Clause 7 in Report No. 18 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on December 14, 2017.

7

2018 Regional Fiscal Strategy

Committee of the Whole recommends adoption of the following recommendations contained in the report dated November 22, 2017 from the Commissioner of Finance:

It is recommended that Council:

1. Adopt the updated fiscal strategy outlined in this report.
2. Affirm the 2018 Long-Term Debt Management Plan shown as Attachment 1 to this report.
3. Amend the purpose of the following reserve funds to clarify that:
   a. The Tax Stabilization Reserve is to fund unforeseeable one-time expenditures
   b. The Fiscal Stabilization Reserve is to fund temporary revenue shortfalls
4. Discontinue the following reserve funds:
   a. The Social Assistance Reserve, with the balance transferred to the:
      i. Regionally Owned Housing Reserve - $16.1 million;
      ii. Tax Stabilization Reserve - $6.0 million;
      iii. Facilities Rehabilitation and Replacement Reserve - $1.0 million; and
      iv. Non-Profit Housing Capital Repairs and Maintenance Reserve for any remaining balance
   b. The Alternative Community Living Reserve, with the remaining balance transferred to the Facilities Rehabilitation and Replacement Reserve
   c. The Insurance Claims and Certificate System Reserve, with the remaining balance transferred to the Insurance Reserve

5. Amend the Reserve and Reserve Fund Policy so that:

   a. Starting in 2018, the allocation of the annual operating surpluses will be made to reserves and reserve funds that are below their funding targets in the following order:

      i. First to the Working Capital Reserve

      ii. Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, the Workers' Compensation Reserve and the Insurance Reserve

      iii. Then to the General Capital Reserve

      iv. Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions

      v. Then any remaining funds to the Debt Reduction Reserve.

      Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

   b. The Commissioner of Finance will have the authority to rebalance reserves and reserve funds within the same funding sources as he/she deems necessary.

6. Establish an Infrastructure Reserve Fund – Police, to help fund the tax levy component of new capital projects as well as the rehabilitation and replacement of police assets, to be funded from annual budget appropriations.

7. Establish a credit facility, up to a maximum outstanding of $26.5 million, to help fund York Telecom Network's capital projects that have been approved through the 10-year Capital Plan, to be drawn from the General Capital Reserve and repaid with interest in accordance with terms and conditions set out by the Commissioner of Finance.

8. Authorize the Regional Solicitor to prepare, amend and/or repeal the necessary bylaws.

Report dated November 21, 2017 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that Council:

1. Adopt the updated fiscal strategy outlined in this report.
2. Affirm the 2018 Long-Term Debt Management Plan shown as Attachment 1 to this report.
3. Amend the purpose of the following reserve funds to clarify that:
    a. The Tax Stabilization Reserve is to fund unforeseeable one-time expenditures
    b. The Fiscal Stabilization Reserve is to fund temporary revenue shortfalls
4. Discontinue the following reserve funds:
    a. The Social Assistance Reserve, with the balance transferred to the:
        i. Regionally Owned Housing Reserve - $16.1 million;
        ii. Tax Stabilization Reserve - $6.0 million;
        iii. Facilities Rehabilitation and Replacement Reserve - $1.0 million; and
        iv. Non-Profit Housing Capital Repairs and Maintenance Reserve for any remaining balance
    b. The Alternative Community Living Reserve, with the remaining balance transferred to the Facilities Rehabilitation and Replacement Reserve
    c. The Insurance Claims and Certificate System Reserve, with the remaining balance transferred to the Insurance Reserve
5. Amend the Reserve and Reserve Fund Policy so that:
    a. Starting in 2018, the allocation of the annual operating surpluses will be made to reserves and reserve funds that are below their funding targets in the following order:
        i. First to the Working Capital Reserve

ii. Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, the Workers' Compensation Reserve and the Insurance Reserve

iii. Then to the General Capital Reserve

iv. Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions

v. Then any remaining funds to the Debt Reduction Reserve.

Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

b. The Commissioner of Finance will have the authority to rebalance reserves and reserve funds within the same funding sources as he/she deems necessary.

6. Establish an Infrastructure Reserve Fund – Police, to help fund the tax levy component of new capital projects as well as the rehabilitation and replacement of police assets, to be funded from annual budget appropriations.

7. Establish a credit facility, up to a maximum outstanding of $26.5 million, to help fund York Telecom Network's capital projects that have been approved through the 10-year Capital Plan, to be drawn from the General Capital Reserve and repaid with interest in accordance with terms and conditions set out by the Commissioner of Finance.

8. Authorize the Regional Solicitor to prepare, amend and/or repeal the necessary bylaws.

2. Purpose

This report updates and reports on the 2018 Fiscal Strategy, whose principles guided staff in the preparation of the 2018 Budget.

This report also seeks adoption of the 2018 Long-Term Debt Management Plan to allow the Region to access a growth-related cost supplement for its Annual Repayment Limit (ARL).

Finally, this report seeks approval for amendments to the Reserve and Reserve Fund Policy as well as a number of reserve bylaws.

3. Background and Previous Council Direction

Council has had a formal fiscal strategy since 2014

In 2014, Council adopted the first fiscal strategy, which is updated annually as part of the budget. The current fiscal strategy was adopted by Council on December 15, 2016. The extract of this report can be found in Clause 6 in Report No. 19 of the Committee of the Whole.

The fiscal strategy provides the framework for managing the integration of the Region's capital plan, reserves and the use of debt

The fiscal strategy uses three pillars to achieve financial sustainability while striking a balance between the current and the long-term needs of the Region. The three pillars are described in this report and shown in Figure 1.

Figure 1: Pillars of the Fiscal Strategy

Manage the capital plan

Save for the future

Reduce reliance on debt

4. Analysis and Implications

First Pillar of the Fiscal Strategy - Managing the Capital Plan

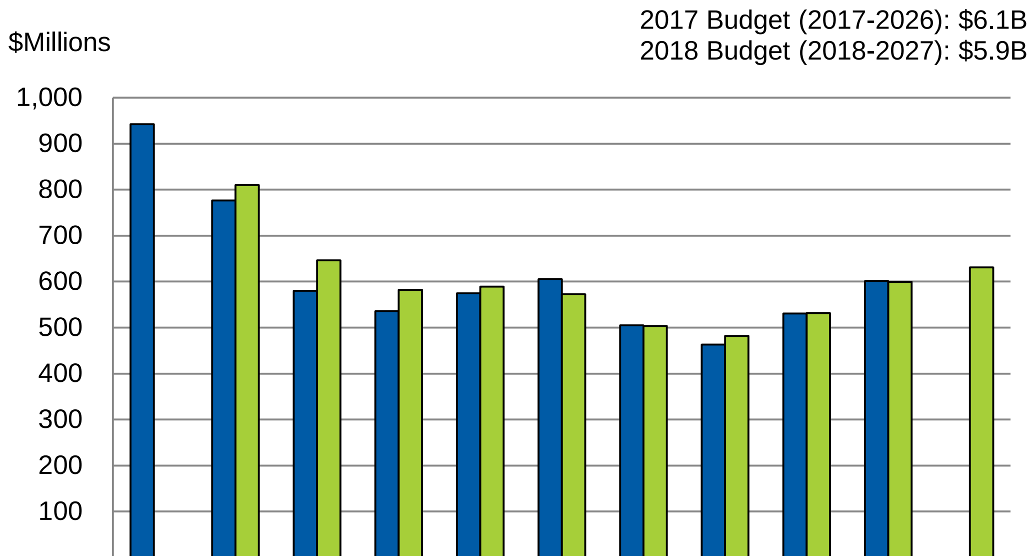
Infrastructure investment needs to match the pace of growth and associated development charge collections

Prudent management of the capital plan involves delivering infrastructure as needed while using available funding sources efficiently and reducing reliance on debt. The 2018 Budget continues with the strategy of aligning the timing of projects with the expected timing of growth and associated development charge collections. It also protects planning and development work for previously deferred projects to ensure they are construction-ready should growth pick up.

The Ten-Year Capital Plan is similar to last year

At $5.9 billion, the proposed ten-year capital plan is similar in size to last year, as shown in Graph 1. The Region's ten-year capital plan is still one of the highest among the 905 regions, as shown in Graph 2.

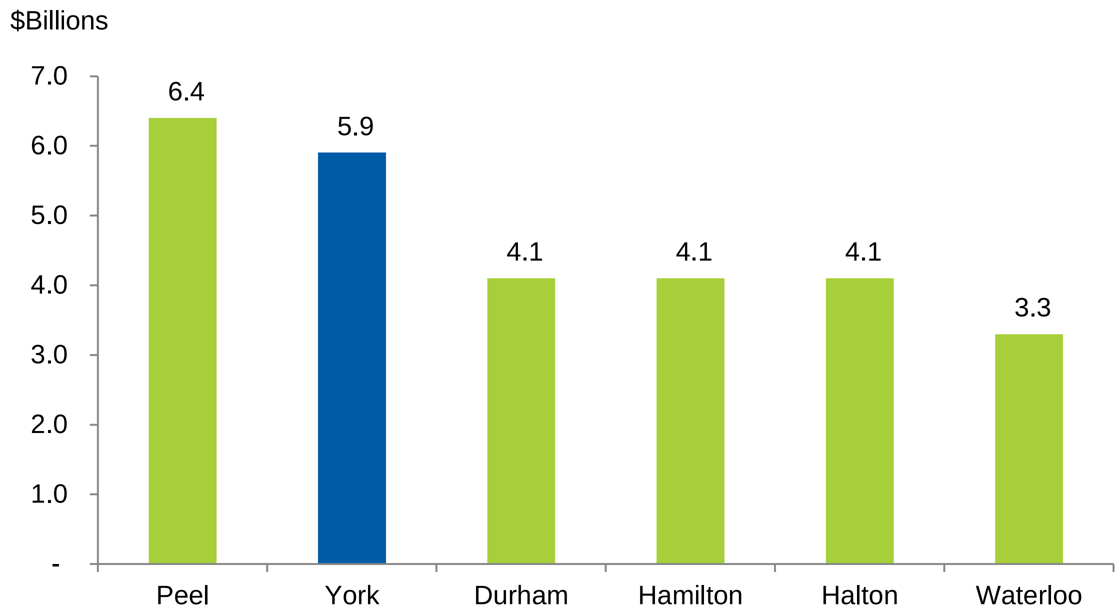
Graph 1: Ten-Year Capital Plan Comparison
2017 Budget compared to 2018 Proposed Budget



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
2017 Budget	942	777	580	536	574	605	505	463	531	601	-
2018 Budget	-	810	646	582	589	572	504	482	531	600	631

Source: York Region Finance Department

Graph 2: Comparison of Ten-year Capital Plans for the 905 Regions and Selected Others



Source: York Region Finance Department. This chart shows York's 2018 proposed 10-year capital plan and the 2017 capital plans for other municipalities.

Second Pillar of the Fiscal Strategy - Save for the Future

The second pillar of the fiscal strategy focuses on long-term stewardship by saving for the future. The Region contributes to three different types of reserves to accomplish this goal – the Debt Reduction Reserve, the tax-supported asset replacement reserves and the water and wastewater capital asset replacement reserves.

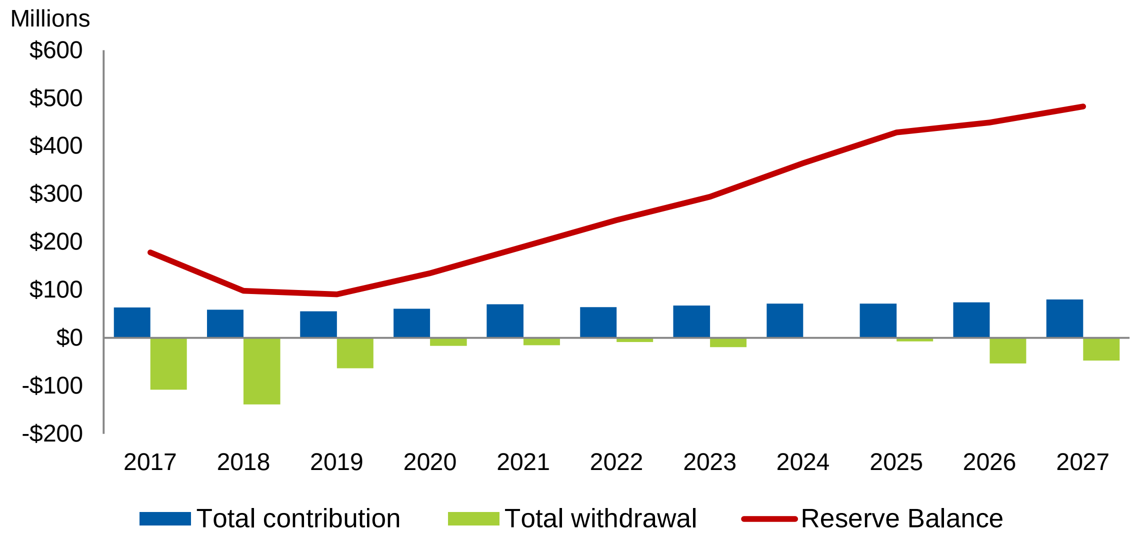
Contributions to the Debt Reduction Reserve have eliminated the need for future tax levy debt

As part of the 2014 Budget, a Debt Reduction Reserve was created to reduce or eliminate debt that was previously approved to be funded through the tax levy.

This reserve is funded by a number of different mechanisms including an annual corporate contribution of $11.8 million, contributions based on the savings from avoided debt, 50 per cent of supplementary tax revenue, and an annual allocation from the operating surplus (if available).

Through the use of the Debt Reduction Reserve, the Region expects to avoid issuing any new tax levy debt for at least the next 10 years. Graph 3 shows the transactions and reserve balances in the Debt Reduction Reserve.

Graph 3: Growth in the Debt Reduction Reserve



Source: York Region Finance Department

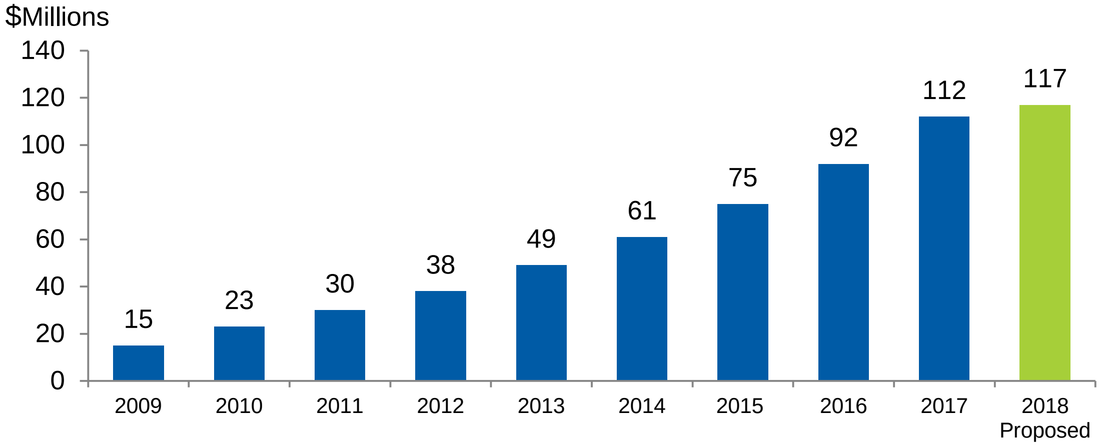
The Region continues to save for future asset replacement

The 2018 Budget continues to set money aside for future asset replacement, which ensures that reserves, rather than debt, will be available to fund this type of infrastructure when needed.

In 2013, Council approved increases to the annual tax levy contribution to the capital asset replacement reserves. The annual increase in the contribution to these reserves was initially one per cent of the prior year's tax levy. This increased each year until it reached two per cent of the prior year's tax levy in 2017. For the 2018 Budget, a 4.2 per cent increase over the prior year's contribution, totalling $117 million, has been included.

Graph 4 shows the contributions to the asset replacement reserves since 2009.

Graph 4: Rising Contributions to Tax Levy Supported Asset Replacement Reserves



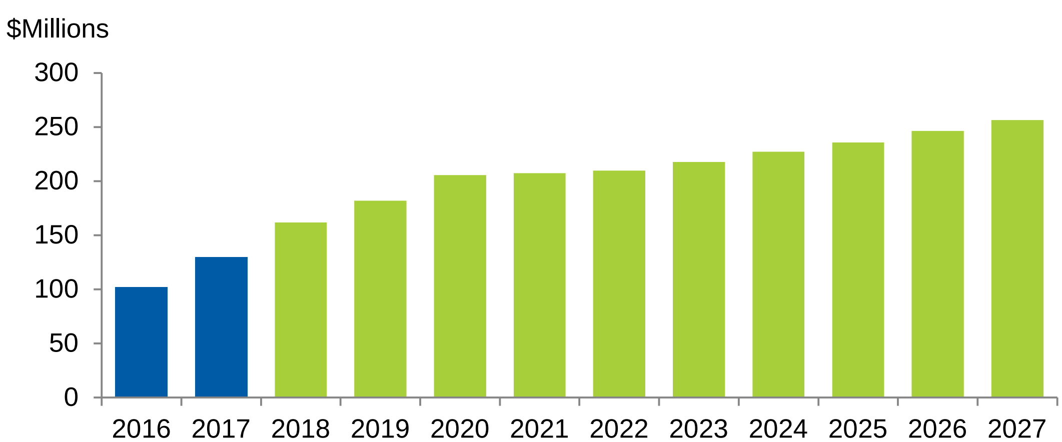
Source: York Region Finance Department

Full cost recovery user rates will build reserves to fund future water and wastewater capital rehabilitation and replacement

In October 2015, Council approved six years of rate increases in order to achieve full cost recovery for water and waste water rehabilitation by 2021. This will enable the reserves to fund all future rehabilitation and replacement requirements without the need to issue any new user rate debt and without any impact to the tax levy.

Graph 5 shows the projected annual contributions to the water and wastewater capital asset replacement reserves.

Graph 5: Contribution to Water and Wastewater Capital Asset Replacement Reserves



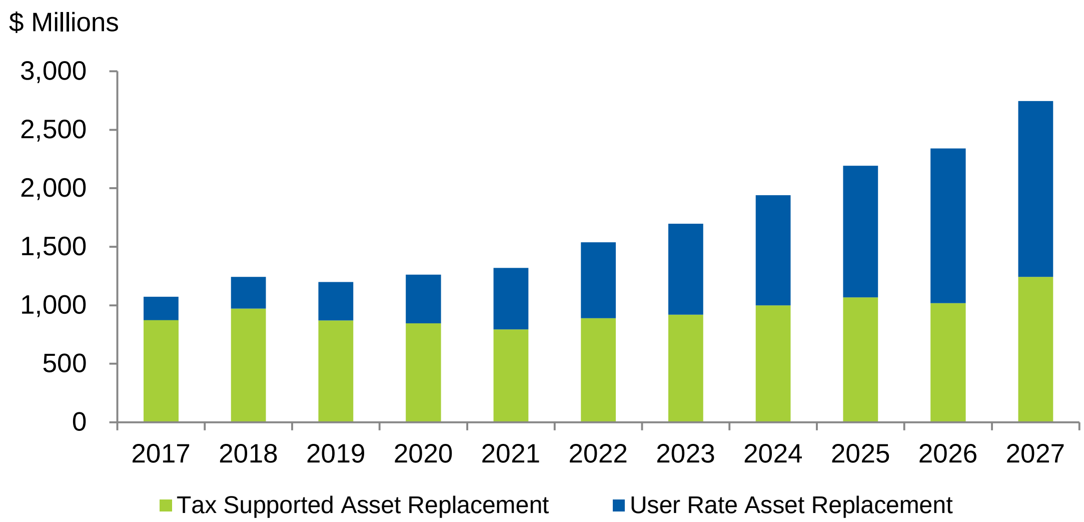
Source: York Region Finance Department

Asset replacement reserves continue to grow

Graph 6 shows the potential growth of the capital asset replacement reserves over the ten-year forecast period.

