# Proposed 2014 Budget

Presentation to Council

Bill Hughes

November 21, 2013

# Overview of Presentation

**Part 1: The Budget**

- Overview of 2014 Budget
- Operating Budget
- Capital Budget

**Part 2: Fiscal Planning**

- The Fiscal Environment
- Debt
- Reserves

**Part 3: Budget Review Process and Conclusion**

# Overview of 2014 Budget

# The Proposed Budget at a Glance

| | |
|---|---|
| Tax increase for 2014 | **1.54%** |
| Change from Approved Outlook | **-0.21%** |
| Capital Budget for 2014 | **$1.2B** |
| Capital Spending Authority | **$2.6B** |
| Capital Plan compliant with the Province's Annual Repayment Limit regulation | ✓ |

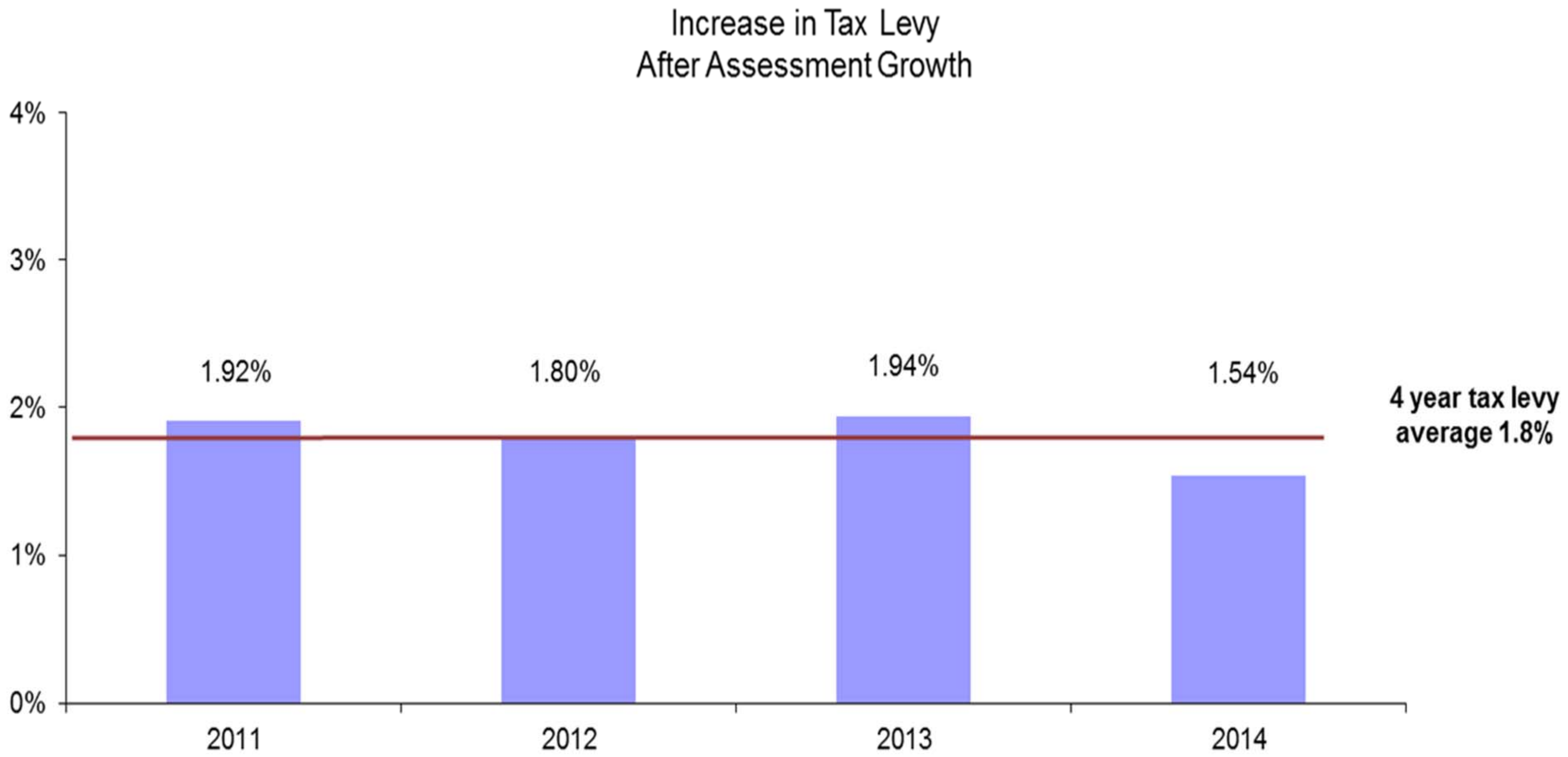
# Fiscal Impacts at a Glance

| | |
|---|---|
| Reduction in peak outstanding debt | **-$1.5B** |
| Increase in forecast reserves after ten years | **+$3.1B** |
| Contribution to capital reserves in 2014 | **$217M** |
| Debt repayment (principal) in 2014 | **$179M** |
| Triple A credit rating confirmed | ✓ |

# Key Features of the Budget

- Based on 2014 Outlook approved last year
- Continued low tax increases
- Selected improvements to service levels
- Major investments in growth-related capital
- Savings for future capital asset replacement
- Improved fiscal strategy to reduce future debt levels

# Record of Low Tax Increases






York Region

# Operating Budget

# Proposed Operating Budget

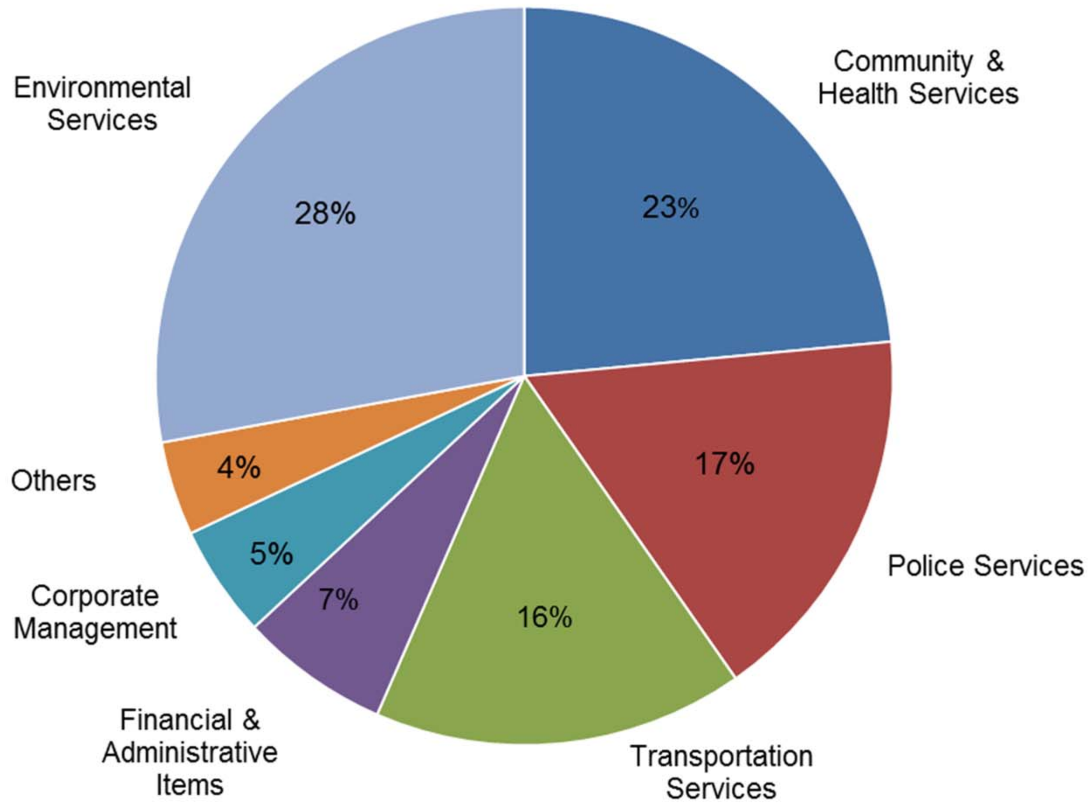
| 2014 Operating Budget | |
|---|---|
| Gross Operating | $1,816.1M |
| Non-Tax Revenue | $924.2M |
| Net Operating | $891.9M |
| Assessment Growth | 2.1% |
| Proposed Tax Levy Increase | 1.54% |

# Changes from the 2014 Outlook

- In addition to the normal adjustments that take place in the budget process, the proposed budget includes:
  - Achievement of the $5.9 million savings/revenue target established last year
  - A reduction in the tax levy increase from 1.75% to 1.54%
  - Increased contributions to debt reduction and capital asset replacement

# Expenditures Mostly For Core Services

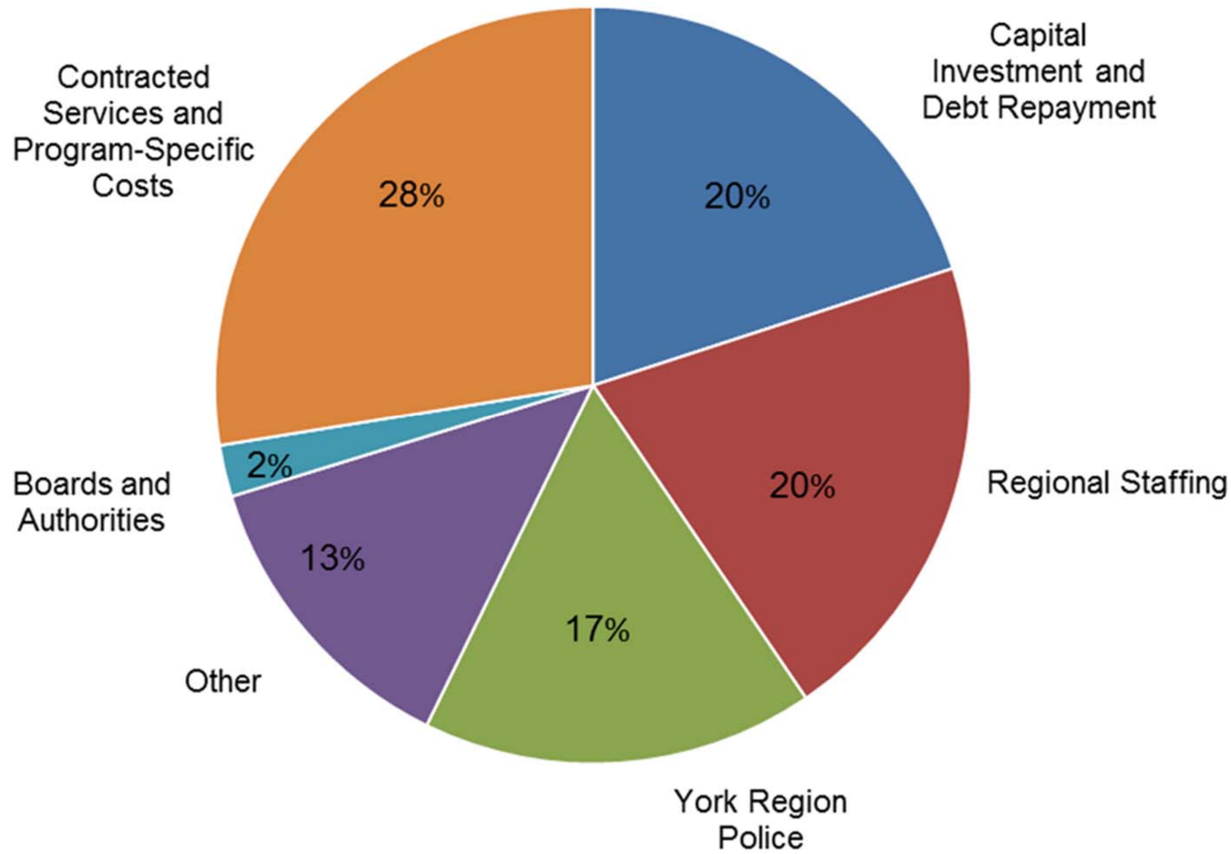
2014 Gross Budget $1.8 Billion



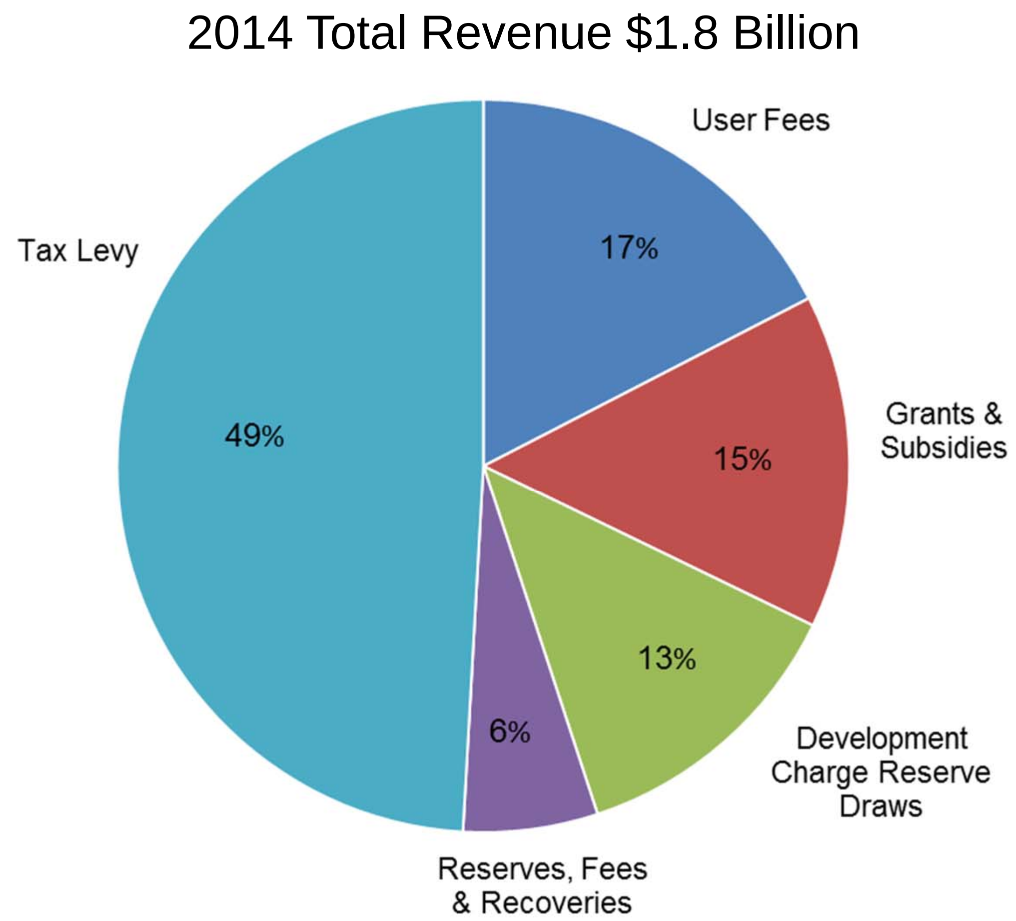

Environmental Services, Community & Health Services, Transportation and Police account for 84% of spending

