



Long-term financial planning

A York Region perspective

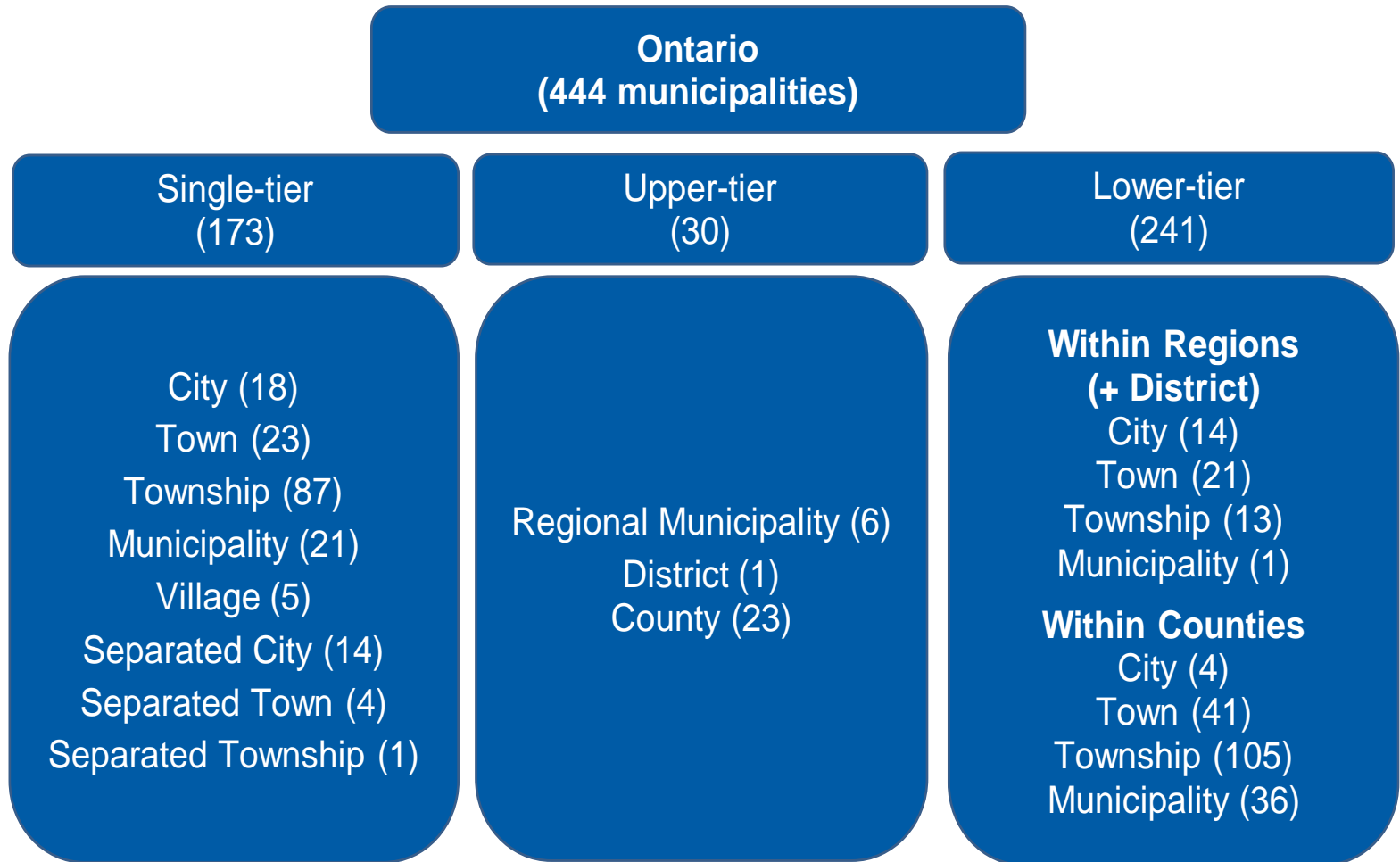
Agenda

- Overview
- York Region – case study
 - History
 - Fiscal Strategy
 - Asset Management
 - Multi-year budgeting
- Policies in place



Overview

Municipal structure in Ontario is complex



Financial sustainability means...

- Growth can be accommodated without unacceptable tax levy or debt increases
- Infrastructure can be kept in a state of good repair and replaced at the right time
- Service levels can be increased as the Region urbanizes
- Service levels can be maintained in the face of changes in economic conditions
- Financial responsibility is fairly shared between current and future residents (inter-generational equity)



Financial Sustainability: key challenges

1. The future cost of infrastructure investments
2. A mismatch between level of service decisions and fiscal capacity
3. Unforeseen shocks to revenue or spending
4. Growth that does not materialize as expected
5. Water rates that are set at less than full cost recovery



