
For Information

REPORT TITLE: Progress on Infrastructure Planning to Support Bill 23 Housing Targets

FROM: Kealy Dedman, Commissioner of Public Works

OBJECTIVE

To share progress on infrastructure planning since the staff presentation “Infrastructure Planning to Support Bill 23 Housing Targets” was received at the Regional Council meeting on February 23, 2023 (Resolution 2023-129) and the report “Infrastructure Planning and Requests of the Province to Support Bill 23 Housing Targets” was received at the Regional Council meeting on March 9, 2023 (Resolution 2023-182).

REPORT HIGHLIGHTS

- Bill 23 and the municipal housing pledges in Peel Region have drastically accelerated the demands on housing enabling infrastructure.
 - Region staff have responded in an unprecedented manner by implementing the tactics proposed in the staff presentation “Infrastructure Planning to Support Bill 23 Housing Targets” received on February 23, 2023.
 - A 2024 draft capital budget has been prepared that prioritizes impactful short-term projects, preliminary studies, design work and construction applicable projects while staff continue to advance the Master Servicing Plan update and Transportation Master Plan update, positioning the Region to be “shovel ready”.
 - Peel staff are pursuing alternative capital delivery models to increase capital project output over the short and long-term although the untested nature of such models may necessitate additional efforts in terms of management and may introduce additional risk.
 - Growth forecasts are crucial inputs for infrastructure planning and when forecasts change significantly, it disrupts long-term planning efforts that were based on previous projections. Master Plan updates to align with the new 2051 Regional Official Plan forecast and Bill 23 housing targets are progressing and are anticipated to be completed within 15 months.
 - Peel staff continue to work in collaboration with developers and planning staff from each local municipality to find solutions to challenging developments, including developer-driven project delivery.
 - There are risks with accelerating capital spending to support provincial housing targets carries the risk of higher debt and debt servicing costs if the anticipated high-growth scenario does not materialize or if Peel Region cannot recover costs due to development charge exemptions.
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DISCUSSION

1. Background and Action Plan

Regional Council adopted the 2051 Regional Official Plan on April 28, 2022, and the province approved it on November 4, 2022. Staff immediately began to prepare the update to current Master Plans to meet the new ROP growth forecast. The province introduced Bill 23, *More Homes Built Faster Act*, in October 2022 which received Royal Assent November 28, 2022. Bill 23 and the province's ambitious housing target significantly accelerated the demands on housing enabling infrastructure, at rates of almost two and a half (2.5) times that of the 2051 Regional Official Plan for the same period, and five (5) times that of historical growth.

On February 23, 2023, Regional Council received a staff presentation titled "Infrastructure Planning to Support Bill 23 Housing Targets" (Resolution 2023-129). The presentation was followed up with a report on March 9, 2023, titled "Infrastructure Planning and Requests of the Province to Support Bill 23 Housing Targets" (Resolution 2023-182). In the report, Staff committed to three tactics to support Bill 23 Housing Targets:

1. **Align Growth to Available Infrastructure** - Collaborate with local municipal staff to identify areas with available infrastructure capacity and short-term opportunities to advance capital projects.
2. **Update Population Growth Allocations** – Collaborate with local municipal staff to confirm population and employment growth allocations, including considerations for timing of growth and prioritizing growth areas.
3. **Complete Master Servicing Plan and Review Advancement Options** – The information from Tactic 2 above will be used to identify short-term opportunities to add new and/or advance infrastructure projects and to update the Master Plans.

Update on Action Plan

a) Ongoing Collaboration

Since February 2023, staff have been working collaboratively with local municipal planning staff. Several meetings have been held to update population growth allocations, growth timelines and to respond to development pressures. Staff have initiated preliminary and detailed servicing studies of primary Major Transit Station Areas (MTSAs) and progressed on some early deliverables of the Master Plans. The two growth scenarios, described below, are being prepared as required inputs into Master Plans and resulting capital plans:

- **Adjusted Base Growth Scenario (Scenario 1):** Adjusted 2051 Regional Official Plan growth scenario that reflects the current growth pressures and areas identified by the local municipalities as short-term priorities for growth.
- **Higher Growth Scenario (Scenario 2):** Building upon Scenario 1, it will reflect the Bill 23 housing targets supported by the local municipal housing pledges and reflect other residential and employment growth objectives of the local municipalities.

