Clause 6 in Report No. 19 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on December 15, 2016.

6
2017 Regional Fiscal Strategy

Committee of the Whole recommends adoption of the following recommendation contained in the report dated November 23, 2016 from the Commissioner of Finance:

1. Council adopt the fiscal strategy outlined in this report.
2. Council adopt the 2017 Long-Term Debt Management Plan shown as Attachment 1 to this report.
3. Council approve technical amendments to the following policies:
   a. The Investment Policy to better allocate investment income to reserves based on the reserve timeframe as shown in Attachment 2
   b. The Investment Policy to include known cash receipts in the minimum balance of the portfolio as shown in Attachment 2
   c. The Capital Financing and Debt Policy to update the sinking fund internal capitalization rate as shown in Attachment 3
   d. The Capital Financing and Debt Policy to update the list of prescribed currencies to match the Municipal Act, 2001, as shown in Attachment 3
   e. The Reserve and Reserve Fund Policy to authorize the allocation of operating surpluses to the Water and Wastewater Rate Stabilization Reserves, as shown in Attachment 4
   f. The Reserve and Reserve Fund Policy to state that future contributions to the asset replacement reserves will be determined by Council, as shown in Attachment 4
   g. The Reserve and Reserve Fund Policy to assign responsibility for maintaining the appendices, as shown in Attachment 4
4. The surpluses from 2015 water and wastewater operations totalling $16.2 million be allocated to the Water and Wastewater Rate Stabilization Reserves.

5. Council establish a Green Energy Reserve Fund to support future renewable energy and conservation projects.

6. The Regional Solicitor prepare and/or amend the necessary bylaws.

Report dated November 23, 2016 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that:

1. Council adopt the fiscal strategy outlined in this report.

2. Council adopt the 2017 Long-Term Debt Management Plan shown as Attachment 1 to this report.

3. Council approve technical amendments to the following policies:

    a. The Investment Policy to better allocate investment income to reserves based on the reserve timeframe as shown in Attachment 2

    b. The Investment Policy to include known cash receipts in the minimum balance of the portfolio as shown in Attachment 2

    c. The Capital Financing and Debt Policy to update the sinking fund internal capitalization rate as shown in Attachment 3

    d. The Capital Financing and Debt Policy to update the list of prescribed currencies to match the Municipal Act, 2001, as shown in Attachment 3

    e. The Reserve and Reserve Fund Policy to authorize the allocation of operating surpluses to the Water and Wastewater Rate Stabilization Reserves, as shown in Attachment 4

    f. The Reserve and Reserve Fund Policy to state that future contributions to the asset replacement reserves will be determined by Council, as shown in Attachment 4

    g. The Reserve and Reserve Fund Policy to assign responsibility for maintaining the appendices, as shown in Attachment 4

4. The surpluses from 2015 water and wastewater operations totalling $16.2 million be allocated to the Water and Wastewater Rate Stabilization Reserves.

5. Council establish a Green Energy Reserve Fund to support future renewable energy and conservation projects.

6. The Regional Solicitor prepare and/or amend the necessary bylaws.

2. Purpose

This report updates and reports on the fiscal strategy, whose principles guided staff in the preparation of the 2017 Budget.

This report also seeks adoption of the 2017 Long-Term Debt Management Plan in order for the Region to access a growth-related cost supplement for its Annual Repayment Limit (ARL).

Finally, this report seeks approval for technical amendments to the Investment Policy, the Capital Financing and Debt Policy and the Reserve and Reserve Fund Policy.

3. Background and Previous Council Direction

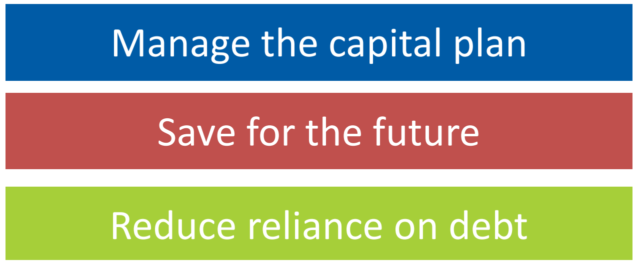
Council has had a formal fiscal strategy since 2014

The Region has had a formal fiscal strategy since 2014 that is updated as part of each annual budget. The last fiscal strategy was adopted by Council on December 17, 2015. The extract of this report can be found in Clause 5 in Report No. 21 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



4. Analysis and Implications

First Pillar of the Fiscal Strategy - Managing the Capital Plan

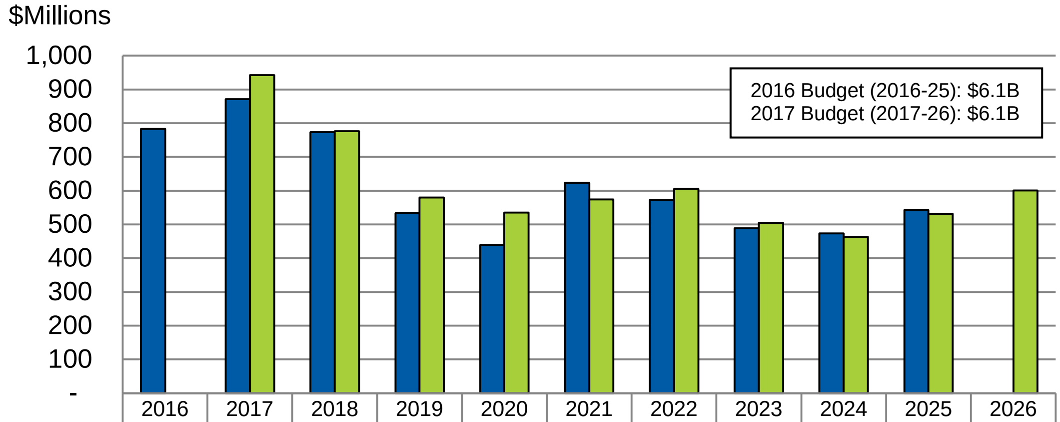
Infrastructure investment needs to match the pace of growth

Prudent management of the capital plan involves delivering infrastructure as needed while using available funding sources efficiently and reducing reliance on debt. The 2017 Budget continues to align the timing of projects with the expected timing of growth. 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 $6.1 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 the highest among the 905 regions, as shown in Graph 2.

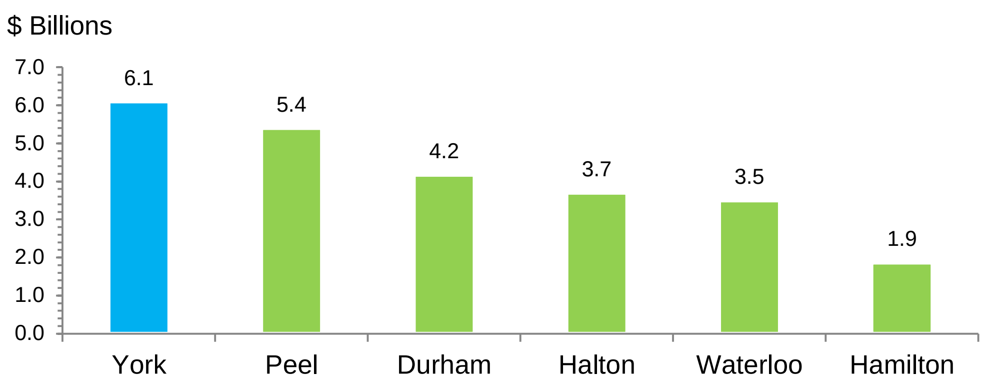
Graph 1: Ten-Year Capital Plan Comparison
2016 Budget compared to 2017 Proposed Budget



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2016 Budget	783	871	774	533	439	624	572	488	474	542	
2017 Budget		942	777	580	536	574	605	505	463	531	601

Source: York Region Finance Department

Graph 2: Comparison of 2016 Budget Ten-year Capital Plans for the 905 Regions and Selected Others



Source: York Region Finance Department

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.

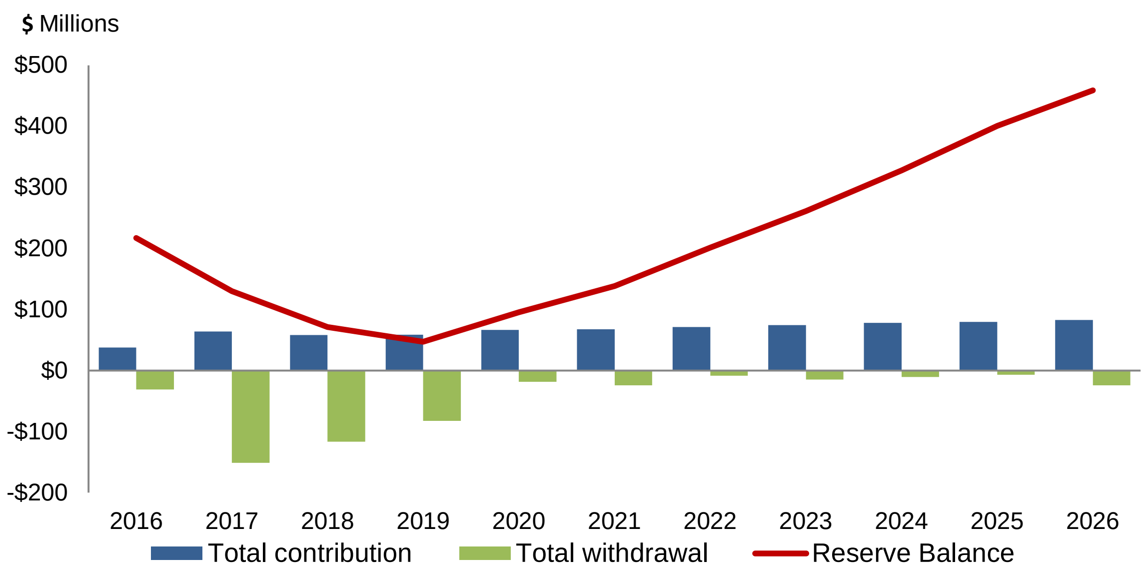
Contributions to the Debt Reduction Reserve have eliminated the need for future tax levy debt

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 allocation from the operating surplus (if available), an annual corporate contribution of $11.8 million, and contributions based on the savings from avoided debt.

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

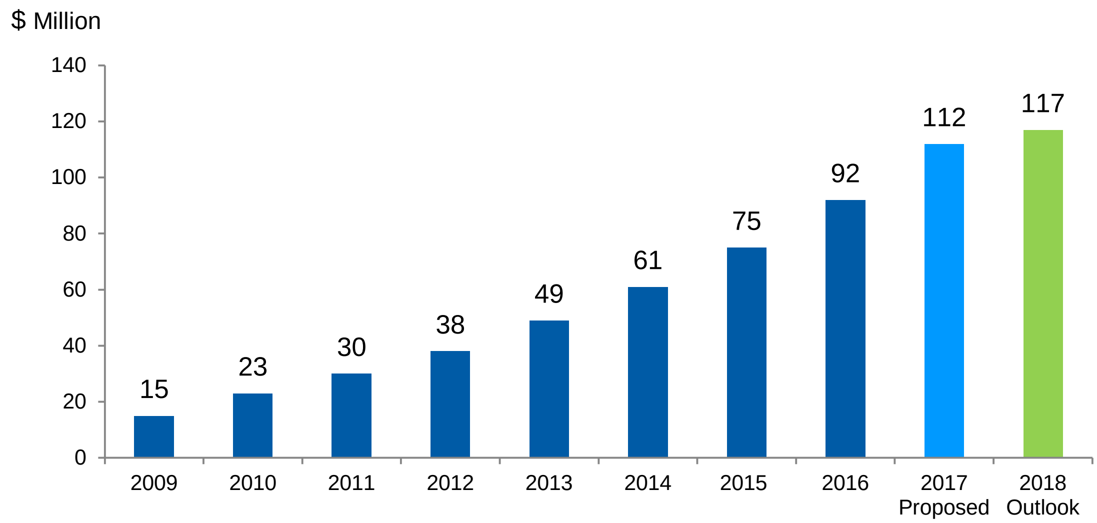
The 2017 Budget continues to set money aside for future asset replacement, which ensures that reserves, rather than debt, will be available to fund this type of infrastructure when needed.

In 2013, increases to the annual tax levy contribution to the capital asset replacement reserves were approved. The annual increase in the contribution to these reserves was one per cent of the prior year's tax levy. This was increased each year until it reached two per cent of the prior year's tax levy in 2017.

In 2018, a four per cent increase over the prior year's contribution is included in the approved outlook.

Asset management plans currently under development will guide the future contributions and draws for this reserve. Graph 4 shows the projected contributions to the asset replacement reserves to 2018.

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



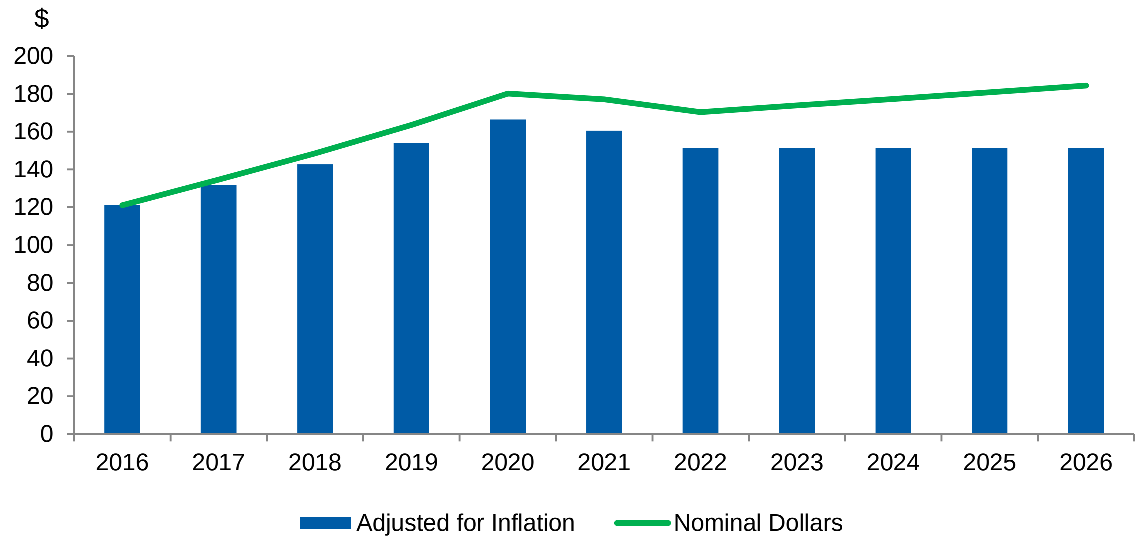
Source: York Region Finance Department

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 water and wastewater rate increases. 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 future rehabilitation and replacement requirements without the need to issue any new user rate debt and without impact to the tax levy.

The contributions to the water and wastewater replacement reserves are expected to promote equity across generations. Graph 5 shows the projected annual per capita contributions to the water and wastewater capital asset replacement reserves.

