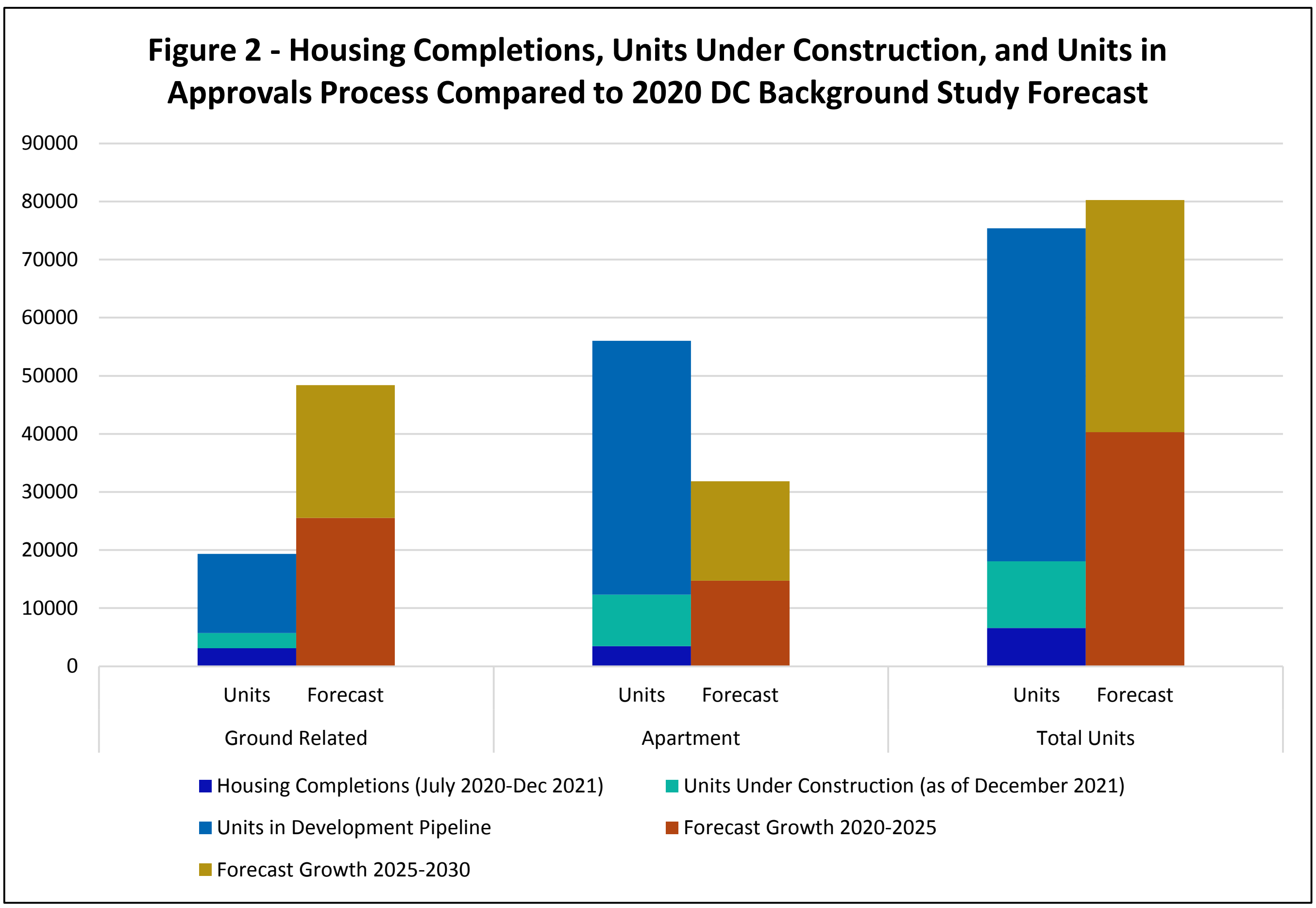
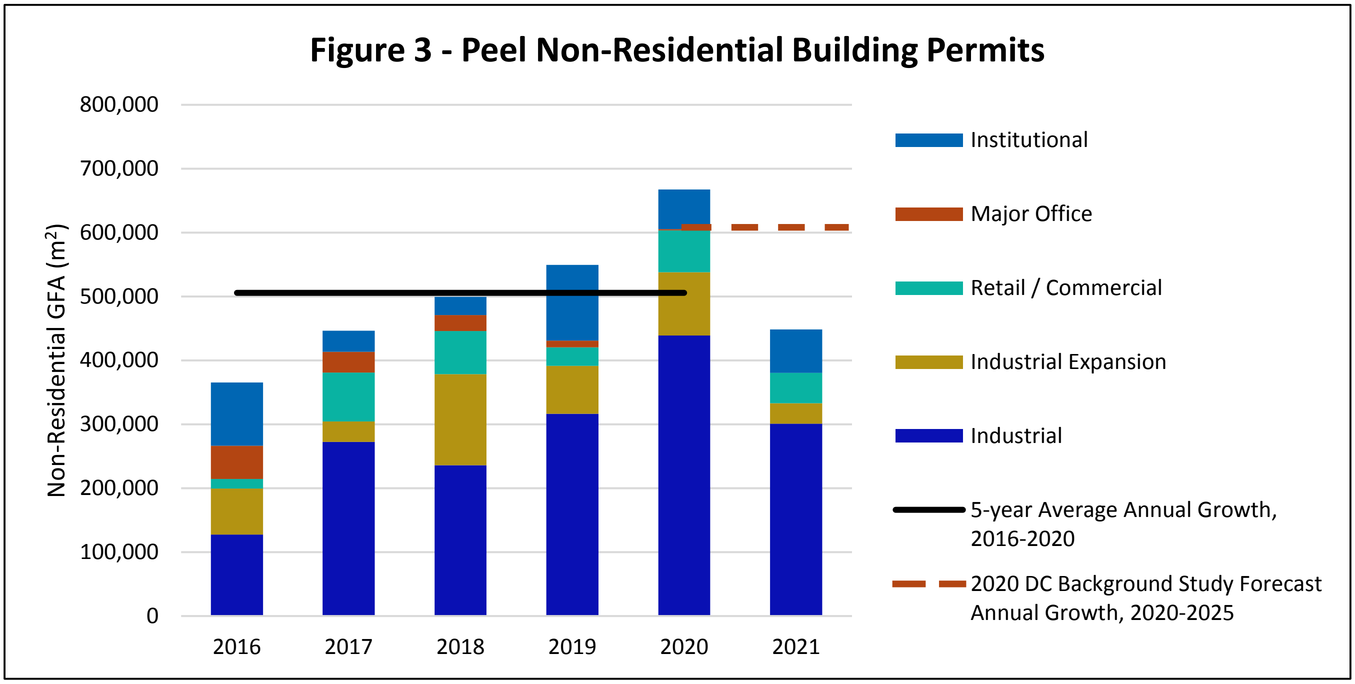