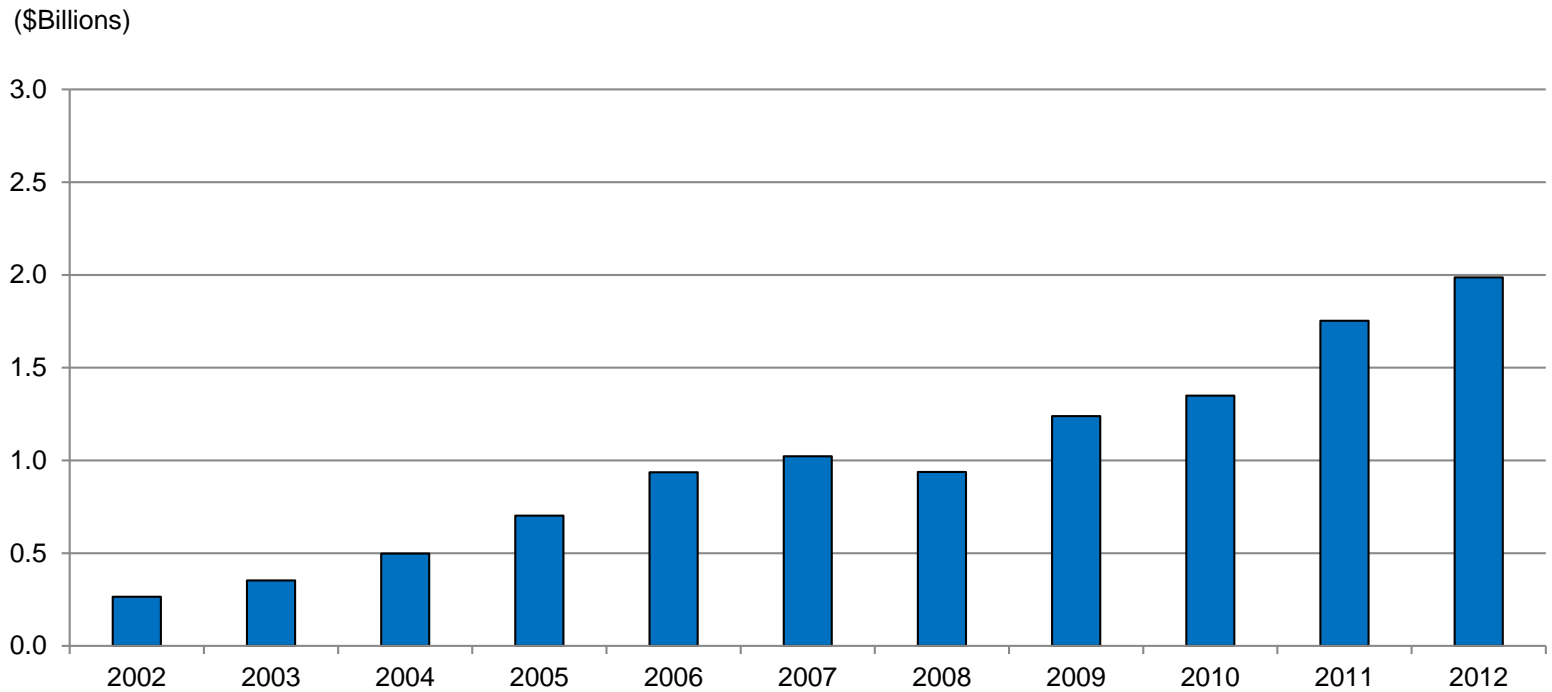
York Region: Case study



History

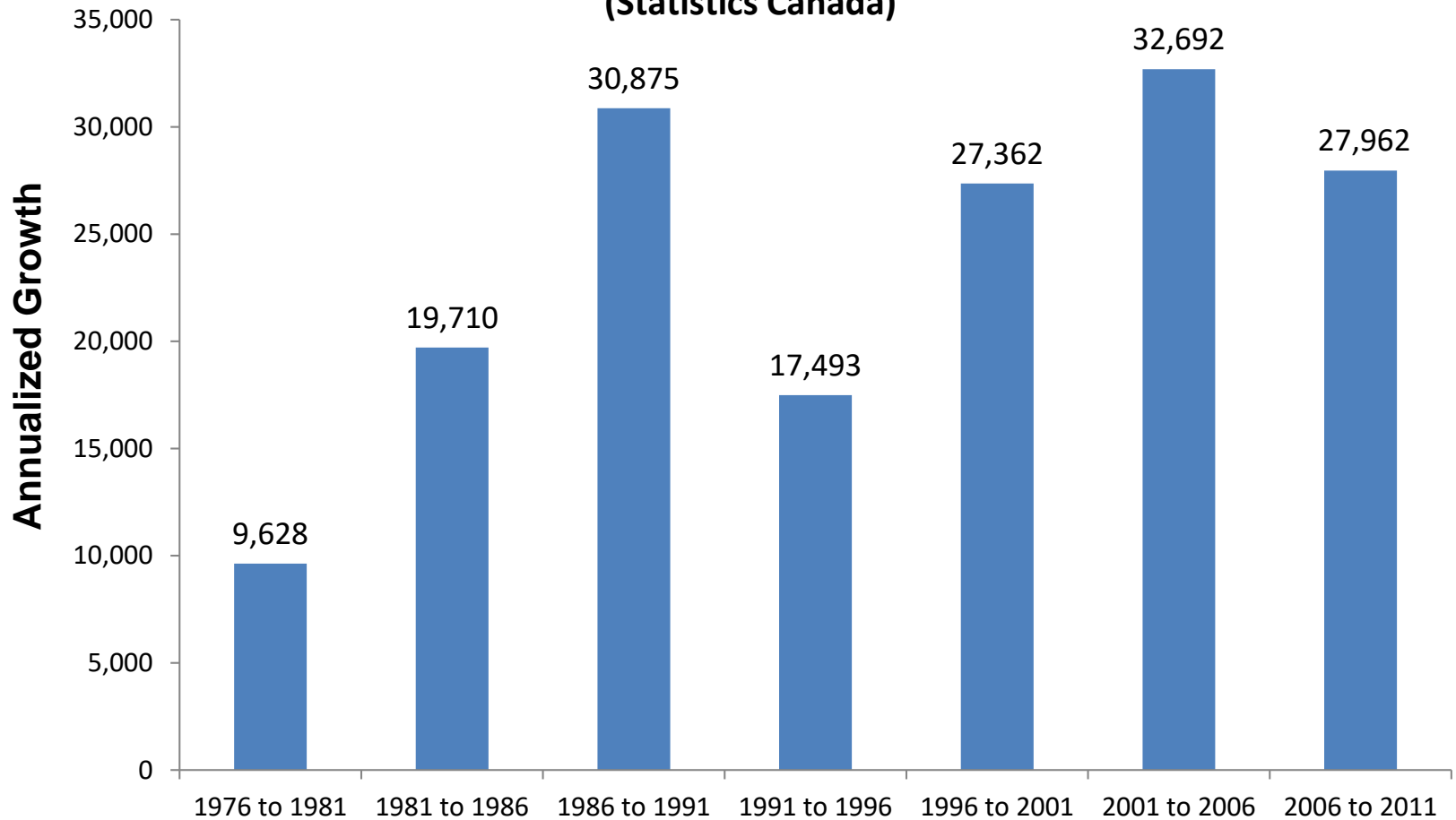
Debt

Historical Net Outstanding Debt Projection

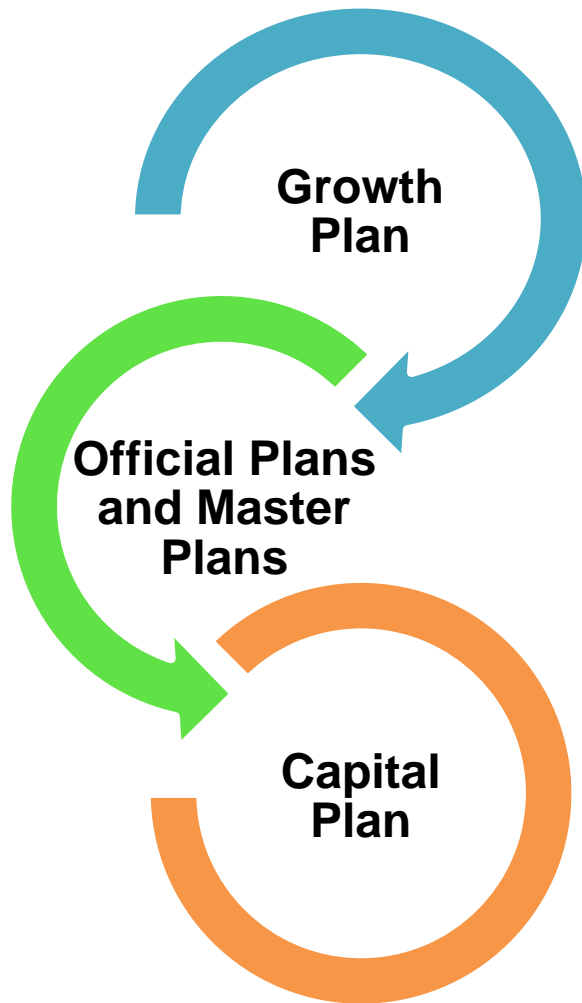


2012: York Region Growth over the Last Four Decades

York Region Annualized Census Population Growth in Five-Year Increments
(Statistics Canada)