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

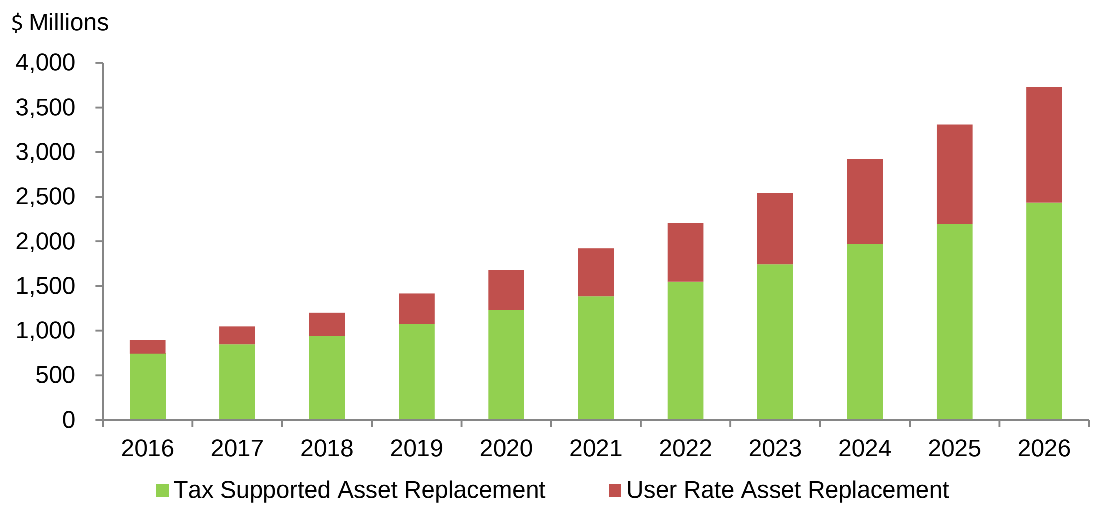


Source: York Region Finance Department

Asset replacement reserves continue to grow

Graph 6 shows the growth in the capital asset replacement reserves over the ten-year forecast period. This forecast does not yet account for the expected increase in reserve draws once asset management plans are in place.

Graph 6: Growth in Capital Asset Replacement Reserve Balances



Source: York Region Finance Department

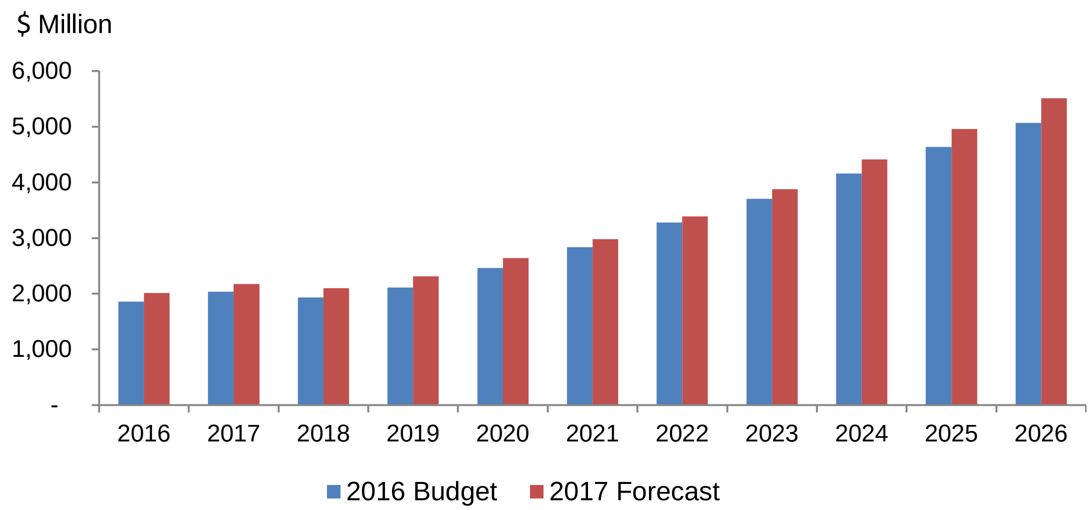
Total reserves could reach up to $5.5 billion by 2026

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 will continue 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 $5.5 billion by 2026, which is comparable with the 2016 Budget.

However, staff expect to adjust this forecast downwards next year because higher draws are expected once the Region's asset management plans are complete and the requirements for lifecycle investments are put into the capital plan.

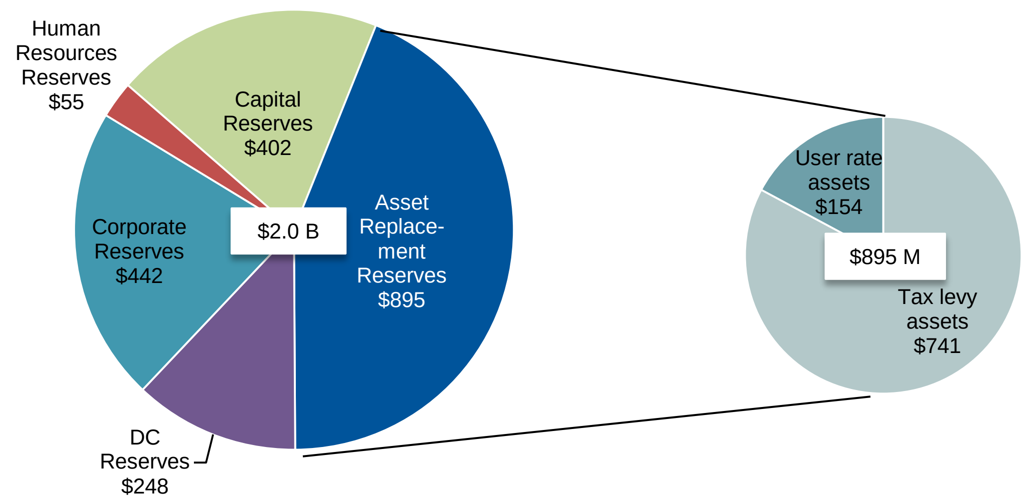
Graph 7: Growing Total Reserves



Source: York Region Finance Department

Graph 8 shows the composition of the Region's reserves as at December 31, 2016, including over $895M for asset replacement.

Graph 8: Composition of Reserves as at December 31, 2016 (Millions)



Source: York Region Finance Department

Third Pillar of the Fiscal Strategy - Reduce Reliance on Debt

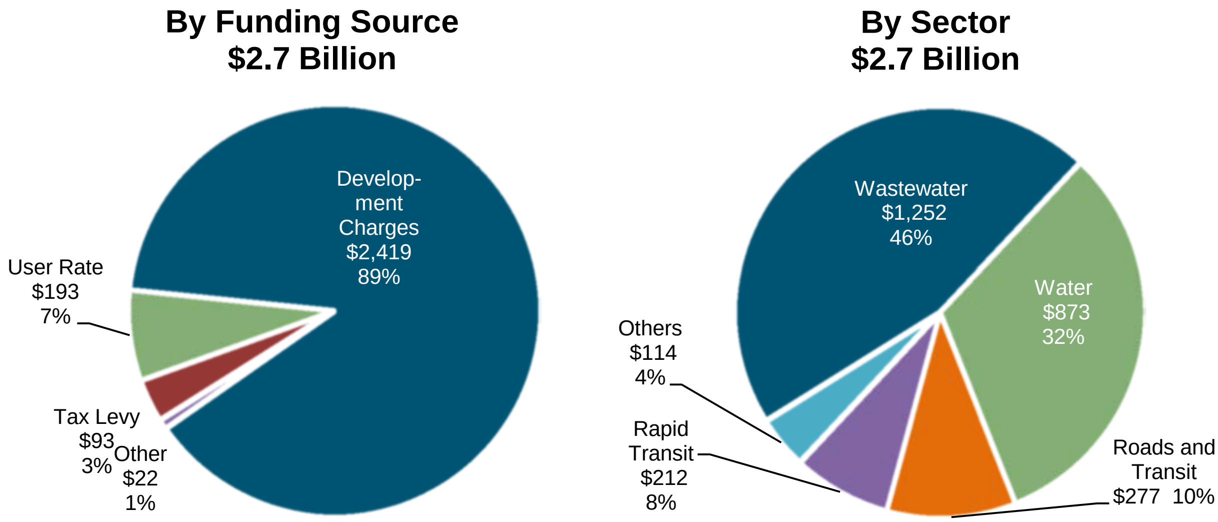
The third pillar of the fiscal strategy focuses on reducing the reliance on debt, especially debt issued to finance growth-related capital.

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-sourced 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 growth. The build out of new infrastructure, such as water and wastewater assets, requires investments in advance of future needs. In these instances, the Region must rely on debt financing, most of which will be repaid from development charge revenues as growth takes place. As shown in Graph 9, approximately 89 per cent of the outstanding debt at the end of 2016 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, 2016 (Millions)



Note: Outstanding debt is an estimate and subject to change as part of year-end adjustments.

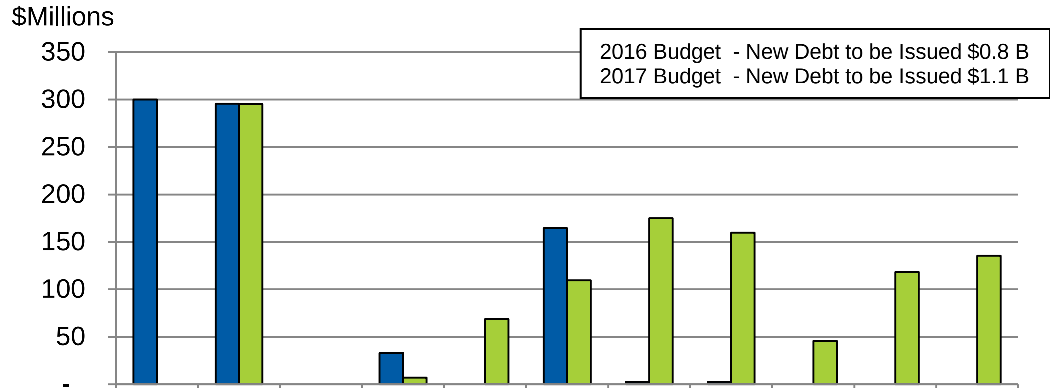
Source: York Region Finance Department

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 of growth-related capital with the forecast of development charge collections. The development charge reserve is used to fund projects as much as possible, while preserving liquidity levels.

The 2017 ten-year capital plan projects the need to issue $1.1 billion of new debt, which is an increase of $0.3 billion compared to the $0.8 billion of new debt that was expected in the 2016 Budget, as shown in Graph 10. The increase in debt is due to a reduction in forecast development charge collections, which limits the amount of development charge reserve available to fund projects directly.

Graph 10: New Debt to be Issued
2016 Budget compared to 2017 Proposed Budget



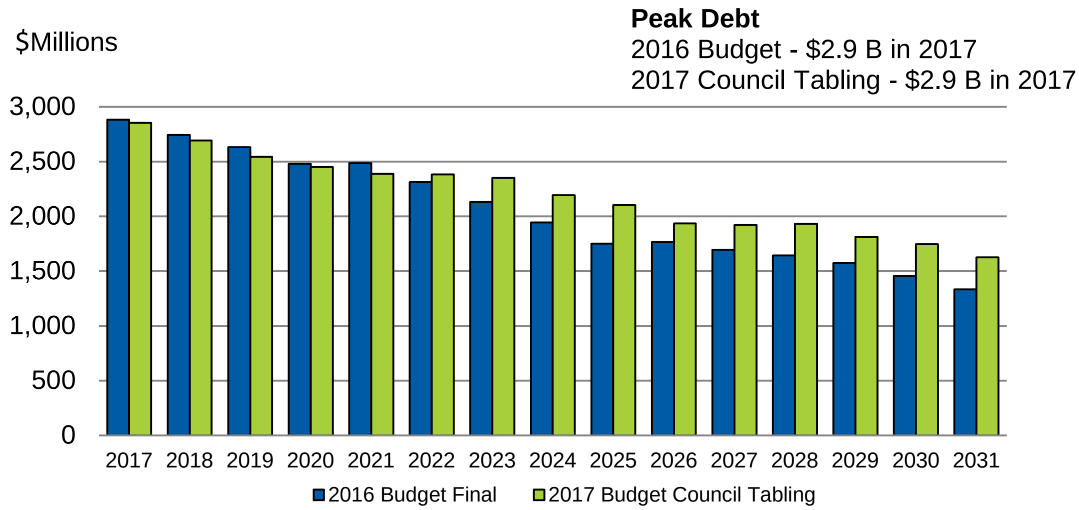
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2016 Budget	300	296	-	33	-	165	3	3	-	-	-
2017 Budget	-	296	-	7	69	109	175	160	46	118	136

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 three budget cycles, the peak debt forecast will now be $2.9 billion in 2017, as shown in Graph 11.

Graph 11: Outstanding Net Debt Projection By Year

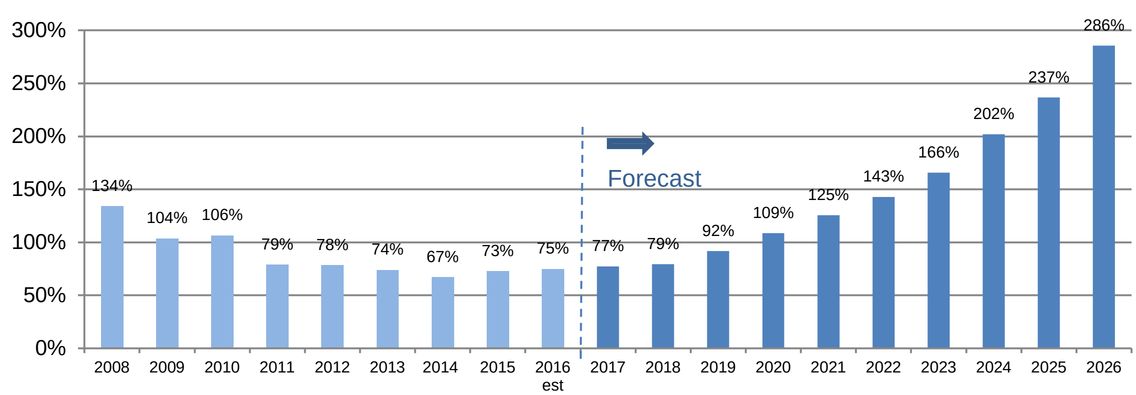


Source: York Region Finance Department

York Region on track to become a net investor by 2020

With anticipated peak debt level kept to $2.9 billion in 2017 and a continued strong commitment towards building reserves, York Region will see a significant improvement in its ratio of reserves to debt. The Region is expected to become a net investor by 2020, one year earlier than last year's forecast. The current forecast is shown on Graph 12. However, the rate of progress will be slower than that shown in the graph due to the yet-to-be determined draws on the asset replacement reserves discussed earlier.

Graph 12: Reserve to Debt Ratios



Source: York Region Finance Department

The Development Charge Collection Forecast

Potential development charge shortfalls pose a risk to the fiscal strategy

The 2017 Budget was prepared based on an updated development charge collection forecast. However, the fiscal strategy is at risk if development charge collections are below expectations, as was the case in 2014 and 2015.

Population growth and the associated development charge collections are now expected to occur later than previously forecast

For the 2017 Budget, the ten-year development charge collection forecast is $326 million lower than the 2016 Budget forecast. Actual development charge collections for 2015 were $258 million compared to the 2015 forecast of $296 million.