Starting with the 2018 Budget, the reserve forecast reflects potential draws for asset management needs that have been based on preliminary asset management plans. Over the next ten years, staff estimate that draws may be needed of up to $1.2 billion over and above what is in the current capital plan to fund asset management needs. These draws have not been included in the proposed 2018 Capital Plan but will be refined and incorporated into the 2019 Budget.

Graph 6: Growth in Capital Asset Replacement Reserve Balances



Source: York Region Finance Department

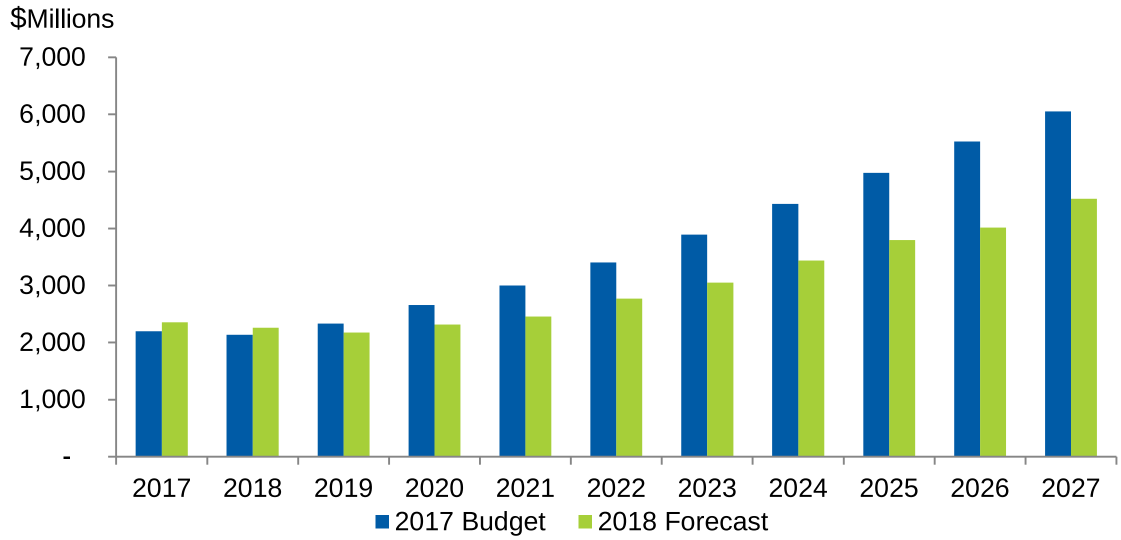
Total reserves are expected to grow moderately and reach $4.5 billion by 2027

The appropriate use of reserves is a key element of the fiscal strategy as they, provide flexibility for unanticipated expenditures, allow for the replacement of assets without major impacts on the tax levy, and supply funds for new major capital assets. As well, because the Region's reserves consist of cash and cash-equivalent assets, they promote investor confidence.

As part of its fiscal strategy, York Region continues to maintain and build reserves, with a focus on saving for asset replacement and debt reduction. Graph 7 shows the expected reserve projection in which total reserves could grow to approximately $4.5 billion by 2027. The major difference between the

2017 Budget and the 2018 Budget projection is the inclusion of the additional draws needed to fund future asset management requirements, as discussed above.

Graph 7: Total Reserve forecast

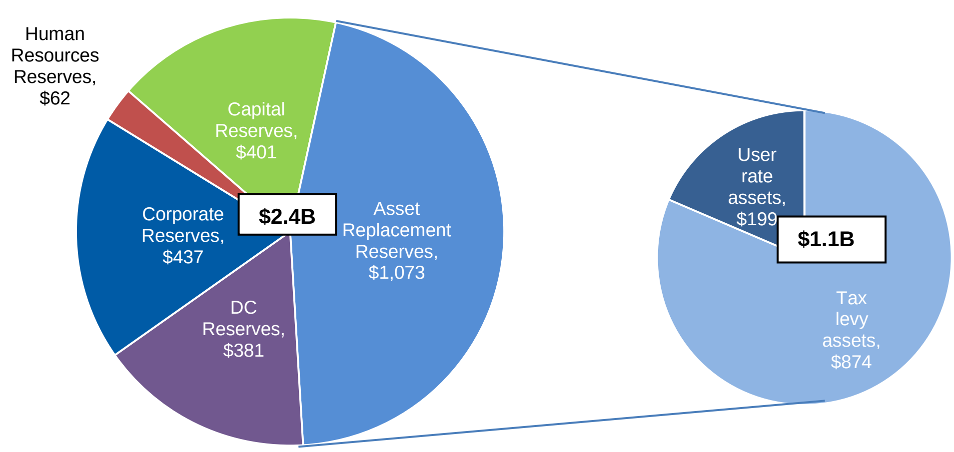


Source: York Region Finance Department

Note: 2018 forecasted reserve balances include a preliminary estimate for asset management draws above the current capital plan.

Graph 8 shows the estimated composition of the Region's reserves as at December 31, 2017, which include over $1,073 million for asset replacement.

Graph 8: Composition of Reserves as at December 31, 2017 ($Millions)



Source: York Region Finance Department

Third Pillar of the Fiscal Strategy - Reduce Reliance on Debt

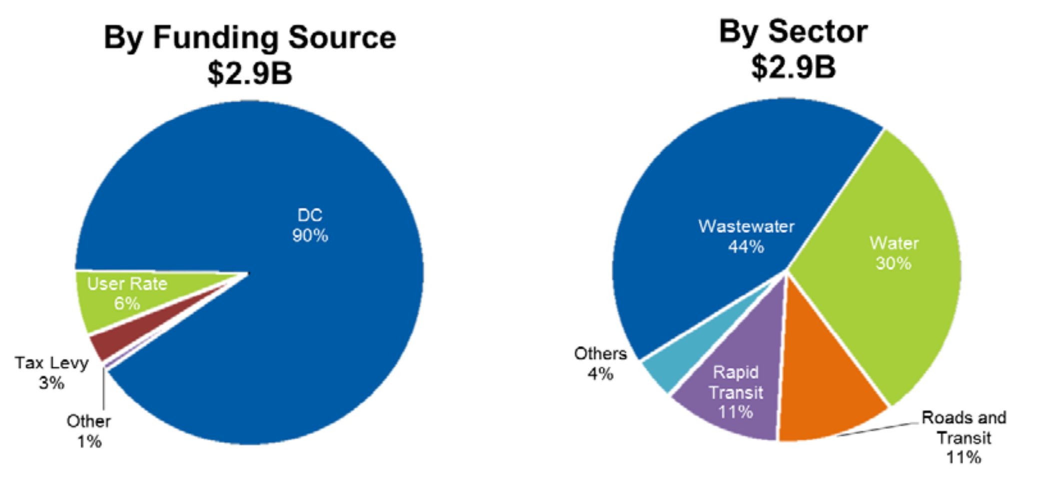
The third pillar of the fiscal strategy focuses on reducing the reliance on debt, especially debt issued to finance growth-related capital.

Reducing borrowing needs is a way to manage the risk that growth may be slower than expected, since the Region is committed to servicing its debt whether or not growth occurs. It also preserves fiscal flexibility by keeping interest costs down relative to own-source revenue.

Most of the outstanding debt is for growth-related infrastructure and will be funded with development charges

Most of the Region's infrastructure investment has been driven by the need to service growth. Building new infrastructure, such as water and wastewater assets, often requires investments in advance of future needs. In these instances, the Region must rely on debt financing, which will be mainly repaid from development charge collections as growth takes place. As shown in Graph 9, approximately 90 per cent of the outstanding debt at the end of 2017 is growth related and funded by development charges, making the matching of planned growth-related capital expenditure to actual growth very important.

Graph 9: Outstanding Net Debt – York Region as at December 31, 2017



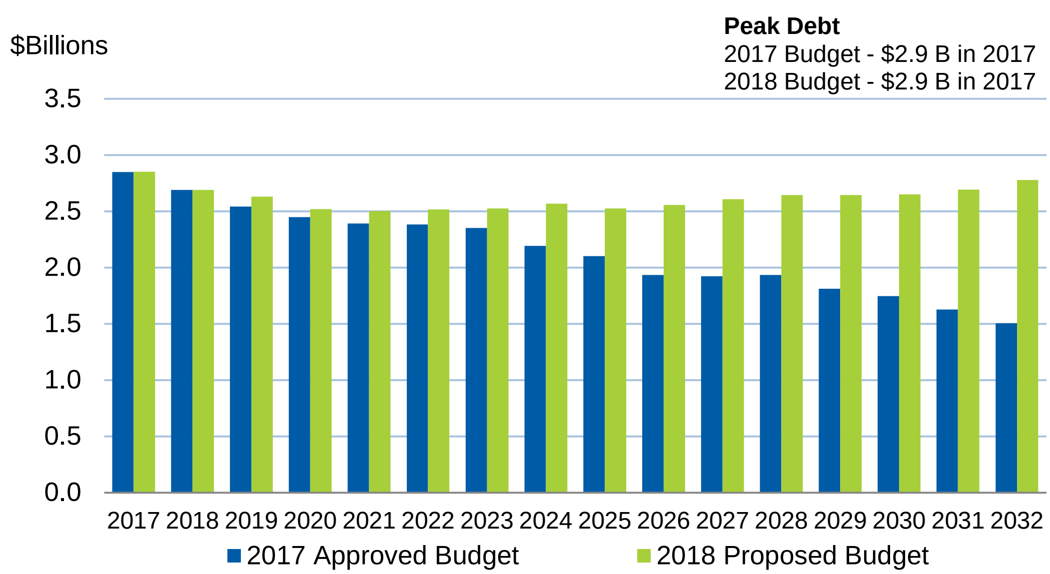
Note: Outstanding debt is an estimate and subject to change as part of year-end adjustments.
Source: York Region Finance Department

Projected debt levels have come down substantially over the last three years

Prior to the 2014 Fiscal Strategy, the Region's peak outstanding debt was anticipated to be over $5.0 billion by 2020. However, as a result of the measures taken over the last four budget cycles, the total net outstanding debt is now expected to peak at $2.9 billion in 2017.

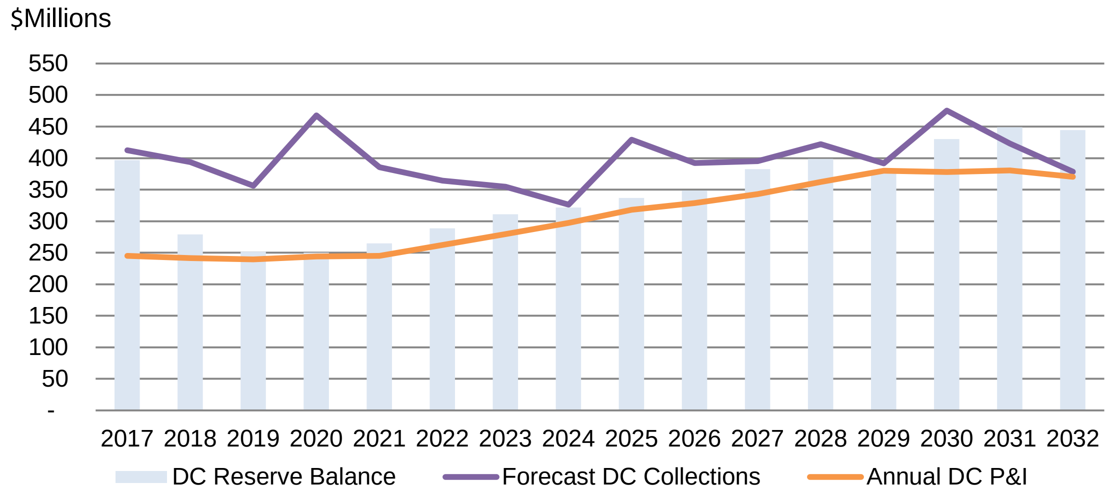
Based on the current version of the 2017 Development Charges Bylaw, collections over the next 15 years are expected to be $5.9 billion. This forecast produces a debt profile that peaks at $2.9 billion in 2017, and then declines, but rises steadily from 2022 onwards resulting from reduced forecasted development charge collections. Graph 10 shows the resulting debt projection. Graph 11 shows the development charge principal and interest and the Development Charge Reserve forecast balance resulting from this scenario.

Graph 10: Outstanding Net Debt Projection by Year (with $5.9 billion DC Collections)



Source: York Region Finance Department

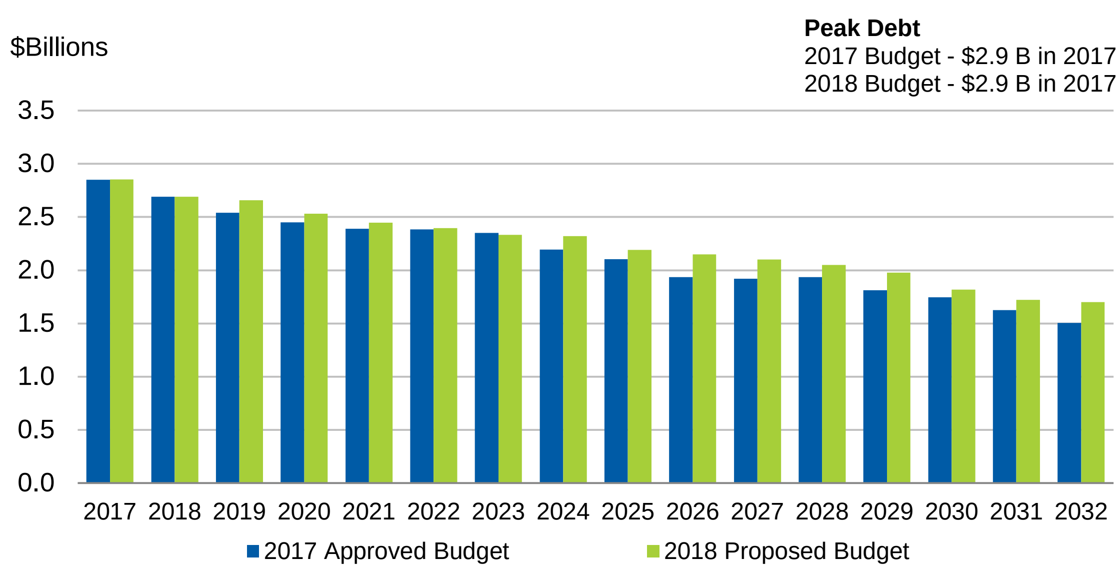
Graph 11: Development Charge P&I and Forecasted DC Reserve balance (with $5.9 billion DC Collections)



Source: York Region Finance Department

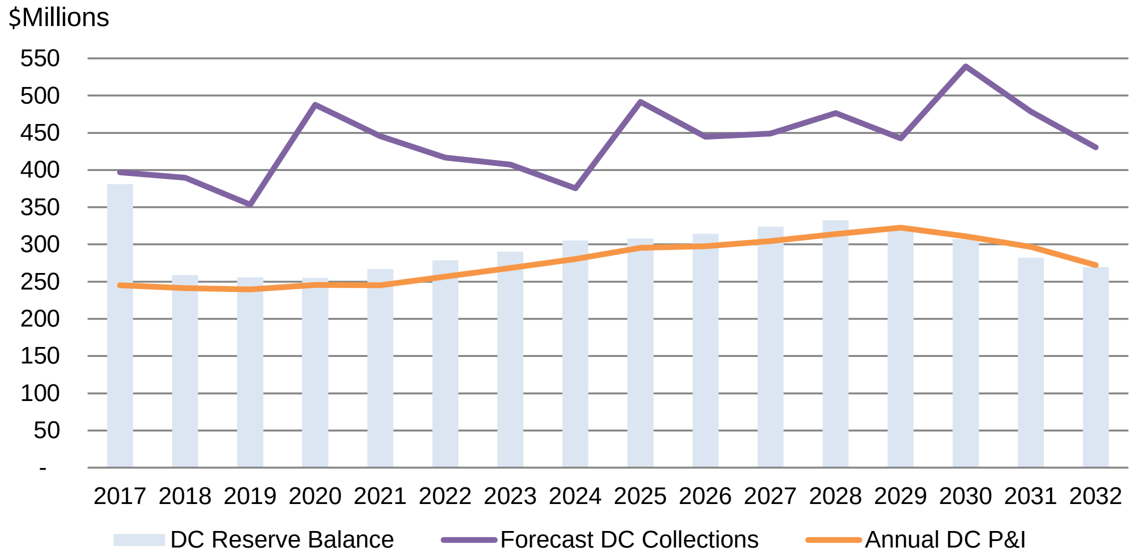
However, if Council approves an amendment to the 2017 Development Charge Bylaw in 2018 which adds the projects on Contingency List “B”, then development charge collections are forecast to be $6.6 billion over a 15-year horizon. The resulting debt profile is very similar to the 2017 Budget, which peaks at $2.9 billion in 2017 but then slopes downward thereafter as shown in Graph 12.