Financial Sustainability: Municipal Infrastructure



Mandates growth targets



**Official Plans must conform to the Growth Plan
Infrastructure master plans fall in line**



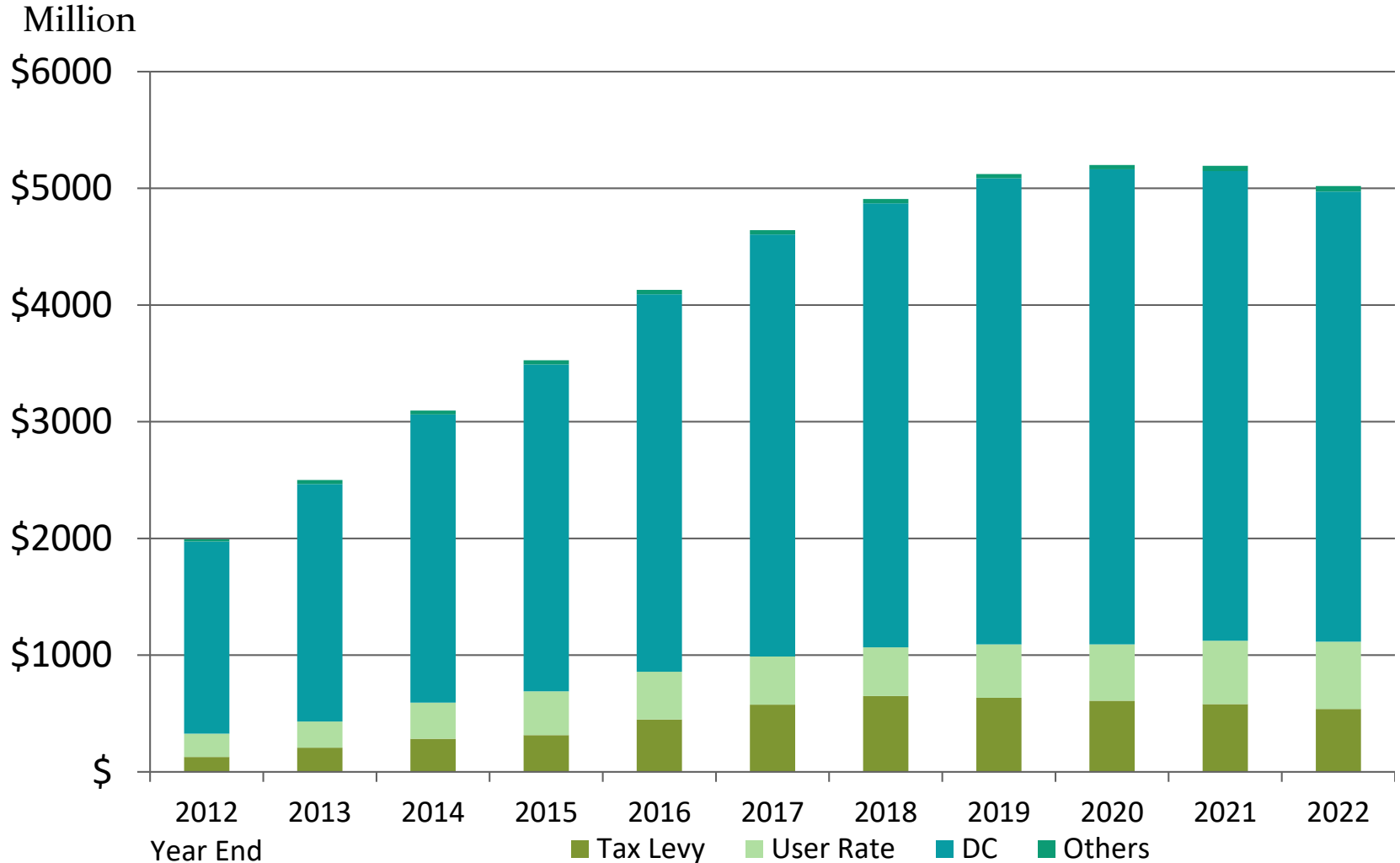
Implements the Master Plans

Financial Sustainability: Fixed targets can have unintended financial consequences



Outstanding Debt 2013 – 2022 Forecast

Based on 2013 Ten-Year Capital Plan



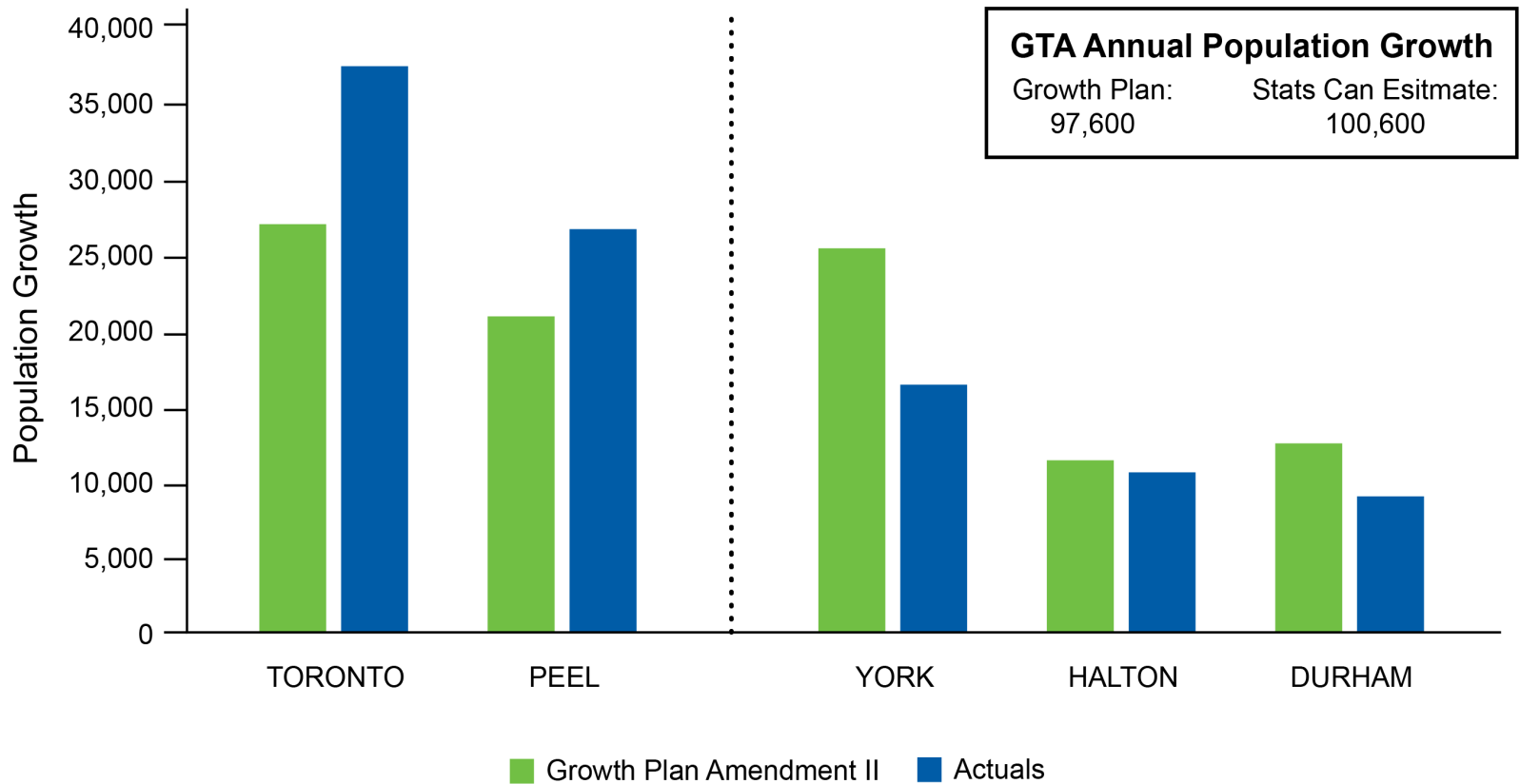
Credit Outlook Revision in 2014

- In 2014, Standard and Poor's (S&P) revised the Region's credit rating from AAA with a negative outlook to AA with a stable outlook
- S&P's concerns included:
 - The high absolute levels of debt forecast (forecast peak level of outstanding debt of over \$5 billion in 2020)
 - Risk associated with building growth-related infrastructure far in advance of the DC revenues to pay for it
- ARL issues