In the near term (2016 to 2018), the Region is expecting better growth than in 2013 and 2014, which saw residential housing starts of 7,500 and 7,400 respectively. Nonetheless, housing growth since 2012 remained below what was anticipated in both the 2012 Development Charge Background Study and the Region's Official Plan.

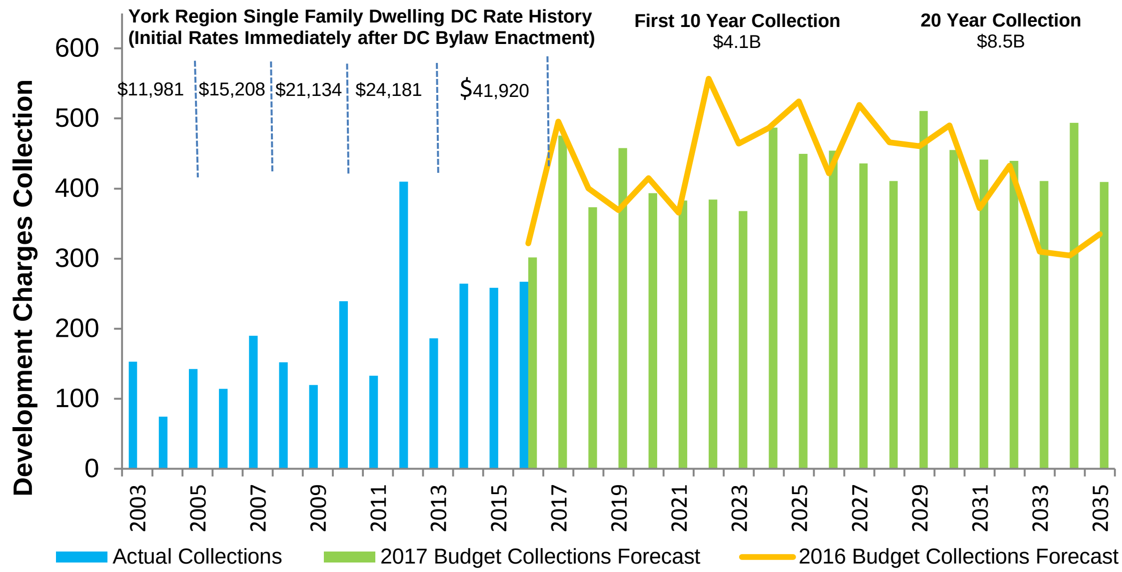
Compared to the 2016 Budget forecast, in the near-term (2016 to 2019), the forecast for low-rise development decreased while the forecast for high-rise development increased.

Over the medium and long-term (2020 to 2035), the residential forecast was reduced by approximately 300 units per year. This change was informed by the Ministry of Finance demographic forecast of Spring 2016, which envisaged a lower level of growth to 2031 for York Region compared to the Growth Plan forecast.

The non-residential gross floor area forecast was also revised downward. This change reflects the observed trend towards greater office intensification, which reduces the need for new floor space.

The adjustments to the residential and non-residential forecasts affect the development charge collection forecast. Staff expect development charge collections for 2016 to 2025 to be approximately $4.1 billion (as shown in Graph 13), compared to $4.4 billion in last year's forecast.

Graph 13: Actual and Forecast Development Charge Collections



Source: York Region Finance Department

The current development charge collection forecast does not reflect the impact of the 2017 development charge bylaw

Staff are currently updating the Regional development charge background study, with the final version expected to be presented to Council on May 18, 2017. If adopted, a new development charge bylaw would come into effect on June 17, 2017. Staff continue to work on identifying the eligible costs of new capital projects to include in the background study and calculating an updated development charge rate, but this will not be available in time for the 2017 Budget. As a result, the 2017 Budget does not reflect the impact of any new capital projects or revenues associated with the 2017 development charge bylaw.

York Region Credit Rating

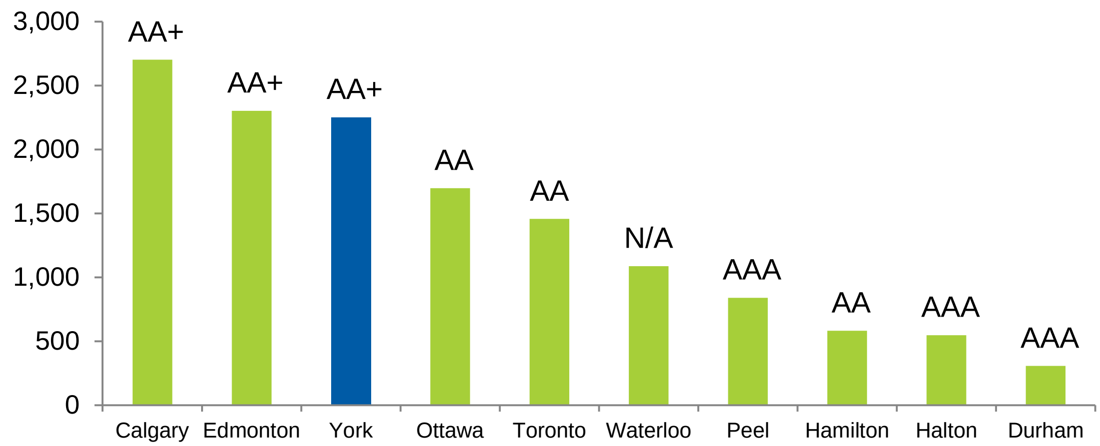
In 2016, both rating agencies reaffirmed York Region's credit ratings (Moody's Aaa/Stable and S&P AA+/Stable)

In 2016, both Moody's Investors Service (Moody's) and S&P Global Ratings (S&P) reaffirmed their credit rating for the Region of York. As part of their rating rationale, Moody's highlighted the high level of cash and investments, prudent and far-sighted fiscal management, and a track record of positive operating outcomes as key elements in maintaining the Aaa/Stable rating. S&P noted York's strong economy and exceptional liquidity as key credit strengths.

However, S&P remains concerned that “a high debt burden and strong, but somewhat variable, budgetary performance” has constrained the credit rating. Additionally, S&P noted that a lower rating in the future could result if York Region generated lower-than-expected revenue or issued more debt than expected to finance the Region’s large capital requirements.

Graph 14 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 14: Debt Per Capita in 2015 ($)



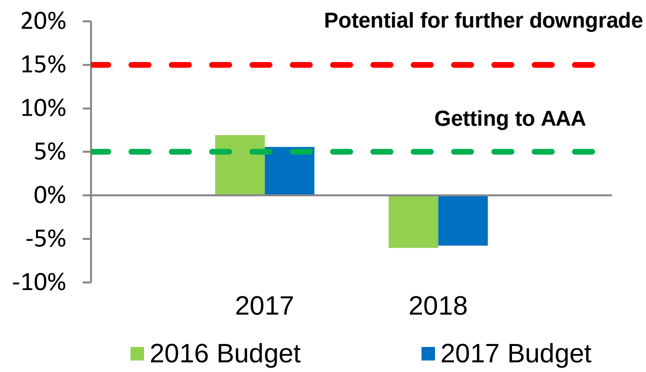
Source: Financial Information Returns and Municipal Financial Statements (Edmonton and Calgary)

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

S&P’s outlook reflects its near-term expectation that the Region’s continued economic growth will support stable tax revenue increase and liquidity will remain exceptional. To regain its AAA rating with S&P, the Region must closely monitor its capital plan to ensure that capital investments are financially sustainable. The fiscal strategy described in this report is expected to result in an improved budgetary performance and a reduced reliance on debt.

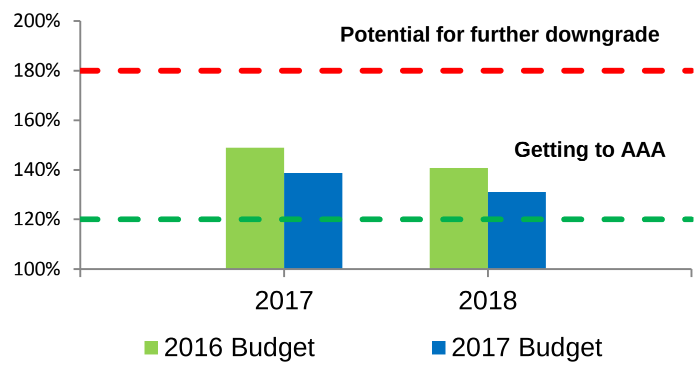
Graph 15 shows the Budgetary Performance Ratio improving to a surplus after capital expenditure in 2018, while Graph 16 shows an expected improvement in the Debt Burden Ratio. These are the two ratios S&P commented on as areas that the Region would need to improve on to regain its AAA rating.

Graph 15: Budgetary Performance Ratio
Deficit After Capital Expenditure/Total Revenue



Note: In 2018, operating balance plus capital revenue will exceed capital expenditure; therefore, there will be a surplus after capital expenditure

Graph 16: 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 government.

2017 Long-Term Debt Management Plan

The 2017 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 Financial Policy Updates

Technical amendment to the Investment Policy is needed to better allocate investment income to reserves

Currently investment income is allocated to accounts with surplus balances based on a two-tier system. Those accounts with a short-term horizon (under two years) receive a short-term interest rate. All other accounts receive a rate of return based on investment income realized from longer term investments.

Staff analysed the allocation of investment income and determined that some or all of a portion of certain reserve and reserve funds have a much longer lifecycle than other corporate reserves.

It is therefore proposed that a three-tier system of investment income allocation - a short, medium and long-term rate methodology – be introduced to better compensate these reserves.

The methodology for calculating these rates and the list of accounts that would receive each distinct rate is set out in Appendix 3 of the updated Investment Policy, as shown in Attachment 2.

As a result of this proposed change, the Reserve and Reserve Fund Policy will also be amended since reference is made to the Investment Policy. The amendment can be found in Attachment 4.

Technical amendment to the Investment Policy is needed to include known cash receipts in the minimum balance of the portfolio

The Investment Policy requires the portfolio to maintain a minimum balance of five per cent in cash and securities with a maturity under 90 days. These holdings typically earn a rate of return that is substantially less than the balance of the portfolio that is invested for longer time periods.

The Investment Policy currently does not take into account known cash inflows such as tax levies, debenture proceeds and debt repayments from area municipalities. Some of these inflows can be very large as in the case of tax levies that are over $250 million and received on a designated date four times a year. By not including these known cash inflows in the 90 day balance requirement, the portfolio maintains short term investments that are larger than required, thereby reducing investment returns.

It is therefore recommended that the Investment Policy be amended to take into account known cash receipts due within 30 days so that funds can be invested more efficiently. The proposed amendments are shown in Appendix 2 of Attachment 2.

As well, staff propose an amendment to the Investment Policy to replace the DEX Indices with the Financial Times Stock Exchange (FTSE) Indices. FTSE International Limited (FTSE) has combined with TMX Datalinx's PC-Bond unit to create a new joint venture named FTSE TMX Global Debt Capital Markets. As a result, the "DEX" bond indices used as a performance benchmark in the Investment Policy have been re-branded to "FTSE TMX Canada". The indices' methodology remains the same.

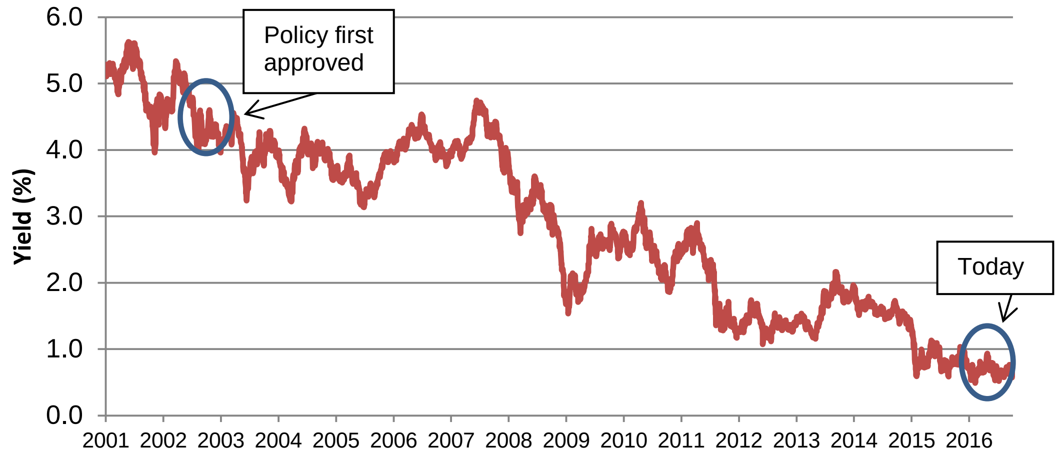
A technical amendment to the Capital Financing and Debt Policy is recommended to update the sinking fund internal capitalization rate

When a sinking fund debenture is issued, staff set an internal capitalization rate for the new sinking fund. The capitalization rate is intended to reflect the rate of interest earned by the sinking fund until the sinking fund debenture matures.

Currently Section I of the Capital Financing and Debt Policy states that the internal capitalization rate shall not exceed the lesser of the rate allowed in the Municipal Act, 2001 or the five-year Government of Canada Bond rate at time of issue. In the Municipal Act, 2001, it is specified that the amount to be raised annually in the sinking fund bylaw shall, with interest compounded annually as set by the capitalization rate, be sufficient to pay the principal of the debentures at maturity.

At the time when the policy was originally approved, the five-year Government of Canada Bond Rate was around four per cent. Over the past few years, that rate has dropped significantly. At the time of the Fall 2016 debenture, the rate was around 0.7 per cent, as shown in Graph 17. As interest rates are at an all-time low, keeping the rate at this level would require a much larger annual sinking fund contribution than needed over the term of the debt, which would create higher debt servicing costs each year.

Graph 17: 5-Year Government of Canada Benchmark Yield (2001-present)



Source: York Region Finance Department, Bloomberg

It is important to match the sinking fund capitalization rate with the expected rate of return on the sinking fund to minimize any risk of surplus or shortfall when the debenture matures. Over the past few years, realized returns on the Region's sinking fund investments have been significantly higher than the current five-year Government of Canada Bond Rate.

It is therefore recommended that Council approve an amendment to Section I of the Capital Financing and Debt Policy to specify that the capitalization rate shall not exceed the lesser of the rate allowed in the Municipal Act, 2001, or the yield of the debenture at the time of issue. This change would ensure that the capitalization rate for a new sinking fund would better match the expected interest earned for the sinking fund over the term of the debt.

The proposed amendment is shown in Attachment 3.

An amendment to the policy is needed to update the list of prescribed currencies

Staff recommend an update to the list of prescribed currencies in which foreign currency debentures may be issued, which is listed in Appendix 2 of the Capital Financing and Debt Policy. This is to reflect the latest changes made in the Municipal Act, 2001, in March 2016. The French Francs, Marks and Guilder currencies were removed from the list. The amended list is shown in Appendix 2 of Attachment 3.

Recommended Changes to the Reserve and Reserve Fund Policy

A technical amendment is needed to clarify that user rate operating surpluses are to be allocated to the Water and Wastewater Rate Stabilization Reserves

As part of the 2016 fiscal strategy, the Water Rate Stabilization and the Wastewater Rate Stabilization Reserves were created to protect against unforeseen one-time changes that reduce revenue, increase costs, or both. Council has previously approved funding for these two reserves.