Graph 12: Outstanding Net Debt Projection by Year (with $6.6 billion DC Collections)



Source: York Region Finance Department

Graph 13: Development Charge P&I and Forecasted DC Reserve balance (with $6.6 billion DC Collections)



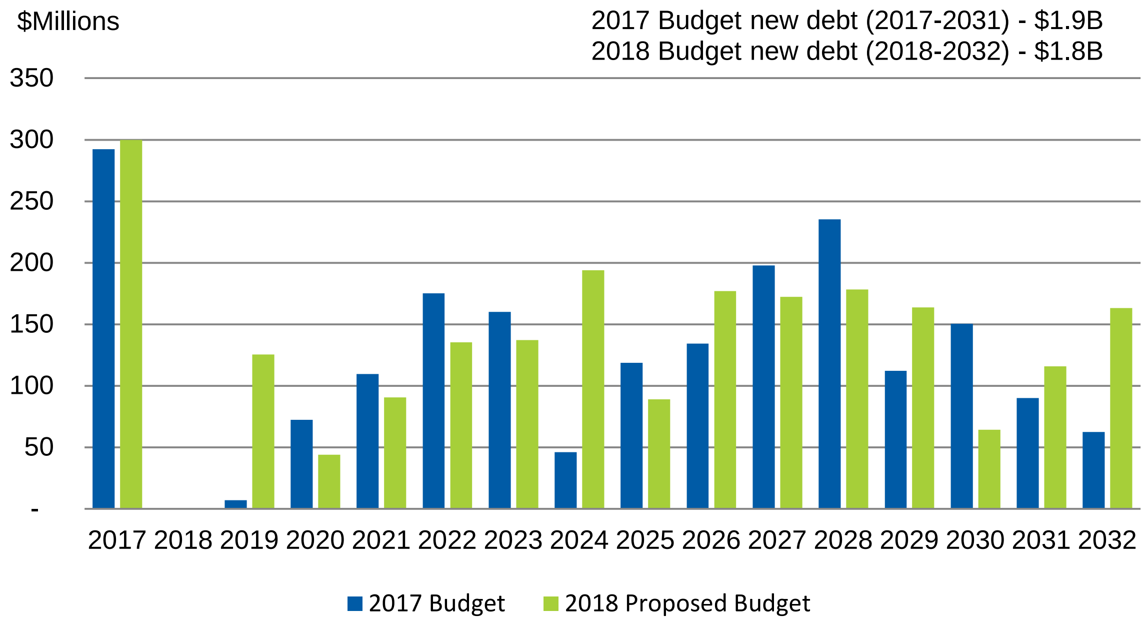
The fiscal strategy strives to reduce the need for future development charge debt

Since the 2014 Budget, the need for future development charge debt has been reduced by better matching growth-related capital with the forecast of development charge collections. The development charge reserves are used to fund projects as much as possible, while preserving liquidity levels.

The 2018 ten-year capital plan projects the need to issue $1.8 billion of new debt, which is a decrease of $0.1 billion compared to the $1.9 billion of new debt that was expected in the 2017 Budget, as shown in Graph 14.

As illustrated below, no new debt is planned to be issued during 2018.

Graph 14: New Debt to be Issued 2017 Budget compared to 2018 Proposed Budget with (with $6.6 billion DC Collections)



Source: York Region Finance Department

Debt is highly sensitive to development charge collections and capital spending

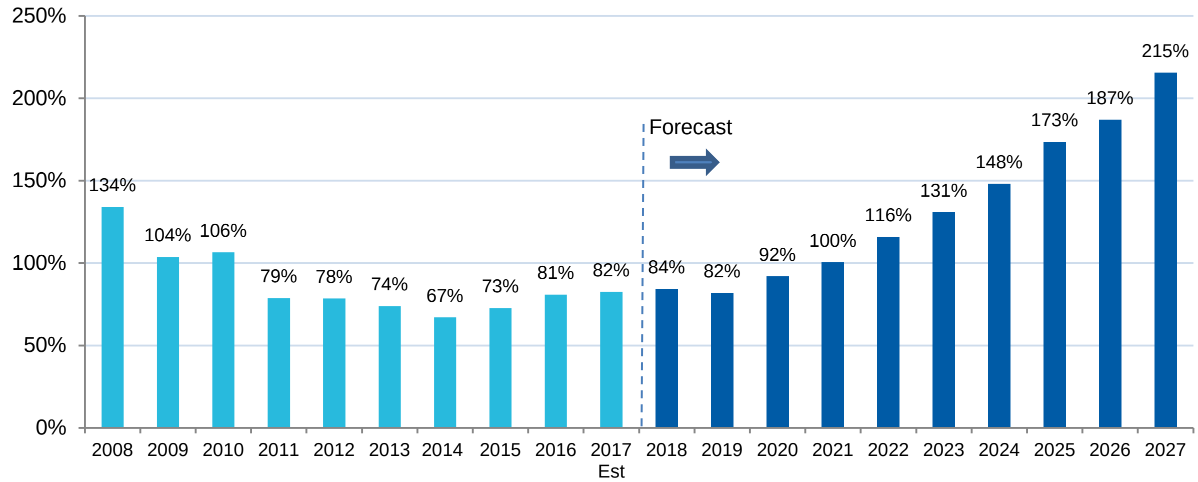
Over the long term, development charges fund growth capital projects, but debt is often required to fund infrastructure in advance of growth. Any unexpected shortfalls in development charges automatically places pressure on how much debt the Region needs. A reduction in development charge collections may require capital deferrals.

York Region is on track to become a net investor by 2021

Assuming that Council approves the amendment to the 2017 Development Charge Bylaw, peak debt will remain $2.9 billion in 2017. Also, York Region will see a significant improvement in its ratio of reserves to debt.

In the 2017 Fiscal Strategy, the Region was expected to be a net investor by 2020, however the current forecast now indicates that the target will be achieved one year later, in 2021. This change is due to the inclusion of the estimated additional capital spending needed for asset management. The current forecast is shown on Graph 15.

Graph 15: Reserves to Debt Ratios



Source: York Region Finance Department

The Development Charge Collection Forecast

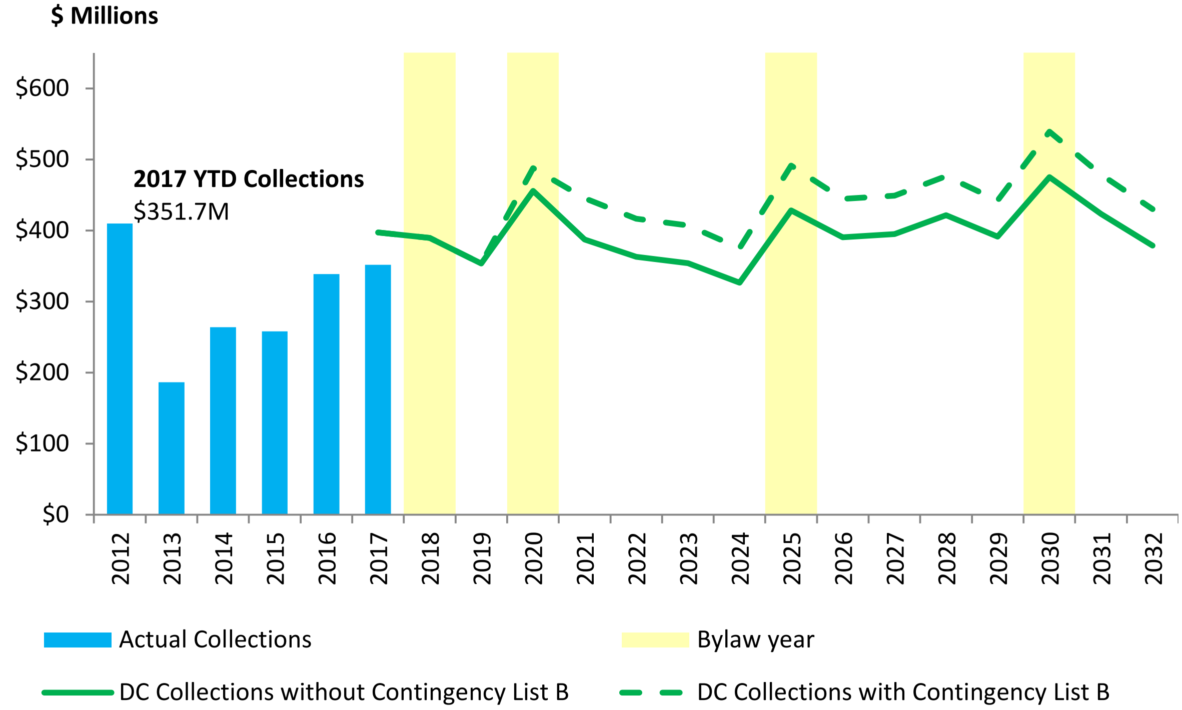
Staff have developed two scenarios for future development charge collections

When Council adopted the 2017 Development Charge Bylaw in May 2017, it also directed staff to bring back a potential amendment during the first quarter of 2018 that would add the cost of all of the roads projects in “Part B” of the Contingency Schedule to the bylaw. In total, these projects have a gross cost of approximately $1.49 billion of which approximately $1.35 billion would be eligible for recovery through development charges.

Adding these projects to the rate calculation could increase the development charge on a single and semi-detached home by approximately $9,000, or about a 19 per cent increase from the current rate.

For the purpose of developing the 2018 Budget, staff created two development charge collection forecasts (Graph 16). The first scenario assumes status quo and that the development charge bylaw would not be amended in 2018. The second scenario includes the effect of adding the Contingency List B projects into the rate calculation, which would result in higher development charge collections over the forecast period.

Graph 16: Actual and Forecast Development Charge Collections



Note: 2017 Historic Actual Collection is year to date as of October 31st, 2017
Source: York Region Finance Department

The Contingency List B collection forecast is approximately $400 million higher over the next 10 years and $700 million higher over the next 15 years than the scenario without these projects (Table 1).

Table 1
Comparison of Development Charge Collection Forecasts

($ Billions)	10-year DC Collections (2018-2027)	15-year DC Collections (2018-2032)
2017 Budget	4.2	6.4
2018 Budget – Excluding Contingency List B	3.8	5.9
2018 Budget – Including Contingency List B	4.3	6.6

While the eligible cost for these projects is approximately $1.35 billion, staff are forecasting that a lower amount would be recovered during this period due to three major assumptions.

First, it was assumed that the projects on Contingency List B could be subject to a high post period benefit deduction. This assumption has the effect of delaying the recovery of some costs to a future period. Second, the forecast has been reduced to reflect the impact of statutory and non-statutory exemptions which limit the Region's ability to fully recover eligible costs. Third, staff are using a more conservative growth projection when forecasting development charge collections for the 2018 Budget than what was used for the 2017 Development Charge Background Study.

The development charge collections forecast is highly dependent on the growth assumptions

The Provincial Growth Plan establishes both the population and employment growth targets for York Region's Official Plan. Both of its infrastructure Master Plans, which estimate the need for infrastructure projects, and the development charge background study, which helps fund infrastructure, are consistent with these targets.

However, since 2012 York Region's actual residential and non-residential development has been consistently lower than what was envisaged by the Growth Plan, especially for non-residential development. (The Ministry of Finance's annual population projection for York Region to 2041 is also currently below Growth Plan Amendment II population targets for the same period.)

As the development charge collections forecast is highly dependent on the growth assumptions being used, staff used a more conservative growth forecast when preparing the 2018 Budget to help reduce financial risk including the need to incur unanticipated debt and/or defer capital projects.

Staff are expecting robust growth in the short term and a gradual decline over the medium and long term

Both development charge collection forecast scenarios used for the 2018 Budget were based on the same underlying growth forecasts.

In the near term (2017 to 2020), housing starts are expected to average approximately 9,700 units per year. This level of housing starts is significant higher than what the Region experienced from 2012 to 2016, when housing starts averaged 8,800 units per year. The uptick in near-term unit growth forecast driven largely by robust growth in apartment starts.

Over the medium and long-term (2021 to 2037), the residential forecast is slightly less than the 2017 Budget forecast. This change is due in part to the Ontario Ministry of Finance demographic forecast released in Spring 2017, which took into consideration the latest demographic trends and envisaged a lower level of overall population growth to 2031 for York Region compared to the Provincial Growth Plan forecast.

The non-residential gross floor area forecast was revised downward compared to the 2017 Budget forecast. This change reflects the observed trend towards greater office intensification, which reduces the need for new floor space. The reduction is also informed by the Spring 2017 Ministry of Finance demographic forecast which projected lower levels of growth among working age population compared to the Provincial Growth Plan forecast.

York Region Credit Rating

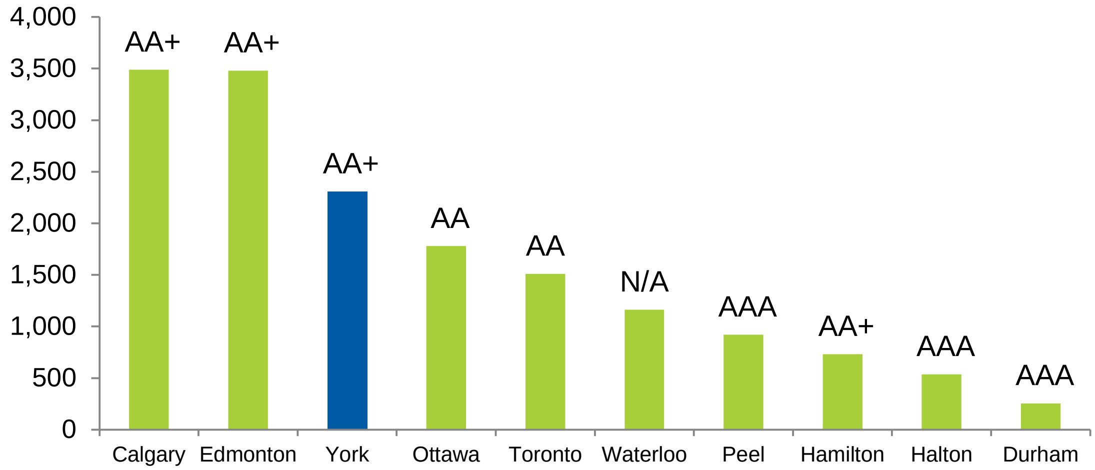
In 2017, both rating agencies reaffirmed York Region’s credit ratings (Moody’s Aaa/Stable and S&P AA+/Stable)

In 2017, both Moody's Investors Service (Moody’s) and S&P Global Ratings (S&P) reaffirmed their credit rating for York Region supported by:

- A high level of cash and investments
- Prudent and far-sighted fiscal management
- A track record of positive operating outcomes
- Its diversified and expanding economy
- Considerable budgetary flexibility

However, both Moody’s and S&P have expressed concern about the Region’s high debt burden, especially relative to other rated Canadian municipalities. Graph 17 illustrates York’s debt-per-capita and S&P credit rating relative to its peers. The debt-per-capita ratio is one of the metrics used by rating agencies when evaluating exposure to economic downturns.

Graph 17: Debt Per Capita in 2016 ($)



Source: Financial Information Returns and Municipal Financial Statements (Edmonton and Calgary)

In particular, Moody's and S&P identified three factors that could lead to a future downgrade:

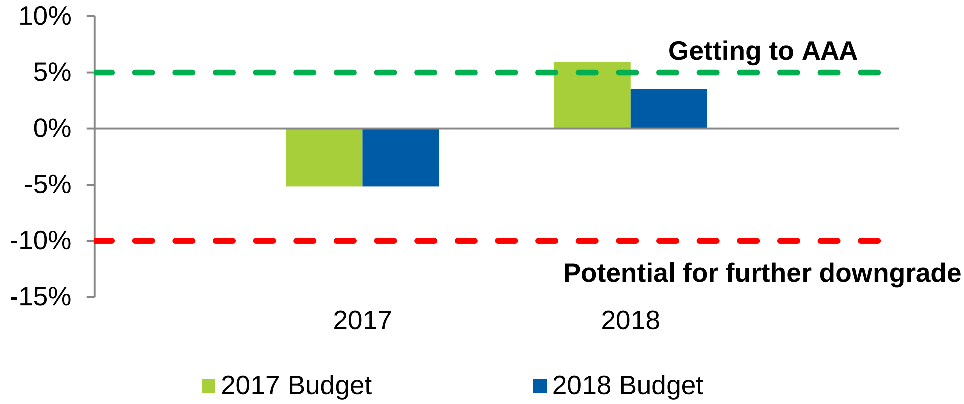
- an increase in debt issuances beyond current expectations
- a decrease in the level of cash and investments
- if York Region generated lower-than-expected revenue resulting in much weaker operating balances

The Region continues on the path to a Triple A credit rating

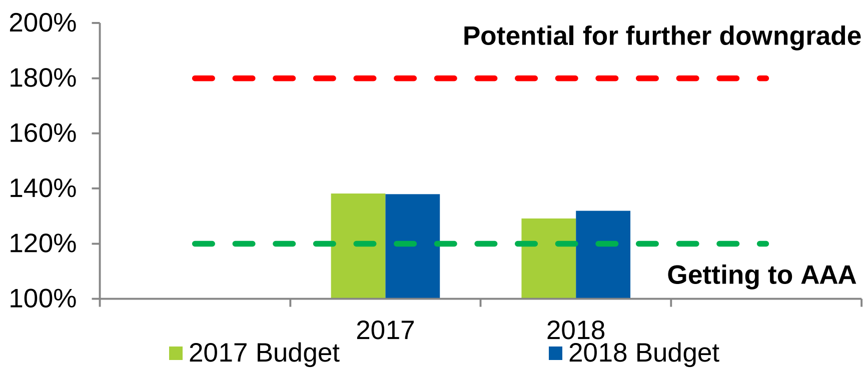
To regain a triple A rating, the Region must closely monitor its capital plan and endeavour to keep to its current debt plan, which forecast an overall decrease in net debt. The 2018 Fiscal Strategy will demonstrate to the credit rating agencies the Region's continued commitment to improve budgetary performance and to reduce its reliance on debt.

Graph 18 shows the Budgetary Performance Ratio improving to a surplus starting in 2018, while Graph 19 shows a continuing improvement to the Debt Burden Ratio. These are the two ratios S&P commented on as areas that the Region would need to improve on to regain its triple A rating.

Graph 18: Budgetary Performance Ratio
Balance After Capital Expenditure/Total Revenue



Graph 19: Debt Burden Ratio
Outstanding Debt/Operating Revenue



Source: York Region Finance Department based on S&P's methodology for rating non-U.S. local and regional governments.

2018 Long-Term Debt Management Plan

The 2018 Long-Term Debt Management Plan needs to be adopted to access the growth-related borrowing capacity

The Annual Repayment Limit (ARL) regulation under the Municipal Act, 2001, limits the amount of municipal debt and other financial obligations that a municipality can assume.

The Province recognized that York Region is a high growth municipality with unique debt requirements and provided a York-specific regulation that allows it to borrow a higher amount based on its development charge collections. To qualify for this additional growth-related borrowing capacity, the Region is required to adopt or affirm a plan for the management of its long-term debt and financial obligations. This plan is provided as Attachment 1 to this report.

Proposed Changes to the Regional Reserve Funds and Operating Surplus Management Policy

The purposes of the Tax Stabilization Reserve and Fiscal Stabilization Reserve should be amended to better reflect their intended uses

The Tax Stabilization Reserve Fund was established in 2002 to fund both temporary tax revenue shortfalls and unforeseeable one-time expenditures. The Fiscal Stabilization Reserve Fund was established in 2012 to stabilize tax rates after the Region stopped paying for GTA Pooling, and for other purposes approved by Regional Council.

To clarify the use of these reserves, it is recommended that the Fiscal Stabilization Reserve Fund be designated for the purpose of mitigating the impact of temporary revenue shortfalls and the Tax Stabilization Reserve Fund be designated for the purpose of mitigating the impact of unforeseeable expenditures.

Closing the Social Assistance Reserve and transferring the remaining balance to other reserves is recommended

The Social Assistance Reserve was established in 1998 to fund costs resulting from unanticipated social assistance caseloads within the Region as well as GTA Pooling related to social assistance. GTA Pooling was money collected by the Province of Ontario from York Region, Peel Region and Halton Region to help pay for social assistance and social housing programs in the City of Toronto.

Between 2007 and 2013, the Ontario government phased out GTA Pooling. Also from 2008 onward, the Province began to assume more of the costs of the social assistance programs; the upload of Ontario Works is expected to be completed by 2018.