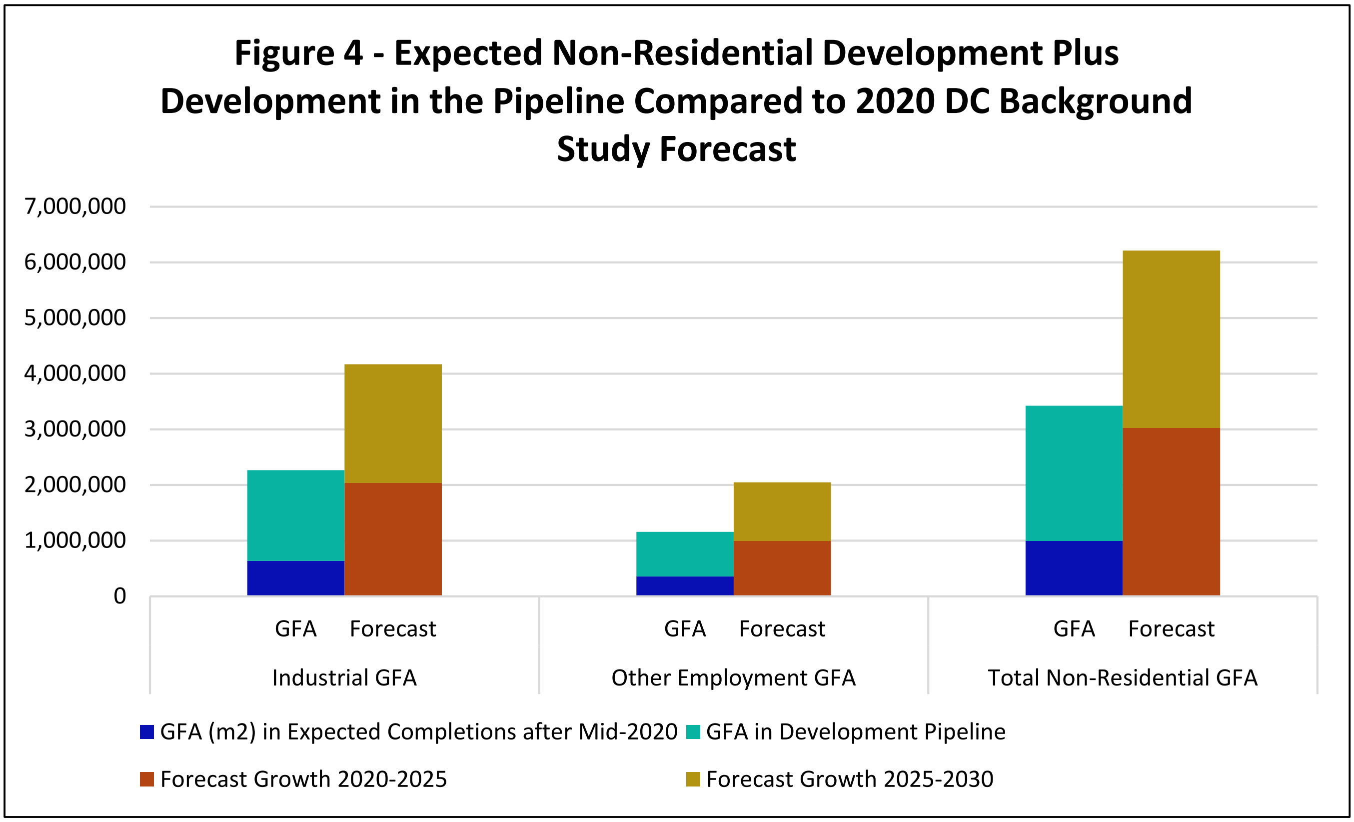