# Differentiated Service Delivery

2014 Gross Budget $1.8 Billion

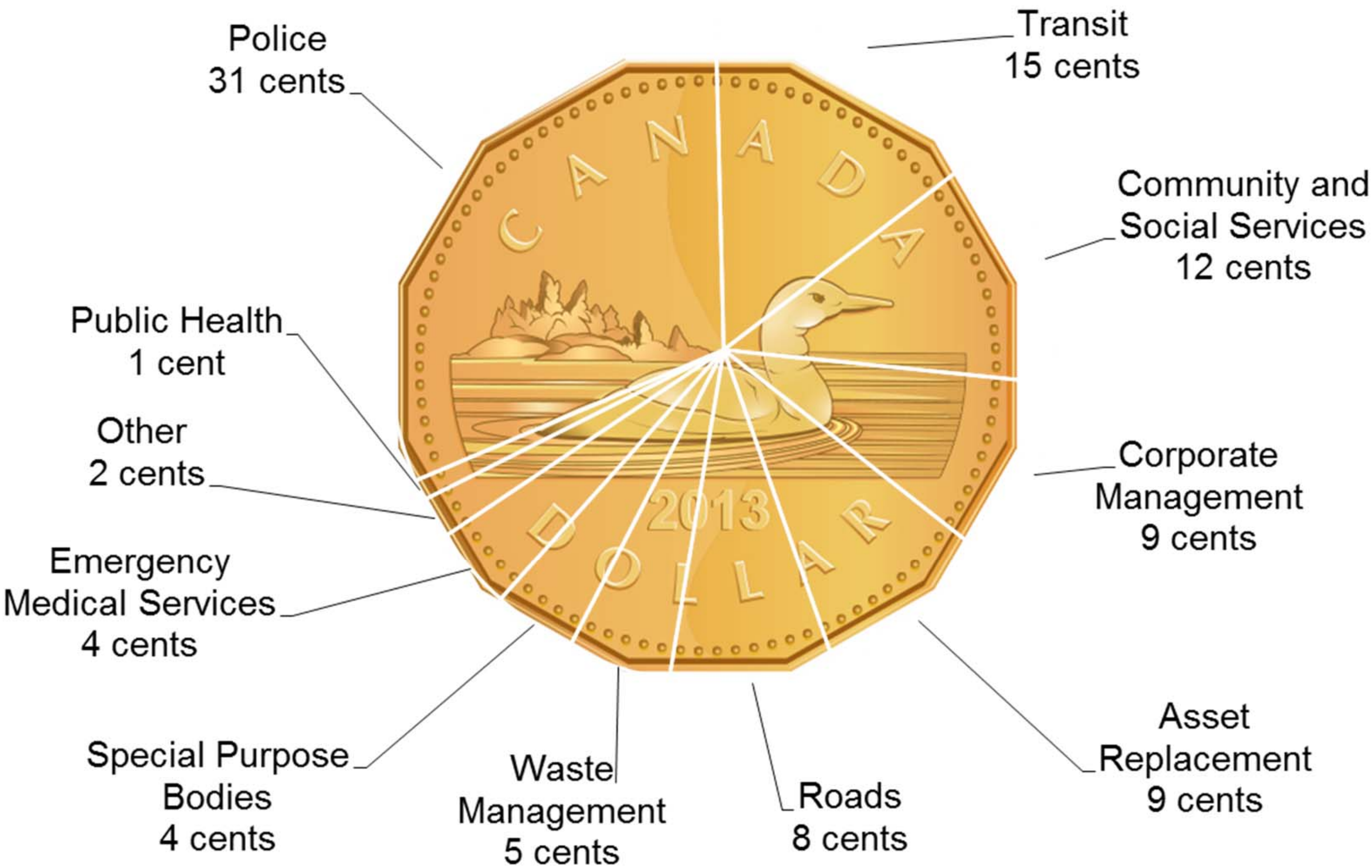


# Non-Tax Revenue Has a Big Impact on the Bottom Line




Non-tax revenue supports about half of the Region’s gross expenditures

# Share of Net Regional Tax Dollar




71 cents of every tax dollar is allocated to Police, Transit, Community & Health Services and Roads

# Operating Budget Framework

**Step 5 - ENHANCEMENTS**
New services or enhanced service levels

**Step 4 - GROWTH**
Costs required to maintain existing levels of service for the Region's increased population

**Step 3 - ANNUALIZATION**
Additional cost of full-year implementation of prior year commitments

**Step 2 - MANDATORY / LEGISLATIVE**
Non-discretionary costs imposed by others

**Step 1 - BASE**
Costs required to maintain existing service levels (salaries & benefits, inflation, utilities and contracted services) for the existing population
Less: Reduction/ Efficiencies / Other Savings

# Applying the Framework

| | 2014 Proposed | |
|---|---|---|
| | $ Millions | % Net Levy Impact |
| Base (incl. Reductions/Efficiencies/Savings) | 13.5 | 1.6 |
| Mandatory | (3.9) | (0.5) |
| Annualization (incl. Contribution to Capital) | 13.2 | 1.5 |
| Growth | 6.0 | 0.7 |
| Enhancements | 2.2 | 0.3 |
| Total Budget Pressures | **31.0** | **3.6** |
| Less Assessment Growth | (17.7) | (2.06) |
| Net Tax Levy Increase | **13.3** | **1.54** |

# New Initiatives Included in the Budget

- 16 new police officers and 30 civilian staff
- 18 new paramedics to service high-call-volume areas
- Investment in Community and Health Services Multi-Year Plan initiatives
- Investment in housing programs, including increased contribution to non-profit housing capital repair reserve

# Capital Budget

# Proposed Capital Budget

| 2014 Capital Budget | |
|---|---|
| Total Capital | $1,171M |
| Ten-Year Capital Plan | $6,634M |
| 2014 Capital Spending Authority | $2,634M |

# Managing Debt Requires Realigning the Capital Plan

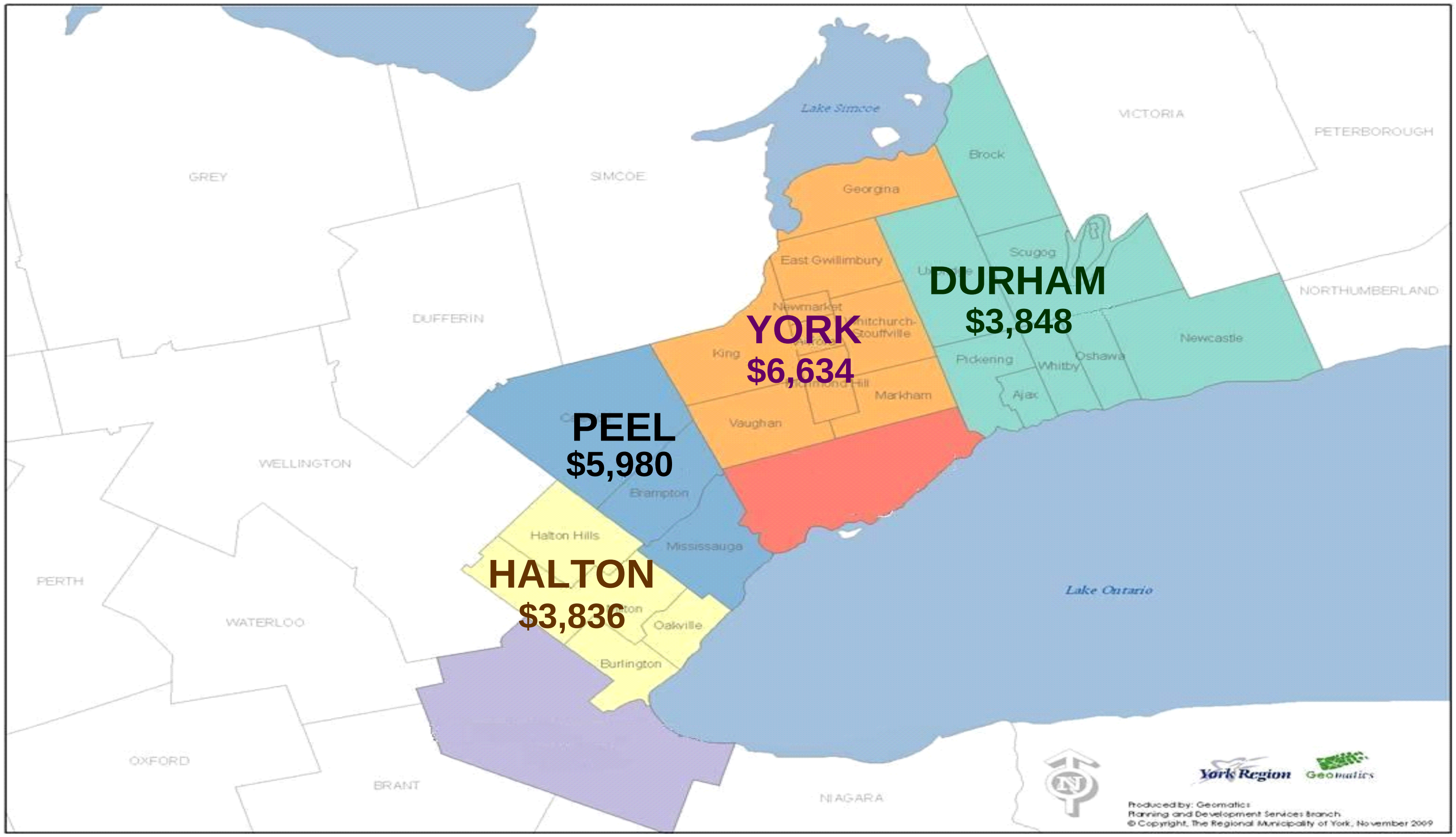
- This year's Ten-Year Capital Plan is $1.2 billion lower than the 2013 Ten-Year Plan
- This realignment of capital is a key element of the Region's proposed fiscal strategy
- The changes to the Plan involve building infrastructure closer to the time when it is needed, removal of costs for projects that have already been built, and cost reductions for some projects
- The realigned plan is still focused on delivering the capacity needed to service growth