In 2010, Council approved the phase-out of the Social Assistance Reserve Fund, with the funding to be used for other items in the Community and Health Services' Multi-Year Plan. As the Provincial upload will be complete in 2018, it is recommended that the Social Assistance Reserve be closed and its remaining balance goes to other Community and Health Services' uses as follows:

- $16,100,000 to the Regionally Owned Housing Reserve to fund housing replacement capital costs;
- $6,000,000 to the Tax Stabilization Reserve to fund costs of Social Services Transformation;
- $1,000,000 to the Facilities Rehabilitation and Replacement Reserve for leasehold improvements for community and health services facilities; and
- The remaining balance to the Non-Profit Housing Capital Repair and Maintenance Reserve Fund to fund capital repair needs.

Closing the Alternative Community Living Reserve and transferring the remaining balance to the Facilities Rehabilitation and Replacement Reserve is recommended

The Alternative Community Living reserve was established in 1997 to hold transfers from the Ministry of Health. It was used to fund refurbishment and repairs to housing units occupied by the Alternative Community Living residents. However, this reserve has not been used for more than ten years and does not have any forecasted draws in future.

It is recommended that the remaining balance of approximately $271,000 be transferred from the Alternative Community Living Reserve to the Facilities Rehabilitation and Replacement Reserve. Subsequent to the transfer, the funds would remain available for facility modifications to improve accessibility of adult day programs.

Closing the Insurance Claims and Certificate System Reserve Fund and transferring the remaining balance to the Insurance Reserve Fund is recommended

The Insurance Claims and Certificate System Reserve Fund was established in 2003 to hold licensing fees received from the Ontario Municipal Insurance Exchange (OMEX) to be used to fund the cost of updates and enhancements for the Insurance Claims and Certificate System. The licensing agreement with OMEX has ended and the reserve does not have any forecasted future draws.

It is recommended that the remaining balance of approximately $13,000 be transferred from the Insurance Claims and Certificate System Reserve Fund to the Insurance Reserve Fund.

Amending the Region's Surplus Management Policy is recommended to first fund the Working Capital Reserve as well as remove the allocation to the Social Housing Development Reserve

Currently, the Region allocates its annual operating surpluses as follows:

- To cover off any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, the Workers' Compensation Reserve and the Insurance Reserve, when it is determined these reserves are inadequately funded;
- Funds will then be placed in the General Capital Reserve if it is determined there is a need for further funds in that reserve;
- Next, funds are directed to the Fuel Cost Stabilization Reserve if there is a loss incurred during the year from hedging transactions;
- Any remaining funds will be transferred to the Debt Reduction Reserve.

Eighty per cent of annual surplus attributable to housing operational savings compared to budget is placed in the Social Housing Development Reserve; the other 20 per cent is placed in the Working Capital Reserve.

It is recommended that the following changes be made to the Policy:

- Since starting with the 2018 Budget, a direct allocation to the Social Housing Reserve will now be made, remove the allocation of housing operational surplus to the Social Housing Development reserve and the Working Capital reserve
- As a transition measure, 40 per cent of any annual surplus attributable to housing operational savings will be allocated to the Social Housing Development reserve in 2018. The remaining housing surplus will be allocated together with any surplus from other operations.
- Starting in 2019, the entire regional operating surplus, including housing operations, will be allocated according to the hierarchy described in the above paragraphs.
- To compensate for the lost funding to the Working Capital Reserve that resulted from removing the housing surplus allocation, staff recommend allocating the regional operating surplus first to the Working Capital Reserve up to a level deemed appropriate by the Commissioner of Finance.

The proposed Surplus Management Policy is shown below:

Starting in 2018, the allocation of the annual operating surplus will be made to reserves and reserve funds that are below their funding targets in the following order:

- First to the Working Capital Reserve
- Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve and the Insurance Reserve
- Then to the General Capital Reserve
- Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions
- Then any remaining funds to the Debt Reduction Reserve.

Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

An amendment to the Reserve and Reserve Fund Policy is needed to assign responsibility for rebalancing reserves within the same funding sources

Starting in 2015, Council authorized the Commissioner of Finance to allocate future asset replacement contributions to individual asset replacement reserves to meet their funding targets.

Staff now recommend an amendment to the Reserve and Reserve Fund Policy to specify that the Commissioner of Finance will have the authority to rebalance all reserves and reserve funds with the same funding sources as he/she deems necessary to meet those targets.

This will ensure that Regional reserves are maintained at appropriated levels to efficiently fund Region's capital and operating needs while respecting the initial funding sources of those reserves.

A new Infrastructure Reserve Fund is recommended to facilitate YRP's capital asset delivery

Currently York Regional Police capital projects are funded through annual budget allocation, with the exception of major new projects and rehabilitations which are funded from the Debt Reduction Reserve. This can cause significant year-over-year fluctuations as expenditures for capital projects can be lumpy.

With a separate capital reserve, YRP can better manage its contribution and smooth the impact on its operating budget. In addition, it will help YRP's long-term reserve planning and reserve adequacy assessment.

The proposed Infrastructure Reserve Fund - Police will be used to fund YRP's capital projects as identified in its capital plan. The capital contribution in current YRP's operating budget, including contributions to the Facilities Rehabilitation and Replacement Reserve, the Vehicle Replacement Reserve and the Equipment Replacement Reserve, will be repurposed to the new reserve. In addition, the reserve will also be funded using a YRP operating budget contribution of around $250,000 per year.

A new credit facility is recommended to facilitate delivery of York Telecom Network's capital plan

In October 2017, Council approved the implementation of York Telecom Network (YTN) as a separate legal entity under the *Ontario Business Corporations Act, 2017*.

The proposed 2018 capital plan for York Telecom Network is approximately $38.5 million, including the Connect to Innovate program ($18.5 million) and the network plan ($20 million). To help fund those projects as well as provide YTN with the flexibility to defer principal repayments as needed, it is recommended that a credit facility of up to $26.5 million be created using funds from the General Capital Reserve. The amount of the credit facility would cover the four years of net funding needed for the Connect to Innovate program.

YTN would only be able to use the facility for in-plan and approved capital projects with debt authority. YTN must also repay the reserve with interest in accordance with terms and conditions set out by the Commissioner of Finance.

Changes to the Reserve and Reserve Fund Policy Appendices are attached

In the 2017 Regional Fiscal Strategy Report, Council authorized the Commissioner of Finance to maintain the Reserve and Reserve Fund Policy Appendices in accordance with changes to the policy, bylaw or statues as required.

If the 2018 Fiscal Strategy is adopted, the updates to the appendix, as shown in Attachment 2, will be made to reflect the changes to the regional reserve funds, including the new reserves, the reserves discontinued and aligning reserve descriptions to their bylaws.

5. Financial Considerations

Since the implementation of the fiscal strategy in 2014, Council has taken significant steps towards achieving financial sustainability. Based on a continued commitment to the approved budget outlook and the fiscal strategy, the Region will be able to maintain high levels of liquidity, save adequate reserves for future asset management needs, and reduce outstanding debt.

6. Local Municipal Impact

Local municipalities will benefit from the fiscal strategy, which lends support to the Region's credit rating. Since local municipalities must issue all debenture debt and repay debt financing costs through the Region, a good credit rating helps to ensure that both the Region and local municipalities obtain the lowest possible cost of financing.

7. Conclusion

The fiscal strategy has resulted in careful management of the capital plan, an increase in reserves and reduced reliance on debt, all intended to help the Region to achieve financial sustainability.

The fiscal strategy is evolving as economic circumstances change and as more rigorous analysis is developed.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at 1-877-464-9675 ext. 71644.

The Senior Management Group has reviewed this report.

November 22, 2017

Attachments (2)

8020684

Accessible formats or communication supports are available upon request.

2018 Long-Term Debt Management Plan

Introduction

Municipalities in Ontario may only issue debt for capital purposes. The Province regulates the amount of municipal debt and other financial obligations through an annual repayment limit regulation under the Municipal Act, 2001. The annual repayment limit restricts the aggregate annual cost of servicing the anticipated long-term debt and financial obligations to 25 per cent of a municipality's own source revenue plus, in the case of York Region alone, a growth cost supplement equal to 80 per cent of the average of the last three fiscal years of development charge collections. The combination of the annual repayment limit and the growth cost supplement is called the growth-related annual repayment limit, but will be referred to as the annual repayment limit in this plan.

To qualify for the growth-related cost supplement, the Region is required to meet two conditions:

1. Maintain at least an AA low (or equivalent) credit rating; and

2. As part of the preparation of its budget for the fiscal year, Council adopts or affirms a plan for the management of its long-term debt and financial obligations.

As of November 2017, the Region had met the first condition by maintaining an Aaa credit rating with Moody's Investor Service and receiving a AA+ credit rating from S&P Global Ratings.

To meet the second condition, the Province requires Regional Council to consider the following items as part of its long-term debt management plan:

1. The long-term debt and financial obligations needs over a multi-year period;

2. Projections of the annual repayment limit for each year of the multi-year period compared to its existing and proposed long-term debt-related payments;

3. Risk and mitigation strategies associated with the long-term debt strategy;

4. A long-term debt and financial obligations policy;

5. Prudent and cost-effective management of existing and projected long-term debt and other financial obligations;

6. Estimated temporary borrowing needs for 2018; and

7. Evaluation and comparison of 2017 projections and outcomes.

1. The Long-Term Debt and Financial Obligations Needs Over a Multi-Year Period

The fiscal strategy guided the preparation of the 2018 Budget

When preparing the 2018 Budget, staff followed principles of the fiscal strategy, which was first formally approved by Council in 2014, to help better manage the Region's financial resources. A major tenet of this strategy is to use a more balanced approach when funding long-term capital expenditures. To accomplish this, a detailed review of both the forecasted capital expenditures and funding sources is undertaken each year. Where necessary, the level of expenditures may be adjusted to match more closely to the available funding, while maintaining overall capital priorities.

The ten-year Capital Plan that has been submitted to Council for 2018 is $42 million higher when compared to the same period and $166 million lower than last year's ten-year capital plan. In addition, the timing of some capital projects has shifted.

The development charge collections forecast is down by $78 million for 2017 but is up by $75 million over the following ten years (2018-2027). The total development charge collections over the next ten years is forecasted to be $4.3 billion, which corresponds to the forecast of $6.6 billion over a 15 year horizon if Council approves the amendment to the 2017 Development Charge Bylaw.

The use of tax levy Debt Reduction Reserve will avoid approximately $371 million of new tax levy debt over the next ten years.

Finally, the phase-in of full cost recovery for water and wastewater services that began in 2016 is expected to permit the Region to continue avoid issuing new user rate debt.

Overall, the Region's need for new long-term debt during the 2018-2027 period is expected to be $1.2 billion, which is similar to last year's ten-year capital plan of $1.1 billion.

Reliance on debt increases in the later years of the ten-year capital plan

Capital spending authority provides Council's authorization for departments to proceed with capital projects, including multi-year projects. The Region must have enough debt room when capital spending authority is approved to remain within its provincially-mandated annual repayment limit.

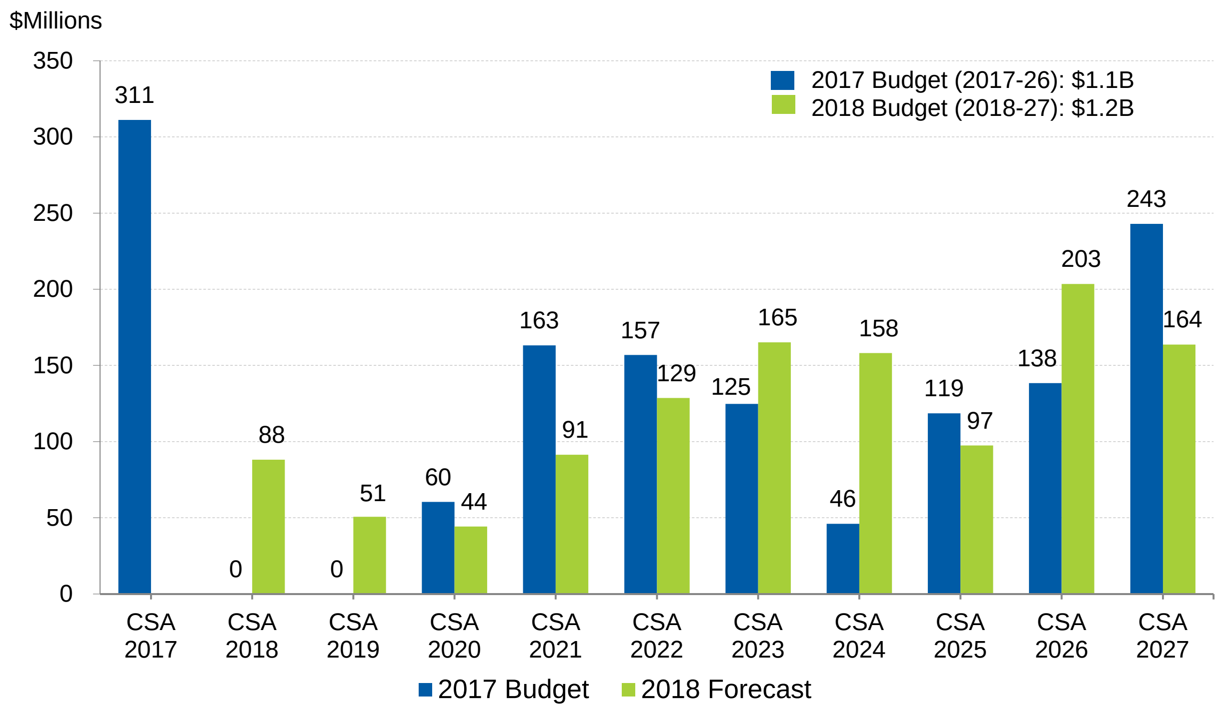
Approximately $0.1 billion (or 7 per cent) of the $1.2 billion in projected debenture requirements has been included within the capital spending authority for 2018, as illustrated on Graph 1. In contrast, approximately $0.3 billion (or 28 per cent) of the

$1.1 billion in the projected debenture requirements was included within the capital spending authority for 2017.

The capital plan also contains projects with an estimated debt of about $1.1 billion that are planned, but do not yet have capital spending authority. For the purposes of this Debt Management Plan, Finance has estimated the future debt requirements for each year of the plan on a capital spending authority basis[1]. Graph 1 illustrates the amount of new debt to be issued on a capital spending authority (CSA) basis. For example, the Region will seek Council authorization to issue $88 million of new debt to commit to capital projects within the capital spending authority for 2018. However, the actual capital expenditures associated with this debt is expected to flow over two years: $76 million in 2019 and $12 million in 2020.

The Region's reliance on new debt increases in the later five years of the ten-year capital plan. The need for new debt during the last five years is expected to be $0.8 billion between the 2023 and 2027. This is higher than the prior year's budget of $0.6 billion between 2022 and 2026. This increase is due to changes in the development charge collections forecast as well as changes in the use of reserves to minimize debt.

Graph 1: Multi-Year Forecast of New Debt to be Issued



Source: York Region Finance Department

[1] Capital Spending Authority (CSA) is the authority from Council to commit funding to a capital project. The authority may span several years for multiyear projects and is based on departmental spending estimates. The 2018 Budget will approve one year of multi-year capital spending authority for 2018.

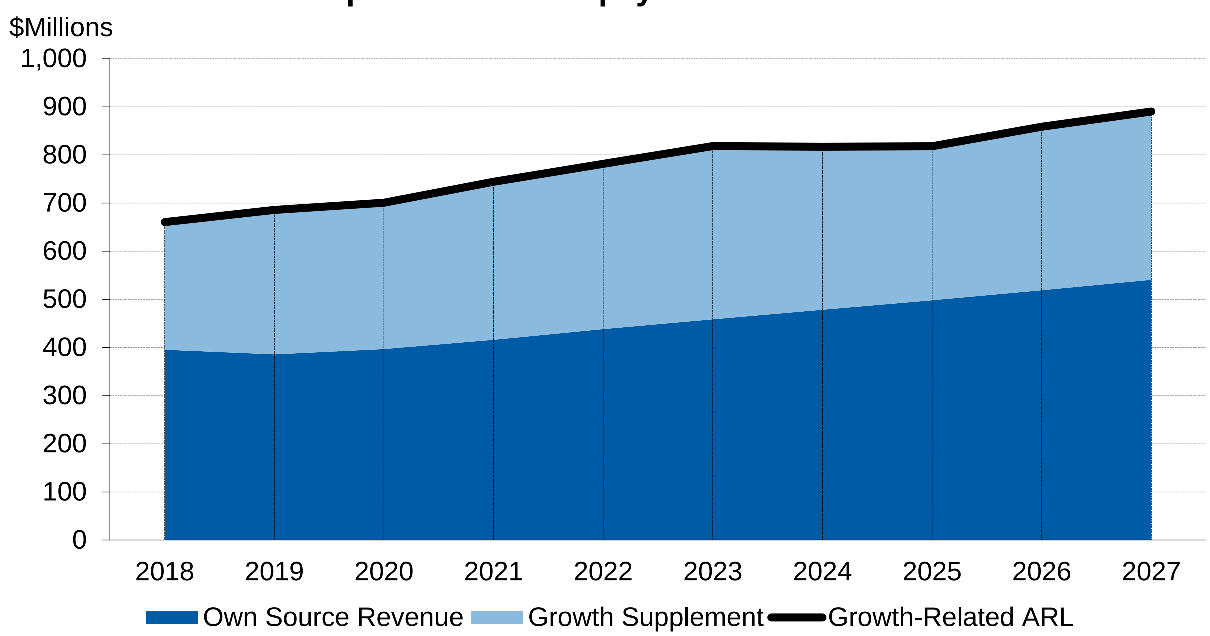
2. Projections of the Annual Repayment Limit for Each Year of the Multi-Year Period Compared to its Existing and Proposed Long-Term Debt-Related Payments

How much debt room will we have?

The annual repayment limit is calculated by determining and projecting 25 per cent of own-source revenues, and adding 80 per cent of the three-year rolling average of historic development charge collections (derived from the development charge collection forecast). The existing and proposed annual financial obligations must be within this limit. These calculations are shown in Appendix 1.

Based on these calculations, the Region's annual repayment limit will increase from $660 million in 2018 to $890 million by 2027, as illustrated on Graph 2 below:

Graph 2: Annual Repayment Limit Forecast



Source: York Region Finance Department

What are our estimated debt and other financial obligation payments?

The existing debt payment and other financial obligations include the following components:

- Principal obligations
- Interest obligations
- Hospital funding
- Social housing mortgages
- Long-term leases
- University funding

The annual payments for existing debt and other financial obligations will total approximately $315 million in 2018, but are estimated to decline to approximately $282 million by 2027. This estimate is for existing debt only and excludes any principal and interest costs associated with new debt that will be needed in the future. Principal and interest on existing debt, is expected to decrease from $272 million in 2018 to $245 million by 2027 as the debt is repaid. Hospital financing is forecast to increase at a rate of 2 per cent per year, rising from $14.6 million per year in 2018 to $17.5 million per year by 2027. The Region will also contribute approximately $1 million annually to the University Campus Reserve towards a commitment of $25 million for the new York University campus located in the City of Markham.