As the 2024 draft capital budget proposes to advance infrastructure studies and design to be ready to proceed to construction, Peel staff are relying on the input from local municipal staff on the proposed phasing of growth to align construction of projects with

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forecasted development. Peel Region has retained Hemson Consulting to assist with updating the scenarios above and kick off meetings have occurred each local municipality. It is critical that local municipal staff participate in this work to share local priorities and knowledge.

Staff continue to work with developers and planning staff from each local municipality to find solutions to challenging developments, including developer-driven project delivery.

Peel staff is nearing completion of the draft Front-End Financing Agreements and Development Reimbursements Policy. Potential alternate financing solutions for housing-enabling infrastructure have been identified and assessed with the assistance of Watson and Associates Economists Limited. Further consultation with the development community is being planned as part of the next steps.

b) Advancing Infrastructure Solutions - 2024 Draft Capital Budget

The 2024 draft capital budget has been developed, taking into account input received from local municipalities on priority growth areas and specific development applications. This budget not only advances projects in the current Master Plans but also introduces many new projects aimed at addressing short-term development needs. Notably, it includes substantial enhancements to local servicing in Mississauga, Brampton, and Caledon to support growth priority areas. Additionally, the budget encompasses environmental assessments, servicing feasibility studies, and engineering design projects, all in preparation for future construction. In cases where engineering designs have been finalized, construction funding has been included, either immediately or earmarked for future budget integration.

The 2024 draft capital budget will include the following key aspects in relation to Water and Wastewater servicing:

- Prioritizing impactful short-term growth-enabling infrastructure projects in all local municipalities to address growth priorities and areas where there are current development pressures not previously contemplated,
- Advancing detailed studies of infrastructure needs in priority growth areas with the goal of developing capital plans for design and construction in subsequent budget years,
- Advancing detailed engineering design work for new infrastructure in MTSA and other strategic growth areas where staff have completed detailed servicing studies,
- Advancing construction funding only for projects which can commence in 2024 and where detailed engineering design work is approaching completion,
- Continued progress on the Master Servicing Plan update including incorporating many technical recommendations in progress as part of the Master Servicing Plan. Of notable inclusion in the 2024 draft capital budget is the advancement of preliminary design for major treatment plant projects to support Bill 23 planning projections,
- Adding new projects to the capital plan where they provide alignment to growth priorities and Bill 23 municipal housing pledges, and
- Financially responsible and ensuring investment in infrastructure will consider impact of debt and overall debt servicing costs.

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c) Servicing Capital Plan Delivery Strategy & Resourcing Plan

To advance the number of capital projects included in the 2024 draft capital budget, staff have actively researched alternative capital project delivery approaches, considering additional resource needs, including enabling support services, and are currently engaging a consultant to address short-term opportunities and concepts for consideration for advancing capital project delivery. A comprehensive approach will be required to streamline project execution and ensure efficient resource allocation.

Staff have formulated the following approach for creating a capital implementation and resource strategy for servicing:

- 1. Program Management** – Staff have initiated a project aimed at evaluating program-based project delivery options. In this approach, substantial portions of the capital plan are allocated to a single consultant for execution. The assignment encompasses both active and future projects, potentially concentrated within a specific geographic area, to comprehensively address all capital needs outlined in the existing plan. Several GTA municipalities have successfully employed this program-based approach. In such cases, external project management resources are leveraged to oversee large-scale capital implementation needs, with external consultants collaborating with Peel staff to achieve a holistic delivery method. While this approach is less hands on, and has inherent risks, staff believe the option will allow for advancement of the capital plan while minimizing the additional amount of capital project management resources required.
- 2. Alternative Delivery Models** – Staff are exploring alternative capital delivery models for larger-scale treatment plant-based work, including *Progressive Design Build (PDB)* and *Integrated Project Delivery (IPD)*. PDB enables advanced project delivery by integrating project design and construction into a phased approach, facilitating an early start to capital delivery. IPD is a fully collaborative process rooted in a best-value approach to design and construction. A project team is established before a final price is determined. While the collaborative approach is gaining popularity in capital delivery, it may result in higher capital costs. Developing procurement processes will be necessary to support alternative delivery models.
- 3. Resource Plan for the Utility and Other Internal Support Services** – Subject to the recommendations of items above staff will embark on a Utility resource review, building on the momentum generated by previous reports and recommendations. This resource plan will evaluate the resources needed for planning, designing, building, operating, and maintaining the infrastructure necessary to achieve the objectives outlined in the High Growth Scenario (Scenario 2). Furthermore, the resource plan will assess the operational impacts of the capital plan, including the need for an increased number of front-line resources and heightened competencies due to the complexity of new infrastructure. The resource review will also carefully consider the internal resources required to support increased capital output including, but not limited to, Legal, Purchasing, Property Acquisition, Communications and Finance.