Actual Growth in York is less than Forecast under the Growth Plan

Average Annual Population Growth Comparison

2012-2017





Fiscal Strategy

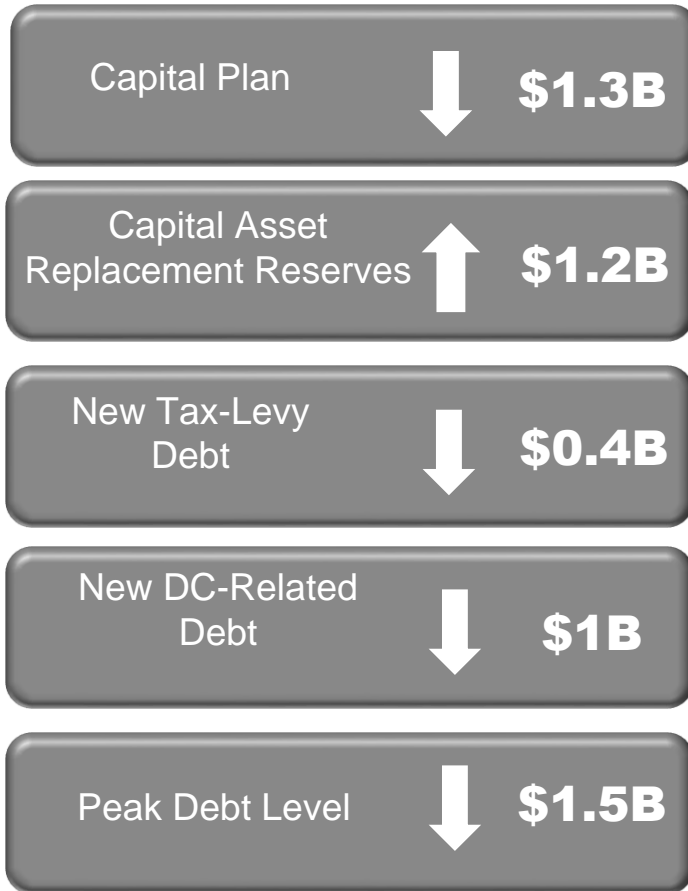
Fiscal Strategy

The essence of fiscal sustainability

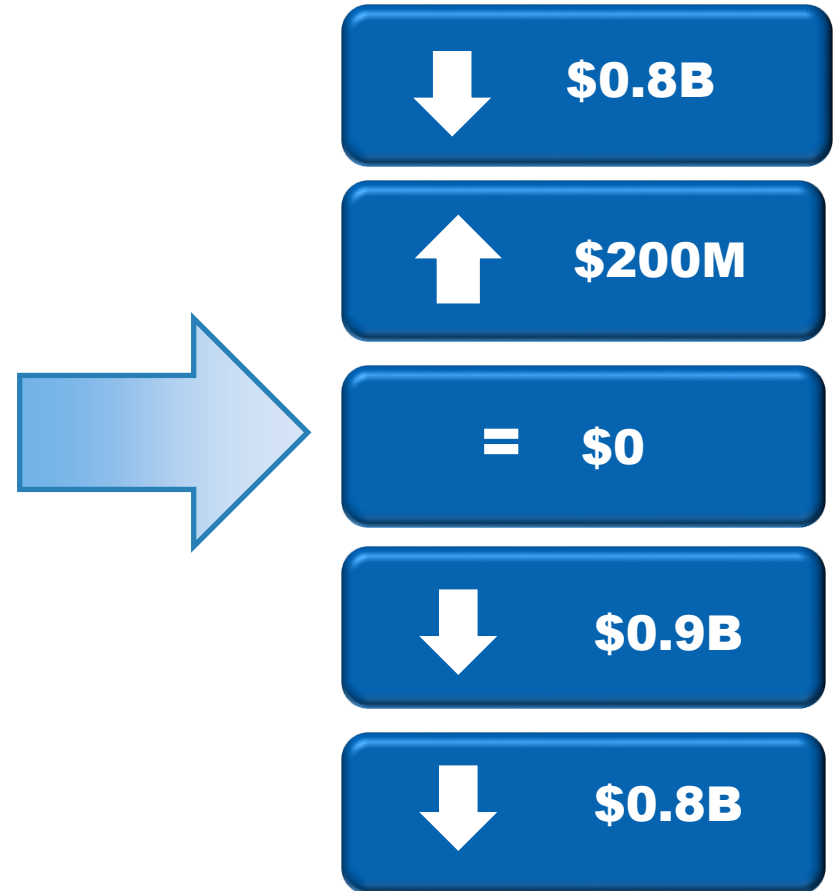


2014/2015: Enhanced Fiscal Strategy

In 2014 Budget (Fiscal Strategy 1.0)



In 2015 Budget (Fiscal Strategy 2.0)