As noted earlier, the capital spending authority budgeting concept employed by the Region requires that there be enough debt room under the annual repayment limit at the time of project authorization. For example, to assign capital spending authority to projects as part of the 2018 budget process, the Region must have sufficient room under its 2018 annual repayment limit to recognize the full financial cost of the projects “as if” they were going to be incurred entirely in 2018, even if the actual costs are spread out over multiple years. This is the case for each year of the capital plan.

The ten-year capital plan in the 2018 Budget is $5.9 billion, of which $1.2 billion will be debt financed. Assuming an annual interest rate of 3.87 per cent and a term of 20 years, the annual obligation arising from the $88 million debt capital spending authority required in 2018 will be approximately $7 million.[2]

Will the Region be within its annual repayment limit?

For 2018, the Region will be well within its annual repayment limit, as shown in Table 1 below.

[2] This is the weighted average interest rate based on a review of current and historic rates as well as planned capital spending authority cash flow timing. The 20-year term is based on the anticipated average term of future debt issues. Debt repayment is calculated on a “full commitment basis”, which allocates a full year’s payment to the year of issuance rather than the partial (i.e., interest only) payment that usually occurs as a result of issuance timing.

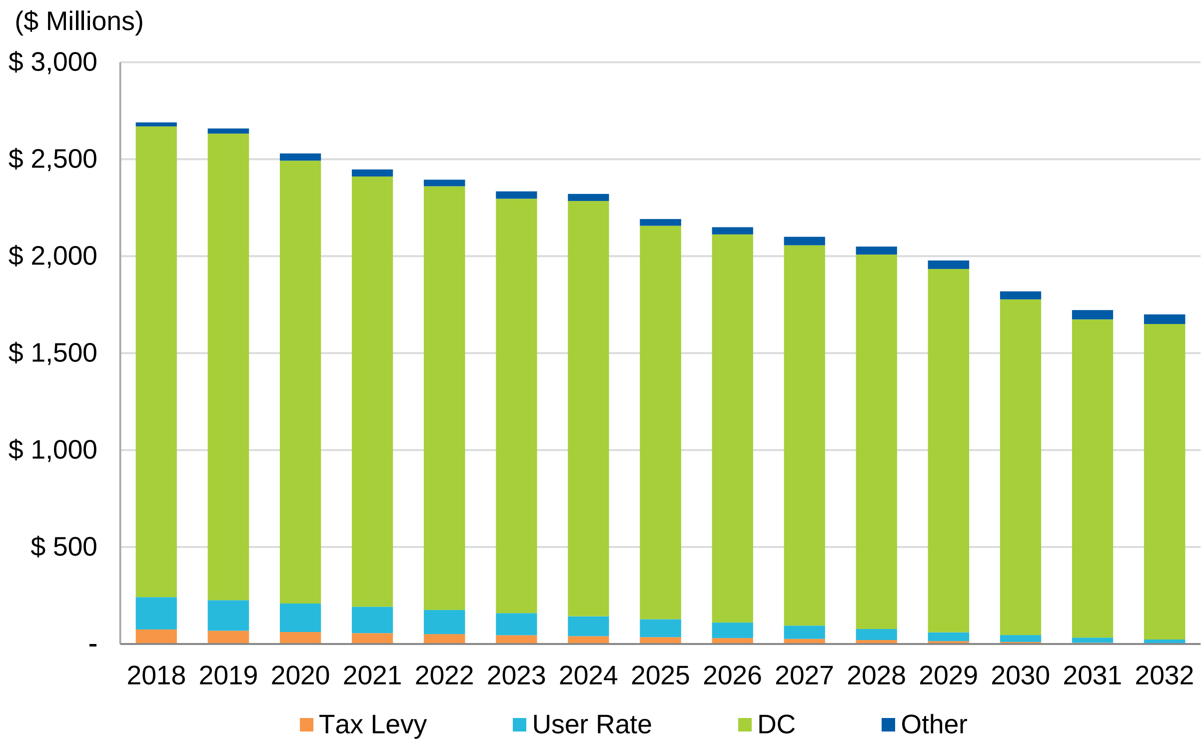
Table 1: Region's 2018 Annual Repayment Limit Calculation ($Millions)

Component Description	Forecast 2018
25% of Own Source Revenues	395
Plus: Growth Cost Supplement[3]	265
Total Annual Repayment Limit	**660**
Less: Existing Debt Payment and Financial Obligations	315
Less: Anticipated New Debt Payment	7*
Remaining Annual Repayment Limit	**338**

*The Region will require capital spending authority of $88 million for 2018 for new debt to be issued in 2019. However, as a result of the fiscal strategy, the Region will avoid issuing new debt in 2018 by drawing on reserves to fund capital projects.

Capital spending authority is based on existing and future project commitments. Assuming that the debt needs remain as shown in the ten-year capital budget and all future capital spending authority debt occurs as planned, the Region's outstanding debt will start to decrease in 2018 from a high of $2.9 billion in 2017, as illustrated on Graph 3.

Graph 3: Outstanding Net Debt Projection



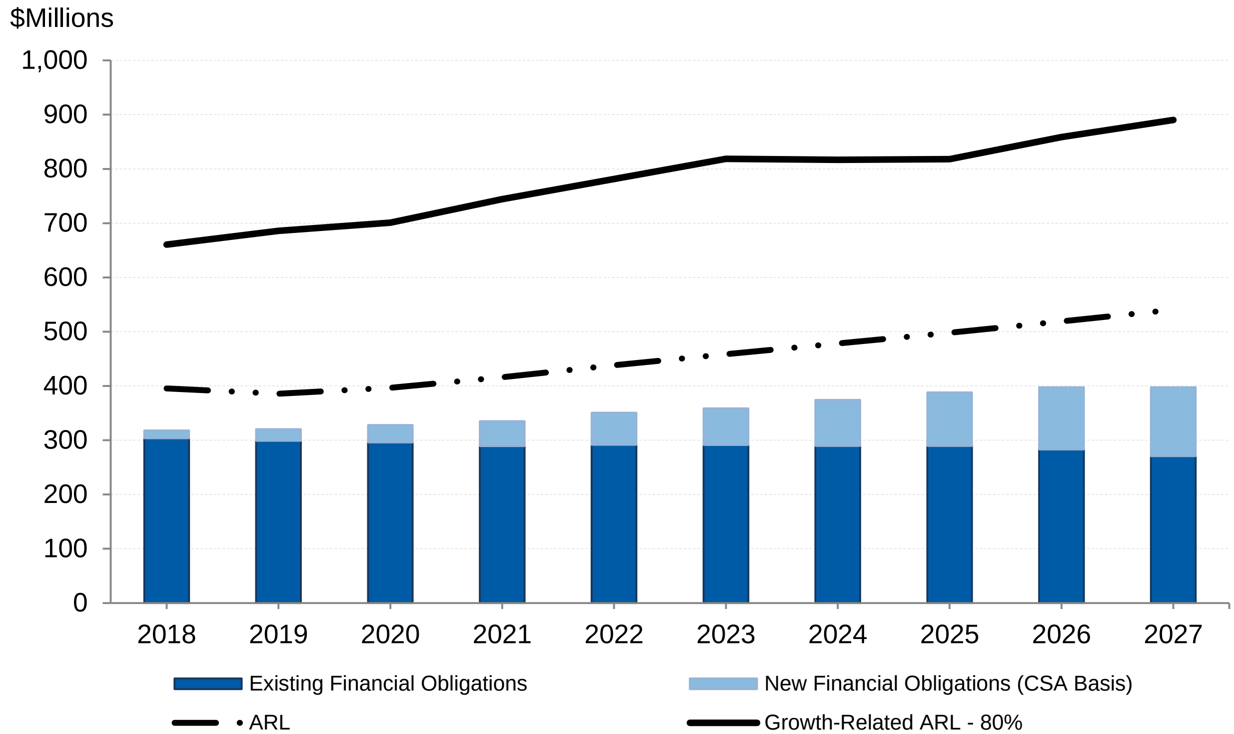
Source: York Region Finance Department

[3] Growth Cost Supplement in 2018 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2015-2017 inclusive).

The annual debt payments related to each year's increment have been calculated on the same basis as the 2018 capital spending authority, except that the assumed interest rate will increase to 5.25 per cent by 2027.[4] As a result, the financial obligations associated with new debt-related capital spending authority will increase to $99 million by 2027.

Graph 4 shows that the Region's financial obligations will be well within its annual repayment limit for all years.

Graph 4: Annual Repayment Limit vs. Annual Capital Spending Authority Based Debt and Financial Obligations



Source: York Region Finance Department

3. Risk and Mitigation Strategies Associated with the Long-Term Debt Strategy, including Interest Rate Risk and Foreign Currency Exposure

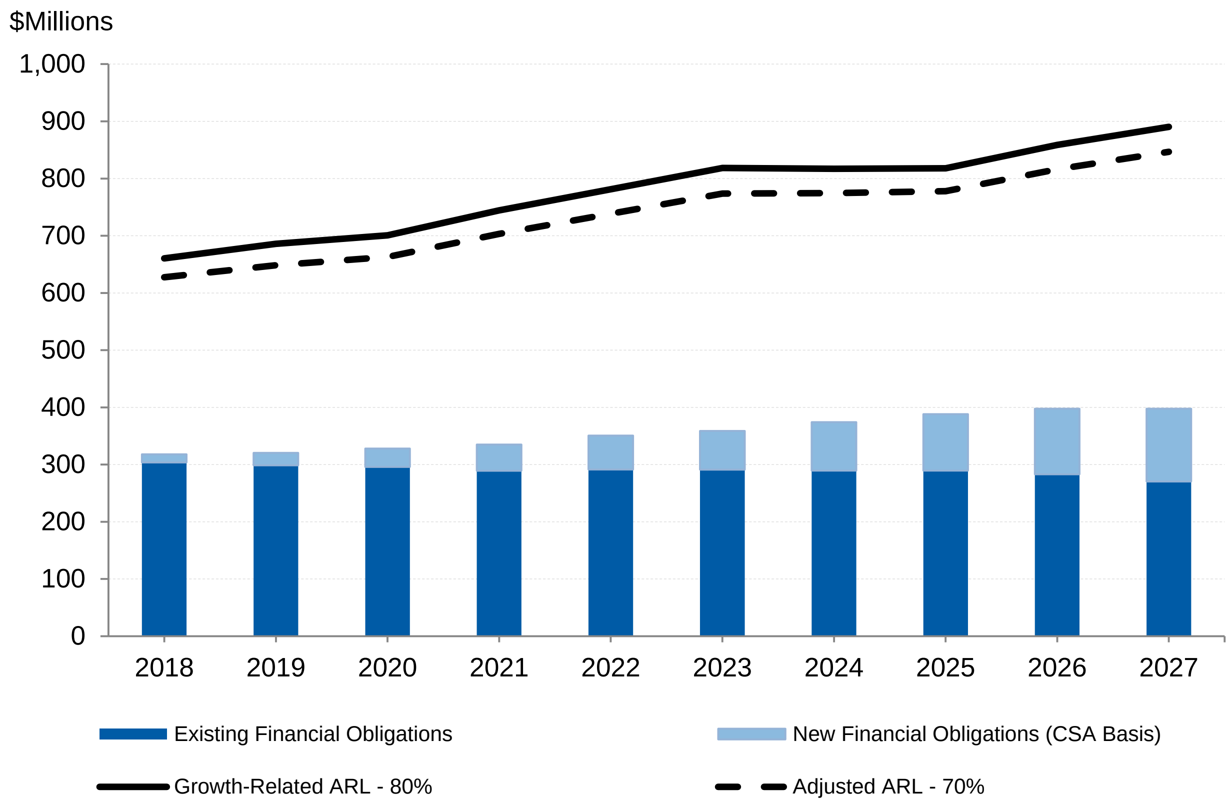
Anticipated development charge collections represent one of the most significant risks to debt management

[4] The base rate assumptions increase from 3.70 per cent to 5.25 per cent by 2027 and are held constant thereafter. The term will remain 20 years and the payment will continue to be calculated on a "full commitment" basis for the entire forecast.

Development charge collections are difficult to predict from one year to the next and can vary significantly as economic conditions change over time. Collections lower than forecast could limit the Region's debt borrowing ability to levels below that indicated in this plan and require changes in the phasing of the capital plan. Staff reviews development charge collection trends and forecasts annually to enable further changes before finalization of the capital plan during the budget process.

As a matter of normal practice, the capital plan is measured against an adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of historic development charge collections as a cost supplement, versus the 80 per cent permitted, unless specific Council approval is obtained to do otherwise. This would have the effect of partially mitigating the impact of lower than expected development charge collections. The impact on the annual repayment limit calculations of the adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of historic development charge collections as a cost supplement is illustrated on Graph 5, which shows that the Region's obligations would still be well within its annual repayment limit even if only 70 per cent of forecast development charge collections are considered as a cost supplement.

Graph 5: Adjusted Annual Repayment Limit vs. Annual Capital Spending Authority Based Debt and Financial Obligations



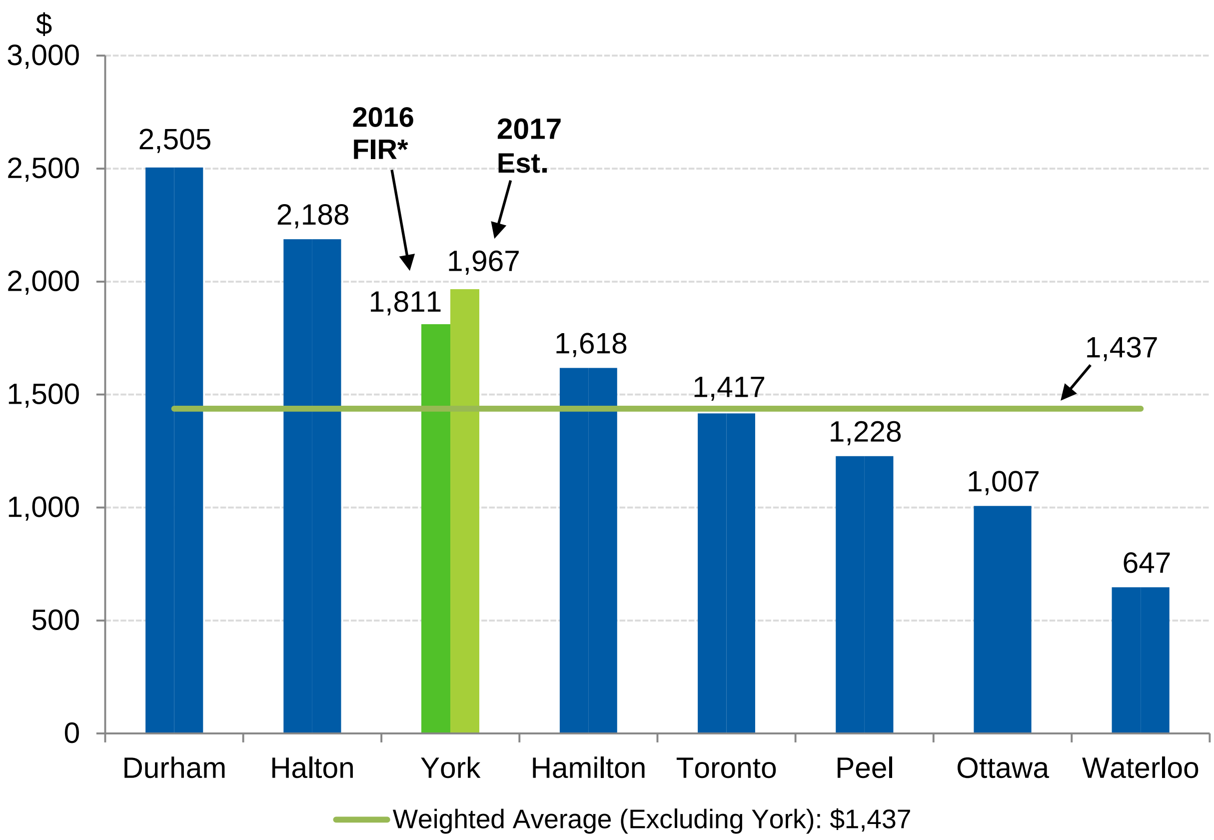
Source: York Region Finance Department

Lower than expected development charge collections in any given year may result in a decrease in liquidity and debt servicing ability. To help mitigate this, the Capital Financing and Debt Policy requires that the Region will maintain overall development charge reserve balances that are at least equal to the next year's estimated development charge-related principal and interest obligations. Moreover, the Region maintains significant non-development charge reserves (Graph 8) that could be used to fund development charge-related debt servicing costs on an interim basis, should the need arise.

Reserves are critical to the Region's debt management plan

In assessing the Region's risk profile, credit rating agencies evaluate liquidity and consider reserves an indicator of fiscal prudence. Reserves also protect against non-capital long-term liabilities and external shocks. The Region has been successful in building up a high level of reserves that are above the weighted average per capital of comparable municipalities, as shown on Graph 6.

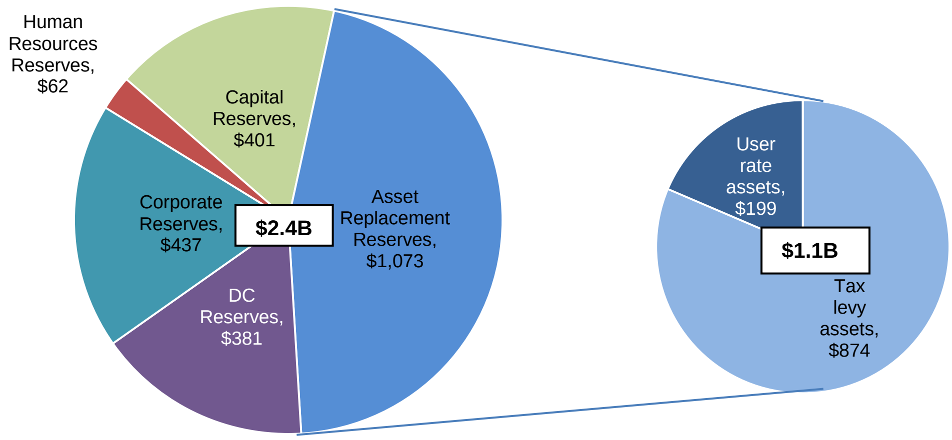
Graph 6: Comparison of 2016 Reserves Per Capita



Source: 2016 Financial Information Returns (FIR)

The Region has a number of different non-growth reserves, which have been broadly categorized into asset replacement, corporate, capital and human resource reserves. These reserves are estimated to be approximately $2.4 billion by the end of 2017; they are described on Graph 7.