Figure 2 - Housing Completions, Units Under Construction, and Units in Approvals Process Compared to 2020 DC Background Study Forecast
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
Units
Forecast
Ground Related
Units
Forecast
Apartment
Units
Forecast
Total Units
Housing Completions (July 2020-Dec 2021)
Units Under Construction (as of December 2021)
Units in Development Pipeline
Forecast Growth 2020-2025
Forecast Growth 2025-2030

b) Applications in the development pipeline provide the potential to meet forecast non-residential growth in the short term

- In 2021, 448,342 square metres of non-residential Gross Floor Area (GFA) in building permits were issued, which was a decline from the previous year and the historic five-year average and short of the average annual forecast GFA based on the 2020 DC Background Study (see Figure 3).
- Industrial development continues to be a stronger performer in Peel over other non-residential uses, especially office and retail/commercial uses.
- As of year-end 2021, there were just over 2.4 million square metres of non-residential GFA in the development pipeline with the shares of industrial and other employment use GFA being in approximate alignment with the forecast.
- While industrial development continues to be the top non-residential performer in the Region, there is the potential through current and future development applications to achieve the forecast non-residential space (see Figure 4). Based on the impacts of the pandemic and other changes to the nature of employment, office and retail development are potentially at risk of underperforming relative to the short-term forecast.