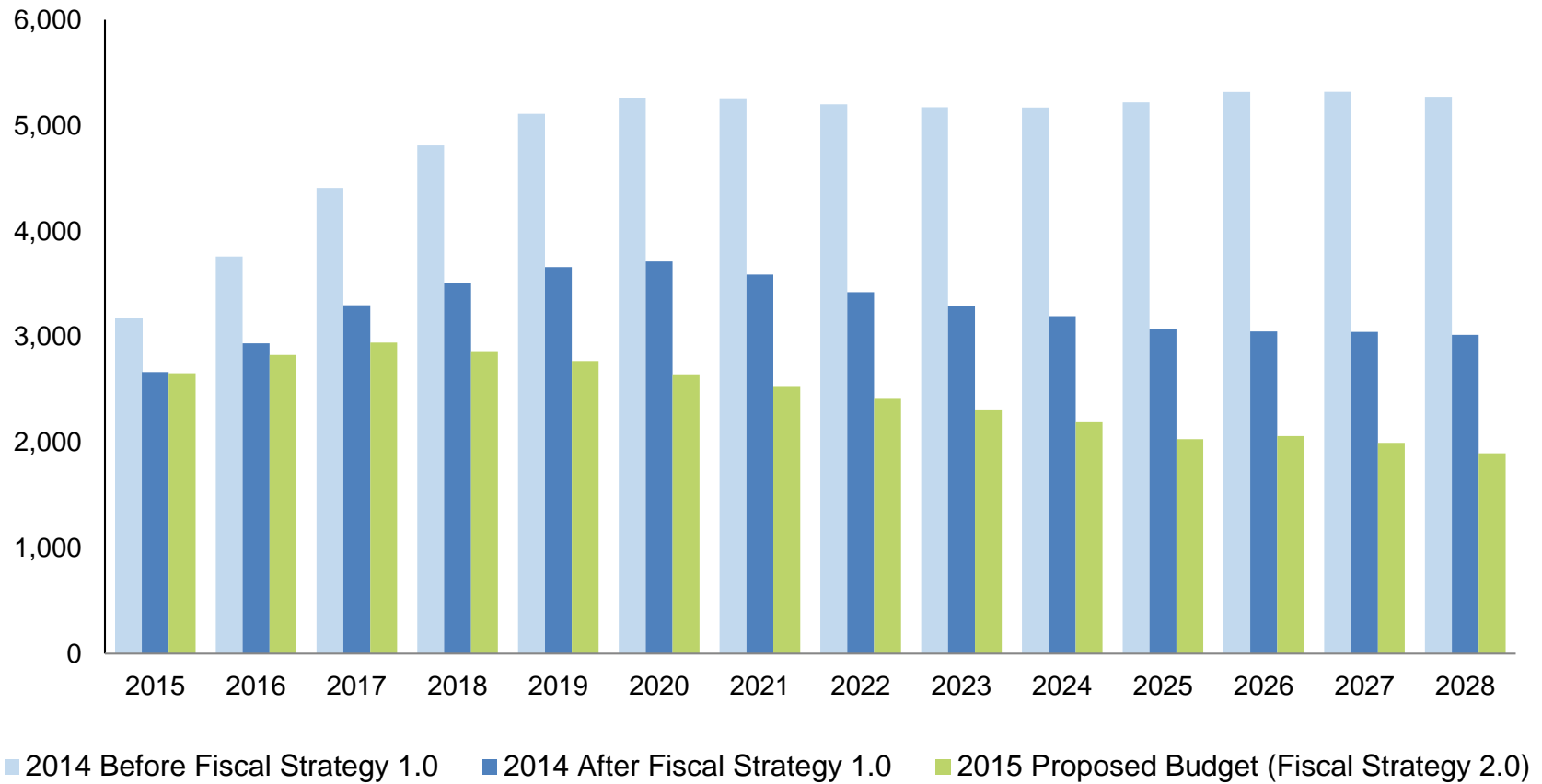


* Numbers are over the next ten years

Fiscal strategy lowers debt levels

Outstanding Debt Projection 2014 Budget vs. 2015 Proposed Budget

\$ Million





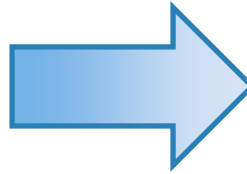
Fiscal Strategy: Debt

Factors that influence debt

- There are at least four factors influencing the success of the debt management plan:
 - Realizing the development charge collection forecast
 - Achieving high enough development charge rates in future DC bylaw updates
 - Containing the capital plan
 - Subsidizing growth capital from the tax base where necessary

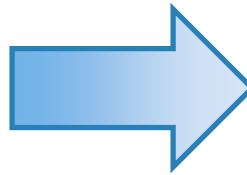
Approach to managing debt

Tax-Levy Debt



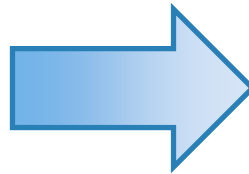
- Apply Debt Reduction Reserve
- Use other capital reserves to avoid debt

Rate-Supported Debt



- Achieve full cost recovery pricing

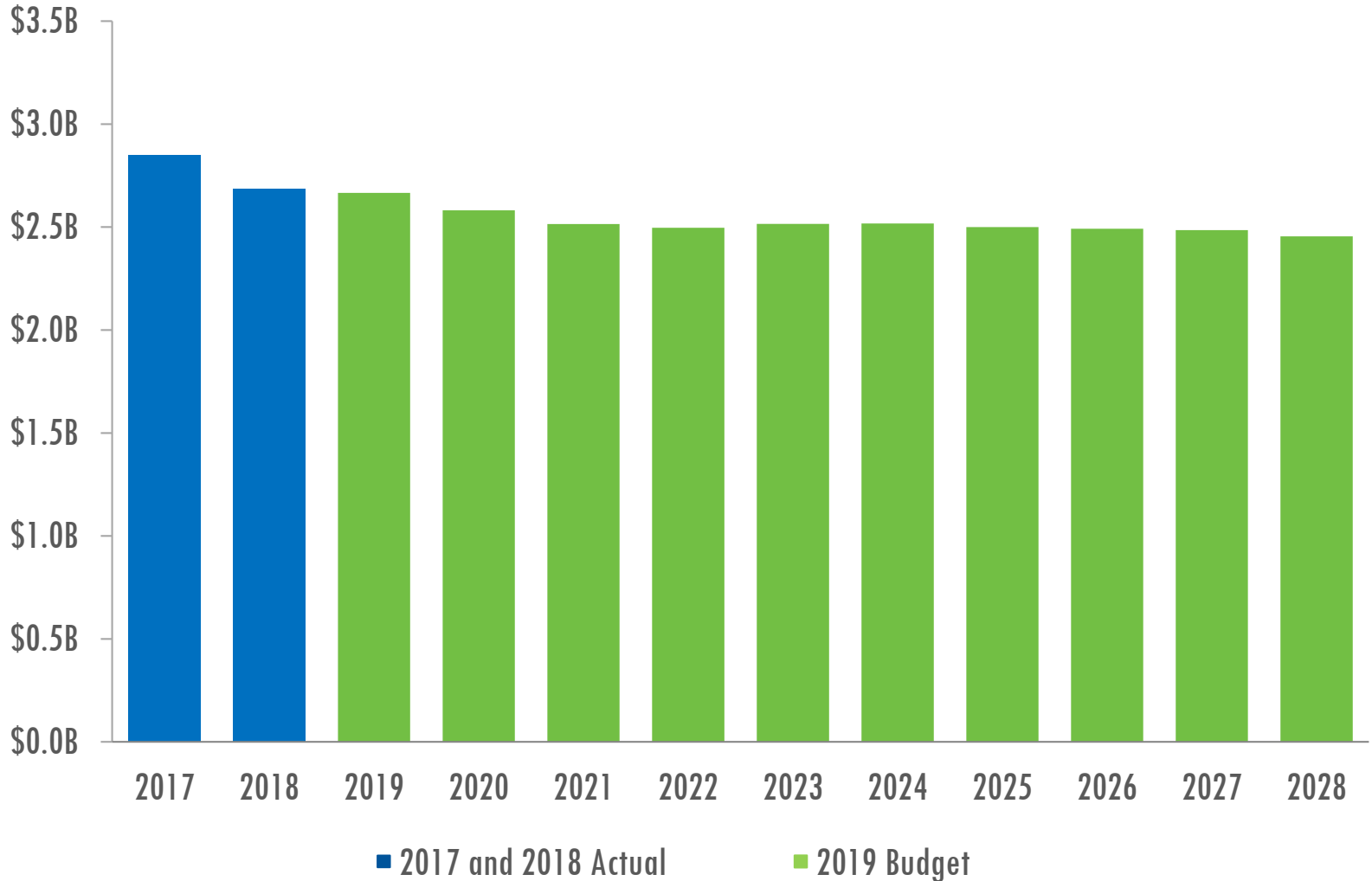
DC (Growth-Related)
Debt



- Defer capital projects temporarily
- Optimize use of DC reserves
- Closely monitor DC collections
- Adjust capital plan if necessary