The 2014 Capital Plan balances infrastructure needs and financial sustainability

# Highlights of Changes from the 2013 Ten-Year Plan

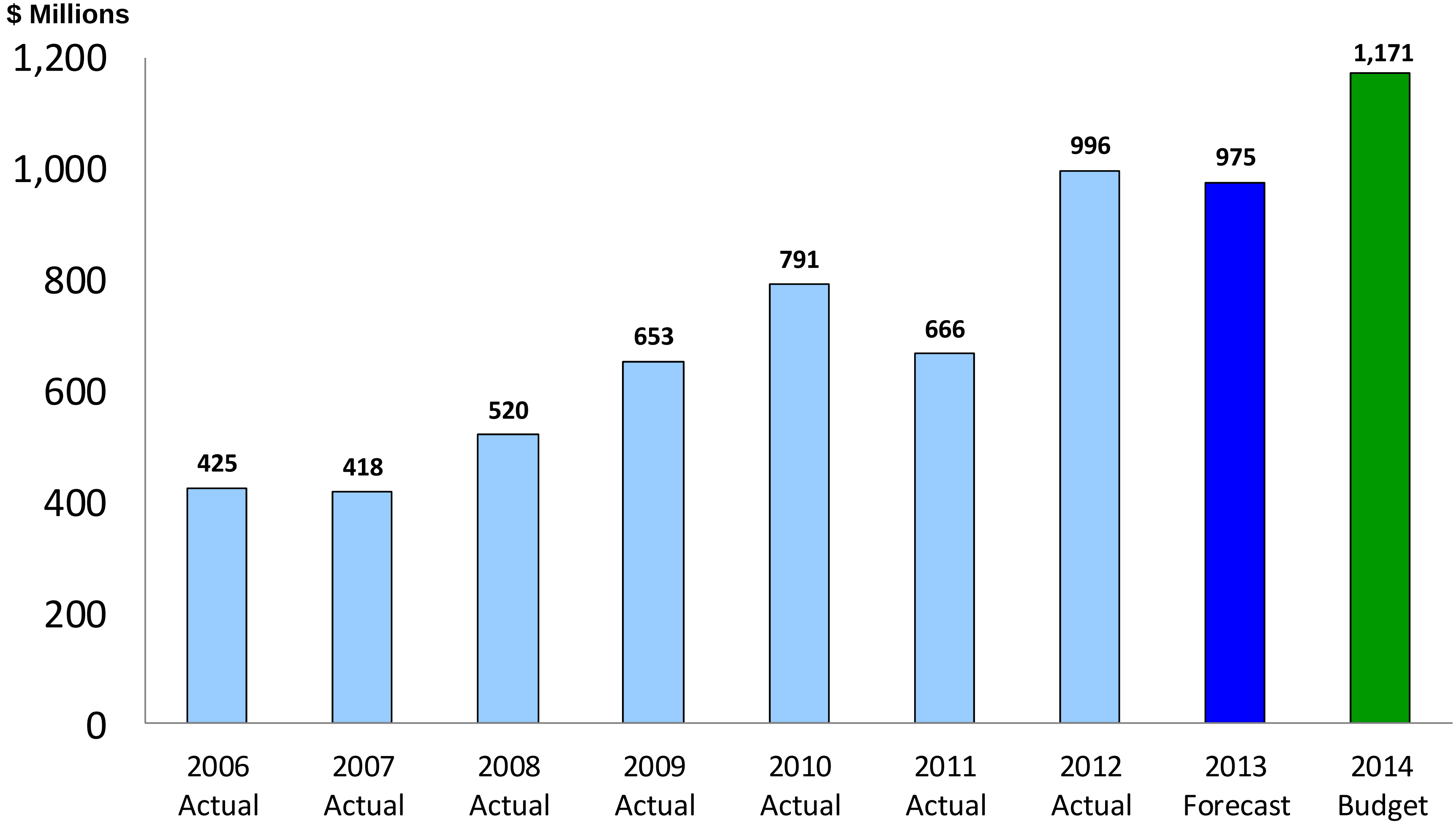
| Department / Program | Ten-Year Plan Change ($M) | Description |
|---|---|---|
| **Environmental Services** | **(805)** | The decrease is primarily due to the deferral of Toronto water projects that will not be needed until later, a reduction in costs for Peel water and the Duffin Creek Outfall, a change in timing for the Primary Trunk Sewer and a deferral in the cost of the source separated organics facility |
| **York Region Rapid Transit Corporation** | **(281)** | The decrease is mainly due to progress on the Spadina Subway extension, as well as the deferral of projects that require contributions from yet-to-be-identified funding sources |
| **Transportation and Community Planning** | **(129)** | The decrease is mainly due to changing timelines for projects, based on departmental priorities. Projects with existing commitments, or with ties to third party funding, or considered to be “missing links”, such as mid-block crossings, were not changed |
| **Community and Health Services** | **(37)** | The decrease is mainly due to the removal of two long-term care homes projects due to lack of provincial funding commitment, and the completion of the MacKenzie Green housing project |
| **York Regional Police** | **(5)** | The decrease is due primarily to the progress of major projects, including the Radio System and the 3rd floor of the Central Services Building |
| **Property Services** | **12** | The increase is primarily due to the addition of the Harry Walker Parkway leasehold improvements |
| **TOTAL** | **(1,245)** | |

# York's Ten-Year Capital Plan is the Largest Among the 905 Regions

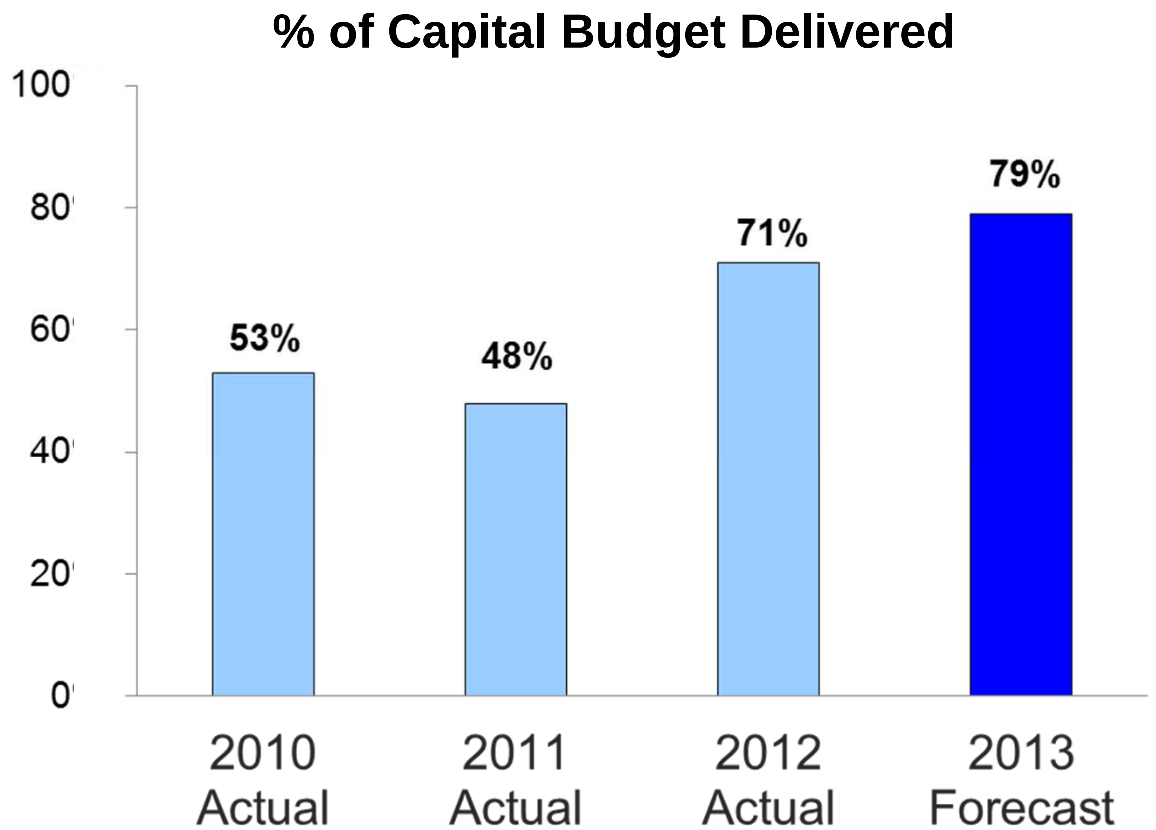



* All figures are in millions
Figures reflect Ten-Year Capital Plans starting in 2013, except Durham, which is a doubling of its 2013 Five-Year Capital Plan, and York, which is the 2014 proposed Ten-Year Capital Plan

# Annual Capital Plan Has Grown Significantly

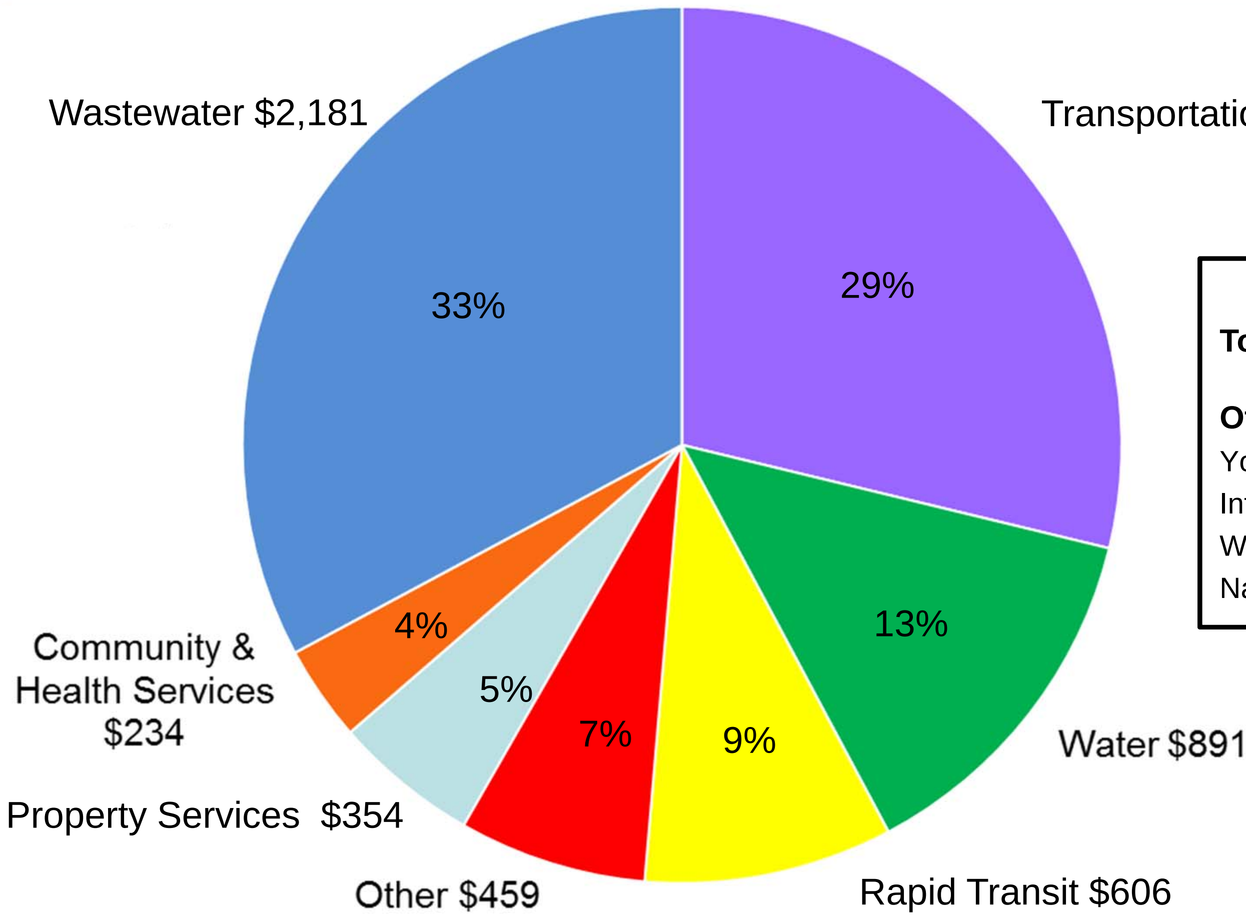


# Capacity to Deliver Capital Plan is Improving




The percentage of the annual capital budget that is being spent continues to increase

# Ten-Year Capital Plan Focused on Growth



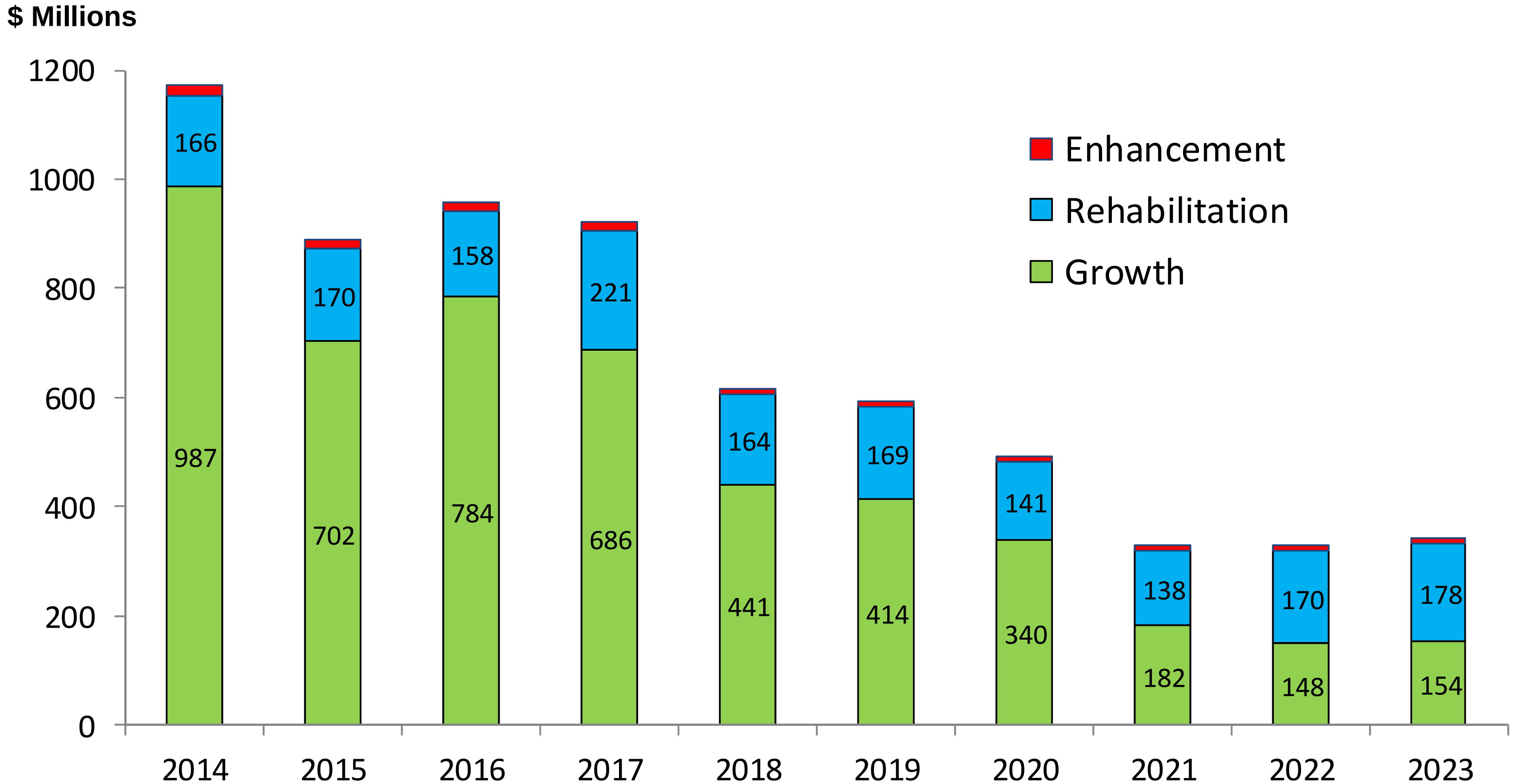

**$ in Millions**

**Total Ten-Year Capital Plan: $6,634**

| | |
|---|---|
| **Other** | **$459** |
| York Regional Police | $194 |
| Information Technology | $170 |
| Waste Management | $74 |
| Natural Heritage & Forestry | $21 |