In addition to the previously approved base contributions, it is proposed that these two reserves also be funded through any year-end surplus that may result from water or wastewater operations. In years when there are operating deficits, due to factors such as lower than anticipated consumption caused by weather patterns, these funds will be drawn upon to limit user rate volatility and minimize any potential impact on the tax levy. The proposed amendment is shown in Attachment 4, Appendix B.

It is also proposed that the surpluses from the 2015 water and wastewater operations totalling $16.2 million be re-allocated from the Water and Wastewater Capital Replacement Reserves to the Water and Wastewater Rate Stabilization Reserves.

This treatment was assumed in the analysis underpinning the approved Water and Wastewater Financial Sustainability Plan.

Contributions to the asset replacement reserves will be determined by Council

The current policy contains an inaccurate characterization of the asset replacement reserve contributions for 2015 and thereafter. This proposed amendment would clarify that any future contributions are to be determined by Council.

The proposed amendment is shown in Attachment 4.

An amendment is needed to assign responsibility for maintaining the appendices

Staff recommend an amendment to the Reserve and Reserve Fund Policy to specify that the Commissioner of Finance will be responsible for approving the maintenance of the appendices in accordance with the policy, bylaw or statute as required. This will ensure that the policy appendices are updated in a timely manner when reserves are established or closed, and the schedule reflects the current information.

A New Reserve Fund is Proposed

A new Green Energy Reserve Fund is recommended for future renewable energy and conservation projects

In May 2016, Council endorsed the Region's Energy Conservation and Demand Management Plan Update, which recommended establishing a Green Energy Fund to offset the financial impacts of future renewable energy and conservation projects. Funding for this proposed reserve would include revenue from solar generating installations. The Region currently has four operational renewable projects that are generating revenue, with a fifth project nearing commercial operation.

The proposed Green Energy Reserve Fund would hold current and future revenue and budget contributions, and disburse funds for future renewable energy and conservation projects. The 2016 revenue contribution from the existing renewable energy projects is estimated to be approximately $140,000. Future contributions are expected as additional applications are submitted and projects are completed.

5. Financial Considerations

Since the implementation of the fiscal strategy in 2014, Council has taken major 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 so far 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 23, 2016

Attachments (4)

7148963

Accessible formats or communication supports are available upon request.

2017 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 September 2016, 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 2017; and

7. Evaluation and comparison of 2016 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 2017 Budget

In preparing the 2017 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 forecast 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 2017 is $95 million higher when compared to the same period and $13 million higher 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 $20 million in 2016 and by $274 million over the next ten years (2017-2026).

The tax levy Debt Reduction Reserve avoids approximately $459 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 avoid issuing user rate debt.

Overall, the Region's need for new long-term debt during the 2017-2026 period is expected to be $1.1 billion, which is $0.3 billion higher compared to last year's ten-year capital plan. The higher debt requirement is due to a lower development charge collections forecast.

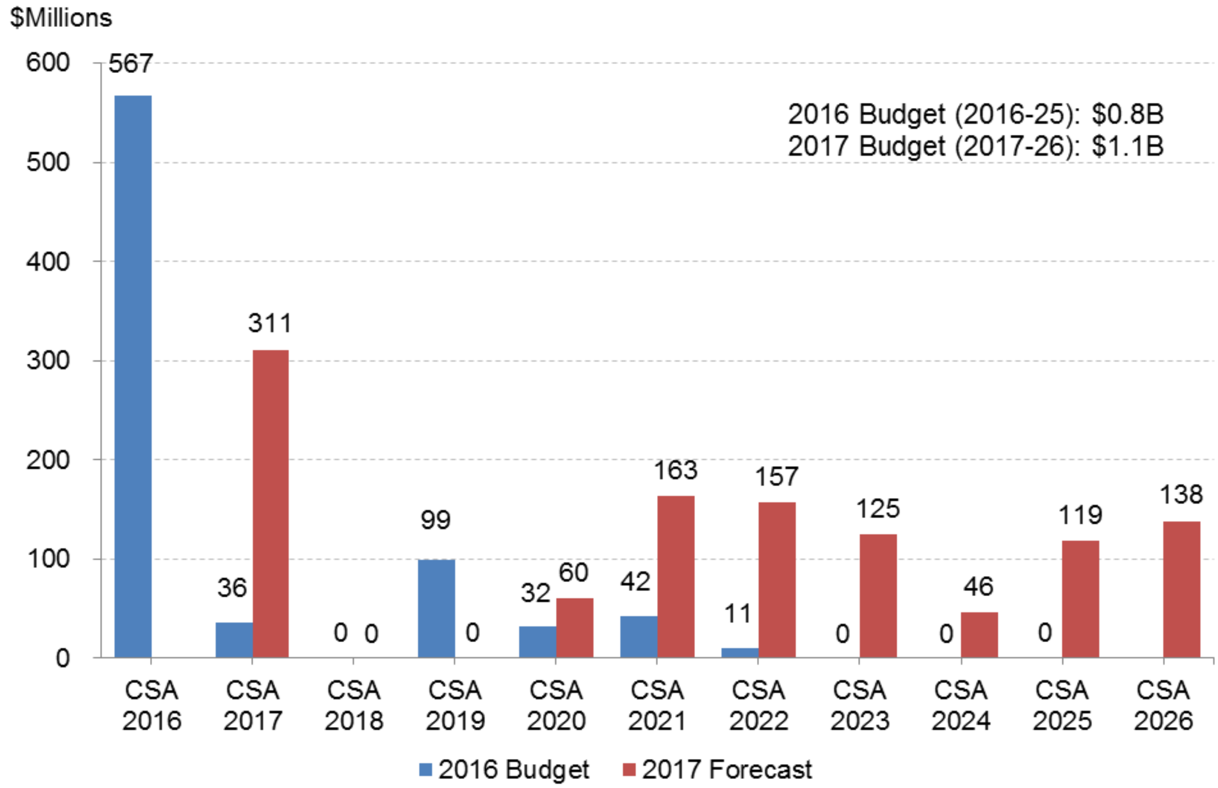
Reliance on debt increases in the last six years of the ten-year capital plan

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 $0.3 billion (or 28 per cent) of the $1.1 billion in projected debenture requirements has been included within the capital spending authority for 2017, as illustrated on Graph 1. In contrast, approximately $0.6 billion (or 72 per cent) of the $0.8 billion in the projected debenture requirements was included within the capital spending authority for 2016.

The capital plan also contains projects with an estimated debt of about $0.8 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 $311 million of new debt to commit to capital projects within the capital spending authority for 2017. However, the actual capital expenditures associated with the $311 million is expected to flow over three years: $292 million in 2017, $7 million in 2019 and $12 million in 2020. The Region's reliance on debt shifts to the last six year in the ten-year capital plan.

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 2017 Budget will approve one year of multi-year capital spending authority for 2017.

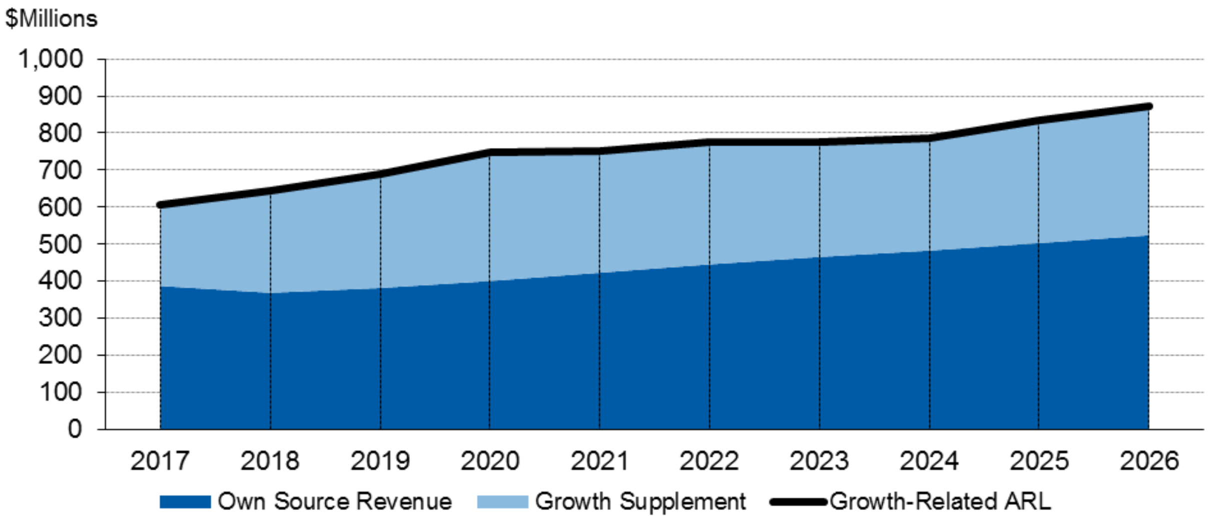
2. Projections of the Annual Repayment Limit for Each Year of the Multi-Year Period Compared to its Existing and Proposed Long-Term Debt-Related Payments

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 $607 million in 2017 to $872 million by 2026, 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

These existing annual debt payment and other financial obligations will total approximately $312 million in 2017, but are estimated to decline to approximately $263 million by 2026. This estimate is for existing debt only, excluding the principal and interest costs associated with debt to be used in the future. The largest component of these obligations will be the principal and interest on existing debt, which is expected to decrease from $283 million in 2017 to $233 million by 2026 as existing debt is repaid. Hospital financing is forecast to increase at a rate of 2 per cent per year, rising from $13.9 million per year in 2017 to $16.3 million per year by 2026. 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 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 2017 budget process, the Region must have sufficient room under its 2017 annual repayment limit to recognize the full financial cost of the projects "as if" they were going to be incurred entirely in 2017, 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 2017 Budget is $6.1 billion, of which $1.1 billion will be debt financed. Assuming an annual interest rate of 3.55 per cent in 2017 and a term of 20 years, the annual obligation arising from this debt for 2017 will be approximately $23 million.[2]

Will the Region be within its annual repayment limit?

For 2017, the Region will be well within its annual repayment limit, as shown in Table 1 below.

Table 1: Region's 2017 Annual Repayment Limit Calculation ($Millions)

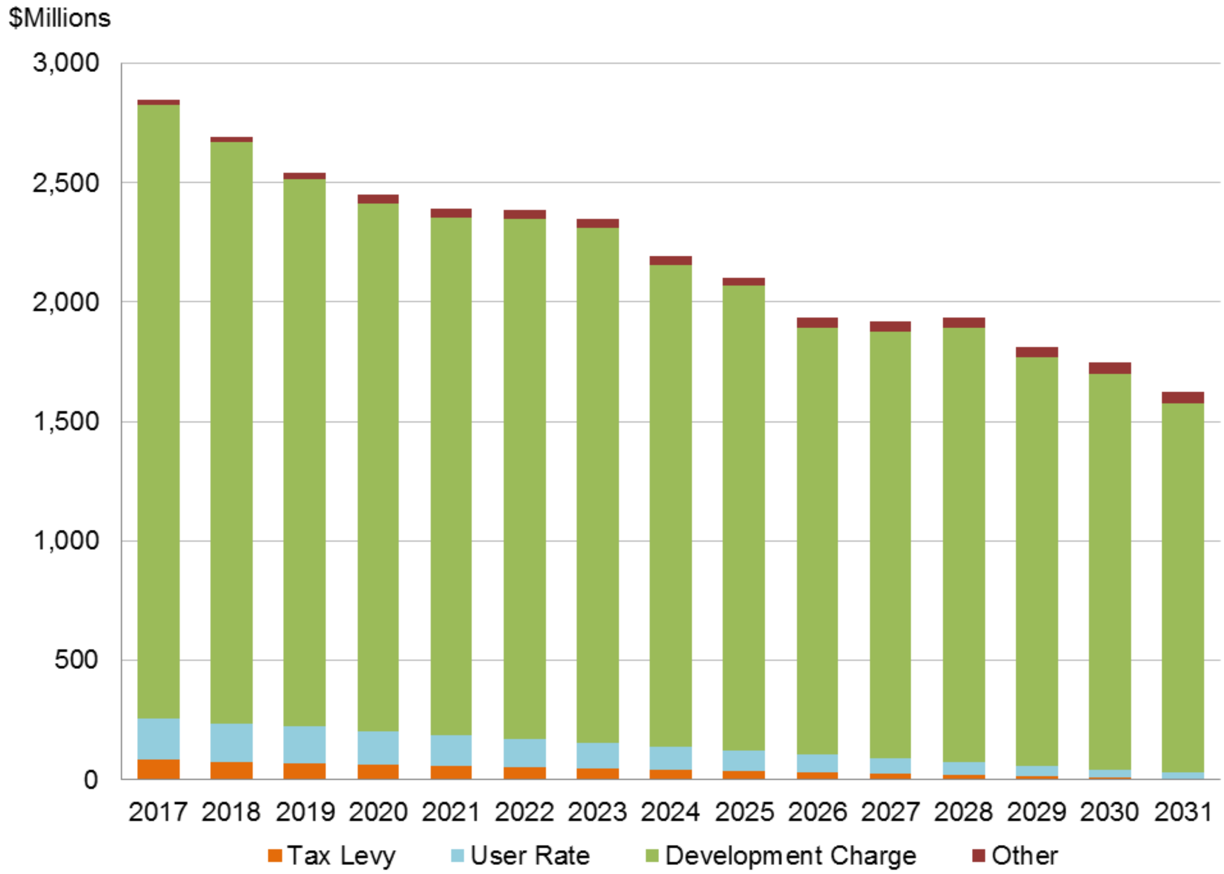
Component Description	Forecast 2017
25% of Own Source Revenues	387
Plus: Growth Cost Supplement[3]	220
Total Annual Repayment Limit	**607**
Less: Existing Debt Payment and Financial Obligations	312
Less: Anticipated New Debt Payment	23
Remaining Annual Repayment Limit	**272**

[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.

[3] Growth Cost Supplement in 2017 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2014-2016 inclusive).

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 increase to a high of $2.9 billion in 2017 and then start to decrease in 2018, as illustrated on Graph 3.