Debt

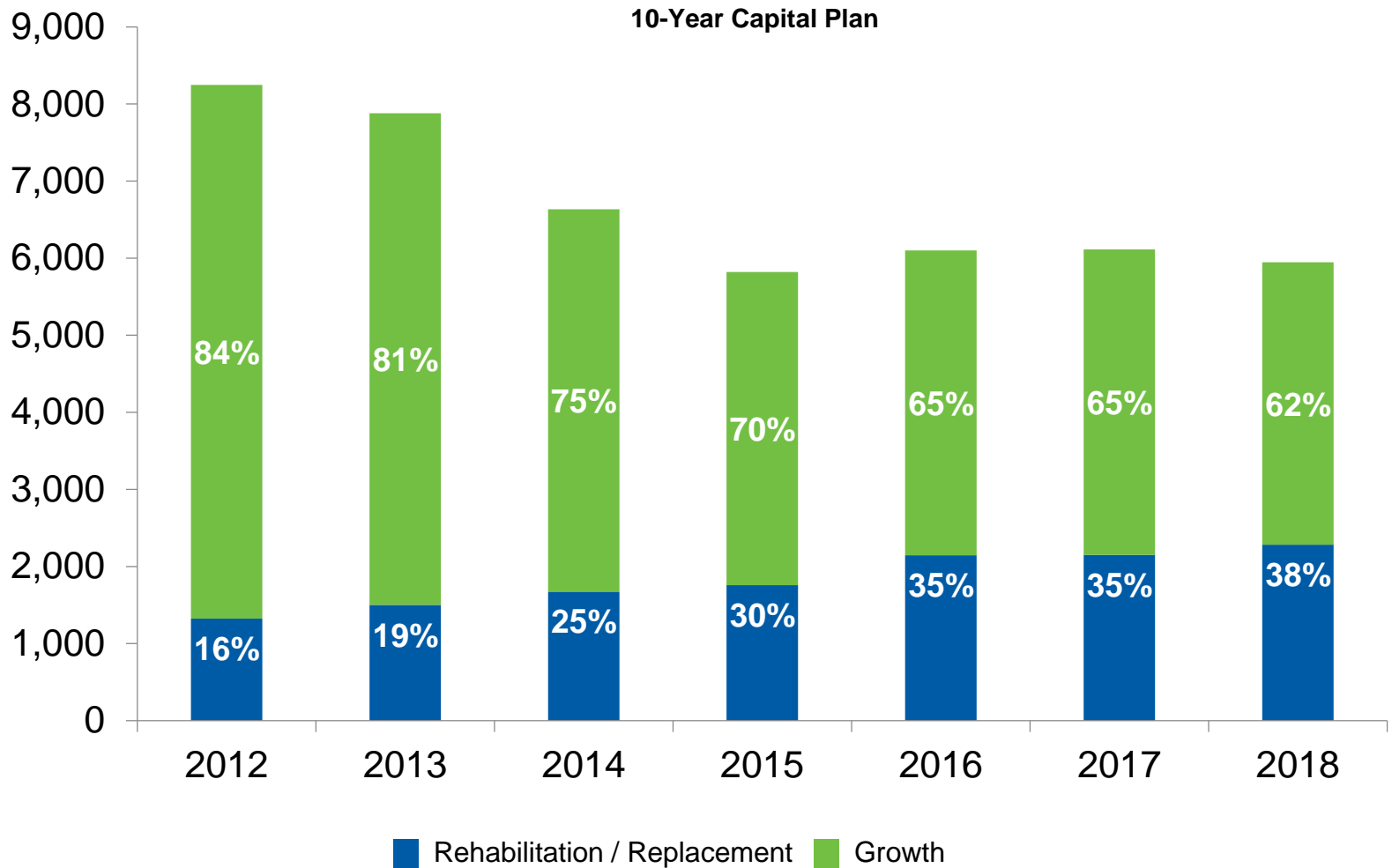
Outstanding Net Debt Projection (2019 Budget)