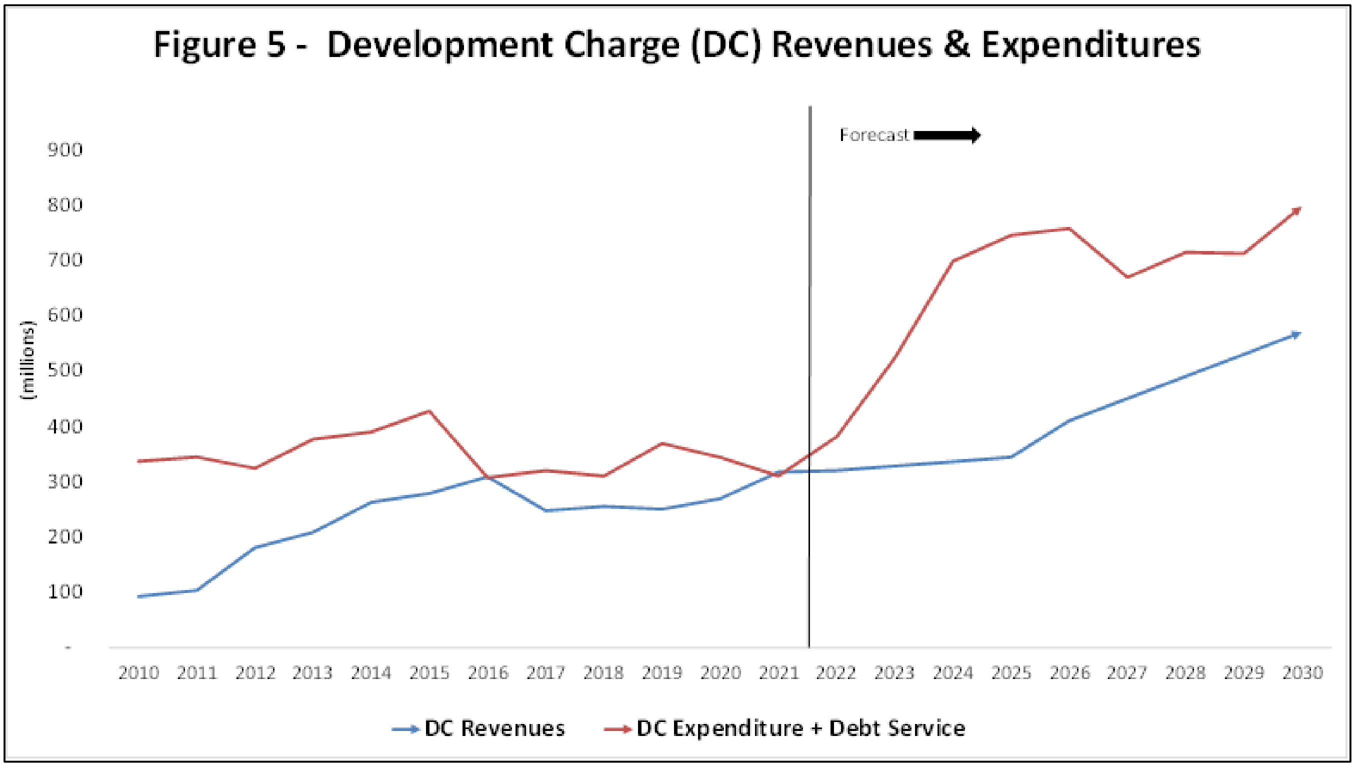
c) In 2021, the Region collected $288 million in DC revenue, however the Region's DC funded capital program continues to rely on debt to finance increased capital needs, largely for water and wastewater infrastructure

2021 DC Revenue

- A new Region of Peel DC by-law was effective in January 2021, replacing the 2015 DC by-law.
- In 2021, the Region of Peel collected $288 million in total DC revenue (excluding GO Transit) which exceeded the average annual DC collection over the previous five-year period which was $260 million, but is still well below the $427 million in the Background Study DC revenue forecast.
- The $288 million in DC revenue collected in 2021 was allocated by development type as follows:
    - Apartments 54%;
    - Single detached, semi-detached, row dwellings: 32%; and
    - Non-residential development: 14%

2021 DC Funded Capital Program

- The DC reserve fund at the end of 2021 was approximately $29.1 million, up slightly from $22.5 million in the previous year. Although the reserve appears stable, the level of the reserve continues to be reliant on growth-related debt to finance infrastructure.