Approximately 84% of the Capital Plan is for Transportation Services, Water, Wastewater and Rapid Transit

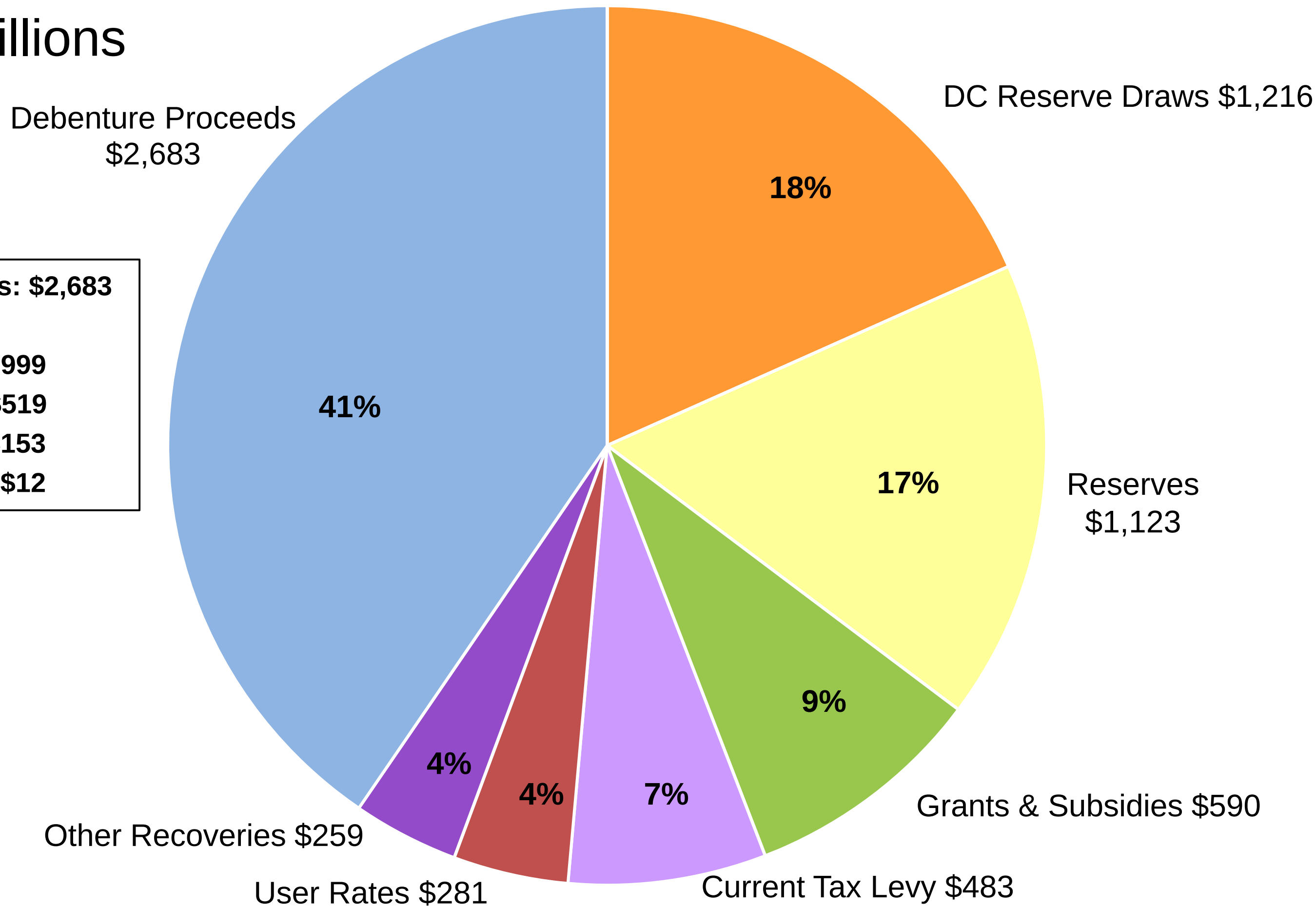
# High Growth-Related Investment in the Next Few Years




73% of capital investment in the next ten years is to support growth

# Debt Financing of Infrastructure is Necessary

$ Millions




**Debenture Proceeds: $2,683**

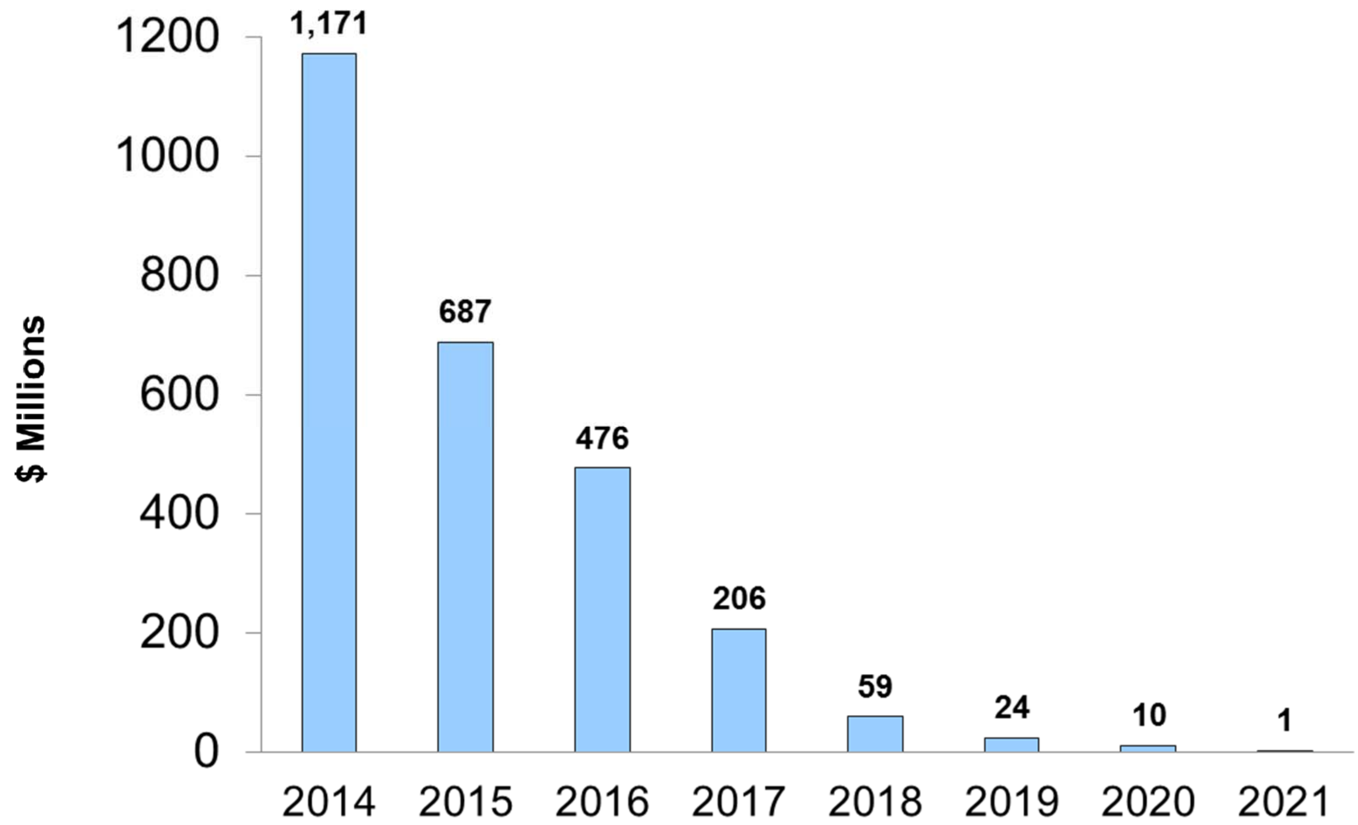
| | |
|---|---|
| **DC** | **$1,999** |
| **User Rate** | **$519** |
| **Tax Levy** | **$153** |
| **York Housing** | **$12** |

41% of the capital plan will be debt financed

# Capital Spending Authority and Planned Investment

- Capital Spending Authority (CSA)
  - CSA is the authority from Council to commit funding to a capital project
  - It is a multi-year authority for large multi-year projects
  - Capital spending authority must be forecast for each year of the capital plan to ensure that the Region will comply with the provincial Annual Repayment Limit

# Capital Spending Authority Requested for 2014




The proposed Capital Spending Authority for 2014 is $2.6 billion

# Top 10 Capital Projects by CSA

| Projects | Proposed 2014 CSA ($ millions) |
|---|---|
| Spadina Subway Extension | 471 |
| Duffin Creek Stage 1 & 2 Upgrades | 221 |
| York Durham Sewage System (YDSS) Southeast Collector | 175 |
| Peel Water Supply Cost-Shared Work | 135 |
| Bus Rapid Transit (BRT) Facilities and Terminals | 133 |
| Queensville/ Holland Landing/ Sharon York Durham Sewage System (YDSS) Connection | 116 |
| Upper York Sewage Solutions | 84 |
| Toronto Water Supply Cost-Shared Work | 78 |
| Richmond Hill Housing and Community Hub | 51 |
| South Corp Development Plan Implementation (9060 Jane) | 48 |

# Fiscal Planning

# The Fiscal Environment

# Fiscal Realities

- Healthy and prosperous economy
- Assessment growth strong, but expected to moderate
- Relatively low cost of government
- Large and growing capital asset base
- Rising debt levels
- Reliance on development charge revenues
- GTA pooling upload has ended
- Significant medium-term operating pressures

# Implications for Fiscal Planning

- A long-term perspective is needed
- A high savings rate is required for long-term fiscal sustainability
- Sound and prudent multi-year budgeting, debt management and reserve management are all necessary elements of an integrated fiscal strategy

# From the Credit Rating Agencies

"The Regional Municipality of York's Aaa debt rating reflects a high level of cash and investments, prudent and far-sighted fiscal management and consistent reporting of positive operating outcomes."

- Moody's Investor Service, November 2013

"The ratings on the Regional Municipality of York, in the Province of Ontario, reflect Standard & Poor's Ratings Services' view of the region's record of very strong sustained economic growth, very positive liquidity levels, and strong budgetary flexibility."