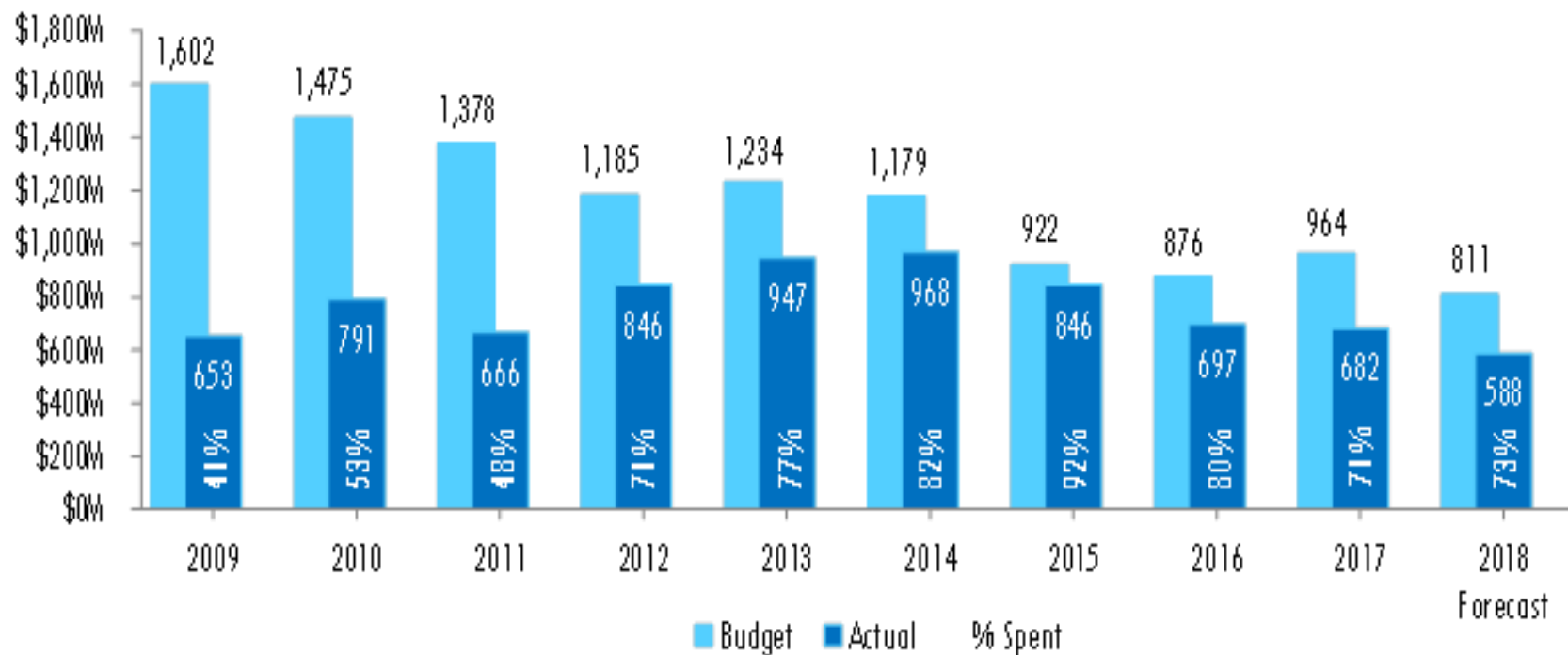


Fiscal Strategy: Capital

Evolution of York's Capital Plan



Capital delivery percentage remains above historic levels

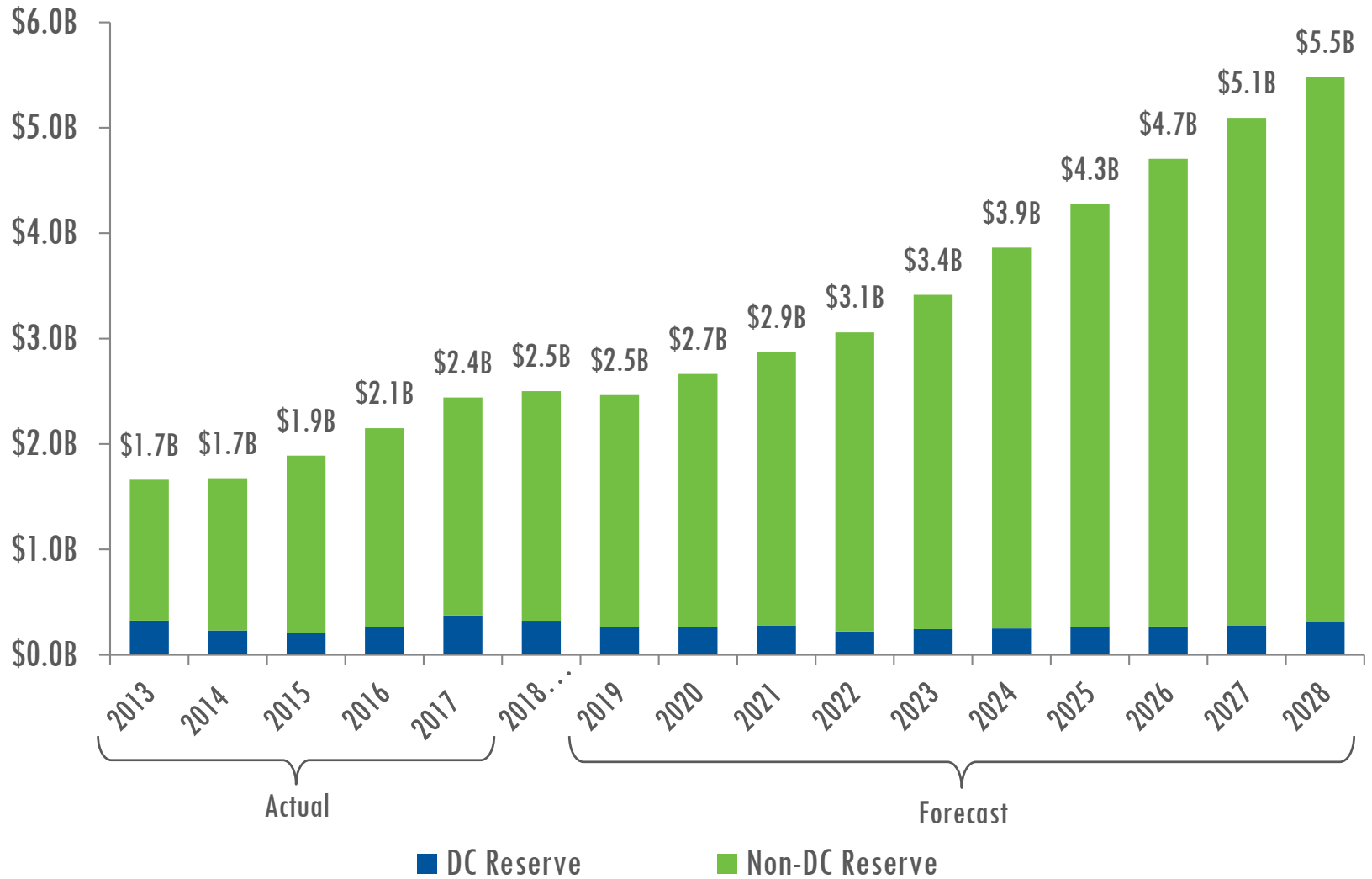




Fiscal Strategy: Reserves

Reserves

Total Reserve Balance (2019 Budget)



The Region is providing for its asset management needs

In 2013, Council approved the incrementing of the contribution to the capital asset replacement reserves, as follows:

(%)	2013	2014	2015	2016	2017
Contribution to replacement reserves (increment of prior year's tax-levy)	1.2	1.4	1.6	1.8	2.0

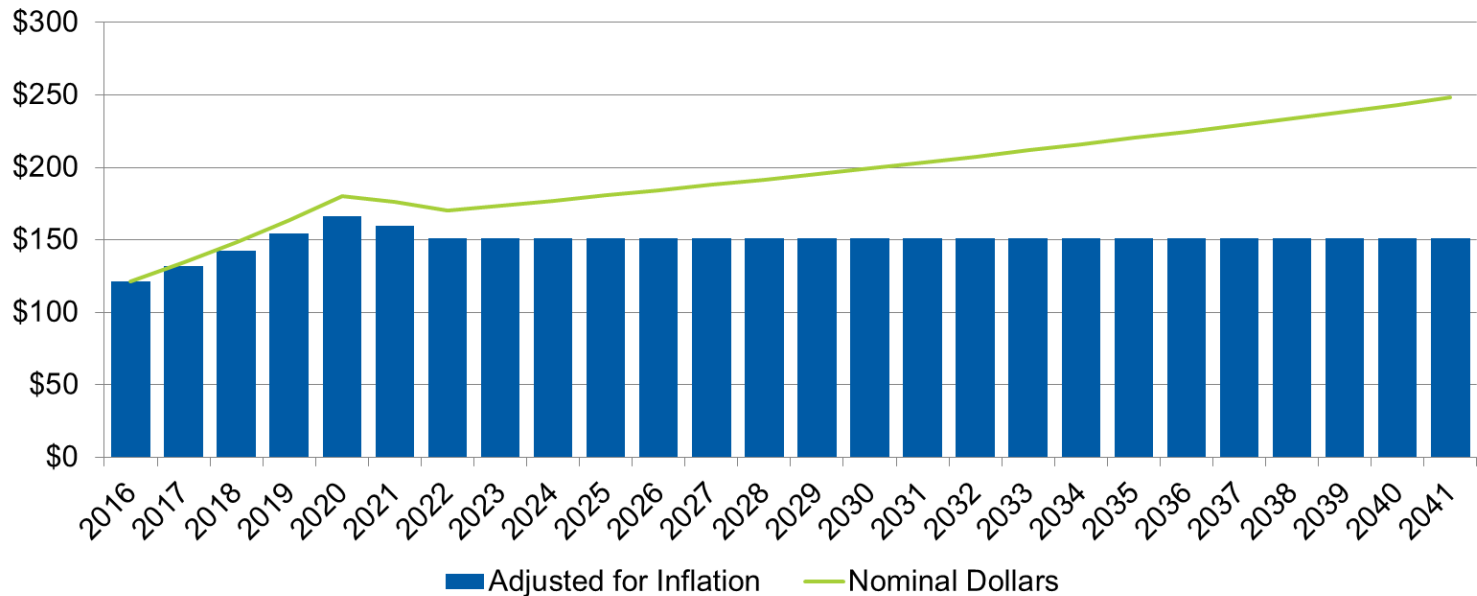
The Debt Reduction Reserve is a key part of the fiscal strategy