- Over the 2010 to 2021 period, the Region issued approximately $1.7 billion in growth-related debt, largely for water and wastewater infrastructure (i.e. 99% of total growth-related debt). The net DC debt outstanding at the end of 2021 was $1.2 billion.
- Based on the Region's cash flow expenditure forecast on the 10-year capital plan, growth-related capital cash expenditures over the next three years are forecast to be in the amount of approximately $1.2 billion which is 88% more than the growth-related cash expenditures over the past three years (2019-2021). The increase in expenditure is largely attributed to a combination of a faster pace of growth, catching up with infrastructure projects deferred during the pandemic, as well as non-inflationary increases in the cost of projects (see Figure 5).
- The revenue and expenditure cash forecasts are based on the best information at the time. Each year, through the capital planning process, cash flow forecasts are reviewed by staff and adjusted as required, as new information is made available.
- The timing of certain growth-related projects relative to historical DC collections may require the issuance of more growth-related debt in future years. The need for additional growth-related debt exposes the Region to financial risk since approximately 55% of the water and wastewater DC revenue collected must be used to pay debt servicing costs (approximately $117 million in 2021).
- The Region has engaged Watson and Associates to assess the long-term drivers and systemic issues related to development charge revenues and expenditures to ensure the long-term sustainability of the Region's growth management program. The study is expected to be completed by early 2023.
- Staff will continue to monitor DC expenditures, revenues and reserve balances closely to appropriately plan for potential debt requirements. On an annual basis, Council approves the Borrowing Limits Report forecasting debt requirements for the year.

4. 2021 Census Results

a) Peel Reached a Census Population of 1.45 million in 2021

The first 2021 Census data release on population and dwelling counts was on February 9, 2022. According to the Census results, Peel reached a Census population of 1.45 million in 2021, growing by just over 69,000 people from 2016 at a 5% rate of growth over this period (see Table 1). Brampton accounted for the majority share of this growth, with Mississauga experiencing a slight decline in population. Occupied housing units grew at a slightly slower rate than population with Brampton having just over a 70% share of this growth (see Table 2).

Table 1 - Census Population

Municipality	2016	2021	Growth	Percent Change
Brampton	593,638	656,480	62,842	10.6%
Caledon	66,502	76,581	10,079	15.2%
Mississauga	721,599	717,961	-3,638	-0.5%
Peel Region	**1,381,739**	**1,451,022**	**69,283**	**5.0%**

Table 2 - Private Dwellings Occupied by Usual Residents

Municipality	2016	2021	Growth	Percent Change
Brampton	168,011	182,472	14,461	8.6%
Caledon	21,256	23,699	2,443	11.5%
Mississauga	240,913	244,575	3,662	1.5%
Peel Region	**430,180**	**450,746**	**20,566**	**4.8%**

Brampton had the second highest total amount of population growth of any Census subdivision in Ontario from 2016 to 2021, second only to the City of Ottawa, and just ahead of the City of Toronto.

Mississauga's small decline in population, while initially surprising, is not completely unexpected. Mississauga is now a mature urban centre, with limited vacant greenfield land supply. While Mississauga has seen significant levels of residential intensification and will continue to intensify in the coming years, in the 2016 to 2021 Census period, new housing development through intensification was insufficient to offset a small decline in the City's population base.

A small decline in Mississauga's average household size was also a factor leading to the overall decline in population. Mississauga's average household size has been declining over the last 10 years, from an average of 3.14 to 2.94 persons per unit. Conversely, Brampton and Caledon both had small increases in average household size over the last census period.

To be confirmed through future analysis, Hemson Consulting has theorized that higher than expected net intra-provincial out-migration from the GTHA to other parts of Ontario was a potential source for this net decline in population in Mississauga. Net intra-provincial outmigration is a normal pattern for the central and more mature part of a growing metropolitan area such as the GTHA. Although the Census showed lower than forecast growth in some GTHA municipalities such as Peel, there was higher than anticipated growth in places that have become to be the expected locations for out-migrants from the central GTHA such as Brantford, Niagara, Peterborough, Oxford, Middlesex, Grey, and others.