- Standard and Poor's, August 2013

The Region has received an AAA/Aaa credit rating for 13 years in a row. Triple A is the highest credit rating and allows the Region to borrow at the lowest possible cost

# S&P's Revised Outlook

- S&P recently reaffirmed the Region's AAA credit rating but revised its outlook from "stable" to "negative". This signals the possibility of a rating downgrade within the next two years

- S&P applies a standard worldwide methodology that does not consider the Region's circumstances (two-tier structure, high level of DC revenue)

- S&P's concerns include:
  - High absolute levels of debt forecast (peak of $5B from the current $2B)
  - Economic risk associated with building growth-related infrastructure well in advance of collecting the DC revenues needed to pay for it

- On the other hand, Moody's is less concerned about absolute debt levels so long as there is sufficiently high cash and reserve levels available to support the debt

- Moody's recently reaffirmed the Region's credit rating as Aaa stable

# Proposed Adjustments to Fiscal Strategy

- Take a more integrated approach to debt and reserve management, leading to a lower peak for debt and a faster decline from the peak
- Reduce the Ten-Year Capital Plan by approximately $1.2B
- Increase focus on debt reduction in a new reserve management strategy
- Set a medium-term goal of eliminating tax-levy-supported debt for all but the largest projects
- Continue to aggressively save for asset renewal and replacement

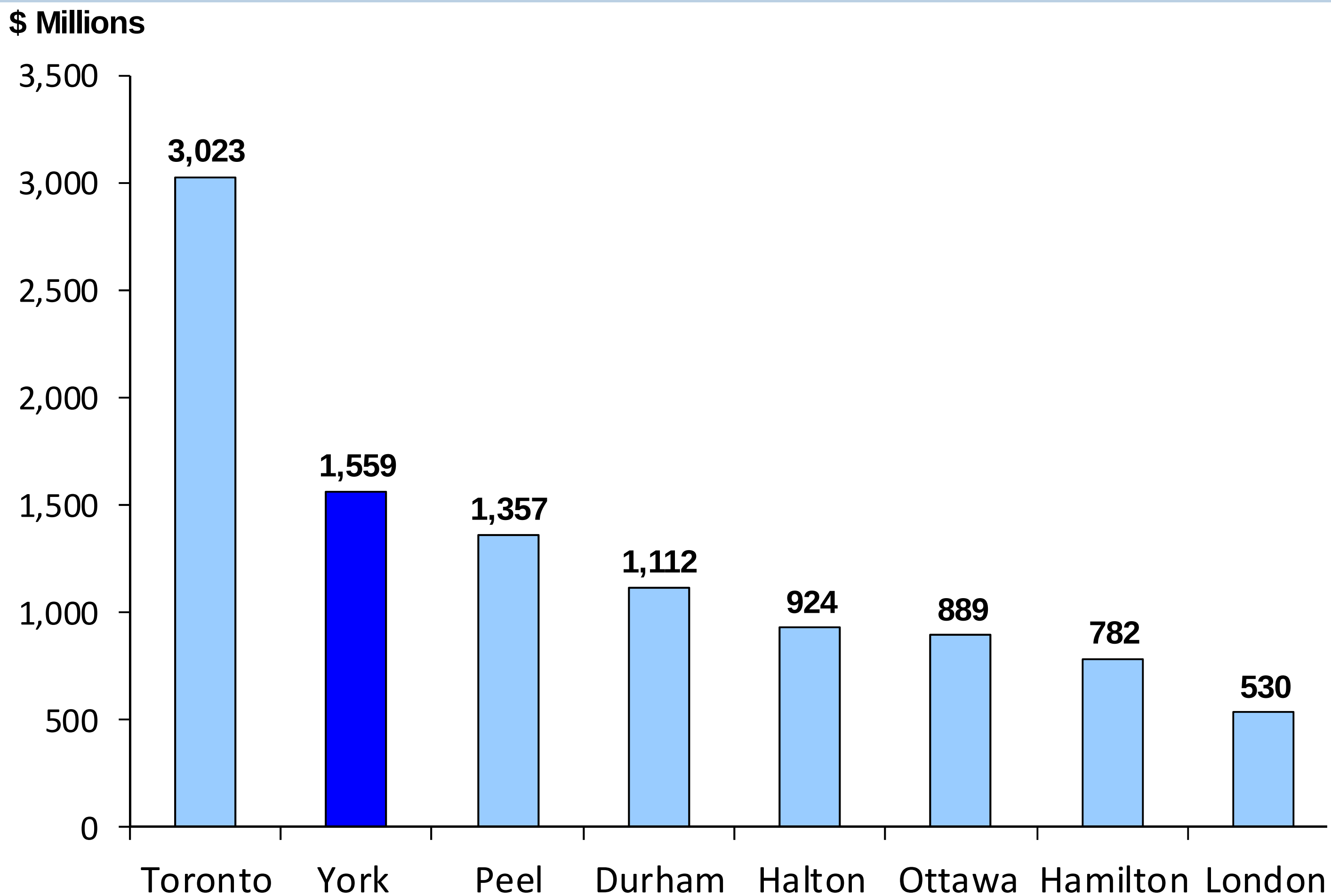
# Reserves

# Purpose of Reserves

- Reserves are critical to the Region’s debt management plan because:
  - Credit rating agencies evaluate liquidity and consider reserves an indicator of fiscal prudence
  - Adequate reserves reduce the need to issue debt for asset rehabilitation and replacement

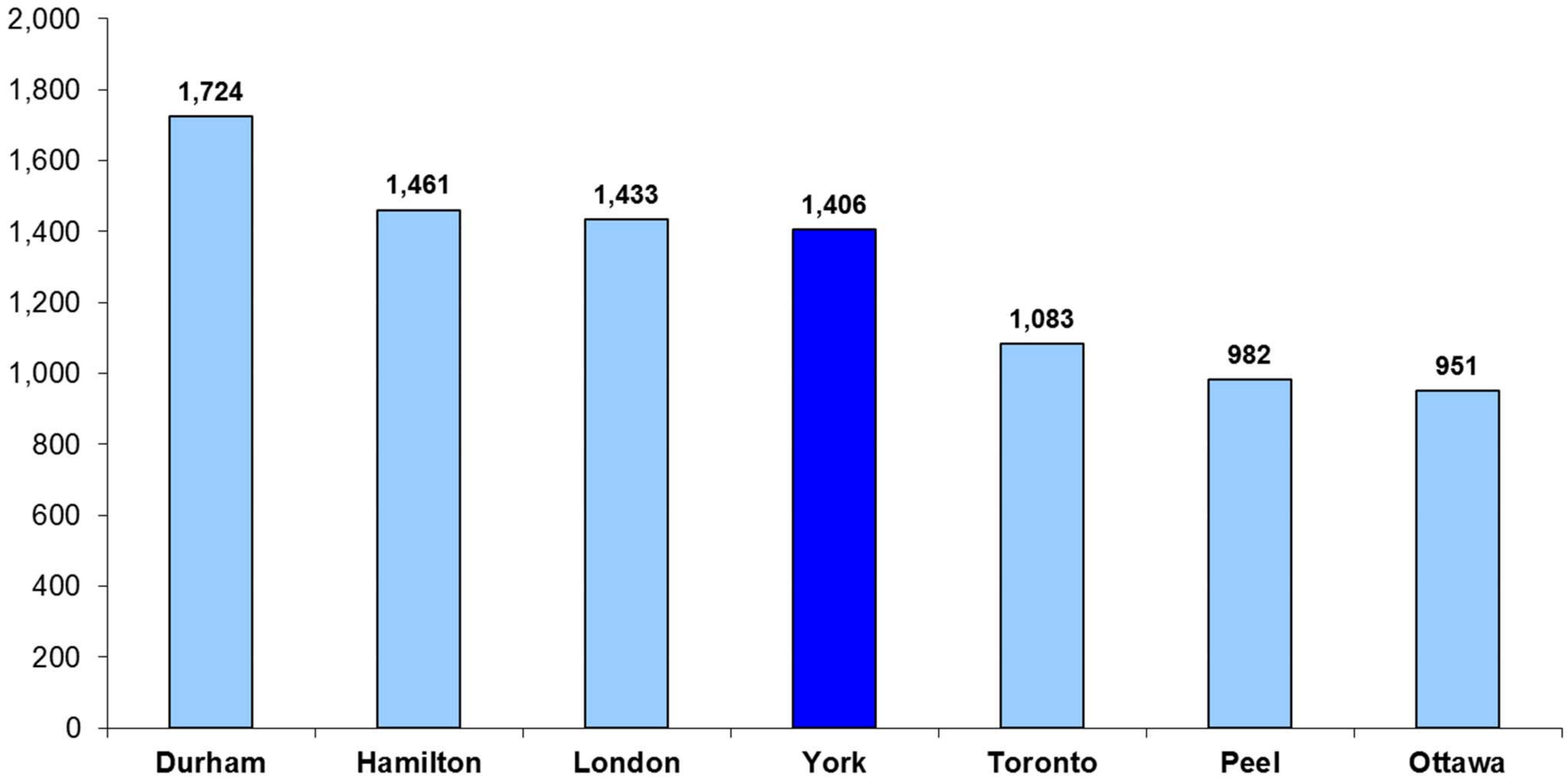
- Reserves also protect the Region against non-capital long-term liabilities and external shocks

# High Levels of Reserves




In 2012, York Region's reserves were second only to Toronto

# Healthy Reserves Per Capita in 2012

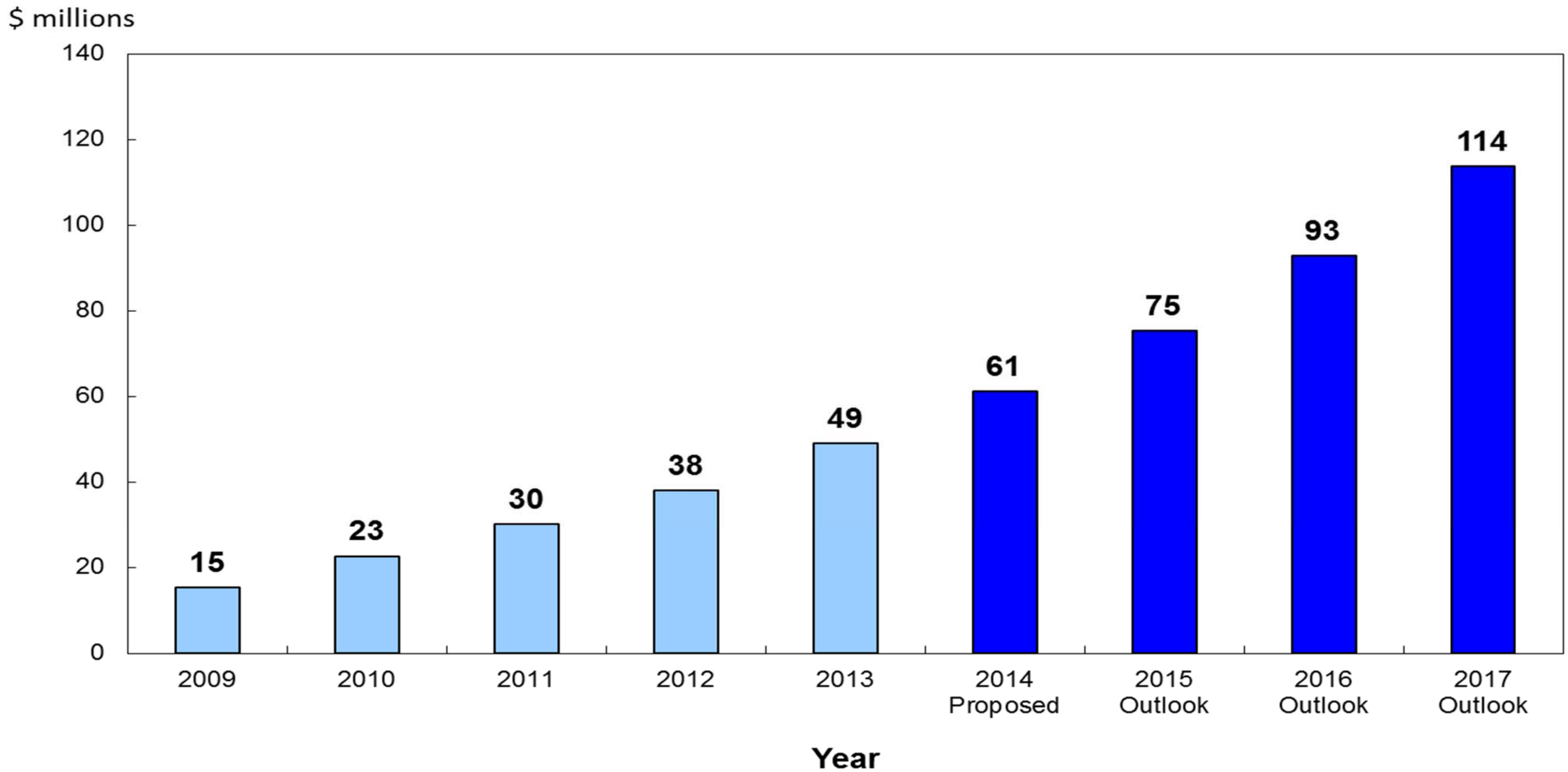



York Region's reserve levels per capita compare well to other municipalities

# Reserve Management Strategy is Key to Achieving Financial Sustainability

- Long-term financial sustainability will require:
  - Saving for future capital asset life cycle and replacement investments
  - Using reserves judiciously to manage debt
- The reserve management strategy includes continued implementation of Council's policy to increase contributions for capital asset replacement

# Growth in Capital Asset Replacement Reserve Contributions




Contributions to capital asset replacement reserves are continuing to grow

# Proposed New Debt Reduction Reserve

- A proposed new Debt Reduction Reserve will be used to minimize tax levy debt for capital projects
- Initial estimates indicate that the Debt Reduction Reserve will eliminate over $400 million of tax levy debt over the next 10 years
- This will save the Region approximately $175 million in interest and principal payments