Graph 3: Outstanding Net Debt Projection



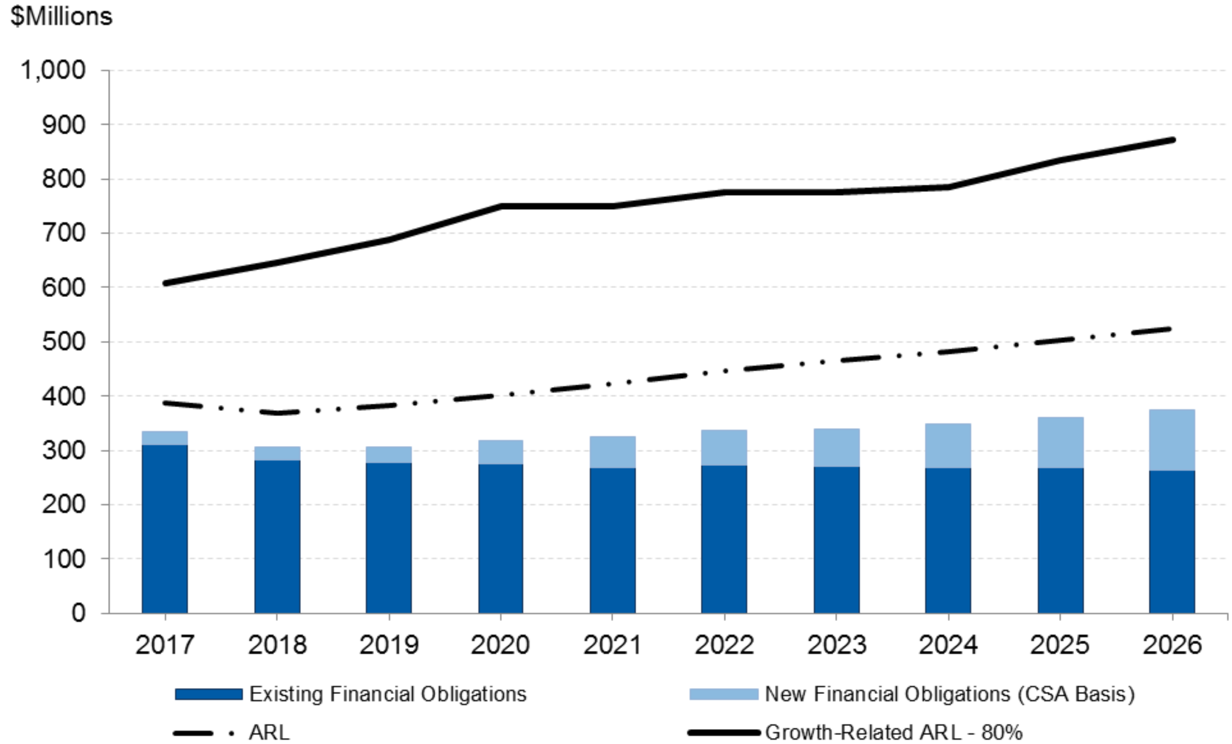
Source: York Region Finance Department

The annual debt payments related to each year's increment have been calculated on the same basis as the 2017 capital spending authority, except that the assumed interest rate will increase to 5.25 per cent by 2026.[4] As a result, the financial obligations associated with new debt-related capital spending authority will increase to $92 million by 2026.

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

[4] The base rate assumptions increase from 3.55 per cent to 5.25 per cent by 2023 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.

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



Source: York Region Finance Department

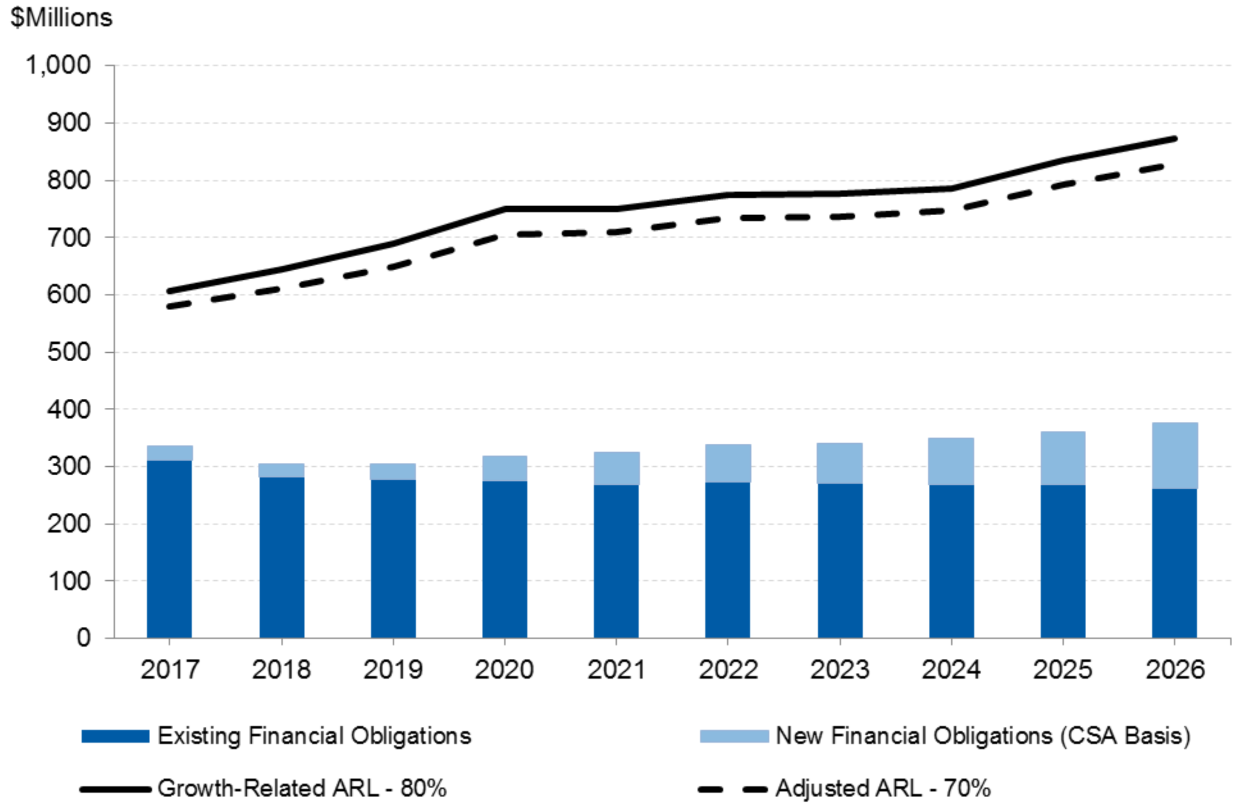
3. Risk and Mitigation Strategies Associated with the Long-Term Debt Strategy, including Interest Rate Risk and Foreign Currency Exposure

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

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 issuing abilities to levels below those indicated in this plan and require changes in the phasing of the capital plan. Staff review 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 Region's capital plan will be 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



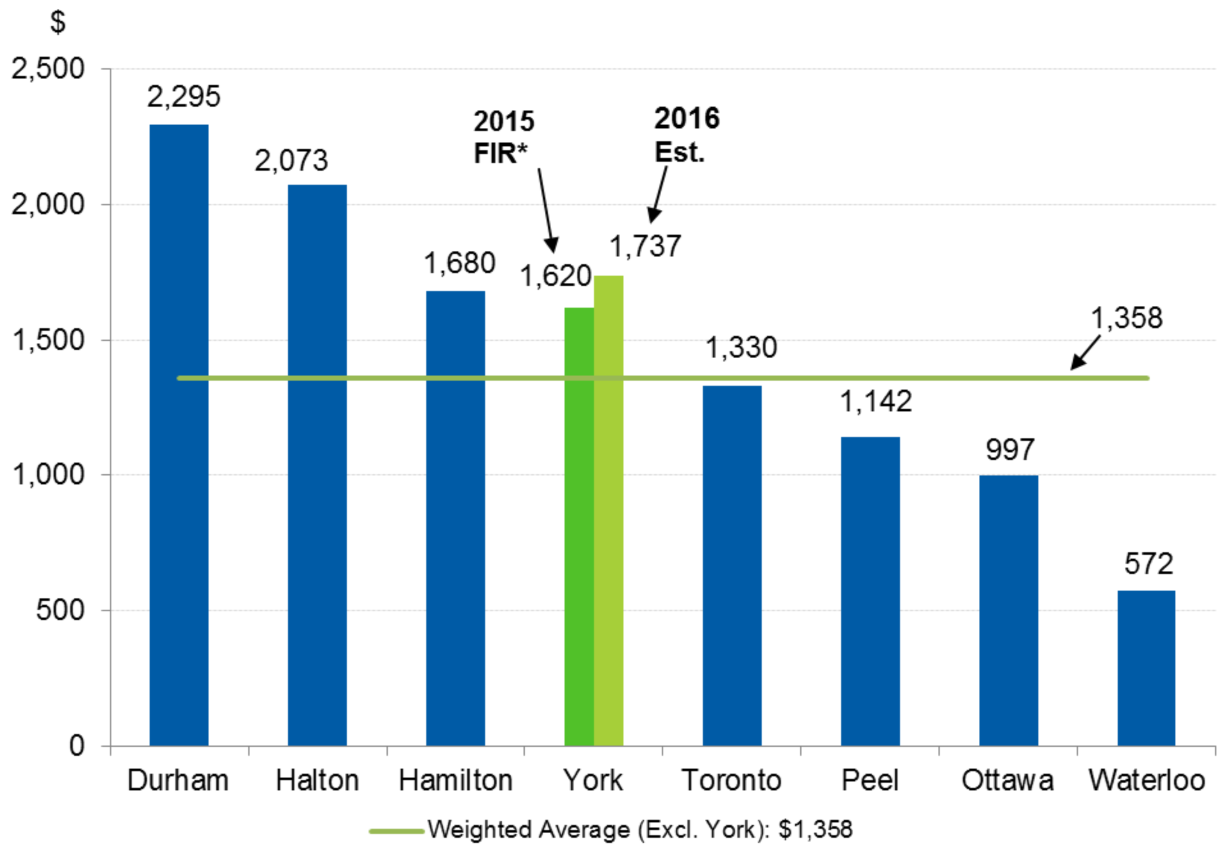
Source: York Region Finance Department

Lower than expected development charge collections in any given year can result in a decrease in liquidity and debt servicing ability. To help mitigate this, the Capital Financing and Debt policy says 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 and remains above the weighted average of comparable municipalities, as shown on Graph 6.

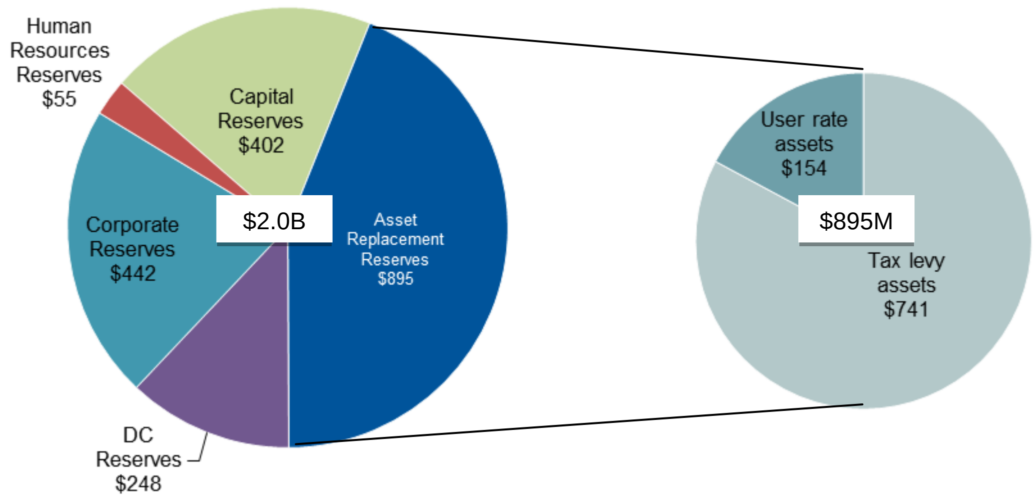
Graph 6: Comparison of 2015 Reserves Per Capita



Source: Figures for comparator peer group are based on results summarized in 2015 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 $2.0 billion by the end of 2016; they are described on Graph 7.

Graph 7: Composition of Reserves as at December 31, 2016 (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

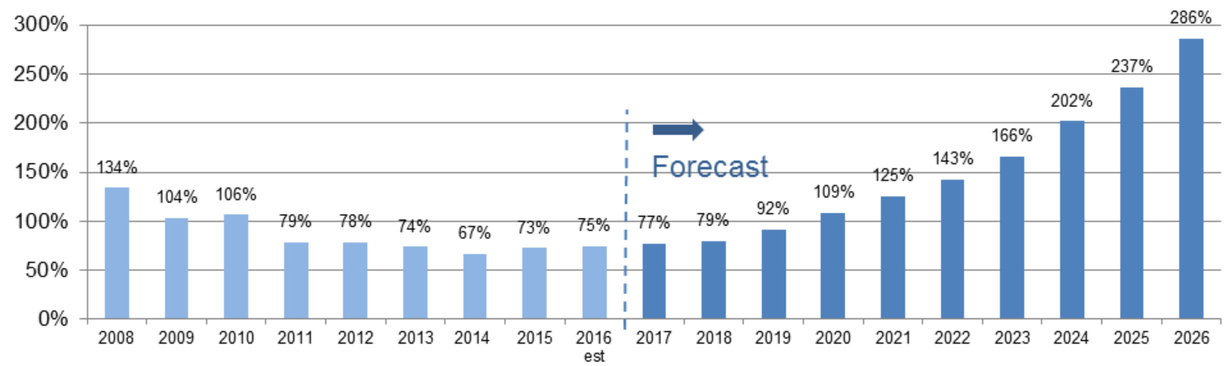
As infrastructure ages, it periodically needs major rehabilitation and ultimately needs to be replaced. Since asset replacement is a cost incurred for existing assets, development charges cannot be used for this purpose. Therefore, funding sources such as taxes and/or user rates must be used to pay for 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 $112 million in 2017, and increase to approximately $117 million in 2018. In addition, annual operating surpluses help build reserves, in accordance with Council’s approved surplus management policy.

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 stabilize over the next four years and then should 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 2020.

Graph 8: Reserve to Debt Ratio



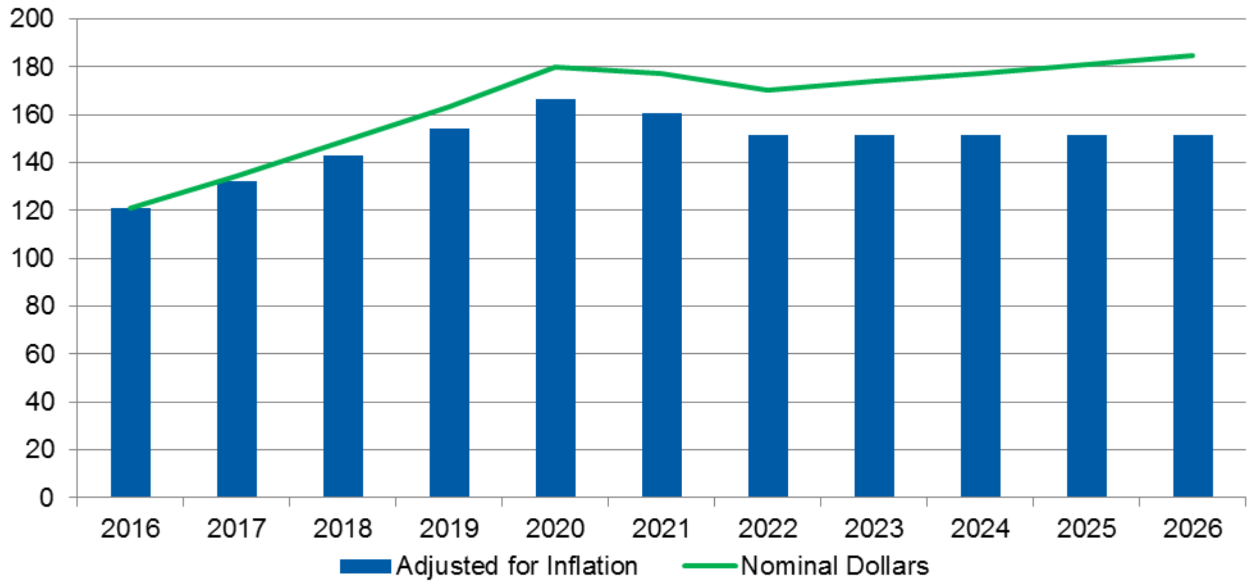
Source: York Region Finance Department

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 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 future rehabilitation and replacement requirements without the need to issue any new user rate debt and without impact to the tax levy.