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2. Findings

a) Challenges

Master Plan updates are initiated each time the Region's Official Plan is updated. The Water and Wastewater Master Servicing Plan and Transportation Master Plan typically require two years to complete as they follow the Municipal Class Environmental Assessment (MCEA) process. The MCEA process requires developing and evaluating various alternatives to achieve the Official Plan approved growth forecast and new Settlement Area Boundary Expansion (SABE) lands. It also requires engaging stakeholders, including Indigenous communities and regulatory agencies, and consideration for environmental impacts.

While the Master Plan updates are underway, water, wastewater and transportation infrastructure identified in the current Master Plans will be advanced on a priority basis to support growth areas.

Infrastructure projects typically have long lead times from planning to completion. This process involves extensive phases such as design, engineering, consultation, property acquisition, permitting, and construction, often spanning several years. Moreover, infrastructure projects also require substantial financial investments. Although development charges offer a means of cost recovery, these recoveries are dependent on external factors culminating with the collection of development charges. As development related infrastructure is initially funded by development charges and/or debt, if and where growth fails to materialize as projected, the infrastructure investment becomes underutilized and debt servicing costs increase. This situation can lead to additional debt incurrence and additional operating investments to operate and maintain underutilized assets. It is also anticipated that development charge related revenues will be impacted by Bill 23 and revenue will no longer be adequate to fund growth. Alternative sources of revenue may be required.

Growth forecasts play a pivotal role in infrastructure planning. Significant changes in these forecasts can disrupt long-term infrastructure planning efforts that were originally based on different projections. Therefore, it is imperative to ensure that growth projections be well documented and agreed to in advance of infrastructure planning efforts. Also, for infrastructure investment to be effectively utilized, the timing of infrastructure must be prioritized and phased accordingly. It will be critical to continue to monitor the pace and location of development to continually adjust the timing of infrastructure provision to align with development trends.

If infrastructure does not align to priorities and phasing either (a) infrastructure is not in place to meet the growth timing or (b) infrastructure investments are underutilized leading to increased debt, debt servicing and operational costs.

Updates to the Master Plans to align with the new 2051 Regional Official Plan and accelerated housing targets introduced through Bill 23 are underway. Staff anticipate completing early recommendations of large-scale infrastructure projects within the Master Servicing Plan by the end of 2024. These projects will be considered when developing future capital budgets. In the interim, staff remain committed to working with local municipalities and developers, as outlined in this report, to find solutions that support the achievement of housing targets. Despite best efforts, challenges persist.

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Servicing challenges include:

- Development applications received in areas that were either not identified in the previous growth forecast completed in 2018 or at population densities that far exceed what was previously forecasted,
- Development applications received immediately or during preparation of the 2051 Regional Official Plan and prior to local municipalities completing their Official Plan updates and therefore infrastructure servicing plans have not yet been completed, budgeted for, and then designed and constructed,
- Minister's Zoning Orders (MZOs) which have often mandated development intensification in areas not serviced under existing infrastructure plans and budget availability,
- Debt and debt servicing costs for the accelerated capital plan
- Loss of development charge revenue may result in the need for additional funding sources to fund required infrastructure,
- Construction labour shortages, supply chain challenges and escalating inflationary costs of construction which are all likely to continue in the short-medium term,
- Coordination with local municipalities – particularly for concurrent capital plans and road improvement projects. Advancing of certain projects will potentially disrupt the synchronization of capital improvement projects,
- Coordination with other stakeholders including other utility companies and transportation agencies such as Metrolinx, Ministry of Transportation (MTO). These entities often have interconnected interests and projects that can impact or be impacted by municipal infrastructure projects.

b) Growth Trends

Careful monitoring of growth trends, with input from local municipal development applications and building permits, is essential to determine when to advance infrastructure projects. The latest trends of housing completions (Appendix I) are not meeting 2051 Regional Official Plan forecast and are well below the provincial housing target. Recent media stories suggest some builders are forecasting a reduction in housing construction.

c) 2024 Draft Capital Budget Cost Drivers

For the one-year (2024) draft capital budget, inflation and cost escalation (cost estimate increases for existing pre-tender capital projects) are significant cost drivers. Adding new and advancing capital projects to meet growth priorities accounts for most of the balance of the increase in the 2024 draft capital budget.