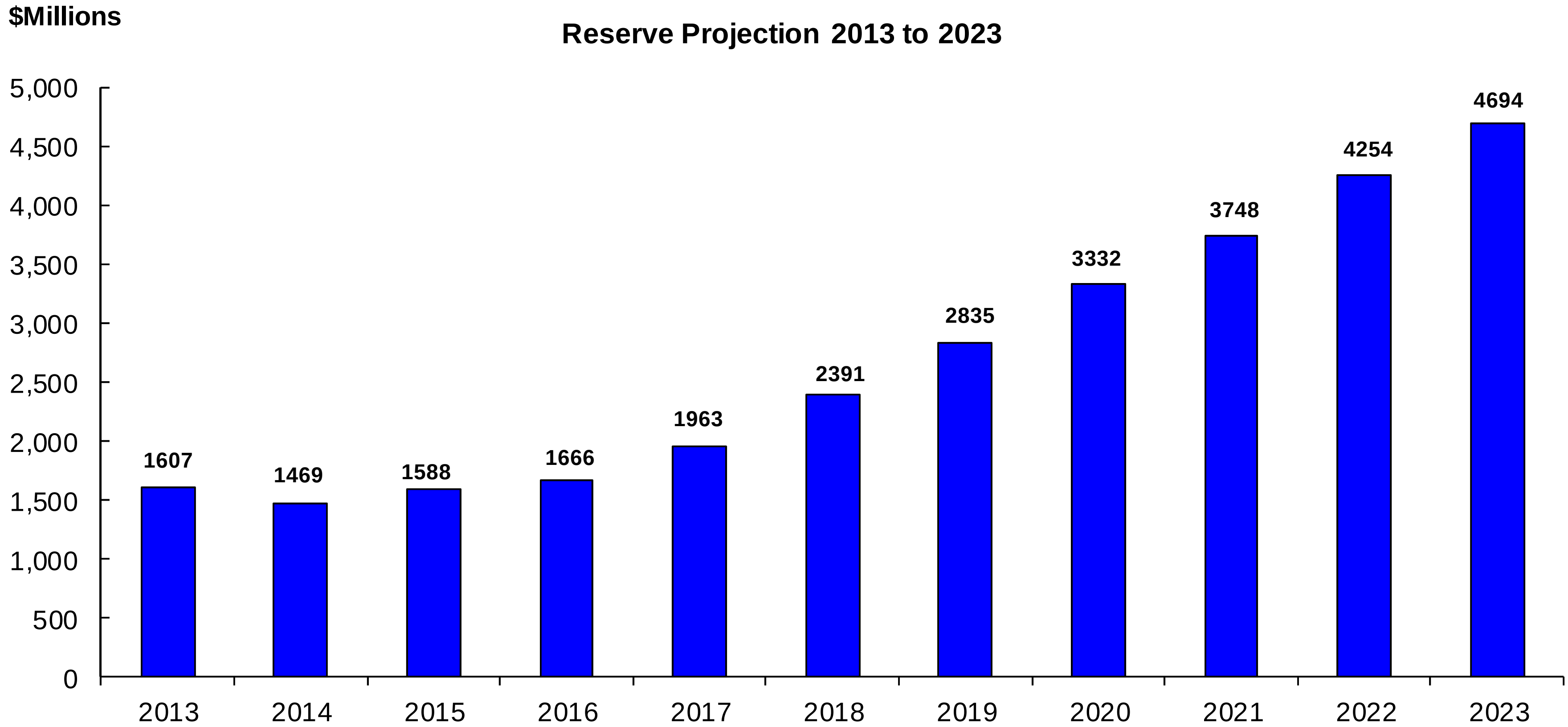
# Setting Up the Debt Reduction Reserve

| **Seeding the Debt Reduction Reserve** | **$ Millions** |
|---|---|
| Unspent debt reduction funding (from prior years) | 16 |
| Transfer from General Capital Reserve | 120 |
| Transfer from Other Reserves | 65 |
| 2014 Contribution | 17 |
| Total | 218 |

# Building the Debt Reduction Fund Reserve

| Policy | Current Policy | Proposed New Policy |
|---|---|---|
| Surplus Policy | Housing Operating Surplus:<br>• 80% Social Housing Development<br>• 20% Working Capital Reserve<br><br>Regional Operating Surplus:<br>(order of priority)<br>1. Cover contingent liability reserves (Working Capital, LTD, WSIB, Insurance)<br>2. Fuel Stabilization Reserve, if needed<br>3. Remainder to General Capital Reserve | No Change to Housing Operating Surplus<br><br>Regional Operating Surplus:<br>(order of priority)<br>1. Cover contingent liability reserves (Working Capital, LTD, WSIB, Insurance)<br>2. General Capital Reserve, if needed<br>3. Fuel Stabilization Reserve, if needed<br>4. Remainder to Debt Reduction Reserve |
| Supplementary Tax Policy | 50% General Capital<br>50% Capital Asset Replacement | 50% Capital Asset Replacement<br>50% Debt Reduction Fund |
| Operating Budget Contribution | $11.8 million annually | Minimum of $11.8 million annually plus 50–100% of avoided financing costs in future years |

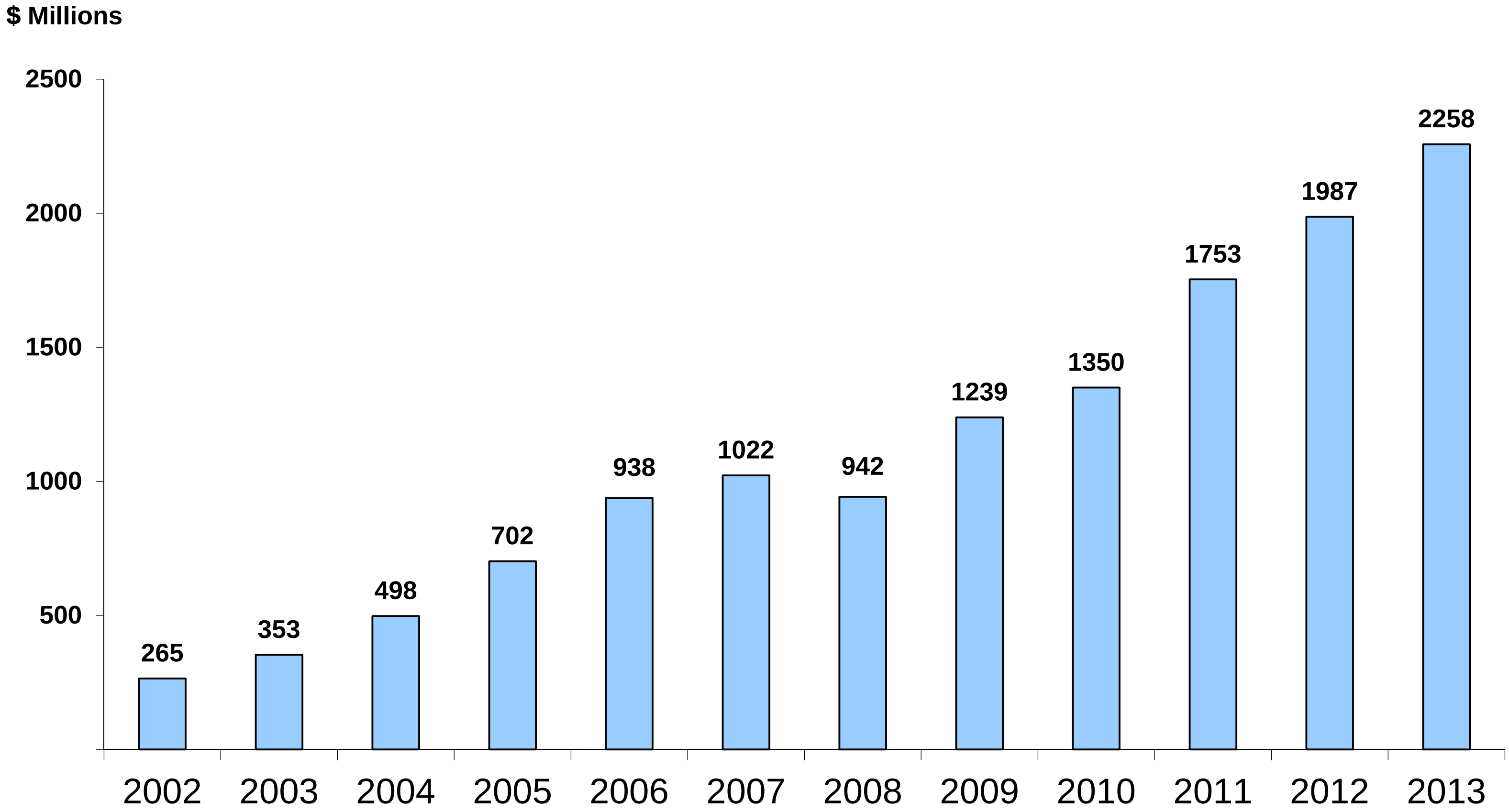
# Growing Reserves




Reserve balances are robust and growing, which will support the Region's credit rating