Over the past decade, Peel, because of Mississauga, has been increasingly behaving like a central city. In the most recent Census period, the pandemic likely further contributed to the out-migration trend in Peel. In addition, the pandemic had an impact on immigration levels during the latter part of the Census period which would have a negative impact on overall population growth.

b) Peel had the largest share of population growth in the GTHA from 2016 to 2021

Peel's population and housing growth has been slowing in recent years, as shown in Appendix I which shows historic population and housing growth for the last three Census periods. A similar pattern is also being experienced by York Region and Toronto. Conversely, Durham, Halton and Hamilton experienced an increase in growth in the last Census period.

Even though growth was slowing down in Peel, it was the highest growing region in the GTHA from 2016 to 2021 in terms of population with a 21% share and third highest in terms of total occupied dwelling growth (behind the City of Toronto and York Region).

c) 2021 Census results were somewhat lower than forecast

Hemson Consulting prepared the Region's growth forecast to 2051 as part of the Region's Municipal Comprehensive Review. Part of this work involved preparing local municipal forecasts by five-year period to 2051. The 2021 Census population is lower than the forecast prepared by Hemson by approximately 64,000 people (see Table 3). The majority of this difference is accounted for by a lower than forecast population for Mississauga.

Table 3 - Population Comparison

Municipality	Hemson 2021 Forecast	Hemson forecast with undercount removed (Note)	2021 Census	Difference	Percent Difference
Brampton	703,000	674,918	656,480	18,438	2.8%
Caledon	80,000	76,804	76,581	223	0.3%
Mississauga	795,000	763,243	717,961	45,282	6.3%
Peel Region	**1,578,000**	**1,514,965**	**1,451,022**	**63,943**	**4.4%**

Note: After every Census, Statistics Canada provides information to allow for the calculation of a net under-coverage factor to account for people missed in the Census. This factor is not yet available for the 2021 Census but is usually in the range of 3 to 4%. The Hemson forecast in the above table is based on total population, including the undercount which is subsequently removed to make it comparable to the Census results.

The total occupied housing units in Peel in 2021 were also lower than the Hemson forecast, but at a more modest percent difference of about 1.5% or approximately 6,600 units (see Table 4).

Table 4 – Occupied Household Comparison				
Municipality	**Hemson 2021 Forecast**	**2021 Census**	**Difference**	**Percent Difference**
Brampton	186,126	182,472	3,654	2.0%
Caledon	24,180	23,699	481	2.0%
Mississauga	247,039	244,575	2,464	1.0%
Peel Region	**457,345**	**450,746**	**6,599**	**1.5%**

While the Census results indicate lower than projected population and occupied dwellings for 2021, it is important to remember that the Region's growth forecast goes out to 2051. Over the course of a 30-year period, there will be periods of slower and faster growth that the Region needs to respond to in the short-term but short-term growth trends do not necessarily impact the ability to achieve the Growth Plan 2051 population forecast for Peel Region.

d) Intra-provincial migration from Peel is increasing

While not part of the 2021 Census results, it is instructive to examine recent trends in the components of population growth in Peel based on annual data from Statistics Canada to support the analysis of Census data. Page 27 of Appendix I displays this historical data. While natural increase (births less deaths) and inter-provincial migration has remained relatively consistent for the last 10 years, net intra-provincial migration has been trending downward in Peel, as more people leave for other parts of the GTHA and Ontario. While this trend has been relatively consistent for the City of Toronto and an expected trend for the central part of a large urban region, Peel's trend of negative net intra-provincial migration has been increasing over the last 20 years.

New immigration has been the largest net contributor to population growth in Peel. While immigration did dip downward during the pandemic, Canada's plan to add over 400,000 new permanent residents a year up to 2024 is expected to contribute to Peel's future population and housing growth.

e) Peel is aging but remains the youngest in the GTHA

Consistent with trends elsewhere in the GTHA, Ontario and beyond, Peel's population is aging as an increasing share of the baby boom generation continues to move into older age groups. The share of the Region's population in the 65 years and older age group increased by about two percent from 2016 to 2021 and has nearly doubled since 2001. Within Peel, Brampton's population is the youngest which is consistent with a higher growth municipality that has historically provided mainly family type housing opportunities. Peel has the youngest population in terms of average age and the lowest share of people in 65 and older age group in the GTHA.