The draft 10-year capital plan forecast for Water and Wastewater has increased from \$7.9 billion to over \$14.5 billion and is expected to rise further once the Master Servicing Plan is updated and detailed construction estimates are developed. Property acquisition, climate change, and interdependencies with other projects will also increase servicing costs. Inflation and cost escalation are anticipated to further exasperate future budget requirements. Advancing projects to meet short-term growth priorities is estimated to cost an extra \$5.1 billion and is included in the draft 10-year infrastructure capital budget.

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The incremental cost associated with Transportation infrastructure needed to support the updated housing targets was originally estimated at \$4.1 billion and has been revised to \$4.9 billion. These costs do not include property acquisition, which is projected at an additional \$1.1 billion. Cost estimates are expected to increase based on cost escalation, and when more information is available through the Transportation Master Plan update. The Plan will identify additional projects, as well as prioritization and timing of those projects to serve increased growth. This information will inform future 10-year capital planning but is not yet available to include within the 2024 budget.

Reconciliation of Capital Estimates from the March Report

As stated in the March 9, 2023, Council report (Resolution 2023-182), the revised estimate of the infrastructure costs to achieve the new housing targets for Peel's municipalities was \$20.4 billion. This is \$11.5 billion more than the \$8.9 billion included in the approved 2023 – 2031 Ten-year Capital Plan for infrastructure servicing. The initial revised estimate was based solely on water, wastewater and transportation infrastructure costs and do not include debt servicing costs, impact of inflation, land acquisition or other soft costs.

As part of the development of the 2024 Budget and 2024 – 2033 Ten-Year Capital Plan, staff have started to refine the estimates and reflected some of the incremental costs. However, as staff work to update Master Plans, those estimates and costs will continue to evolve and be updated to fully reflect the infrastructure servicing costs needed to achieve the new housing targets for a high growth scenario. It is expected that the 10-year capital plan will increase further with the additional servicing costs.

The draft 10-year capital plan for Water and Wastewater is \$14.5 billion and for Transportation is \$2.3B for a total draft 10-year capital plan of \$16.8B. The draft 10-year capital plan does not include the following:

- A significant portion of construction funding for servicing projects which are not yet in the design phase and/or anticipated for construction phase in the short-term. Construction funding will be added in subsequent capital budgets, where applicable new projects identified through the Master Servicing Plan update – As the Master Servicing Plan is in development many projects will be added once the plan is complete and/or where sufficient progress of the plan update allows staff to identify and advance specific projects.
- The draft 10-year capital plan forecast contains early opportunities, local servicing improvements, and advancing projects which were identified in the previous 2020 Master Servicing Plan but were previously outside of the 10-year capital planning horizon. Additional local servicing projects will be added upon completion of detailed local studies planned in 2024,
- A significant portion of construction funding for servicing projects which are not yet in the design phase and/or anticipated for construction phase in the short-term. Construction funding will be added in subsequent capital budgets, where applicable,
- New projects identified through the upcoming Transportation Master Plan, currently estimated at an incremental cost of \$4.9B,
- Inflation for future projects including cost escalations which will be guided by market conditions, as they evolve,
- Property acquisition requirements,

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- Debt servicing implications, and
- Resource implications.

3. Next Steps

Considering the findings and ongoing collaboration, staff will:

- Continue working with local municipalities to finalize baseline and high growth scenarios to enable short and long-term infrastructure planning, including the Water and Wastewater Master Plan update and the Transportation Master Plan update,
- Sustain collaboration with local municipalities for information sharing, growth monitoring, and prioritization,
- Allocate resources to maintain and update the Integrated Forecast Monitoring Solution dashboard for effective growth monitoring,
- Continue collaborative efforts with developers,
- Complete interim servicing studies for priority growth areas,
- Complete the Master Plans, while incorporating early opportunities for advancement of servicing in the 2024 and subsequent capital budgets,
- Prioritize the advancement of key infrastructure projects in high growth areas where feasible, such as Queen Street in Brampton, Lakeshore Road in Mississauga, and Bolton in Caledon,
- Explore procurement strategies and approval authority to support contract flexibility necessary for the advancement of infrastructure projects required to achieve housing targets and servicing needs driven by Bill 23 and/or Municipal Zoning Orders (MZO),
- Pursue alternative front-end financing and developer driven infrastructure provided these align to growth phasing, and
- Develop a detailed capital plan delivery strategy and assess operational impacts to achieve housing pledges, subject to further direction on pursuing the high growth scenario.