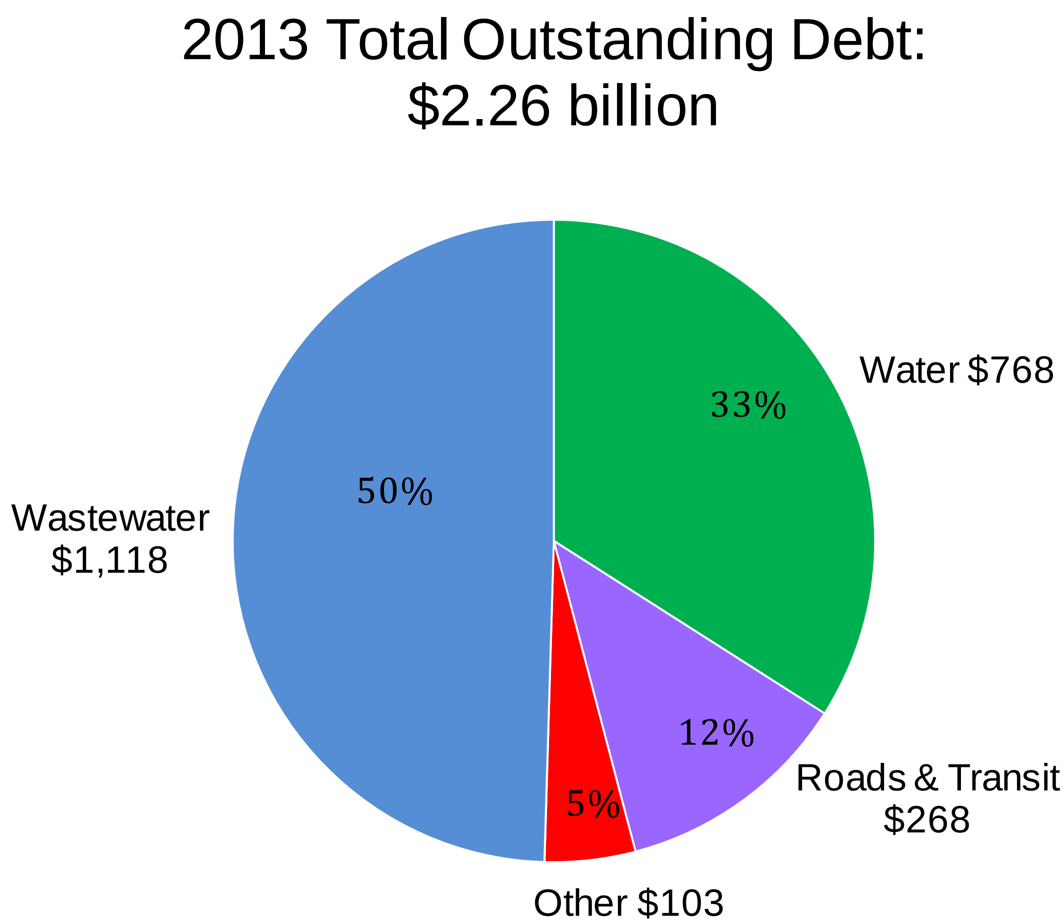
# Debt Management

# Historical Debt Levels



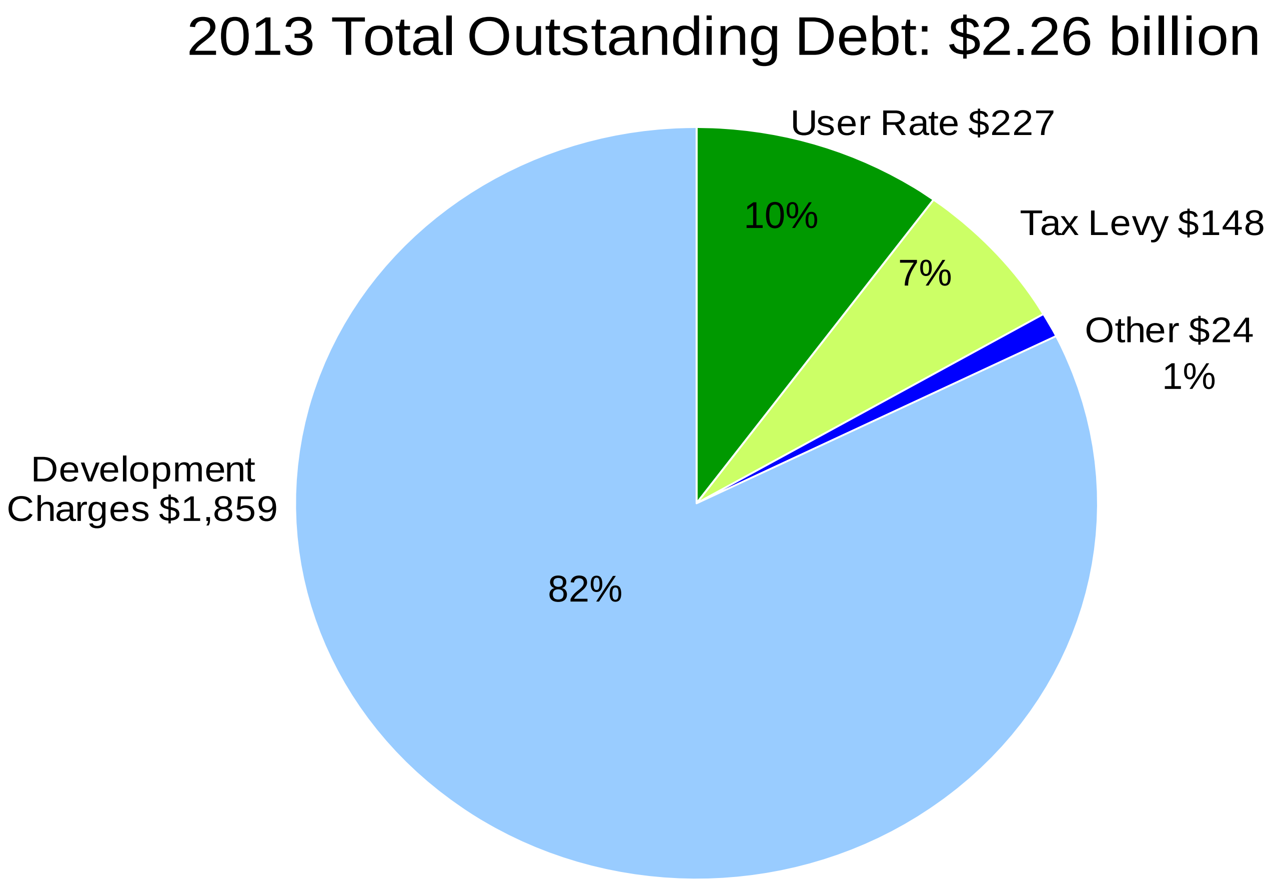

The Region's current debt is $2.26 billion

# Purpose of Debt is to Finance Infrastructure



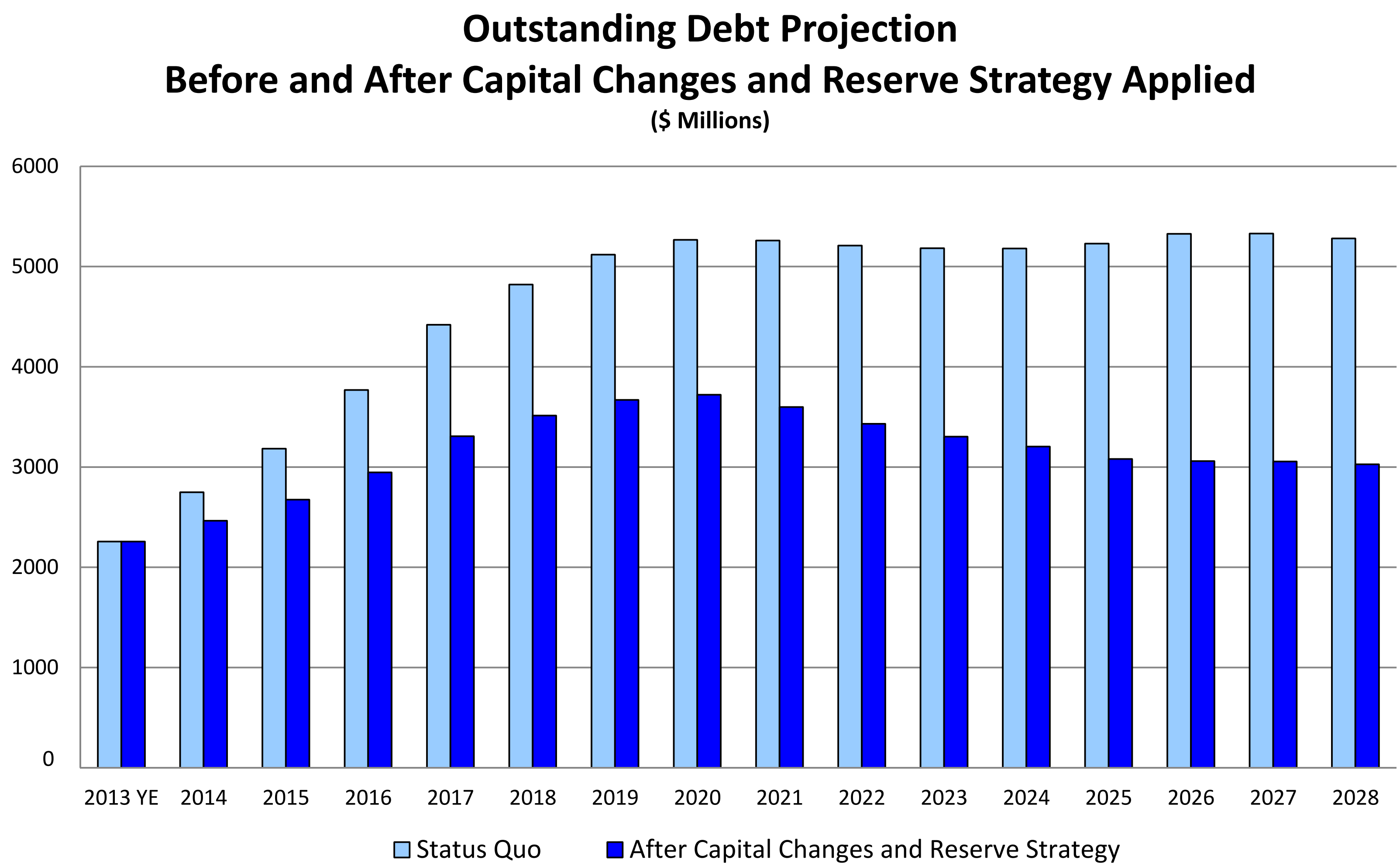

84% of the current debt is related to water and wastewater projects

# Funding Sources for Debt Servicing

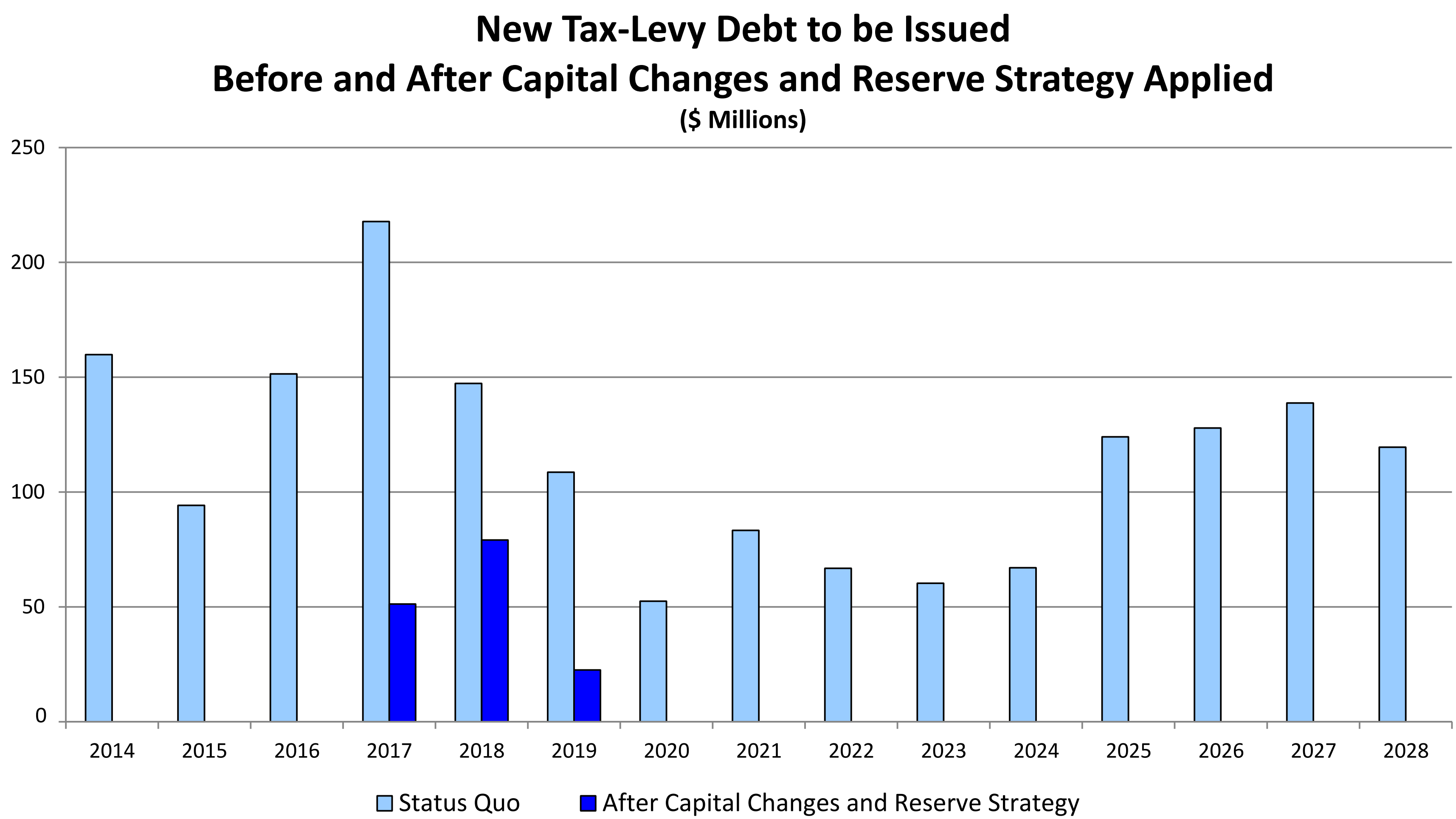



82% of the existing debt will be repaid through development charges

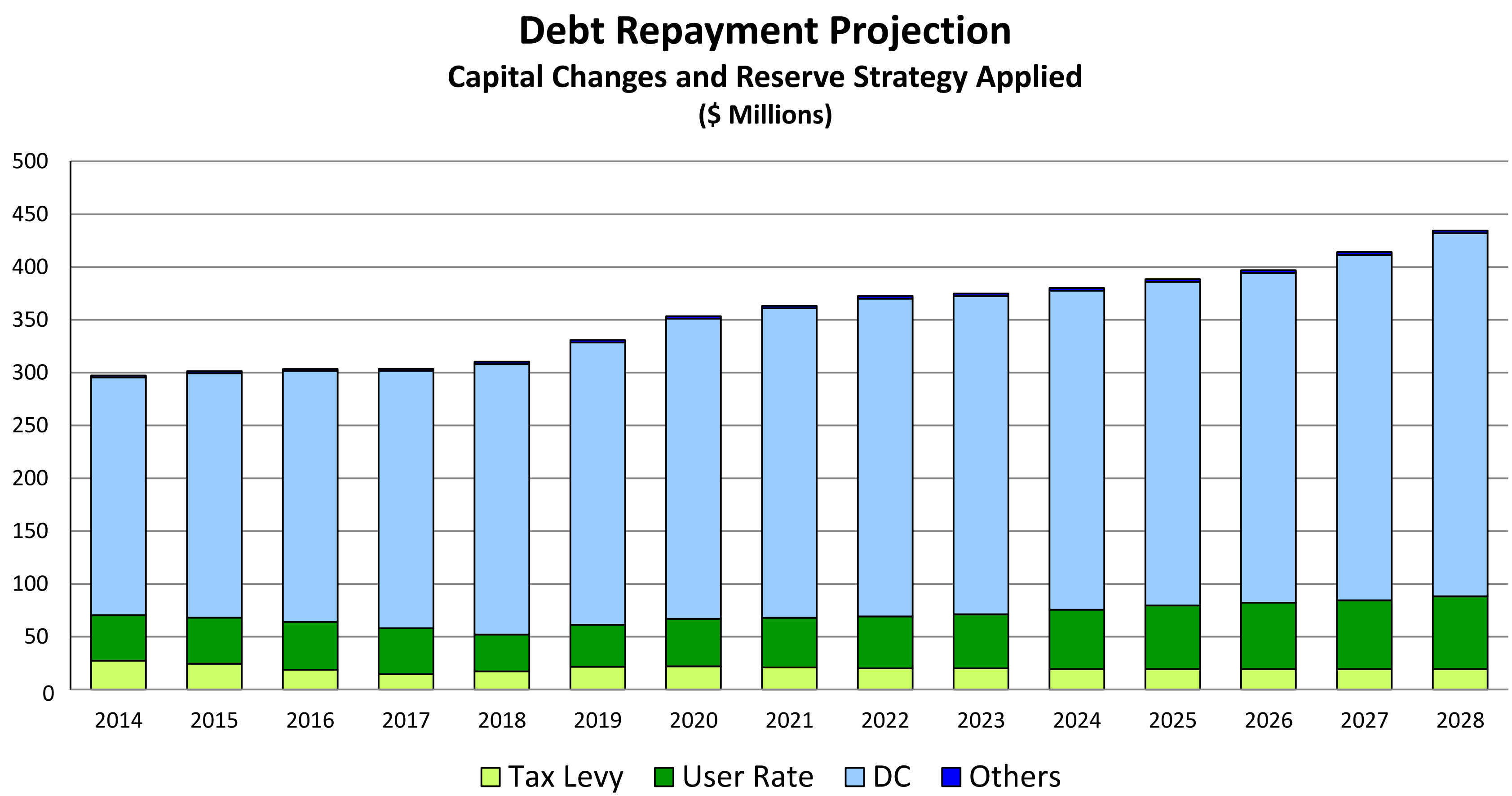
# Capital Changes and Reserve Strategy Substantially Reduce Debt