The contributions to the water and wastewater replacement reserves are expected to promote equity across generations. Graph 9 shows the projected annual per capita contributions to the water and wastewater capital asset replacement reserves.

Graph 9: Annual per Capita 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 $459 million over the 2017 to 2026 forecast period, allowing the Region to avoid approximately $294 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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Annual Estimate (%)	3.55	3.90	4.25	4.50	4.75	5.00	5.25	5.25	5.25	5.25
Weighted Average (%)[5]	3.60	0.00*	0.00*	4.50	4.85	5.04	5.25	5.25	5.25	5.26

*As a result of the fiscal strategy, the Region will avoid issuing new debt for capital spending authority year 2018 and 2019 by drawing on reserves to fund capital projects.

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 2017 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 2015, 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 2017

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 2017, it is estimated that approximately $400 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 2017, 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 2017. 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 2016 Projections and Outcomes

As Table 3 shows, the Region was in compliance with its annual repayment limit for 2016.

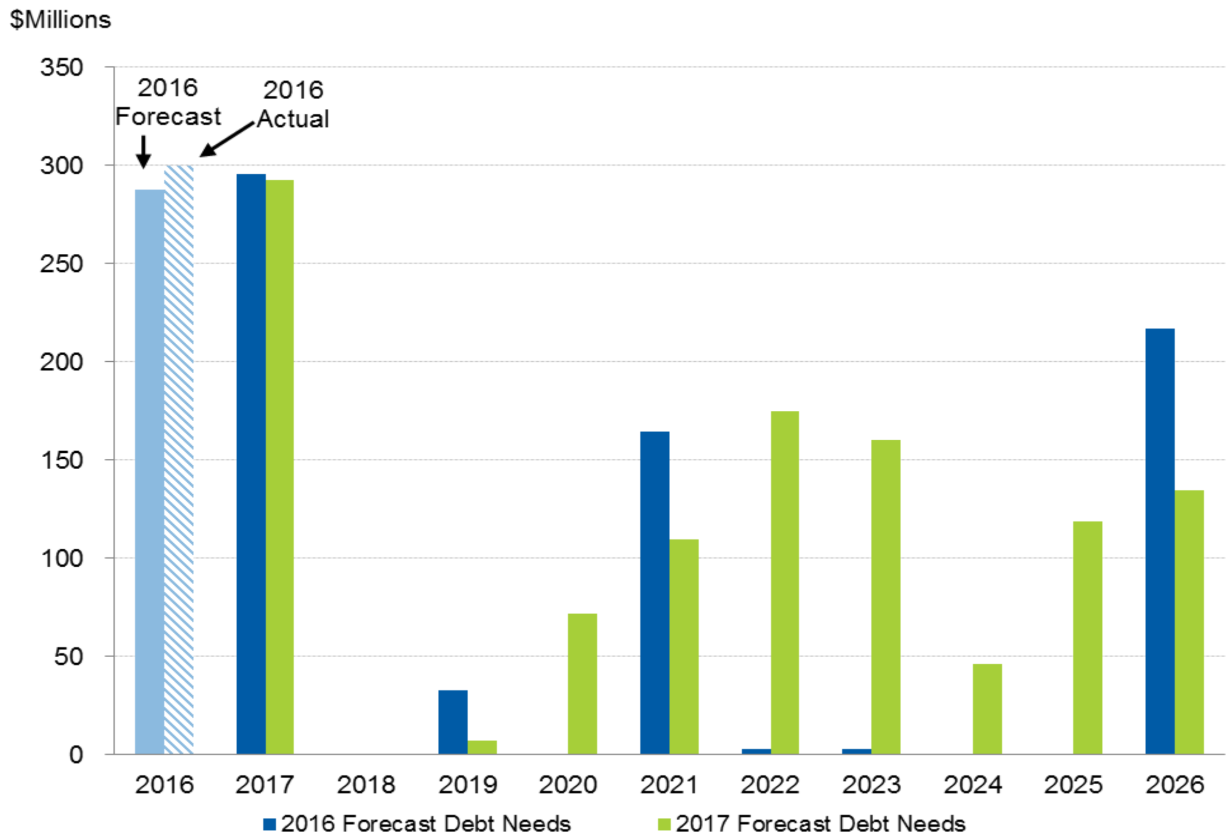
[6] Temporary borrowing provisions are set out in Sections 405 and 407 of the Municipal Act, 2001. Temporary borrowings are not part of the annual repayment limit calculations.

Table 3: Region's 2016 Annual Repayment Limit ($Millions)

Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	354	354	-
Plus: Growth Cost Supplement	199	189	(10)
Total Annual Repayment Limit	**553**	**543**	**(10)**
Less: Existing Debt Payment and Financial Obligations	316	322	6
Less: Anticipated New Debt Payment and Financial Obligations	46	46	-
Remaining Annual Repayment Limit	**191**	**175**	**(16)**

A year-over-year comparison of annual debt requirements is shown on Graph 10. In September 2016, Council approved $32 million of accelerated debenture spending for Transportation Services that were previously expected to be completed in 2017, partly offset by delay in spending from other departments into 2017. The 2017 forecast debt needs excludes the $32 million of accelerated spending Transportation Services already financed in 2016 and includes reprofiling of spending from other departments.

Graph 10: Comparison of Debt Needs – 2016 Budget vs. 2017 Budget

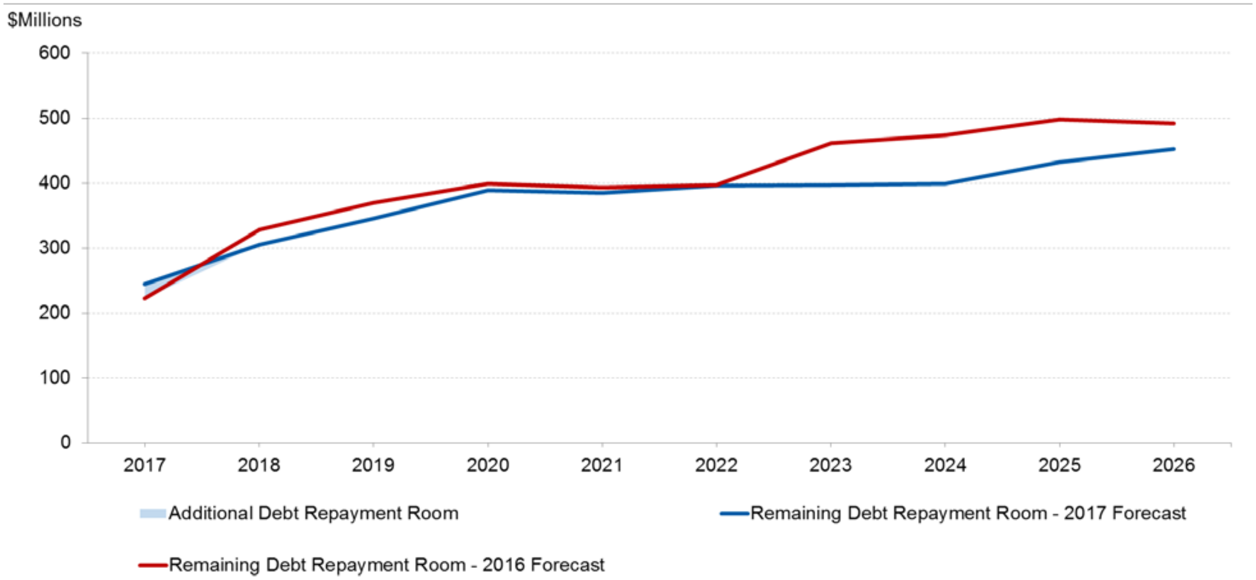


Source: York Region Finance Department

The capital plan included in the 2017 budget shows a total debt requirement of $1.1 billion over the 2017-2026 period. This is $0.3 billion higher than last year. The higher debt requirement is due to a lower development charge collections forecast.

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 2017 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 2017-2026 forecast based on information and assumptions contained in the 2017 Operating Budget.

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

Annual Repayment Limit determination[1]	**2017**	**2018**	**2019**	**2020**	**2021**
Net revenues					
Property taxes/Payments in lieu[2]	957	981	1,026	1,070	1,118
User rates - sewage/water/solid waste[3]	272	296	318	346	377
Transportation user fees	74	72	76	79	82
Other user fees[4]	43	36	40	41	42
Provincial fines	13	13	14	15	15
Other revenue[5]	191	79	54	53	59
Total - Net revenues	**1,550**	**1,477**	**1,528**	**1,604**	**1,693**
25% of Net revenues	**387**	**369**	**382**	**401**	**423**

Annual Repayment Limit determination[1]	**2022**	**2023**	**2024**	**2025**	**2026**
Net revenues Property taxes/Payments in lieu[2]	1,167	1,217	1,269	1,322	1,378
User rates - sewage/water/solid waste[3]	409	430	446	463	480
Transportation user fees	86	87	89	90	91
Other user fees[4]	45	46	46	47	47
Provincial fines	15	15	15	15	14
Other revenue[5]	61	68	67	76	87
Total - Net revenues	**1,783**	**1,863**	**1,932**	**2,013**	**2,097**
25% of Net revenues	**446**	**466**	**483**	**503**	**524**

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 2017 is based on actual results of the 2015 Financial Information Return. The limit for 2018 is based on year-end forecast for 2016. The limits for 2019 and 2020 are based on the 2017 Operating Budget for years 2017 and 2018.
2. Property taxes for 2019 are based on expected results for 2017 and assume 1.75 per cent assessment growth plus 1.12 per cent net tax levy growth for a total of 2.87 per cent. Property taxes are assumed to increase 2.65 per cent the following year. Thereafter, property taxes are assumed to increase at an annual average of 2.88 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 2017 Operating Budget assumes other user fees grow at an average annual rate of 2.81 per cent. Thereafter, fees are assumed to increase by an annual average of 1.93 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 1.66 per cent for 2017 and 2018. Thereafter, rates of return range from 1.91 per cent to 1.95 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 2017 to 2026. A development charge collection estimate was generated for 2016, based on the actual year-to-date collections realized by September, 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 2017 to 2026 collections forecast is generated using econometric models that differentiate between the short, medium and long terms.

For the residential development charges collections forecast:

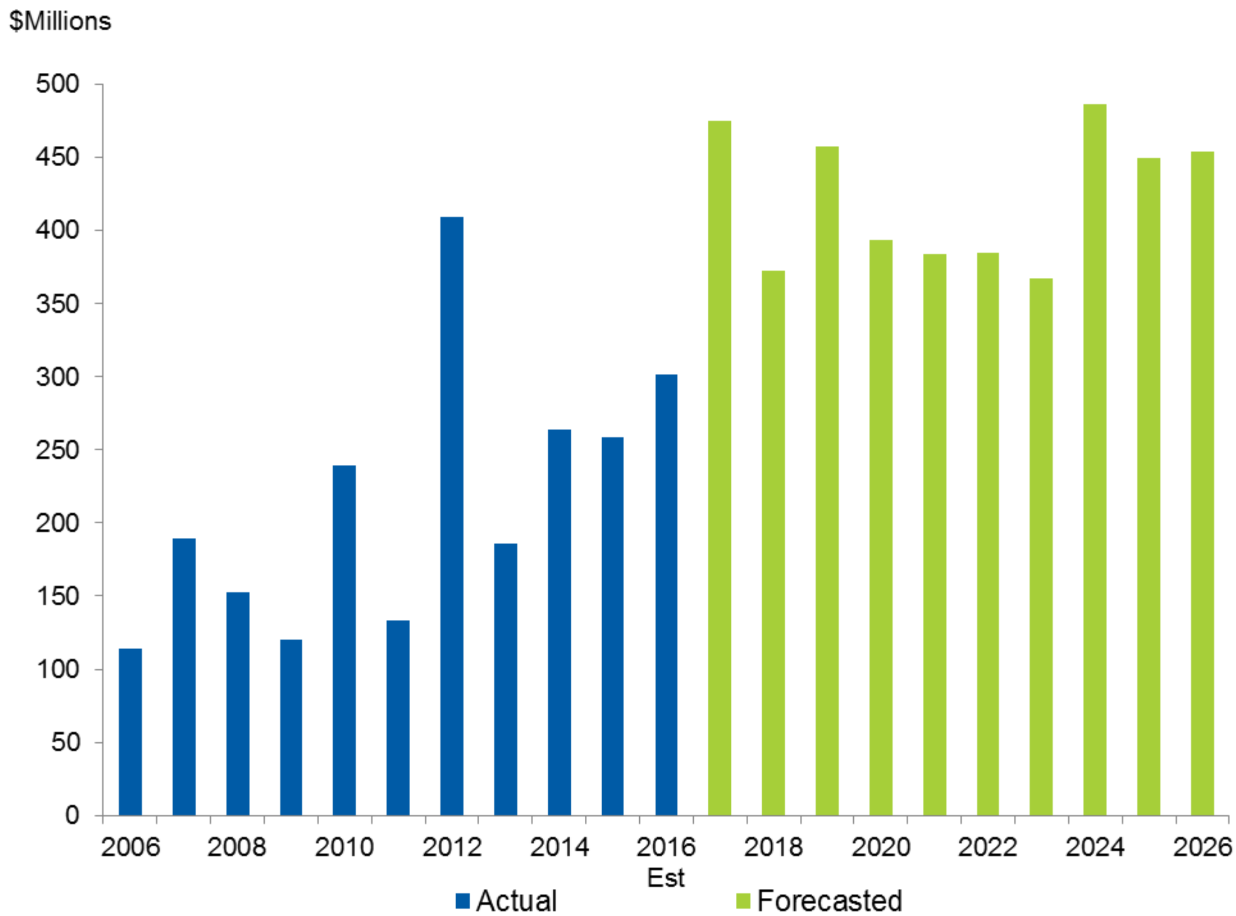
- The short-term forecast is based on historic quarterly new unit sales, starts and inventory. While all three are important indicators of building permit issuance, historic starts has the largest positive indication on building permit issuance.
- The medium-term forecast is based on anticipated population 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 2016) 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 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

Development charge collections tend to fluctuate considerably year over year. Over the ten year period from 2006 to 2016, annual collections peaked in 2012, 2010, and 2007 during development charge bylaw updates. Collections were significantly lower in 2008 and 2009 due to the economic recession.

The historic average collection level is not a good indicator of future average collections because development charge rates have increased, and the Region has adopted policy changes, including discontinuing development charge discounts. Development charge collections for each year from 2017 to 2026 are anticipated to increase due to the expectation that the Region will continue to grow and rates will rise.

Staff are currently updating the Region's development charge bylaw. While staff have assumed that development charge rates will increase for the purpose of the 2017 Budget forecast, the exact quantum of rates is not known at this time. The draft bylaw and accompanying background study will be tabled at Council in February 2017. Staff anticipate bringing the final bylaw to Council for its consideration in May. If adopted, the new bylaw would come into effect on June 17, 2017.