RISK CONSIDERATIONS

In addition to the risk to Peel Region of providing infrastructure there is also a risk associated with Peel Region dissolution that has introduced uncertainty and is expected to lead to staff vacancies, potentially impacting capacity to execute the capital plan effectively. Furthermore, the untested nature of alternative capital project delivery models may necessitate additional efforts in terms of management and implementation.

Ensuring that an accelerated capital program continues to align with local municipal capital work will require significant effort and the need for monitoring and coordination of growth with infrastructure planning continues to be more important than in the past. Moreover, extensive, and long-duration capital construction projects are likely to result in increased traffic disruptions and congestion affecting both local and goods movement travel across the Region.

Accelerating capital spending to support provincial housing targets carries the risk of higher debt and debt servicing costs if the anticipated high-growth scenario does not materialize or if Peel Region cannot recover costs due to development charge exemptions. It is important to note that Peel Region and local municipalities do not have control over housing construction, as market

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forces such as rising mortgage interest rates and the threat of economic recession can affect housing demand.

To address these challenges, staff is prioritizing impactful short-term projects, preliminary studies, and engineering design work. This approach is financially responsible and positions Peel Region to be “shovel ready” for a high-growth trend. However, not all budget components are included to support servicing infrastructure construction, unless projects are expected to be ready for construction tenders in 2024. Construction funding is expected to increase capital budget needs in future budget years.

It is also important to acknowledge that factors such as Minister’s Zoning Orders (MZOs), Ontario Land Tribunal decisions, and provincial legislative or policy changes can alter growth priorities, potentially disrupting long-term infrastructure planning efforts. Maintaining flexibility and adaptability in response to these external influences is crucial.

BILL 112 RISKS AND IMPLICATIONS

On May 18, 2023, the Province introduced Bill 112, the *Hazel McCallion Act (Peel Dissolution)*, 2023 that will dissolve Peel Region and make the Cities of Brampton and Mississauga and the Town of Caledon single-tier municipalities, effective January 1, 2025. The proposed legislation provides for the establishment of a Transition Board to make recommendations on implementing the restructuring. Details of the transition including matters as they relate to Regional roles and responsibilities are not known at this time and will be addressed in future reporting to Regional Council. Bill 112 has introduced risk to the Region’s borrowing program due to the significant uncertainty post-dissolution. Investors and credit rating agencies are awaiting further details on the transition. Until such time that these details are provided, it will be difficult for the Region to access the capital markets for its borrowing needs, the lowest cost borrowing option available. Staff are exploring alternative financing options to support the Region’s needs during the transition period. Additional assessment to support the transition under Bill 112 will be provided as further details become known.

FINANCIAL IMPLICATIONS

As mentioned earlier in the report, the infrastructure projects needed to support the accelerated housing growth will require substantial financial investments. Development charges are typically the main funding source for growth-related infrastructure. As there is a lag between the infrastructure investments needed and the actual receipt of development charges, Peel has historically issued debt to cash flow the timing difference. This situation can lead to additional debt incurrence and additional operating investments to operate and maintain underutilized assets. As mentioned in the “Bill 112 Risks and Implications” section, Peel’s borrowing program is facing new challenges and risks as a result of Bill 112.

Looking ahead to 2024, the 2024 draft capital budget has been developed based on the best available growth and planning information. It represents an exceptionally ambitious approach to capital project planning and budgeting, all within a very short timeframe. Staff have dedicated significant time and effort since March to assess priority growth areas and advance a plan to meet the initial targets of the Bill 23 municipal pledges.

The proposed 10-year capital budget for 2024-2033 does not yet include all the construction funding required for servicing. The allocation of construction funding will be determined once

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the engineering design work is completed, property acquisition is finalized, and the impacts on water and wastewater operations and maintenance to support the high-growth forecast is assessed. Additionally, resource requirements, including internal support services, will be subject to further evaluation upon completion of the Master Servicing Plan and the development of a long-term study for capital delivery.

CONCLUSION

This report summarizes ongoing efforts, challenges, and proposed strategies for infrastructure planning. Staff remain committed to addressing the dynamic needs of our local municipalities and ensuring sustainable growth and development.

APPENDICES

Appendix I – Historical Housing Completions



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