Peel's distribution of households by size remained relatively stable from 2016 to 2021. In comparison to the rest of the GTHA, Peel has the highest overall average household size at 3.2 persons and by far the largest share of its households in households of five or more people. This trend has been evident in Brampton for a number of years and may be in part due to the prevalence of extended families living together as one household.

In 2021, approximately 75% of the Region's occupied dwelling units were comprised of ground-related units (singe detached, semi-detached, row houses and duplex units) and 25% in apartments. In the context of the GTHA, Peel's share of growth in apartment households has declined in the last two Census periods, with other 905 Regions picking up increased shares. With the land use planning framework in place for facilitating growth through intensification, coupled with existing and planned higher order transit infrastructure and recent development activity, the Region is well-positioned to accommodate larger shares of growth in medium and higher density housing in the coming years.

f) Future Census Data Releases

There will be additional census releases throughout 2022 on other demographic themes including income, immigration, education, labour, and others. Further analysis will be undertaken as more Census data becomes available. In March 2022, Peel Data Centre launched an online public Census Information Hub that summarizes Census data using a mix of visuals and storytelling which will be updated after each Census data release.

5. Additional Insights

Economic Growth and Employment

There was widespread growth in the Canadian economy in 2021 following a recession in the preceding year. Measured by the change in Gross Domestic Product (GDP), the Canadian economy grew by 4.6% in 2021, following a decline of 5.5% in 2020. The Ontario economy also bounced back from the COVID-19 induced recession in 2021 to contribute to the Canadian economic rebound. According to the Ontario Ministry of Finance, Ontario's real GDP rose by 4.3% in 2021, following a 5.1% decline in 2020.

Similarly, there was growth in Peel in 2021. Many sectors recovered from the impacts of the COVID-19 pandemic and associated measures, and Peel's business sector continued to expand. In response, Peel's labour market conditions improved. Employment increased by 6.1% to surpass the pre-pandemic level and Peel's annual average unemployment rate fell from a record high of 12.1% in 2020 to 10.1% in 2021 (Source: Peel's Economic Pulse – 2021 Performance and Outlook).

The Financial Accountability Office of Ontario (FAO) completed an employment comparison of pre-pandemic employment. They found that while overall employment in Ontario has increased in 2021, employment in some close customer contact industries, including accommodation and food services, wholesale and retail trade, and transportation and warehousing, remained below pre-pandemic levels.

In Peel, although overall employment recovered to above the pre-pandemic level, employment in some sectors and in some employment categories remained below. Employment in accommodation and food services was approximately 43% below pre-pandemic levels in 2021, as employment in the sector fell in both 2020 and 2021.

Residential Market

Analyzing the housing market within Peel shows the following trends:

- New home sales data, prepared by Altus Group, indicate that total new home sales in Peel increased in 2021, by approximately 13% from 2020. This increase was comprised of a 34% increase in sales in new condo apartments, while new single-family home sales declined by 15%.
- Low mortgage rates have helped support strong housing demand. However, mortgage rates have been increasing, and are anticipated to continue increase throughout the year. There are also continuing concerns surrounding housing affordability, as the average resale price for all unit types in Peel was $1,269,242 in March 2022, which is up from the average price of $1,061,015 compared to the same month in 2021, an increase of nearly 20% (based on data from the Toronto Regional Real Estate Board). While the average resale price has gone down slightly in the last couple of months, the overall trend of resale home prices rising faster than inflation and household incomes continues.

Commercial and Industrial Markets

Additional insights from the analysis of commercial and industrial market trends reflect the continuing impacts of the pandemic. Office vacancy rates have been rising, which may be in-part due to alternative working arrangements resulting from the pandemic. Construction value of Industrial Commercial and Institutional (ICI) building permits in Peel in 2021 was relatively consistent with the previous five-year historic average at just over $1.2 billion.

- In the GTA West sub-market, which includes Peel Region, the Q1 2022 office vacancy rate was 16.7%, as reported by Cushman and Wakefield, representing an increase of nearly 2% from 2021. A similar trend is being experienced in other suburban office areas in the GTA.
- In April 2021, Regional Council adopted a community strategy known as the Regional Major Office Incentives Program and a new reserve was established to track and facilitate grants to support the Region's participation in local municipal Community Improvement Plans. Regional staff have been working with local municipal staff on the implementation details and potential applications to the program.