Graph 7: Composition of Reserves as at December 31, 2017 (estimated) ($Millions)



Source: York Region Finance Department

The fiscal strategy involves continuing to build up reserves over time to help meet future capital funding requirements

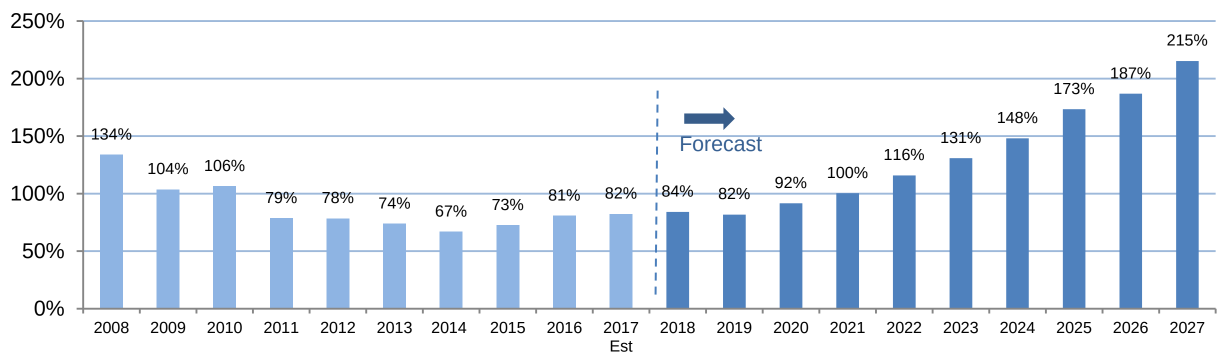
As infrastructure ages, it periodically needs major rehabilitation and ultimately needs to be replaced. Since asset replacement is a cost incurred for existing assets, development charges cannot be used for this purpose. Therefore, funding sources such as taxes and/or user rates must be used to pay for asset replacement. To minimize the impact that rehabilitation needs will have on tax/rate payers in any given year, debentures may be used to spread the costs over time.

An alternative to issuing debt is to build and set aside reserves specifically to fund future capital rehabilitation and replacement. To this end, in 2006 Council approved a policy of increasing the annual contributions to asset replacement reserves by an increment equal to 1 per cent of the prior year’s tax levy. In 2013, Council amended this policy to gradually increase that increment by 0.2 per cent each year until it reached 2 per cent of the prior year’s tax levy in 2017. The fiscal strategy maintains this policy and anticipates the annual contribution to asset replacement reserves will be approximately $117 million in 2018. In addition, annual operating surpluses help build reserves, in accordance with Council’s approved surplus management policy.

The 2018 reserve forecast includes a 5 per cent increase in the contribution to asset replacement reserves. These out-year contributions will be further refined and incorporated in the 2019 multi-year Budget once the asset management strategy is complete.

As illustrated on Graph 8, the ratio of reserves to debt has been deteriorating since 2010 as the need for growth-related debt continues to outpace the receipt of growth-related revenues. However, as a result of the measures contained in the fiscal strategy, the ratio is expected to continue to stabilize over the next two years and then trend upward. A ratio greater than 100 per cent indicates the Region is a net “investor” as opposed to a net “borrower.” The Region is expected to be a net “investor” by 2021.

Graph 8: Reserve to Debt Ratio



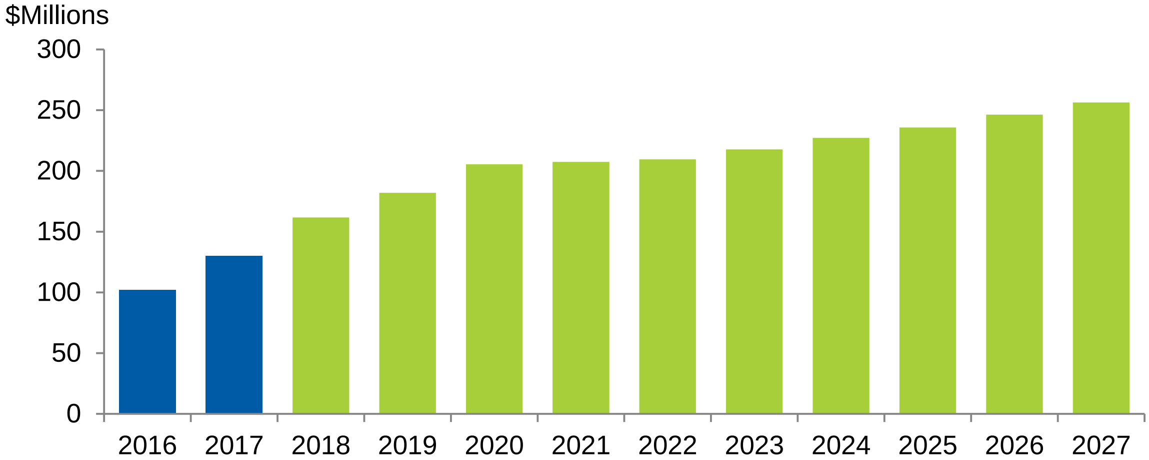
Source: York Region Finance Department

Full cost recovery user rates enable the Region to build reserves to fund future capital rehabilitation and replacement

In October 2015, Council approved six years of water and wastewater rate increases as part of a strategy to fund the cost of future asset replacement and major rehabilitation. As a result, full cost recovery is expected to be achieved by the end of 2021. Full cost recovery will enable the reserves to fund all of these costs without the need to issue any new user rate debt and without impact to the tax levy.

Graph 9 shows the projected annual contributions to the water and wastewater capital asset replacement reserves.

Graph 9: Contribution to Water and Wastewater Capital Asset Replacement Reserves



Source: York Region Finance Department

Reserves will be used to reduce tax levy related debt requirements

One way to mitigate the risks associated with the Region's future debt requirements is to eliminate the need for debt altogether. In 2014, the Debt Reduction Reserve was established to fund tax levy capital expenditures in place of debt. As a result, the tax levy-supported debt need was reduced by approximately $371 million over the 2018 to 2027 forecast period, allowing the Region to avoid approximately $199 million in principal and interest costs over the same period. At this time, the Region is not expecting to issue any new tax levy debt during the ten year forecast period.

The forecast includes an increase in expected costs of debt financing over time

The debt forecast is sensitive to interest rate fluctuations over the forecast period. For example, a one per cent increase in interest rates would result in approximately $0.6 million in additional annual financing costs for every $100 million in debt, assuming a twenty-year term.

Interest rates are currently at historical lows. Average interest rates are weighted to incorporate the actual cash flow timing of a given year's capital spending authority commitment to reflect the multi-year nature of these projects. Interest rate assumptions are summarized in Table 2.

Table 2: Interest Rate Forecast

Interest Rate	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Annual Estimate (%)	3.70	3.85	4.00	4.50	4.75	5.00	5.00	5.00	5.00	5.25
Weighted Average (%)[5]	3.87	3.85	4.22	4.53	4.75	5.00	5.00	5.02	5.03	5.25

Interest rate fluctuations will also affect debt with refunding provisions. Refunding provisions occur where the debt amortization period (e.g., 20 years) is longer than the contractual terms (e.g., 10 years), requiring part of the debt to be refinanced for an additional term. The concept is similar to a mortgage whereby the mortgage amortization period (e.g., 20 years) is longer than the mortgage contractual term (e.g., 5 years), requiring the borrower to refinance the mortgage upon expiration of the contractual term (e.g., obtain another mortgage contract after 5 years). For existing debt, this risk has been accounted for by calculating the annual repayment on the amount outstanding after the contract term expires using an additional ten-year term with a reforecast future interest rate. For new debt, forecast annual repayments have been calculated at the rates noted in Table 2 using a twenty-year term.

The Region has the ability to offset market risk through a variety of mechanisms

Given the volatility of financial markets in recent years, there is a risk that borrowing costs will be higher than expected and/or the market may not be able to absorb the issuance of new debt at the specific time when it is needed.

Interest/market risk mitigation strategies that are being employed to deal with this possibility include:

- Conservative interest rate forecasts
- Use of bond forward agreements to hedge interest costs on new debt issues when appropriate
- Pre-financing of capital projects where it is financially beneficial to do so
- Borrowing applications to government agencies such as Infrastructure Ontario
- Use of variable rate debt/lines of credit or short-term borrowing from reserves in the event of market disruption or in anticipation of significantly lower interest rates
- Use of underwriting syndicates
- An active Investor Relations program
- Structuring new debt to better meet the needs of potential investors.

[5] The weighted average interest rates apply to new debenture requirements in the 2018 Capital Plan.

The debt management plan has other risks

Other risks relate to the forecast of capital infrastructure costs. Factors such as change orders, inflation, the addition of new projects, or projects being moved forward in the capital plan could result in higher debt requirements than are anticipated in this Plan. To address this risk, phase-in strategies for large capital projects will be considered when appropriate.

4. Long-Term Debt and Financial Obligations Policy

Council has approved a Capital Financing and Debt Policy that guides the overall management of the Region's current and expected financing needs and underpins this long-term debt management plan. This policy, last updated and approved by Council in 2016, is reviewed annually to identify and incorporate best practices.

The policy covers all long-term financial obligations entered into by the Region. It establishes objectives, standards of care, authorized financing instruments, and reporting requirements and responsibilities, so as to ensure that the Region's infrastructure needs are financed as effectively as possible.

5. Prudent and Cost-Effective Management of Existing and Projected Long- Term Debt and Other Financial Obligations

The Capital Financing and Debt Policy sets out provisions to manage existing and projected long-term debt and other financial obligations in the most prudent and cost-effective manner possible.

These provisions include:

- Parameters and risk considerations for financing leases, which can be used in certain circumstances where long-term debt financing is neither feasible nor appropriate (i.e., lease versus buy)
- Diversification and optimization of the term structure of debentures through a review of interest rate curves
- Limiting the term of financing to the lesser of the anticipated useful life of the underlying asset or the period over which repayment will occur
- Ensuring a high standard of care by ensuring that staff are sufficiently knowledgeable with respect to standard financing transactions and/or the use of outside advice when necessary
- Maintaining an investor relations program to increase market awareness and boost demand for Regional debentures
- Maintaining at least a AA- credit rating to minimize interest costs and maximize access to capital markets

- Use of an underwriting syndicate to facilitate the marketing and selling of debenture issues.

6. Estimated Temporary Borrowing Needs for 2018

Temporary borrowing needs arise from the need to finance operational expenditures pending receipt of taxes and other revenues and the need to finance capital expenditures until long-term financing is in place

The Region's temporary borrowing requirements are addressed in detail under a separate report to Council. In 2018, it is estimated that approximately $420 million will be required for operating needs. Temporary borrowing can also result from the need to interim finance capital expenditures until long-term financing is in place. In 2018, it is estimated that approximately $300 million will be required for interim capital financing.

Similar to long-term debt and financial obligations, the Province limits the amount of funding used for temporary borrowing needs to 50 per cent of budgeted total revenue from January to September of the previous year and 25 per cent from October to December.[6] The Region's estimated temporary borrowing needs noted above are well within these limits. It is Regional policy to fund these short-term needs out of reserves and this is expected to continue in 2018. Any funds borrowed from reserves are always paid back during the year of borrowing with interest at the same rate that would have been earned on the corresponding reserves.

7. Evaluation and Comparison of 2017 Projections and Outcomes

As Table 3 shows, the Region was in compliance with its annual repayment limit for 2017.

Table 3: Region's 2017 Annual Repayment Limit
($Millions)

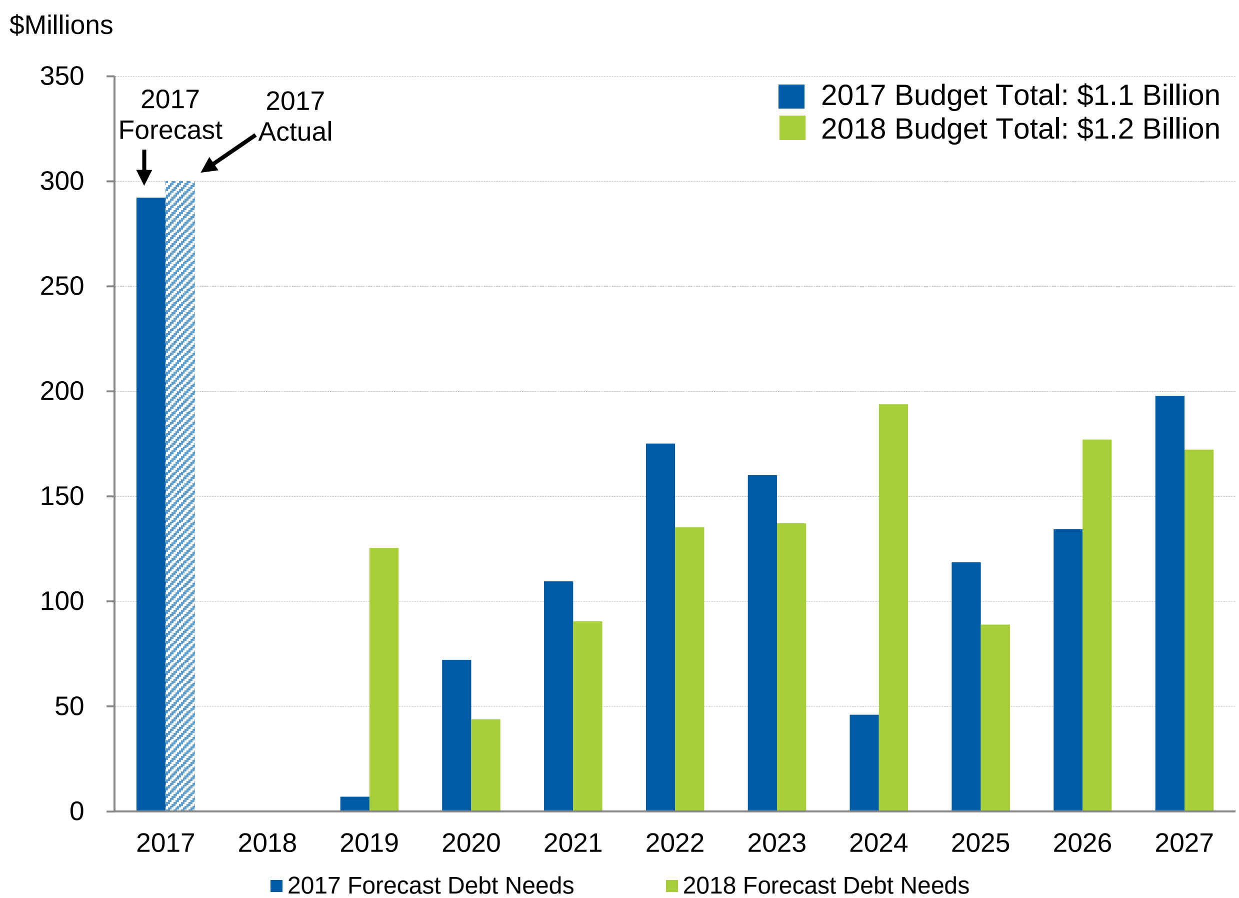
Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	387	388	1
Plus: Growth Cost Supplement	220	230	10
Total Annual Repayment Limit	**607**	**618**	**11**
Less: Existing Debt Payment and Financial Obligations	312	312	-
Less: Anticipated New Debt Payment and Financial Obligations	23	22	(1)
Remaining Annual Repayment Limit	**272**	**284**	**12**

[6] Temporary borrowing provisions are set out in Sections 405 and 407 of the Municipal Act, 2001. Temporary borrowings are not part of the annual repayment limit calculations.

The favourable difference of $10 million in growth cost supplement shown in Table 3 above was due to higher than expected development charge collections in 2016. Also, the favourable difference of $1 million in new debt payment in 2017 was from 1.25 per cent lower debenture coupon rate than the forecasted rate of 3.60 per cent.

A year-over-year comparison of annual debt requirements is shown on Graph 10.

Graph 10: Comparison of Debt Needs – 2017 Budget vs. 2018 Budget



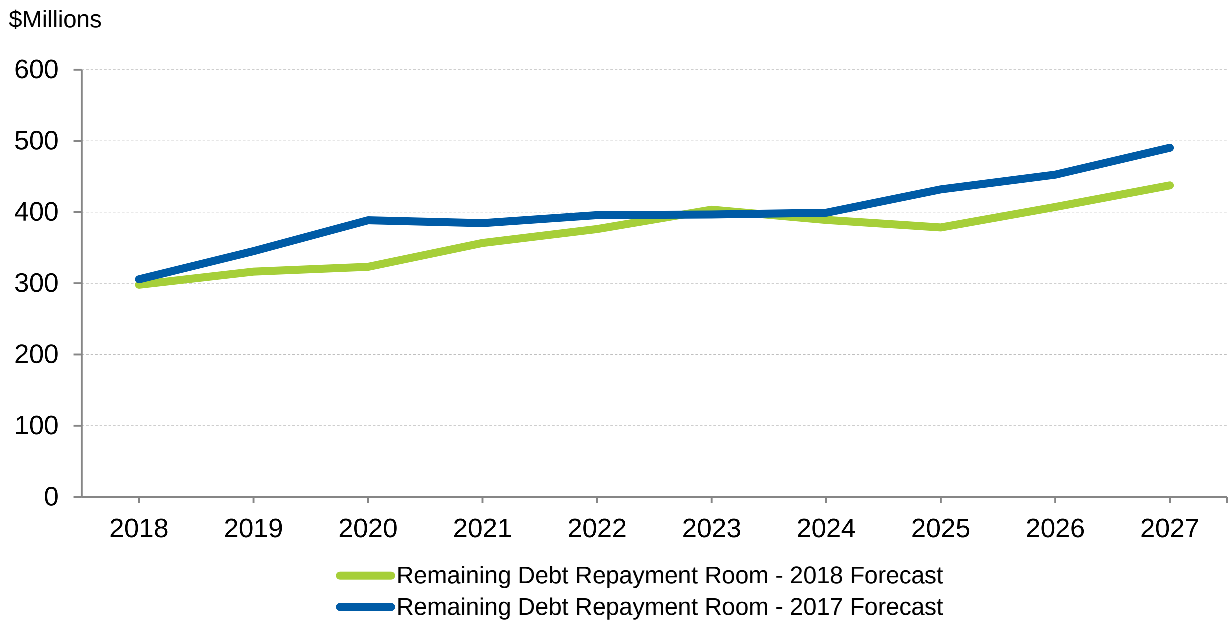
Source: York Region Finance Department

The 2017 forecast of debt needs shown in Graph 10 above does not include $42.3 million of pre-funding of capital. In 2017, some approved capital projects did not require as much debt financing as expected due to changes in cash flow timing. To obtain a lower cost of funds for projects that will require financing in 2018, the Region pre-funded $42.3 million of 2018 capital requirements in 2017.

The capital plan included in the 2018 budget shows a total debt requirement of $1.2 billion over the 2018 to 2027 period. This debt requirement is similar to last year's requirement of $1.1 billion over the 2017 to 2026 period.

As illustrated on Graph 11, the updated debt requirement maintains the Region's annual repayment limit room. Overall, the Region's financial flexibility is maintained in the 2018 forecast.

Graph 11: Comparison of Forecasted Remaining Annual Repayment Room



Source: York Region Finance Department

8. Conclusion

The long-term debt management plan addresses the matters that Council is required to consider before adopting the Long-Term Debt Management Plan. The financing that the Region requires to fund and manage its capital plan is within its annual repayment limit. Staff will continue to assess the long-term implications of the annual repayment limit methodology as outlined in the Regulation.