- Council approved a Debt Reduction Reserve in 2014
- Amounts that would have been used to service tax-levy debt are instead being contributed to the Debt Reduction Reserve
- No tax-levy debt has been issued since 2014

The Region will achieve full cost recovery for water and wastewater by 2021

- Council approved a Financial Sustainability Plan for water and wastewater in 2015
- The plan achieves both full cost recovery and inter-generational equity

Annual per Capita Contribution to Capital Rehabilitation & Replacement (P&I payments + Reserve Contributions)



DC collections are critical to management of DC reserves and debt

- The level of DC reserves is directly tied to DC collections
- DC collections need to be at the forecast level to implement the ten-year capital plan
- To limit the level of debt, DC reserves will be used to fund projects as much as possible, without jeopardizing liquidity levels
- Any additional growth-related capital spending would translate directly into additional debt



Asset Management

Asset management

In the last half century, there has been a dramatic shift in responsibility for infrastructure

Share (%)	1961	2005
Federal	31%	10%
Provincial	31%	22%
Local	38%	68%

Financial sustainability: the link to asset management

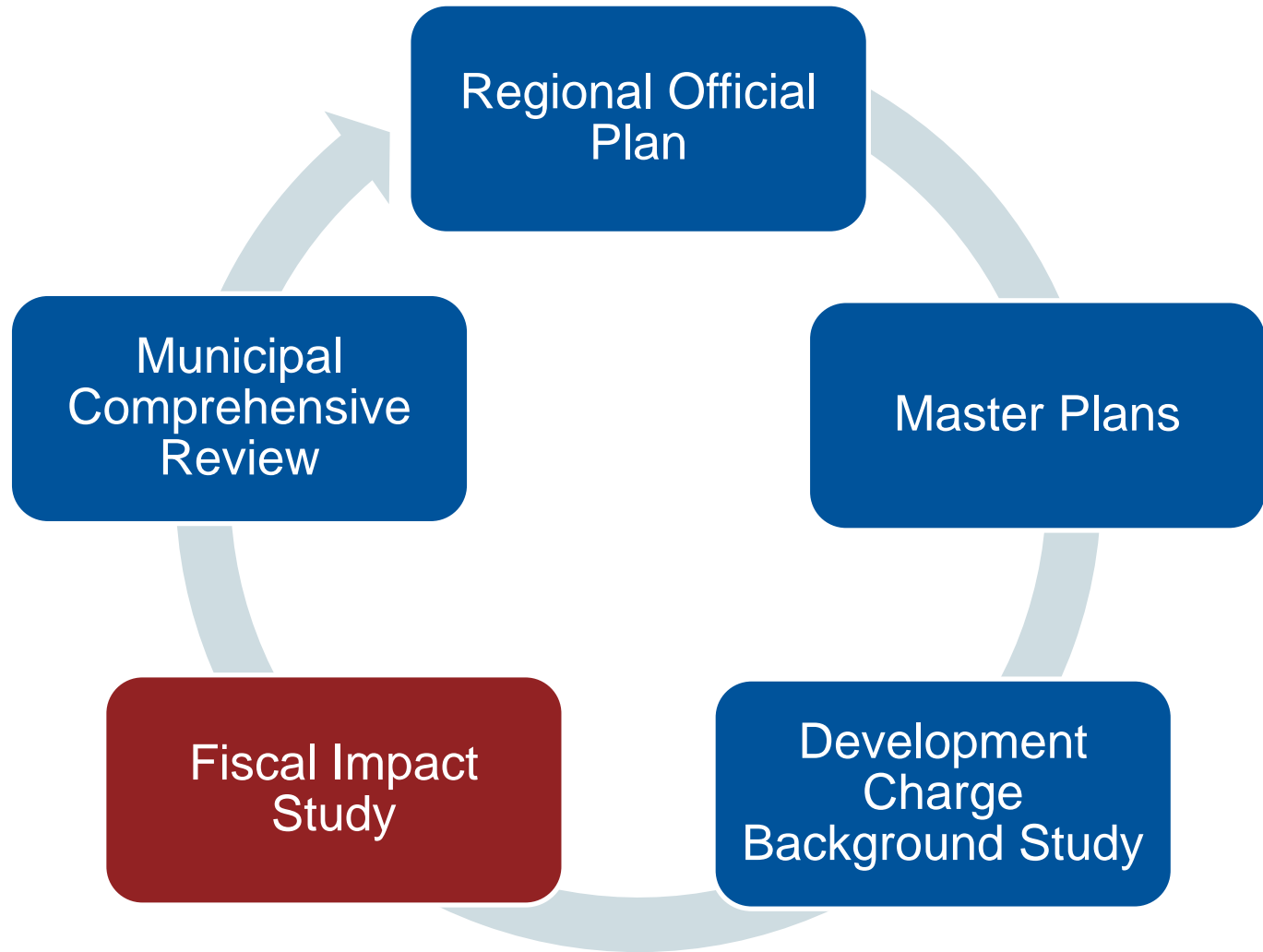




Asset Management → Financial Sustainability: Key factors

1. Degree of responsibility for infrastructure
2. Infrastructure intensity
3. Investment needs
4. Fiscal capacity
5. Intergenerational equity

The Fiscal Impact Study evaluates the costs and revenues of growth





Multi-year Budgeting

Multi-year budgeting: York

The Region's approach to budgeting:

1. Multi-year operating budget coinciding with the term of Council
2. Ten-year capital plan;
Capital Spending Authority provides Council authorization to spend on capital
3. Overall fiscal plan considered in the budget process

Multi-year budgeting: benefits

The value of multi-year budgeting:

1. Tightens the links between budgeting and strategic priorities
2. Improves fiscal discipline
3. Sets expectations about future tax levies
4. Provides a longer term outlook for program and service planning
5. Enables better long-term planning by internal departments and Regionally-funded service providers

Financial Sustainability: York Region Plan

Fiscal sustainability is a necessary condition to achieve a vision of strong, safe, caring communities and meet the Region's short and long-term goals.



Summary

1. A Fiscal Strategy updated every year
 - reduces the Region's reliance on debt
 - increases savings for capital asset replacement
 - ensures active management of the 10-year capital plan
2. Multi-year budgeting with a four-year cycle corresponding to the term of Council
 - help the Region improve fiscal discipline
 - provide a longer-term outlook for service planning
 - reduce uncertainty about future tax levies
3. A Financial Sustainability Plan for water and wastewater
 - with rate increases for achieving full cost recovery by 2021



Policies in Place

Financial Reports, Policies and Webpages

- Fiscal Strategy and Debt Management Plan
 - Capital Financing and Debt Policy
 - Reserve and Reserve Fund Policy
 - Investment Policy

Other

- Tangible Capital Asset Policy
- Commodity Price Hedging Policy
- Corporate Asset Management Policy
- Insurance and Risk Management

Financial Reports, Policies and Webpages

- Development Charges section
 - Background study (current and prior)
 - Bylaws
 - Letter of Credit Policy
- Plans, Reports and Strategies section
 - Regional Official Plan
 - Corporate Strategic Plan
 - Vision 2051
 - Masterplans (WWW, Transportation)