# New Reserve Strategy Will Reduce New Debt Funded From Tax Levy

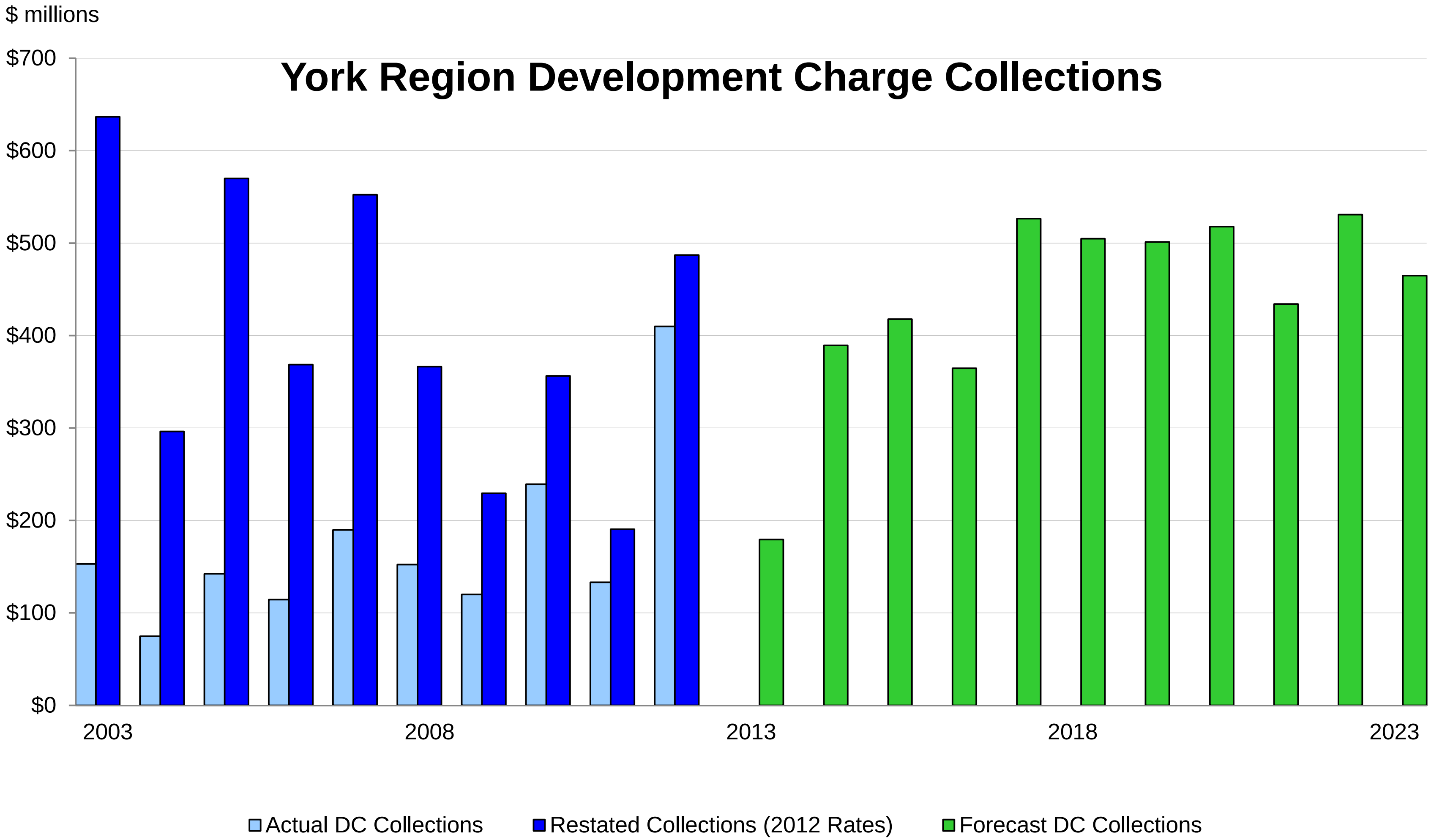


# The Region Will Repay Most Debt Through Development Charges




Land-use planning and capacity allocation decisions can support the timely collection of development charges

# DC Collections Support Debt Repayment



# Annual Repayment Limit (ARL) Regulation

- The Province's ARL regulation limits a municipality's debt servicing and other financial obligations to a maximum of **25%** of its own-source revenue

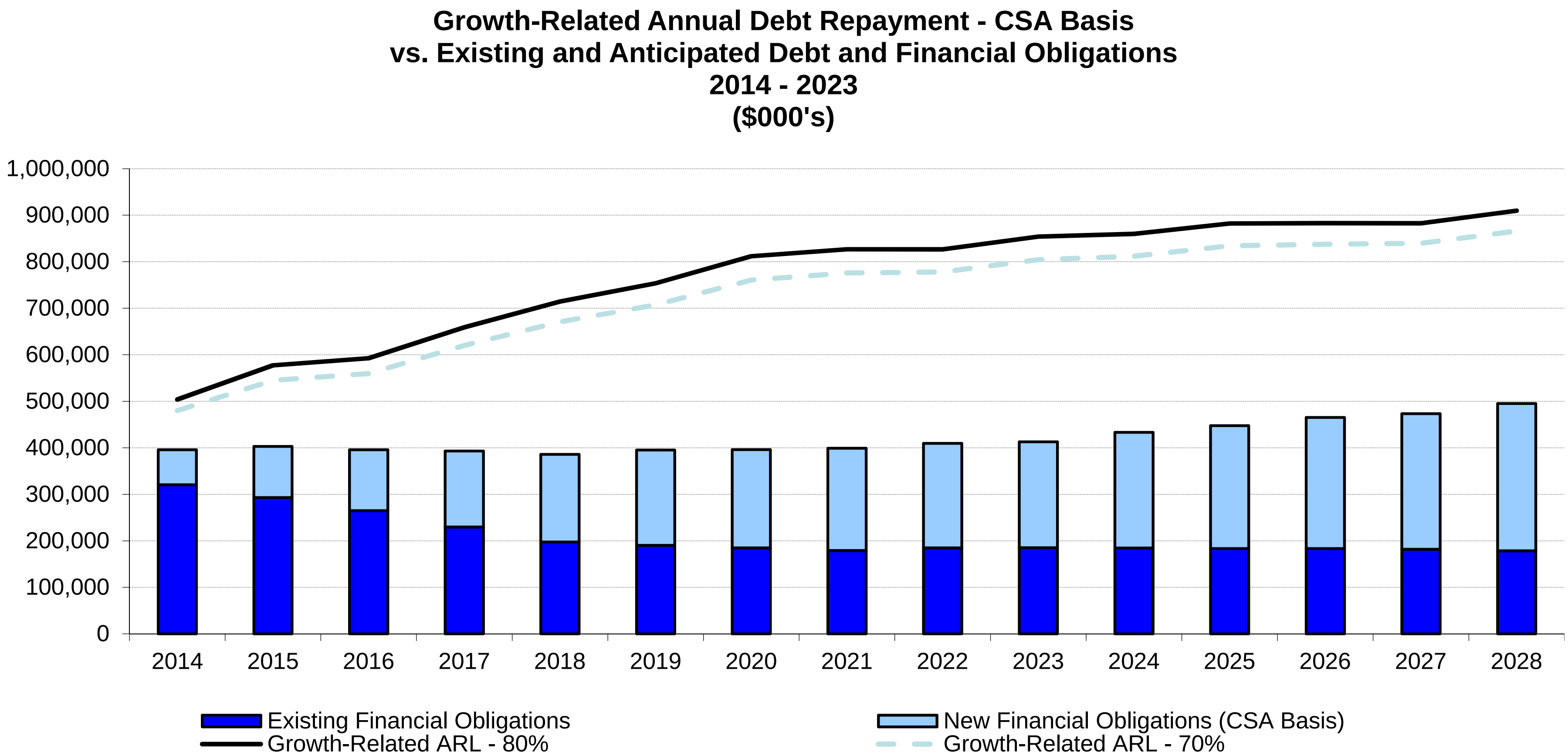
- In June 2011 the province amended the ARL regulation under the *Municipal Act* to allow York Region to include **80%** of its average development charge collections over the last three years in its ARL calculation

- The regulation has two requirements of the Region:
  - A Long-Term Debt & Financial Obligations Management Plan must be adopted or affirmed by Council as part of each annual budget
  - The Region must maintain a high credit rating

# ARL Implications for Capital Budgeting

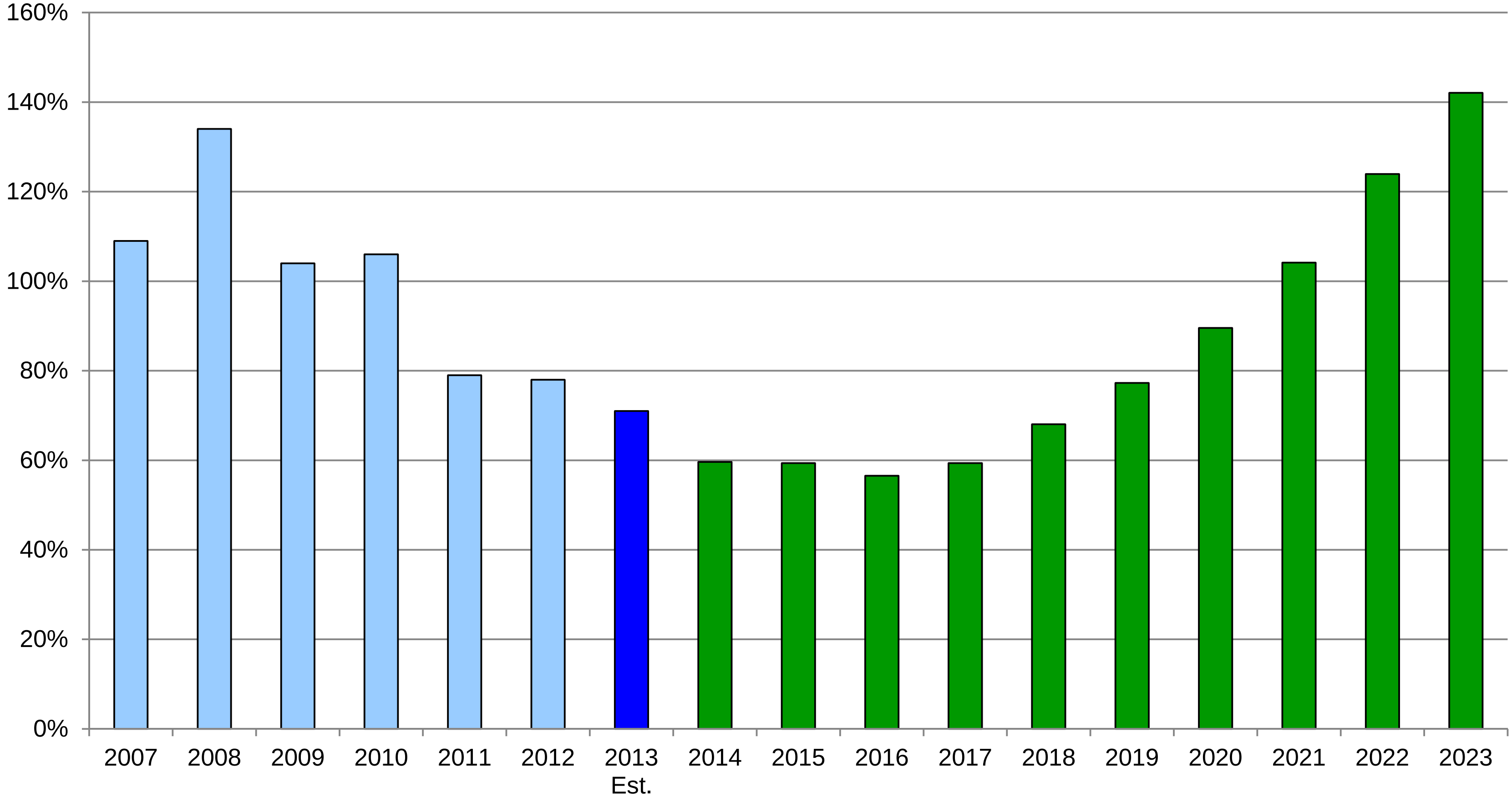
- Capital Spending Authority is granted based on contractual and other clear commitments to capital projects
- The debt-financed portion of Capital Spending Authority is considered a debt commitment for the purposes of the Annual Repayment Limit (ARL)
- The debt servicing costs associated with the Region's robust capital program need to be kept within the Annual Repayment Limit

# ARL and Debt Servicing Obligations




The Region will remain within its Annual Repayment Limit

# Reserve to Debt Ratio Will Improve




The reserve to debt ratio is declining, but is forecast to increase in 2017 and exceed 100% by 2021

# Budget Review Process and Conclusion

# Council/Committee Review Process

**Council**
November 21, 2013

→

**Committee of the Whole (1)**
December 5, 2013

- York Regional Police
- YRRTC
- Transportation & Community Planning
- Community & Health Services

**Committee of the Whole (2)**
December 12, 2013

- Conservation Authorities
- Environmental Services
- Fiscal Strategy (reserves and debt management)
- Corporate Management

→

**Council**
December 19, 2013

# Summary of the Budget

- Budget responds to the continued growth of the Region
- Low tax increase
- Robust capital program
- Increased contribution to capital asset replacement reserves
- Creation of a Debt Reduction reserve
- Compliant with the Provincial Annual Repayment Limit

# Impact on the Homeowner

For an average York Region residential property assessed at $472,000, a 1.54% tax levy increase in 2014 is equivalent to $32