The industrial sector continues to be a strong performer in Peel.

- Industrial vacancies continue to be low in Peel. In the GTA West sub-market, the Q1 2022 industrial vacancy rate was only 0.8%, as reported by Cushman and Wakefield, declining from 1.4% as reported in Q1 2021.
- The limited vacancies indicate that Peel will continue to have high demand for industrial space.

RISK CONSIDERATIONS

Continued long-term systemic challenges associated with managing growth, coupled with the forecasted large capital expenditure forecast and cost escalation pressures, could result in increased debt requirements to levels where a significant portion of development charge (DC) revenues would be used to service existing debt requirements, and over time impact the Region's financial flexibility.

DC Revenues

The economic impacts of the pandemic have heightened systemic ongoing trends which have seen DC revenues below forecast; these trends are not unique to Peel Region. They include:

- DC revenues not meeting forecast levels;
- A significant increase in second units which are exempt from DC's, as well as other DC exemptions provided in the *Development Charges Act*;
- Rising home prices which have further eroded housing affordability;
- Lower office and retail development than projected, due to the changing nature of work that may have been accelerated by the COVID-19 pandemic; and
- Legislative changes to the *Development Charges Act*. Changes through Bills 108 and 197 with respect to the timing of DC collection of certain types of development and the freezing of rates at an earlier phase of the development process.

Cost Escalation Pressure on DC Capital Programs

The macroeconomic environment continues to change alongside rising uncertainties. The ongoing COVID-19 pandemic, supply chain challenges, rising inflation, elevated public debt, rising labour costs and interest rates and heightened geopolitical tensions, particularly the conflict in Ukraine, have created unprecedented macroeconomic uncertainties that will have significant impacts at all economic levels. As industries make an ongoing recovery in Peel from the COVID-19 pandemic, there continues to be uncertainty among economic forecasts given the unprecedented nature of the pandemic, which may pose challenges from a development charge revenue and cash flow perspective in the coming years. In addition, the recent conflict in the Ukraine also will potentially result in additional risk for economic growth.

Cost escalation of growth-related projects stemming from a combination of aforementioned factors is anticipated to further widen the DC revenue-expenditure gap. Regional staff are examining construction industry data to assess trends in material and labour costs, the results of which are showing an estimated 20-30% increase in construction costs. In an effort to address impacts of existing and new capital projects on budgets, staff are developing concepts to address supply chain cost fluctuations in future construction contracts.

Debt Management

Increased debt requirements for growth-related infrastructure will put pressure on the Region's capacity to utilize debt for future growth and non-growth-related capital. Furthermore, increased debt reduces the Region's financial flexibility as a higher percentage of DC revenues is directed to support debt service costs. Additionally, recent rising interest rates would increase the cost of servicing any future debt.

CONCLUSION

The Region of Peel remains committed to supporting new growth, while balancing the principle that growth pays for growth, by managing the revenue and expenditure gap to ensure the Region's long-term financial sustainability.

Similar to other municipalities that provide water and wastewater services, the Region's DC capital program continues to be reliant on debt to finance critical infrastructure that is required to be emplaced prior to development.

The Region recently retained Watson and Associates to undertake a study on the Financial Sustainability of Growth in Peel. The scope of the study will focus on assessing the drivers and systemic issues associated with development charges revenues and expenditures and to provide recommendations to ensure continued financial sustainability of the Region's growth management program. The consultant will identify potential strategies to manage financial risks associated with the gap between realized revenues and growth-related infrastructure funding requirements. The study is anticipated to be completed by early 2023.

Other next steps for the Region's Growth Management Program include:

- Implement the first phase of the Business Intelligence Strategy – the Integrated Forecast Monitoring Solution – to support decision making on the prioritization of growth-related infrastructure investments;
- Continue to monitor the ongoing impacts of the COVID-19 pandemic, development activity, growth related revenue and timing of capital projects; and
- Analyze upcoming 2021 Census data releases to identify and help explain recent demographic and economic trends affecting Peel.

APPENDICES

Appendix I – Peel's Growth Management Program – 2021 Overview and Progress Report

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