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	2017	2018	2019	2020	2021
Total own source revenues	1,550	1,477	1,528	1,604	1,693
25% of Own source revenues (A)	**387**	**369**	**382**	**401**	**423**
Development charge collections (3-year rolling average)	275	345	383	435	408
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	**193**	**242**	**268**	**305**	**286**
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	**580**	**611**	**650**	**706**	**709**

Component Description	2022	2023	2024	2025	2026
Total own source revenues	1,783	1,863	1,932	2,013	2,097
25% of Own source revenues (A)	446	466	483	503	524
Development charge collections (3-year rolling average)	412	387	379	413	435
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	**288**	**271**	**265**	**289**	**305**
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	**734**	**737**	**748**	**792**	**829**

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 2017 to 2026 annual repayment limit is calculated based on a more conservative assumption of 70 per cent.

Attachment 2

Status:
Approved By:

The Regional Municipality of York

Investment Policy

Policy No.: eDOCs #

Original Approval Date: October 19, 2006

Policy Last Updated: October 17, 2013

Policy Statement:

A policy governing the use and management of surplus funds and investments including those being managed on behalf of external clients.

Application:

All Regional employees who are responsible for the control, administration and reporting of investments managed by the Corporation.

Purpose:

This policy establishes the objectives, standards of care, eligible investments, reporting requirements and responsibilities for the prudent management of surplus funds and investments including those managed, where applicable, on behalf of external clients.

Definitions:

Approved Entity: Move Ontario Trust and any municipality incorporated in the Province of Ontario.

Asset Backed Securities: fixed income securities (other than a government security) issued by a Special Purpose Entity, substantially all of the assets of which consist of Qualifying Assets.

CHUMS Financing Corporation (CHUMS): A subsidiary of the Municipal Finance Officers Association of Ontario (MFOA) which in conjunction with the Local Authority Services Limited operates the ONE Investment Program,

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

Credit Risk: the risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

Diversification: a process of investing assets among a range of security types by class, sector, maturity, and quality rating.

Duration: a measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

External Client: Any approved entity outside the Corporation.

Forward Rate Agreement (FRA): a contract with a qualified financial institution (eg. bank) that allows an investor to fix a rate of interest to be received on an investment for a specified term beginning at a specified future date.

FTSE Indices: Indices tabulated by FTSE TMX Global Capital Markets (formally PC Bond/DEX Analytics) a business unit of the Financial Times Stock Exchange and a subsidiary of the London Stock Exchange Group a leading provider of fixed income performance benchmarks and data bases in Canada and globally.

Interest Rate Risk: the risk associated with declines or rises in interest rates which cause an investment in a fixed-income security to increase or decrease in value.

Investment-grade Obligations: an investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated “BBB” or higher by a rating agency.

Liquidity: a measure of an asset’s convertibility to cash.

Local Authorities Service Limited (LAS): a subsidiary of the Association of Municipalities of Ontario (‘AMO’) which in conjunction with CHUMS operates the ONE Investment Program.

ONE -Investment Program: a professionally managed group of investment funds composed of pooled investments that meet eligibility criteria as defined by regulations under the Municipal Act.

Market Risk: the risk that the value of a security will rise or decline as a result of changes in market conditions.

Market Value: current market price of a security.

Maturity: the date on which payment of a financial obligation is due. The final stated maturity is the date on which the issuer must retire a bond and pay the face value to the bondholder. See “Weighted Average Maturity”.

Prudent Person Rule: an investment standard outlining the fiduciary responsibilities relating to the investment practices of public fund investors.

Safekeeping: holding of securities by a qualified financial institution (e.g. bank) on behalf of the investor.

Schedule I banks: Schedule I banks are domestic banks and are authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation (see Appendix 3).

Schedule II banks: Schedule II banks are foreign bank subsidiaries authorized under the *Bank Act* to accept deposits, which may be eligible for deposit insurance provided by the Canada Deposit and Insurance Corporation. Foreign bank subsidiaries are controlled by eligible foreign institutions (see Appendix 3).

Schedule III banks: Schedule III banks are foreign bank branches of foreign institutions that have been authorized under the *Bank Act* to do banking business in Canada. These branches have certain restrictions (see Appendix 3).

Sinking Fund: securities and/or deposits accumulated on a regular basis in a separate safekeeping and/or bank account that will be used to redeem debt securities at maturity.

Summary of Investment Procedures: a document developed and maintained by the Treasury Office that summarizes specific duties and procedures relating to the operation of the investment program.

Supranational: an agency sponsored by either a single or group of highly rated foreign banks or governments that will issue debt to fund loans in developing countries or large infrastructure projects. Supranational institutions may be owned or guaranteed by a consortium of national governments and their debt is typically rated "AA" or higher.

Weighted Average Maturity (WAM): the average maturity of all the securities that comprise a portfolio.

Description:

Objectives of the Corporation's Investment Program

The primary objectives of the investment program, in priority order, shall be:

- Adherence to statutory requirements;
- Preservation of capital;
- Maintaining liquidity; and
- Earning a competitive rate of return.

- **Adherence to Statutory Requirements:**

All investment activities shall be governed by the *Municipal Act* as amended. Investments, unless limited further by Council, will be those deemed eligible under Ontario Regulation 438/97 or as authorized by subsequent provincial regulations, including O.Reg 399/02 and O.Reg 655/05.

- **Preservation of Capital:**

Safety of principal is an important objective of the investment program. Investments shall be undertaken in a manner that seeks to minimize the risk to capital in the overall portfolio. Staff shall endeavor to mitigate credit and interest rate risk as follows:

Credit Risk:

- Limiting investments to safer types of securities;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Corporation does business;

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized; and

- Setting dollar limits on the size of portfolio investments in asset sectors (fixed income and equities) and in individual credit names.

Interest Rate Risk:

- Structuring the investment portfolio so that securities mature to meet ongoing cash flow requirements, thereby reducing the need to sell securities on the open market prior to maturity;

- Investing operating funds primarily in shorter-term securities or approved liquid investment pools;

- Diversifying longer-term holdings to mitigate effects of interest rate volatility;

- Use of Forward Rate Agreements when appropriate; and

- Investing in shares or equities of Canadian corporations through the ONE Investment Program.

- **Maintaining Liquidity:**

The investment portfolio shall remain sufficiently liquid to meet all operating or cash flow requirements and limit temporary borrowing requirements. This shall be done where possible by structuring the portfolio such that securities mature concurrent with anticipated cash demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio shall consist largely of securities with active secondary or resale markets. A portion of the portfolio may be placed in local government investment pools (eg. ONE Investment Program) which offer liquidity for short-term funds.

- **Competitive Rate of Return:**

Without compromising other objectives, the Corporation shall maximize the rate of return earned on its portfolio by implementing a dynamic investment strategy as part of its investment program. Trends in macro-economic variables will be monitored including interest rates, inflation, and foreign exchange rates, as affected through the political arena and international developments and perceptions.

Diversification, and ensuring safety of principal by limiting exposure to credit, sector or term risks, also provides opportunities to enhance the investment returns of the Corporation's portfolio by means of prudent and timely adjustments to asset mix.

Standard of Care:

- **Prudence**

  Investments shall be made with judgement and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

  Investment officers and employees exercising due diligence and acting in accordance with written procedures and this Policy shall be relieved of personal responsibility for an individual security's credit risks or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidation or the sale of securities are carried out in accordance with the terms of the Policy.

- **Ethics and Conflicts of Interest**

  Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Officers and employees shall not undertake personal investment transactions with the same individual with whom business is conducted on behalf of the Corporation.

- **Delegation of Authority**

  The Commissioner of Finance and Treasurer will have overall responsibility for the prudent investment of the Corporation's portfolio. The Director of the Treasury Office (the "Director") will be responsible and have the authority for the implementation of the investment program and the establishment of investment procedures consistent with the Policy. Such procedures shall include the explicit delegation of the authority needed by staff in order to complete investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy. The Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officers and employees and shall exercise control over them. The Director may delegate responsibility for the day-to-day management of the portfolio to subordinate investment officers within established guidelines.

- **Competitive Selection of Investment Instruments**

  All securities' purchases/sales will be transacted through a competitive process only with financial institutions approved by the Commissioner of Finance and Treasurer or the Director of the Treasury Office. The Corporation will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objectives of the overall portfolio. When selling a security, the Corporation will select the bid that generates the highest sale price or the transaction which will yield the best return for the portfolio. If there is a tie bid between one or more dealers, the Corporation will award the winning bid to the dealers on a rotating basis.

  It will be the responsibility of authorized investment officers and employees involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited (at least 2 dealers), quoted or interpolated rate, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale shall be included in this record.

EXTERNAL INVESTMENT CLIENTS

Where the Region has undertaken to manage investment portfolios on behalf of an external client account as allowed under Section 420(1) of the Municipal Act and in conformity with Section 25(3) of the Securities Act, it will do so on the following basis:

a) The investment objectives, authorized investments, reporting requirements, and term and sector limits will be in accordance with the external client's investment policy.

b) Each and all portfolios managed will be held separate from the Region's own investment portfolios. The rate of return of the portfolio will reflect the earnings of the investments held only in that portfolio.

c) Each engagement will be subject to a mutually agreed and signed agreement.

d) Prior to the engagement, the following process will be undertaken:

   i) Review client needs, expectations and risk tolerances;
   ii) Establish term limits and approved credit exposures;
   iii) Agree on a list of eligible investments;
   iv) Establish appropriate goals and benchmarks;
   v) Prepare and finalize the agreement.

e) The agreement will set out the following:

i) Duties and roles of both parties;
ii) Management expense fee;
iii) Reporting and portfolio review requirements.

SUITABLE AND AUTHORIZED INVESTMENTS

The following Canadian Dollar investments are authorized for the purposes of this Policy within the limitations set out in Investment Parameters section and Appendix 1.

- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by:
  1. Canada or a province or territory of Canada,
  2. an agency of Canada or a province or territory of Canada,
  3. a country other than Canada,
  4. a municipality in Canada including the Regional Municipality of York,
  5. the Infrastructure Ontario and Lands Corporation
  6. a school board or similar entity in Canada (money must be used for school purposes),
  7. a post-secondary educational institution,
  8. the board of governors of a college of applied arts and technology of Ontario,
  9. a local board as defined in the *Municipal Affairs Act* or a conservation authority,
  10. a board of a public hospital,
  11. a non-profit housing corporation,
  12. a local housing corporation,
  13. the Municipal Finance Authority of British Columbia,
  14. the International Bank for Reconstruction and Development,
  15. a supranational financial institution or a supranational governmental organization,
  16. asset-backed securities, with a minimum credit rating of “AAA”
  17. a corporation that is incorporated under the laws of Canada or a province of Canada with a maturity of not more than 5 years provided it has a minimum credit rating of “AA-”.

- Bonds, debentures, promissory notes or other evidence of indebtedness issued or guaranteed by,
  i. a bank listed in Schedule I, II or III to the *Bank Act* (Canada),

ii. a loan corporation or trust,

iii. a credit union or league, or

iv. the Province of Ontario Savings Office.

- Negotiable promissory notes or commercial paper, other than asset-backed securities, maturing one year or less from the date of issue, if that note or commercial paper has been issued by a corporation that is incorporated under the laws of Canada or a province of Canada.

- Bonds, debentures, promissory notes, other evidence of indebtedness or securities of a corporation if the Corporation first acquires the bond, debenture, promissory note or other evidence of indebtedness as a gift in a will and the gift is not made for a charitable purpose (can only be held for 90 days).

- Bonds, debentures, promissory notes or other evidence of indebtedness issued by a corporation that is incorporated under the laws of Canada or a province in Canada, the terms of which provide that the principal and interest shall be fully repaid more than five years after the date the Corporation makes the investment provided that the investment is done through the ONE Investment Program.

- Shares of a corporation if,

    i. the corporation has a debt payable to the Regional Municipality of York,

    ii. under a court order, the corporation has received protection from its creditors,

    iii. the acquisition of the shares in lieu of the debt is authorized by the court order, and

    iv. the Commissioner of Finance and Treasurer is of the opinion that the debt will be uncollectible by the Region unless the debt is converted to shares under the court order.

- Shares issued by a corporation that is incorporated under the laws of Canada or a province of Canada, provided that the investment is done through the ONE Investment Program.

INVESTMENT PARAMETERS

Fixed income investments shall be diversified by:

- Diversifying investments to avoid over-concentration in securities from a specific issuer or sector (excluding Government of Canada securities);

- Limiting investment in securities to those that have higher credit ratings;

- Investing in securities with varying maturities; and

- Investing in mainly liquid, marketable securities which have an active secondary market, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

In order to promote diversification of the Corporation's investment portfolio, percentage weightings for class and type of securities shall be established and maintained. Column "d" of Appendix 1 sets out the maximum allowable exposure for each classification of security as a percentage of the total portfolio. Column "e" of Appendix 1 sets out the maximum allowable exposure for each specific issuer in a security class as a percentage of the total portfolio. Column "f" of Appendix 1 sets out the maximum term limit for each investment class and issuer.

The Corporation shall adopt weighted average maturity limitations consistent with investment objectives. The Corporation shall also hold sufficient funds in short term investment instruments in order to maintain adequate liquidity. Appendix 2 sets out minimum and maximum term exposures in order to ensure liquidity requirements are maintained. In line with the provincial regulation, the Corporation shall sell an investment within 30 to 90 days (depending on the specific investment) after the day the investment rating falls below the standard as set out in Appendix 1.

REPORTING REQUIREMENTS

- **Allocation of Investment Income**

Allocation of investment earnings from General Fund Portfolios will be allocated monthly to the appropriate reserve, deferred revenue or other account of the Corporation as set out in Appendix 3. The rate of return credited will take into consideration the length of time that investments will be held for the purposes of that account.

- **Reports to Council**

The Commissioner of Finance and Treasurer shall submit an investment report for Council at least annually, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last year. This management summary will be prepared in a manner which will allow Council to ascertain whether investment activities during the reporting period have conformed to the Policy. The investment report will include the following:

- Listing of individual securities held at the end of the reporting period;

- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements);

- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks;

- Listing of investment by maturity date;

- Percentage of the total portfolio which each type of investment represents;

- A statement about the performance of the investment portfolio during the period covered by the report;

- An estimated ratio of the total long-term and short-term securities compared to the total investments and a description of the change, if any, in that estimated proportion since the previous year's report;

- A statement by the Commissioner of Finance and Treasurer as to whether or not, in his or her opinion, all investments were made in accordance with the investment policies and goals adopted by the Corporation;

- If an investment made by the Corporation is in the opinion of the Commissioner of Finance and Treasurer not consistent with the Policy, the inconsistency shall be reported to Council within 30 days (or the next earliest opportunity) after becoming aware of it.

- A record of the date of each transaction in or disposal of its own securities, including a statement of the purchase and sale price of each security;

- If the Corporation has any existing forward rate agreements in a fiscal year, the Commissioner of Finance and Treasurer shall prepare and present to Council once in that fiscal year, or more frequently if Council so desires, a detailed report on all of those agreements, which will contain:

- A statement about the status of the forward rate agreements during the period of the report, including a comparison of the expected and actual results of using the agreements.
- A statement by the Commissioner of Finance and Treasurer indicating whether, in his or her opinion, all of the forward rate agreements entered during the period of the report are consistent with the Corporation's statement of policies and goals relating to the use of forward rate agreements.