APPENDIX 1
Determination of Annual Repayment Limit

Step 1: Calculate 25 per cent of Own Source Revenue

Own source revenue includes:

- Property tax revenue
- Water and wastewater revenues
- Transit fares
- Fees provided for police services, public housing rents, and fees from services provided to other municipalities.

Own source revenue does not include development charges, grants and subsidies from other levels of government, other deferred revenues (e.g., gas tax revenues), and contributions from reserves.

Table A1 provides the 2018-2027 forecast based on information and assumptions contained in the 2018 Operating Budget.

Table A1: Calculate 25 per cent of Own Source Revenues ($Millions)

Annual Repayment Limit determination[1]	2018	2019	2020	2021	2022
Net revenues Property taxes/Payments in lieu[2]	997	1,026	1,072	1,118	1,167
User rates - sewage/water/solid waste[3]	297	308	332	361	392
Transportation user fees	89	76	76	78	80
Other user fees[4]	49	40	42	42	43
Provincial fines	15	14	15	15	15
Other revenue[5]	135	79	50	50	56
Total - Net revenues	**1,582**	**1,543**	**1,587**	**1,664**	**1,753**
25% of Net revenues	**395**	**386**	**397**	**416**	**438**

Annual Repayment Limit determination[1]	2023	2024	2025	2026	2027
Net revenues					
Property taxes/Payments in lieu[2]	1,218	1,270	1,323	1,379	1,436
User rates - sewage/water/solid waste[3]	411	427	443	460	476
Transportation user fees	82	84	87	89	92
Other user fees[4]	44	45	45	46	47
Provincial fines	15	15	15	15	15
Other revenue[5]	64	73	79	87	96
Total - Net revenues	**1,834**	**1,914**	**1,992**	**2,076**	**2,162**
25% of Net revenues	**459**	**478**	**498**	**519**	**541**

Notes:

1. The calculation uses own source revenues from two years prior to the current year, corresponding to the Financial Information Return year. The annual repayment limit for 2018 is based on actual results of the 2016 Financial Information Return. The limit for 2019 is based on year-end forecast for 2017. The limit for 2020 is based on the 2018 Operating Budget for 2018.
2. Property taxes for 2020 are based on expected results for 2018 and assume 1.76 per cent assessment growth plus 1.01 per cent net tax levy growth for a total of 2.77 per cent. Thereafter, property taxes are assumed to increase at an annual average of 2.87 per cent.
3. Water and wastewater rates are planned to increase 9.0 per cent annually for 2019-2022 and 2.9 per cent for 2023. Thereafter, rate increases are assumed to continue at 2.9 per cent annually.
4. Other user fees include revenues generated by: Police Services, Public Health, EMS, Community and Health Services, Social Housing, and Planning. The 2018 Operating Budget assumes other user fees grow at an average annual rate of 4.0 per cent. Thereafter, fees are assumed to increase by an annual average of 1.65 per cent.
5. Other revenue includes: Investment Income, Sale of Publications and recoveries. Investment income is based on reserve balance forecasts assuming a rate of return of 1.61 per cent for 2018. Thereafter, rates of return range from 1.81 per cent to 2.86 per cent.

Step 2: Calculate Growth Cost Supplement

The growth cost supplement is based on development charge collections. The Regulation allows the Region to include an amount equal to 80 per cent of the average development charge collections for the previous three fiscal years. A forecast of development charge collections is also required as part of this plan.

The development charge collections forecast was developed for 2018 to 2027. A development charge collection estimate was generated for 2017, based on the actual year-to-date collections realized by October 3, 2017, and historic and recent economic trends.

Development charge collections are very sensitive to economic conditions and can vary from year to year. Key factors influencing annual development charges collections include the following:

1. The amount of development activity in the Region, including registration of new residential subdivisions and the issuance of building permits for residential and non-residential buildings;
2. Development charge rate changes and transitional provisions such as prepaid development charge agreements that could lead to early registration and higher development charges in the bylaw year, and result in lower collections in subsequent years; and
3. Development charge collection policies that change the quantum and timing of development charge payment: for example, development charge deferrals, pre-paid development charge credits and Ontario Municipal Board Minutes of Settlements.

The 2018 to 2027 collections forecast is generated using econometric models that differentiate between the short, medium and long terms.

For the residential development charges collections forecast:

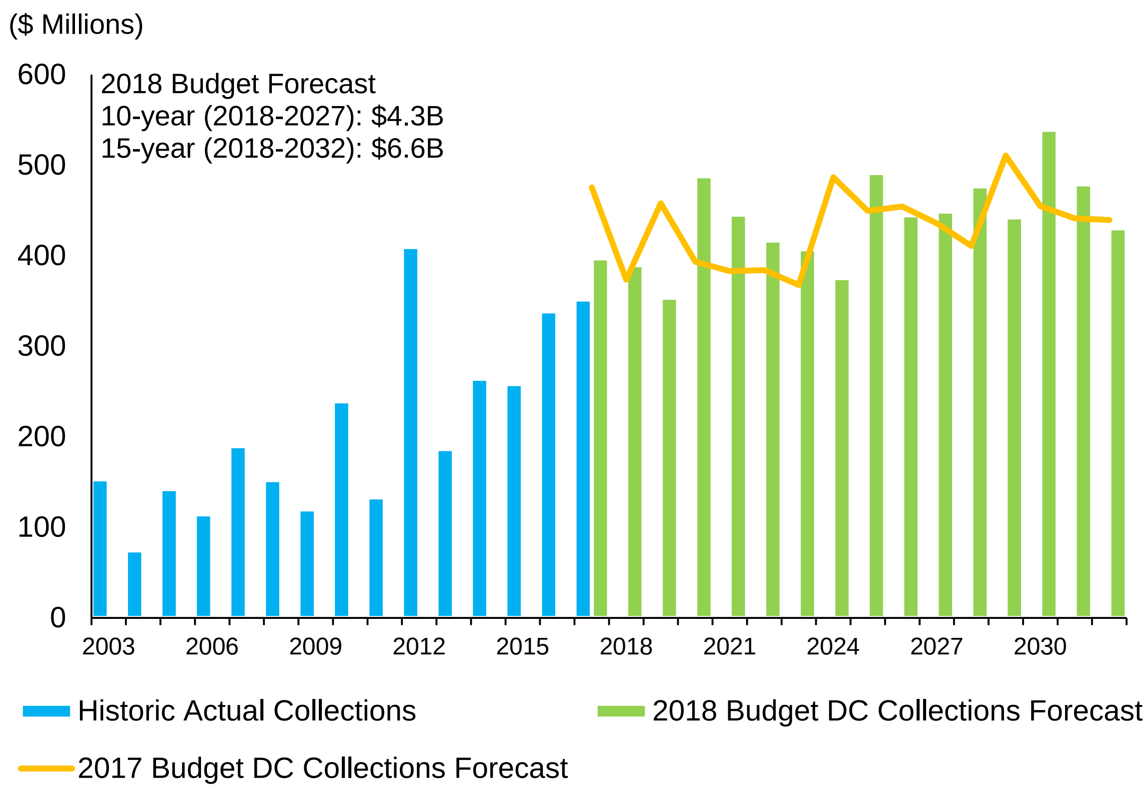
- The short-term forecast is based on historic quarterly new unit sales, starts and inventory. While all three are important indicators of building permit issuance, historic starts has the largest positive indication on building permit issuance.
- The medium-term forecast is based on anticipated population growth and links the short-term forecast and the long-term forecast.
- The long-term forecast is informed by demographic and policy factors including population and employment growth and planned density. The forecast is based on an evenly weighted average of Ministry of Finance (Spring 2017) population forecast and long-term population projections prepared by regional planning staff.

For the non-residential development charge collections forecast:

- Retail ground floor area is forecast using a regression method. Housing completions and bylaw years were both statistically significant variables in estimating future retail ground floor area.
- Industrial, office and institutional ground floor area is forecast using working age population forecasts provided by the Ministry of Finance, Growth Plan Amendment Two and a four-year average age-cohort specific employment rate. Historic non-residential floor space per worker rates were then used to forecast the additional annual ground floor area needed after accounting for vacancy rates in industrial, office and institutional developments.

Historic and forecast development charge collections are provided on Graph A1 below.

Graph A1: Annual Development Charge Collections Actual and Forecast



Source: York Region Finance Department

Step 3: Calculate Total Annual Repayment Limit

The final step is to calculate the total annual repayment limit by adding the revenues and collections calculated in Steps 1 and 2 above, as summarized in Table A2.

Table A2: Total Annual Repayment Limit
($Millions)

Component Description	2018	2019	2020	2021	2022
Total own source revenues	1,582	1,543	1,587	1,664	1,753
25% of Own source revenues (A)	**396**	**386**	**397**	**416**	**438**
Development charge collections (3-year rolling average)	331	375	380	410	429
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	**232**	**263**	**266**	**287**	**300**
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	**628**	**649**	**663**	**703**	**738**

Component Description	2023	2024	2025	2026	2027
Total own source revenues	1,834	1,914	1,992	2,076	2,162
25% of Own source revenues (A)	**459**	**479**	**498**	**519**	**541**
Development charge collections (3-year rolling average)	450	423	400	425	437
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	**315**	**296**	**280**	**298**	**306**
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	**774**	**775**	**778**	**817**	**847**

Note:

1. While the Regulation allows the Region to include an amount equivalent to 80 per cent of the average development charge collections for the previous three fiscal years as a growth cost supplement, the 2018 to 2027 annual repayment limit is calculated based on a more conservative assumption of 70 per cent.

Attachment 2

York Region

Status: ~~Final~~
Approved By: **Council**

The Regional Municipality of York

Reserve and Reserve Fund Policy

Policy No.: ~~7041135~~ 7915707

Original Approval Date: October 19, 2006

Policy Last Updated: December ~~15, 2016~~7, 2017

Policy Statement:

A policy governing the use and management of reserves and reserve funds.

Application:

All Regional employees who are responsible for the creation, control, administration and management of the Corporation's reserve and reserve funds.

Purpose:

This policy establishes the objectives for reserves and reserve funds, standard of care, as well as it delineates the responsibilities for their management and administration.

Definitions:

Corporation: Refers to the Corporation of the Regional Municipality of York, its Boards and Subsidiaries.

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash from financial institutions, but could also include loans from reserves.

Development Charges:	Fees against land to pay in full or in part on the increased capital costs required because of increased needs for municipal services arising from development of the area in which the land is located.
Discretionary Reserve Funds:	Discretionary reserve funds are established whenever a municipal council, local board and other entity wishes to earmark revenues to finance a future expenditure for which it has the authority to spend money, and physically set aside a certain portion of any year's revenues so that the funds are available as required.
GFOA:	Refers to the Government Finance Officer's Association of the United States and Canada, a professional association of state, provincial and local finance officers in the dedicated to the sound management of financial resources.
MFOA:	Refers to Municipal Finance Officer's Association of Ontario, a professional association which promotes the interests of its members in carrying out their statutory and financial responsibilities by initiating studies and sponsoring seminars to review, discuss and develop positions on important policy and financial management issues.
PSAB:	Refers to the Public Sector Accounting Board, an independent board with the authority to set accounting standards for the public sector.
Reserve:	An appropriation from net revenue at the discretion of Council, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Although a reserve cannot have a revenue or an expense of itself, a municipality may by bylaw provide earnings derived from the investment of a reserve to form part of that reserve.
Revolving Reserves:	Reserves used to fund normal course operating requirements or cash flow deficiencies that do not require Council approval provided they conform with intent of originating bylaw.
Reserve Fund:	Funds that have been set aside either by a bylaw of the municipality or by a requirement of provincial legislation to meet a future event. As a result, reserve funds are either "discretionary" being those set up by Council or "statutory" being those set up by virtue of a requirement of provincial statute. Municipal councils may set up reserve funds for any purpose for which they have the authority to spend money.
Sinking Fund:	A municipality which has sinking fund or retirement fund debentures outstanding is required to accumulate money in a reserve fund that will be sufficient to retire those debentures at maturity.

Surplus Management Policy:

A policy approved by Council that directs the funds deemed to be operating surpluses as a result of Regional operations on a yearly basis.

The allocation of the annual operating surpluses will be made to reserves and reserve funds that are below their funding targets in the following order:

- First to the Working Capital Reserve
- Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve and the Insurance Reserve
- Then to the General Capital Reserve
- Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions
- Then any remaining funds to the Debt Reduction Reserve.

Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

- ~~These funds are first directed to first to the Working Capital Reserve if it is determined in the annual budget that the reserve is in deficit;~~
- ~~Funds will then be allocated to cover off any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve and the Insurance Reserve, when it is determined these reserves are inadequately funded;~~
- ~~Funds will then be placed in the General Capital Reserve if it is determined there is a need for further funds in that reserve;~~
- ~~Next, funds are directed to the Fuel Cost Stabilization Reserve if there is a loss incurred during the year from hedging transactions;~~
- ~~Any remaining funds will be transferred to the Debt Reduction Reserve.~~

~~80% of annual surpluses attributable to housing operational savings compared to budget is placed in the Social Housing Development~~

~~Reserve; the other 20% is placed in the Working Capital Reserve~~.

Statutory Reserve Funds: A reserve fund created when required by statute that revenue received for special purposes be segregated from the general revenues of the municipality. (Refer to Appendix A for a list of current statutory reserve funds.)

Description:

1. Philosophy for Reserve and Reserve Fund Policy

Reserves and reserve funds are key elements of the Corporation's long-term fiscal strategy. This has been previously recognized in the Financial Mission Statement that was adopted by Council in 1999 including the following Financial Principle which specifically addresses the use of reserves and reserve funds:

"Adequate reserves will be maintained to:

1. Replace and rehabilitate major capital infrastructure assets as required
2. Provide a buffer for significant unanticipated expenditures beyond the control of the Region
3. Supply funds for new major capital assets identified in the long-term corporate strategy."

As a result, this Policy's philosophy is to promote fiscal prudence, particularly as identified in the Financial Principles through the creation and management of reserves, as well as to achieve a best practice for reserving among municipal governments.

This Policy also acknowledges that reserves have a direct impact on the credit rating awarded by the Bond Rating Agencies and therefore, the Corporation's long-term cost of financing.

2. Objectives Of Reserve and Reserve Funds

The primary objectives for reserves and reserve funds shall be in priority order:

a) Adherence to statutory requirements

b) Promotion of financial stability and flexibility

c) Provision for major capital expenditures

d) Reducing the need for tax-levy funded debentures

a) Adherence to Statutory Requirements

It shall be the Corporation's practice to establish and maintain segregated funds and/or reserves that meet all statutory obligations. Appendix A identifies the current statutory reserve funds as well as reference to their applicable legislation.

All reserves and reserve funds will be managed in accordance with provincial legislation. Included in the Municipal Act are the following requirements:

- Section 417 (4) that money raised for a reserve fund shall be paid into a special account and shall be invested only in securities or classes of securities prescribed
- Section 418 (3), as allowed by the Corporation, shall combine money held in any fund (including General, Capital and Reserves and Reserve Funds) for investment purposes
- Section 418 (4) that earnings from combined investments shall be credited to each segregated fund in proportion to the amount invested in it

Furthermore, it will be the Corporation's practice to establish all reserves and reserve funds by bylaw and that all appropriations be approved by Council either through the annual budget or by specific resolution or by bylaw. Notwithstanding, revolving reserves such as working capital, insurance and employee benefits may be used at any time for the purpose approved by Council.

b) Promotion of Financial Stability and Flexibility

It will be the Corporation's practice to maintain adequate non-capital reserves to achieve long-term financial stability and flexibility.

To meet these objectives, the following types of funds will be established and adequately funded:

- Reserves for known and recurring material cash flow deficiencies (eg. Working Capital)
- Reserves for large or lumpy periodic or one time payments (eg. General Capital)
- Reserves for long-term contingencies (eg. Sick Leave)
- Reserves for potential liabilities
- Reserves for unanticipated expenditures (eg. Tax Stabilization)

Appendix B identifies the current reserves and reserve funds established for financial stability and flexibility.

The Corporation will strive to maintain reserves and reserve funds at levels that are at least comparable to those held by similarly rated municipalities with comparable responsibilities and/or levels that meet established best practices among municipalities.

c) Provision for Major Capital Expenditures

It will be the Corporation's practice to maintain adequate reserves to replace and rehabilitate major capital assets, as required, and to provide for new capital assets that have been identified in the long-term corporate strategy.

To achieve this, the following principles will apply where practicable:

- Reserves for the full cost of replacement or rehabilitation of major assets will be funded from ongoing operations at a rate which reflects the consumption of that asset by current ratepayers. Contributions to this reserve will commence in the fiscal year that the asset is acquired or put in service and will be based on an estimate of the useful life of the underlying asset.

- Where the total cost is material, the purchase of minor assets which must be replaced on an ongoing basis (e.g. computers, furniture, vehicles) will be made from a reserve maintained at a three to five year rolling average (based on the asset's useful life) of the anticipated expenditure requirements and funded from operations and appropriations made by Council.

- The Operating Budget will include an annual contribution for the replacement of major capital assets as determined by Council. These contributions will be allocated to asset replacement reserves based upon reserve adequacy analyses or at the discretion of the Commissioner of Finance.

- Reserves will be maintained for growth related capital projects that will be fully funded from developer contributions. That component of the growth related project which benefits the existing ratepayers or for which a discount has been given, shall be funded from tax/rates in the year the project is built. Notwithstanding, debt may be issued for growth projects when required in accordance with the Capital Financing and Debt Policy.

Appendix C identifies the current reserves and reserve funds established for major capital expenditures.

d) Reducing the Need for Tax Levy Funded Debentures

It will be the Corporation's practice to fund a Debt Reduction Reserve to reduce the need to issue tax-levy debentures. The reserve may be used in place of debt that has been previously approved by Council. Funding would be used first to replace tax levy debt that is deemed to be below established debt issuance thresholds and then debt for other tax levy projects at the discretion of the Commissioner of Finance.

The Debt Reduction Reserve will be funded as follows:

- Appropriations as part of the annual Operating Budget
- Contributions as part of the Surplus Management Policy
- Savings from the avoidance of debt as a result of draws from this reserve in either the current or prior years
- Other transfers deemed necessary at the discretion of Council

Departments shall carry within their annual budget a charge equivalent to 50%-100% (at the discretion of the Commissioner of Finance) of the principal and interest cost that was avoided as a result of the use of the Debt Reduction Reserve.

3. Standard of Care

Reserves and reserve funds are important assets of the Corporation for which a high standard of care will be maintained.

a) Delegation of Authority

The Commissioner of Finance will retain the overall authority for establishing and managing reserves and reserve funds.

Notwithstanding, the Commissioner of Finance may delegate to the Director, Treasury Office and/or designate the authority to establish policy and oversight with respect to reserves and reserve funds, to determine the need for new and the financial adequacy of existing reserves and reserve funds and to determine funding sources for reserves and reserve funds.

Furthermore, The Commissioner may delegate to the Director of the Office of the Budget and/or designate the authority to project the impact of reserves and reserve funds as they relate to the long-term business and capital plan.

b) Management of Reserves and Reserve Funds

It is the Corporation's policy to use best practices among municipalities to manage its reserves and reserve funds. These practices will include:

i) Establishing a Reserve or Reserve Fund:

Prior to establishing a new reserve or reserve fund, a financial plan will be prepared which identifies need, target funding level (if applicable), contribution sources and projected disbursements (when practicable) to meet planned future obligations.

ii) Reserve Funding Targets

A target funding level will normally be established for every reserve or reserve fund at the time that it is created. Notwithstanding, this target will be reviewed annually by staff to ensure its adequacy and where necessary, a periodic review by third party consultants will be obtained.

Methodologies for calculating targets are specific to each reserve or reserve fund, however consideration will be given to the following:

- Purpose of fund (ie. operating or capital)
- Certainty of end needs (ie. for contingent liability or long-term asset replacement)
- Economic factors (inflation, interest rates, cyclical pressures)
- Industry/Government/Accounting standards (GFOA, MFOA, PSAB etc.)
- Multi-year forecast of contribution and projected usage

A financial plan forecasting reserve and reserve fund balances and a comparison to target objectives shall be prepared annually based on the most current information available.

iii) Investment of Reserves and Reserve Funds

Reserves and reserve funds may be invested for a term that will not exceed its expected date of need. The related investment income will be credited monthly to the specific reserve or reserve fund according to the methodology detailed in the Corporation's Investment Policy. Investments shall be further governed by the Corporation's Investment Policy.

iv) Contributions to/withdrawals from Reserves and Reserve Funds

All contributions to and/or withdrawals from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or specifically by resolution with the following exceptions:

- Direct contribution to reserve and reserve fund such as development charge contributions or settlement in account of prior year events
- Transfers that are the direct result of the Surplus Management Policy

- Transfers of funds between reserve cost centres for reserve restructure which in the opinion of the Commissioner of Finance have not changed the purpose for which the funds were intended

- Transfer of funds between asset replacement reserves based upon reserve adequacy analyses or other related information, at the discretion of the Commissioner of Finance

- Use of "revolving" reserves for the purpose approved by Council

All contributions to and/or withdrawals from reserve and reserve funds will be clearly identified and segregated within the Corporation's accounting system and accounted for by either an entry or to or from an operating cost centre or a capital project.

Funding strategies developed for reserves and reserve funds will take into account fairness to current and future tax/rate payers.

v) Lending/Transferring of Reserves and Reserve Funds for Other Purposes

Use for Other Purposes

If required, Council may by bylaw provide that the money raised from a reserve fund be spent, pledged or applied to a purpose other than that for which it was established.

Internal Loans/Transfers

Intra-fund lending from reserves and reserve funds is permitted to temporarily finance capital fund expenditures or operating cash flow deficiencies to avoid external temporary borrowing cost provided that all loans/transfers bear market rates of return and that interest income is credited to the original reserves.

External Loans

External loans may be made at the discretion of Council under Section 107 of the Municipal Act to any person, group or body for any purpose considered to be in the best interests of the municipality. However, prior to recommending such a loan to Council, staff will consider the following:

- Purpose of loan/benefit to be derived must be a public agency or group

- Term of loan not to exceed five years

- Appropriate security is provided to protect the interests of the Corporation
- A financial profile of borrower
- If adequate reserves are available for term of loan

All loans will be provided from non-restricted reserves such as the Working Capital Reserve or the General Capital Reserve as direct loan investment of reserve funds is prohibited under provincial legislation. External loans must bear market rates of return, commensurate with the term of loan and be credited to the appropriate reserve source.

c) Reporting Requirements

The Commissioner of Finance will prepare the following reports:

Annual Audited Financial Statements

Shall include a statement of financial position, financial activities and changes in fund balances for all reserves and reserve funds and as well, separately for outstanding sinking funds.

Long-Term Forecast Report

A report will be prepared annually identifying a reserve forecast of all reserves and reserve funds based on the Long-Term Capital Plan approved by Council and any other relevant information.

Periodic Adequacy Review of Report

Periodically a comprehensive review of the reserves and reserve funds will be made to determine if balances are adequate or the need for particular reserve or reserve funds shall exist or if new reserves or reserve funds are required.

Annual Budget and Business Plan

Contributions to and budget appropriations from reserves and reserve funds will normally be approved by Council as part of the annual Business Plan and Budget or specifically by resolution with the exception of those instances noted above.

Responsibilities

The Commissioner of Finance has overall responsibility for the management of reserves and reserve funds. ~~Specifically~~In addition, the Commissioner of Finance has authority to rebalance reserve and reserve funds within the same funding sources as he/she deems necessary; and approve updates to ~~the maintenance of~~ the appendices in accordance with this policy, bylaws or statutes as amended.

Notwithstanding; responsibilities will be carried out by reporting Directors as follows:

Director, Treasury Office and/or designate:

- Determines need for reserves and reserve funds for operating and capital operation
- Sets targets for various reserves and reserve funds where appropriate
- Ensures a review and report to Council of the adequacy and continuing need for reserves and reserve funds is undertaken when deemed necessary
- Arranges for the preparation and presentations of required reports and/or bylaws for the creation or termination of any new or obsolete reserve or reserve funds
- Develops appropriate strategies, procedures and processes for the investment of reserves and reserve funds
- Prepares required reports to Council on any loan or advance to any agencies or boards where the source for such loans or advances is from a reserve or reserve fund
- Develops long range fiscal planning strategy to effectively meet the Corporation's Capital financing and capital asset replacement requirements

Director of the Office of the Budget and/or designate:

- Ensures the appropriate allowances, contributions and/or appropriations are accounted for in the Corporation's Annual Budget and Business Plan relating to the financial requirements of the reserves and reserve funds
- Develops long range fiscal planning strategy to effectively meet the Corporation's Capital financing and capital asset replacement requirements

Director of the Controllership Office:

- Monitors and reconciles all receipts to and disbursements from reserve and reserve fund accounts to ensure compliance with provincial regulations, PSAB and Reserve Policy
- Ensures all Financial Statement reporting requirements set out in Section (c) of this Policy are met

Contact:

Director, Treasury Office, Finance Department, ext. 71646

Approval Information:

Council Approval Date: December ~~15, 2016~~14, 2017 **Council Minute No.:** ~~190~~ **Extract eDOCS #:** ~~7148963~~7915707	**Committee Name:** Committee of the Whole **Report No.:** ~~19~~ **Clause No.:** 6

Accessible formats or communication supports are available upon request.

Appendix A
York Region Statutory Reserve and Reserve Funds

Reserve Fund	Reference Legislation
Development Charges Reserve Fund	Development Charges Act 1997
Sinking Fund	Municipal Act 2001
WSIB Reserve Fund	Workers Safety and Insurance Act 1997

Appendix B
York Region Reserves and Reserve Funds for Stability and Flexibility

Name	Year Established	Bylaw	Purpose	Sources of Funding
Debt Reduction	2013	2013-97	To reduce or eliminate the need to issue tax levy funded debentures.	Appropriations made from time to time from the operating budget. The earnings derived from investment of monies held in the reserve fund.
Federal Gas Tax	2005	There is no bylaw for this reserve.	To fund capital projects in the categories of public transit, water, wastewater, solid waste or community energy systems.	Funding provided by the Government of Canada under the agreement signed with the Government of Ontario and the Association of Municipalities of Ontario (AMO, who calculates the allocation for each municipality other than Toronto).
Fiscal Stabilization	2012	2012-4	To ~~stabilize tax rates~~ fund temporary revenue shortfall. ~~after the Region ceases to pay GTA pooling, and such other purposes as approved by Regional Council~~.	Appropriations made from time to time from the operating budget.
Fuel Cost Stabilization	2010	2010-57	To fund differences between actual and budgeted fuel rates during the year based upon projected volumes as well as any costs or savings arising from fuel price hedging transactions.	Appropriations made from time to time from the operating budget. Surpluses arising from differences between actual and budgeted fuel rates during the year based on projected volumes. Savings arising from fuel price hedging transactions.
Sun Life Group Benefits (Sun Life Dental, Sun Life Payroll Transfer, Sun Life Extended Health)		A-228-97-101	To pay, through Sun Life Assurance Company, all claims submitted by employees for extended health, drugs, and dental expenses, as well as the administrative fee for that service.	Funded by budget allocations to the departmental operating budgets, which are based on experience and forecasts provided by the Region's benefit consultant..
Innovation	2002	A-0316-2002-099	Created to provide revolving funding for projects that will result in more efficient systems and/or ongoing operational savings.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council (among them, budgeted repayments of the revolving funds lent; repayment period cannot exceed 5 years). ~~One time $3 million transfer from~~

Name	Year Established	Bylaw	Purpose	Sources of Funding
				~~the WSIB Reserve Fund in 2002.~~
Insurance	1997	A-234-97-107	To fund costs incurred for insurance coverage and payment of claims.	Appropriations made from time to time from the operating budget.
Long Term Disability	2002	A-0312-2002-070	To accumulate funds to pay for all long term disability benefits (self-insurance) and associated administration expenses.	Appropriations made from time to time from the current estimates of the Regional Corporation, including an amount equal to the current annual premium that otherwise would have been paid to an insurance carrier (starting October 2002)
Non-Profit Housing Capital Repairs and Maintenance	2002	A-0317-2002-100	Created to offset the Region's potential exposure to under-funded capital expenditures of non-profit housing providers~~.~~	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council.
Police - OMERS	1995	There is no bylaw for this reserve.	Represents a portion of the employer's share of surplus funds in the OMERS supplementary pension plan for Police. Some of these funds were used between 1993 and 1996 to offset the Social Contract obligations of the York Regional Police.	Interest earned on the employer's share of surplus funds received from OMERS associated with Type 3 contributions have been set aside in this Reserve.
Provincial Gas Tax	2004	A-0357-2004-102	Created to deposit gas tax transfers from the Province of Ontario. These monies must be used to fund the expansion of public transportation infrastructure and levels of service in the Region.	Funding provided by the Province of Ontario from time to time under its Dedicated Gas Tax Funds for Public Transportation Program. Allocation from such sources of revenue as may be determined by Regional Council.
Seized Monies	1999	There is no bylaw for this reserve.	Monies seized by York Regional Police as a result of criminal activities and monies which have been found and turned into the Police are held in trust for return to its rightful owner.	If the seized and/or found monies remain unclaimed, they are set aside in this Reserve.
Sick Leave (Police Staff)	1999	There is no bylaw for this reserve.	To provide for the liability related to Police employees' accumulated unused sick leave.	Funded by annual allocations from the York Regional Police operating budget.
Sick Leave (Regional Staff)	1982	A-231-97-104	To provide for the liability related to regional employees' accumulated unused sick leave. Under the historical employee	Historically, a surcharge of 1% of payroll had been allocated to departmental operating budgets to fund this reserve.

Name	Year Established	Bylaw	Purpose	Sources of Funding
			sick leave plan, unused sick leave could accumulate and employees were entitled to a cash payment of fifty percent of the amount accumulated up to a maximum of six months' salary when they left the Region's employ.	
~~**Social Assistance**~~	~~1998~~	~~A-0259-1998-130~~	~~To fund unanticipated costs which occur subsequent to the finalization of the Regional budget, resulting from case load increases and/or the GTA pooling of social assistance costs.~~	~~Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. 80% of the unspent tax levy budgeted for Social Assistance program entitlements and GTA pooling costs.~~
Tax Stabilization	2002	A-0315-2002-098	To fund ~~temporary revenue shortfalls and unpredictable~~ unforeseeable one-time expenditures.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. ~~An amount not exceeding 50% of any unallocated year-end surplus.~~
Working Capital	1997	A-227-97-100	To fund the day-to-day operations of the corporation and provide the ability to meet current liabilities prior to the receipt of tax levies from local municipalities and other revenues.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. Year-end operating surplus allocation. ~~20% of any surplus with respect to LSR billings for Social Housing and Social Assistance is contributed to this reserve.~~
Workers' Compensation (WSIB)	1996	A-196-96-58	To self-fund Workers' Compensation claims as a Schedule 2 employer.	Funding results from a charge to operating programs based on a percentage of salary.
Sinking Fund	2013	2013-99	To centralize the accumulated retirement contributions and related interest income associated with the Region's sinking fund debentures.	Appropriations made from time to time from the operating budget. The earnings derived from investment of monies held in the reserve fund.

Name	Year Established	Bylaw	Purpose	Sources of Funding
Court Service	2015	2015-73	To assist the Court Services Branch in planning and managing its cost	Surplus net revenue related to the Provincial Offence Act. Appropriations made from time to time from the operating budget.
Information Technology Licensing and Software Development	2015	2015-75	To fund enterprise-wide software licensing and development of financial applications	Appropriations made from time to time from the operating budget.
Water Rate Stabilization	2015	2015-76	To prevent fluctuations in water rates as a result of unforeseen expenditure	Appropriations made from time to time from the operating budget. Year-end surpluses from user rate budget.
Wastewater Rate Stabilization Reserve	2015	2015-77	To prevent fluctuations in wastewater rates as a result of unforeseen expenditure	Appropriations made from time to time from the operating budget. Year-end surpluses from user rate budget.
Green Energy	2016	2016-78	To hold revenues from renewable energy projects and to support future renewable energy and conservation projects	Revenue from solar generating installation. Appropriations made from time to time from the operating budget.

Appendix C

York Region Reserves and Reserve Funds for Major Capital Expenditures

Name	Year Established	Bylaw	Purpose	Sources of Funding
~~**Alternative Community Living**~~	~~1997~~	~~A-237-97-110~~	~~To finance the refurbishing of and repairs to housing units occupied by the Region's ACL residents~~.	~~Funded from a transfer of stabilization funds from the Ministry of Health in 1996.~~
Facilities Rehabilitation and Replacement	2000	A-0281-2000-096 and A-0321-2002-156	To fund major capital repairs or rehabilitation expenses associated with regional buildings and other capital purposes such as parking facilities and major equipment or infrastructure refurbishment.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. Funds unspent at the end of each year which were allocated for capital expenditures for major repairs and rehabilitation of Regional buildings.
Roads Capital	1998	A-247-98-69	To fund the tax levy component of roads capital projects as approved by Council. ~~To finance the completion in the current year of roads capital projects where contracts had been previously awarded by Council and for which funding was committed to in the prior year Budget.~~ ~~Provides the Region with the available financing for known liabilities related to ongoing roads capital projects, as well as the ability to tender projects prior to subsequent year budget approval when the project had already been approved in the prior budget year but had not yet commenced.~~	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. ~~The amount of the commitment is carried forward from one budget year to the next, recognizing the timing difference between when projects were budgeted in the annual estimates and when projects were started and completed.~~
Capital Asset Replacement–Wastewater	2015	2015-79	To fund future major rehabilitation and/or replacement of wastewater assets.	Appropriations made from time to time from the user rate budget.
Capital Asset Replacement–Water	2015	2015-78	To fund future major rehabilitation and/or replacement of water assets.	Appropriations made from time to time from the user rate budget.
Development Charges	1991	DC-0004-2001-097) and DC-0005-2003-050)	To fund growth related capital projects. The Region's Development Charges Bylaws identify the future growth related infrastructure requirements that can be financed by these reserves. The prevailing	Development charges are levied based on a fixed charge for each residential and multi-residential unit and as a per square foot charge for industrial and commercial properties. Developer receipts must be treated in a manner prescribed by the Development Charges Act.

Name	Year Established	Bylaw	Purpose	Sources of Funding
			Bylaws were passed in November 2001 for GO Transit purposes and in June 1998 (amended in December 1999) for other purposes (Water, Wastewater, Roads, Police, LTC, Transit, Hospitals, etc.)	Subsection 16(1) of this Act contains strict legislative direction that moneys received as development charges must be maintained in a separate reserve and may only be used to meet the growth related capital costs for which the development charge was imposed.
Equipment Replacement	1993	A-232-97-105	To fund the cost of maintenance, repair and replacement of computer and other operating equipment.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council.
General Capital	1995	A-233-97-106	To Fund unspecified non-recurring capital expenditures.	Funded from the surplus from operations, if any, at year end after all other accruals and reserve allocations.
Hospital Financing	2010	2010-71	To fund eligible hospital capital project expenditures related to construction, expansion, enhancement or improvement, as approved by Council.	Appropriations made from time to time from the operating budget.
IT Development	2010	2010-65	To fund information technology capital projects related to expansion, enhancement or improvement as approved by Council.	Appropriations made from time to time from the operating budget.
Land Banking	2013	2013-98	To purchase land for future needs that has been identified as part of the Capital Plan.	Appropriations made from time to time from the operating budget. Project funds budgeted for land acquisition during the year in which Capital Spending Authority has been granted by Regional Council.
Land Securement	2001	A-0296-2001-091	To provide for the costs of land securement related to the Regional Greenlands Property Securement Strategy.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. Funds unspent at the end of each year which were allocated for land securement purposes in connection with the Regional Greenlands Property Securement Strategy.
Move Ontario	2008	2008-87	To fund investments in transit vehicles and transit infrastructure in compliance with any and all requirements, policies and procedures established by the Province of Ontario with respect	Shall be operated and maintained from funding received from the Province of Ontario.

Name	Year Established	Bylaw	Purpose	Sources of Funding
			to the funds.	
Regionally Owned Housing	2008	2008-85	To fund the major rehabilitation and replacement of housing owned by the Region and Housing York Inc.	Appropriations made from time to time from the operating budget.
Roads Infrastructure	2008	2008-84	To fund the major rehabilitation and replacement of roads infrastructure.	Appropriations made from time to time from the operating budget.
Social Housing Development	1998 (amended in 2010)	A-060-1998-131 and 2010-64	To fund expenditures related to new affordable housing projects either developed for Housing York Inc., or third parties, as approved by the Region.	Appropriations made from time to time from the operating budget. Allocation from such sources of revenue as may be determined by Regional Council. ~~80% of the unspent tax levy budgeted for Social Housing Programs.~~
Solid Waste Management	1993	A-230-97-103	To fund future infrastructure requirements for solid waste processing and waste transfer facilities.	Initially funded from royalties paid by the City of Toronto related to the Keele Valley facility. Currently financed by funds received from Waste Diversion Ontario (the amounts received are mainly calculated as a percentage of the costs of recycling.)
Transit	1999	A-0265-1999-091	To fund capital expenditures for Regional and GO Transit.	Initially funded with approximately $4.4 million of tax levy savings as a result of lower than budgeted GO Transit costs in the 1998 Local Services Realignment invoices. Savings in 1999of approximately $850,000 was also credited to this reserve fund.
Transit Vehicle Replacement	2013	2013-100	To refurbish and replace transit vehicles.	Appropriations made from time to time from the operating budget.
Vehicle Replacement	1997	A-236-97-109	To purchase replacement vehicles/equipment for the Regional Fleet.	Funded through an internal usage charge to Transportation and Works operating programs.
University Campus Reserve	2015	2015-74	To fund eligible expenditures related to the construction of the new York University – Markham campus	Appropriations made from time to time from the operating budget

Name	Year Established	Bylaw	Purpose	Sources of Funding
~~Police~~ Infrastructure Reserve - Police	2017		To fund the tax levy component of the new capital assets and the rehabilitation and replacement of police assets.	Appropriations made from time to time from the operating budget.