- Such other information that the Council may require or that, in the opinion of the Commissioner of Finance and Treasurer, should be included.

- **Performance Benchmarks**

It is anticipated that the investment portfolio will earn an average rate of return that is at least commensurate with the investment risk constraints and cash flow needs of the Corporation. Therefore, the actual rate of return earned on the portfolio will be regularly compared to performance benchmarks that have been previously established. The benchmark(s) may vary from time to time as determined by the Director of the Treasury Office in order to be comparable to the composition and average term of the current holdings of the investment portfolio. The performance of the General Portfolio will be compared using two sets of performance benchmarks – an index-based benchmark and a managed portfolio benchmark.

The index benchmark will be based on a proportional blend of applicable components of the following indices:

- FTSE Canadian Money Market Index;
- FTSE Canadian Short-Term Bond Index;
- FTSE Canadian Medium-Term Bond Index; and
- FTSE Canadian All Government Long-Term Bond Indexes

The managed portfolio benchmark will be based on a proportional blend of rate of returns earned by the following funds:

- ONE Investment Program Money Market Fund; and
- ONE Investment Program Bond Market

- **Marking to Market**

The market value of the investment portfolio shall be calculated monthly or more frequently if determined necessary by the Director of the Treasury Office.

SAFEKEEPING AND CUSTODY

All securities shall be held for safekeeping by a financial institution approved by the Corporation. Individual accounts shall be maintained for each portfolio. All securities shall be held in the name of the Corporation.

The depository shall issue a safekeeping receipt to the Corporation listing the specific instrument, rate, maturity and other pertinent information. On a monthly basis, the depository will also provide reports which list all securities held for the Corporation, the book value of holdings and the market value as of month-end.

SECURITIES LENDING

The Corporation may engage in the practice of securities lending as provided in Section 418 of the *Municipal Act* to enable the corporation to increase its return on its custodial portfolio by lending certain assets to recognized borrowers for a fee.

FORWARD RATE AGREEMENTS

The Corporation may enter into Forward Rate Agreements (FRAs). FRAs may only be used to reduce the risk of future interest rate changes associated with known cash inflows and will be subject to the conditions set out in Appendix 2.

The FRA agreement must specify:

- the forward amount, which is the principal on which the interest rate is based upon;
- a settlement date;
- the forward interest rate;
- the reference rate of interest; and
- a schedule of approximate payments/cost to or by the Corporation should the reference rate and the forward rate differ.

A report analyzing the risks and return profile of the transaction, the risk exposure to the Corporation without the FRA and specific risk control measures must be approved by the Commissioner of Finance or Treasurer prior to entering into a FRA agreement.

Responsibilities and Authorities:

Commissioner of Finance and Treasurer and/or the Director, Treasury Office:

- Develops and maintains all necessary operating procedures for effective control and management of the investment function and reasonable assurance that the Corporation's investments, including those managed on behalf of external clients, if applicable, are properly managed and adequately protected.

- Ensures that the summary of Investment Procedures remains up to date and accessible to all investment officers and employees.

- Enters into arrangements with banks, investment dealers and brokers, and other financial institutions for the purchase, sale, redemption, issuance, transfer and safekeeping of securities.

- Determines rate of return to be allocated to accounts based on Appendix 3 and the portion of any deferred revenue, reserve or reserve fund deemed to be investable for the long-term.

- Will delegate the responsibilities and functions of the Treasury Office to investment officers and employees in a manner that would delineate between front, back office and a potential risk management committee. The duties performed by the trading desk and back office will be clearly segregated to maintain the integrity of the financial records. The function of executing and confirming trades will be separated from investment officers or employees directly responsible for the trade.
- May delegate all or part of the day-to-day management of investments to a qualified investment officer (e.g., Manager, Investment and Cash Management).

- Ensures that a review of the investment portfolio is performed daily to verify its compliance with the sector and credit exposure limitations set out in Appendix 1 by the appropriate investment officers or employees within the Investment and Cash Management Division.

- Ensures that any investment that becomes inconsistent with this Policy will be disposed of within 180 days.

- Ensures that credit rating of securities held in the investment portfolio are being monitored regularly by appropriate investment officers or employees within the Investment and Cash Management Division and any material negative changes are communicated in a timely manner to the Director, Treasury Office and the Director, Controllership Office, or their designates.

- Executes and signs documents on behalf of the Corporation and performs all other related acts in the day-to-day operation of the investment and cash management program.

- Ensures all Reporting Requirements identified within this Policy are met.

- May temporarily authorize an amendment to the Term Limits shown in Appendix 2 should an operational need arise.

- Obtains adequate insurance coverage to guard against any losses that may occur due to misappropriation, theft, or other unscrupulous acts of fraud with respect to the Corporation's financial assets.

Reference:

Section 418 of *Municipal Act*
Section 420 of the *Municipal Act*
Section 25 of the *Securities Act*
Ontario Regulation 438/97
Ontario Regulation 265/02
Ontario Regulation 299/02
Ontario Regulation 655/05

Contact:

Ed Hankins, Director, Treasury Office, Finance Department, ext. 71646

Approval Information:

Council Approval Date: October 17, 2013 **Council Minute No.:** **Extract eDOCS #:**	**Committee Name:** Committee of the Whole **Report No.:** **Clause No.:**

Accessible formats or communication supports are available upon request.

#5216590 - Policy
#5188542 – Extract
#1936565 – Archived Policy

Appendix 1 – Authorized Investments and Sector Limitations

Sectors	Minimum Credit Rating	Money Market Rating	Sector/Credit Exposure Limitation[1] (maximum)		Sector Term Limitation (Maximum)
			Portfolio Limit	Individual Limit	
(a)	(b)	(c)	(d)	(e)	(f)
Federal[2]					
Canada	N/A		100%	.	50 years
Federal Guarantees	N/A		50%	10%	50 years
Other Countries[2]					
Government	AAA		20%	10%	20 years
Government	AA (L)		10%	5%	10 years
Other Countries Total			20%		
Provincial[2]					
	AA	R1 mid	75%	35%	40 years
	A		25%	15%	30 years
	BBB		10%	5%	10 years
Provincial Total			80%		
Municipal					
Region of York[3]	N/A		25%	25%	None
Other Municipalities[4]	AAA		35%	5%	40 years
	AA		25%	5%	40 years
	A		10%	2%	40 years
	Not rated		5%	2%	10 years
Applied Arts, Housing Corp, Education & Hospitals	AA(L)		25%	5%	10 years

[1] exposure % limitations to be applied to the par value of the total portfolio
[2] includes guarantees
[3] includes advances to area municipalities
[4] Infrastructure Ontario & BCMFA, School Boards, Local Boards & Conservation.
[5] Investment in these securities is contingent upon the Region maintaining a credit rating at or above AA (L)
[6] Maximum 25% beyond 5 years
[7] Including High Interest Savings Account

Municipal Total			35%		
Asset Backed[5]	AAA	R1 high	20%	5%	10 years
Banks					
Schedule I Banks	AA(L)	R1 mid	50%	25%	10 years[6]
Schedule II Banks	AA(L)	R1 mid	20%	10%	5 years
Schedule III Banks	AA(L)	R1 mid	10%	3%	5 years
Banks Total			**50%**		
Corporate					
Corporate debt[5]	AA(L)	R1 mid	25%	5%	5 years
	A		**15%**	3%	5 years
Corporate Total			**30%**		
Supranational					
International Bank for Reconstruction and Development[i]	AAA		10%	10%	30years
Other governmental or financial institutions	AAA		15%	10%	30 years
Supranational Total			**20%**		
ONE Investment					
Money Market[7]	n/a		10%	n/a	
Bond Fund	n/a		10%	n/a	
Equity/Shares	n/a		10%	n/a	
Corporate Debt	A		10%	n/a	> 5 year
ONE Total			**25%**		
Other					
Loan or trust corporation, credit union, Province of Ontario Saving Bank	AA(L)		20%	5%	10 years

Appendix 2 – Portfolio Term Limitations[1]

	Percentage	
Term Limitation	**Minimum**	**Maximum**
Less than 90 days	5%*	100%
Less than 1 year	10%	100%
From 1 year up to, but not including 5 years	0%	85%
From 5 years up to, but not including 10 years	0%	60%
From 10 years up to 50 years	0%	30%

Note: to include known cash receipts due within 90 days

Other Restrictions:

1) Term is limited to an individual maximum term of 50 years for certain securities and the weighted average term shall not exceed 10 years for the general portfolio.
2) Investments for terms in excess of 1 year are restricted subject to investments specified and the credit rating limitation set out on Appendix 1.
3) Forward Rate Agreements (FRAs) may only be executed with Schedule I, II or III Banks whose credit rating is 'A' or better. The term of any FRA must be less than 1 year and not more than 25% of previous year's cash receipts.

[1] Term % limitations to be applied to the total amortized book value of the General Fund Portfolio.

Appendix 3 – Allocation of Investment Income

The method for allocating interest to accounts with surplus balances will reflect the term characteristics of that account.

The rate structure will be based on a three-tier system as follows:

1. Short-term rate – rate of return realized from the short-term money market portion of the General Fund portfolio including cash held on deposit with the Region's bank service provider.

2. Mid-term rate – a rate of return less than the long-term rate, as determined by the Commissioner of Finance and/or Director, Treasury Office

3. Long-term rate – rate of return realized from all long-term and any residual income not accounted for in the short and mid-term rate calculation above.

The short-term rate will be applied to the following accounts:

1. All deferred revenue accounts

2. The following corporate reserves:
   - Dental
   - Payroll Transfer
   - Extended Health
   - Vacation Pay

3. The following specific reserves:
   - Fuel Cost Stabilization
   - Hospital Financing
   - Transit
   - Federal Gas Tax
   - Provincial Gas Tax
   - Road Capital

4. Funds held on behalf of other organizations

The long-term rate will be applied to the following accounts:

1. Water - Capital Replacement
2. Sewer - Capital Replacement
3. Facilities Rehabilitation and Replacement
4. Roads Rehabilitation and Replacement
5. Region Owned Housing
6. Transit Vehicle Replacement
7. Any portion of a deferred revenue account, a reserve or reserve fund that maintains a consistent average outstanding balance that, at the discretion of the Commissioner of Finance and/or Director, Treasury Office, is deemed to be investable for the long term.

The mid-term rate will be applied to all other reserve and reserve funds.

Status:
Approved By:

The Regional Municipality of York

Capital Financing and Debt Policy

Policy No.: eDOCs #

Original Approval Date: January 23, 2003

Policy Last Updated: December 17, 2015

Policy Statement:

A policy governing the use and administration of capital financing and debt.

Application:

All financial obligations including related agreements and capital financing leases that are entered into by the Corporation, its boards and subsidiaries as well as those employees responsible for the control, administration or management of capital financing and debt issuance activities.

Purpose:

This policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the Corporation's operating and infrastructure needs.

Definitions:

Amortizing Debentures: Debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the debenture issue.

Annual Repayment Limit: For the purpose of this Policy it has the same meaning as the Debt and Financial Obligation Limit

Area Municipality: Any municipality located within the Region of York.

Banker's Acceptance: A short-term credit obligation created by a non-financial firm such as the Corporation and guaranteed by a bank as to payment.

Bond Forward Agreement: A financial contract with an eligible Schedule I, II or III bank used to hedge future interest rates by short selling a particular Government of Canada or Province of Ontario bond and repurchasing the same bond at a predetermined future settlement date. A settlement payment may be required by either the issuer or the bank if there is a difference between the price at which the government debt instruments are sold and the price at which they are bought back on the settlement date.

Bought Deal: A financing transaction, such as a debenture issue, in which an individual underwriter or underwriting group purchases the entire amount in order to resell to investors.

Capital Financing: A generic term for the financing of capital assets using debt, financing leases, swaps and other derivatives.

Construction Financing: A form of debt financing in which the issuer does not pay any principal and/or interest for a period up to 5 years during the construction or rehabilitation of a capital asset.

Corporation: Refers to the Corporation of the Regional Municipality of York.

Cross-Border Lease: A lease in which the lessor and lessee are located in different countries, and where the holder of legal title to the asset can claim tax benefits in its home country, while the tax laws of the asset user treat it as owner for tax purposes in its own country.

Debenture: A formal written obligation to repay specific sums on certain dates. In the case of a municipality, debentures are typically unsecured.

Debenture Committee: A committee established by Regional Council on September 23, 2010 through enactment of Bylaw No. 2010-69 which has the authority to enact Debenture Bylaws under the Terms of Reference contained in that bylaw.

Debt and Financial Obligation Limit: A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board. **For purposes of this Policy, it has the same meaning as the Annual Repayment Limit.**

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

Financial Guarantee: An agreement whereby the Corporation will take responsibility for the payment of debt in the event that the primary obligator fails to perform.

Foreign Currency Debentures: Debentures that are denominated or payable in a foreign currency. In Ontario, a municipality is permitted to issue debentures denominated in United States dollars, Pound Sterling, Japanese Yen and Euros.

Foreign Currency Exchange Agreements: An agreement entered into with a financial institution to fix the rate of exchange for future payments made in a foreign currency.

Growth-related Cost Supplement: A Supplement to the Debt and Financial Obligation Limit equal to 80 per cent of the average of the previous three calendar years of development charge collections.

Growth-related Debt and Financial Obligation Limit: The limit imposed by the Province with respect to the Corporation's debt and financial obligation payments comprised of the total of the Debt and Financial Obligation Limit and the Growth- related Cost Supplement.

Hedging: A strategy used to offset or mitigate currency and/or interest rate risk.

Infrastructure Ontario (IO) or its successor organization: Any entity established by the Province of Ontario to provide Ontario municipalities, universities and hospitals access to alternative financing and procurement service and to longer-term fixed rate loans for the building and renewal of public infrastructure.

Installment (Serial) Debentures: Debentures of which a portion of the principal matures each year throughout the life of the debenture issue.

Interest Rate Exchange Agreements: An agreement entered into with a financial institution to fix the future rate of interest paid on a variable rate debenture or long-term bank loan.

Joint and Several: An obligation that may be enforced against all obligators jointly or against any one of them separately.

Lease Financing Agreements: A lease allowing for the provision of Municipal Capital Facilities if the lease may or will require payment by the Corporation beyond the current term of Council.

Long-Term Bank Loan: Long-term debt provided by a bank or a syndicate (group) of banks.

Long-Term Debt: Any debt for which the repayment of any portion of the principal is due beyond one year.

Long-Term Debt and Financial Obligation Management Plan: A plan to be adopted or affirmed by Regional Council as part of the Corporation's annual budget to comply with Ontario Regulation 403/02 to access the Growth-related Cost Supplement.

Municipal Capital Facilities: Includes land, as defined in the *Assessment Act*, works, equipment, machinery and related systems and infrastructures.

Non-Material Leases: A class of financing leases in which the annual payment for individual leases will be less than $250,000 and as a class does not exceed one percent (1%) of the Corporation's net tax levy; or the net present value of the annual payments is less than $2 million for the term of the lease agreement, including possible extensions or renewals for which approval to extend or renew has been delegated to an officer of the Corporation.

Project Financing: Financing in which principal and interest payments are structured so as to more closely match the revenues or cost savings of a specific project. Also includes financing for which the lender, in the case of default, would have no or limited recourse to the issuer beyond the assets purchased with the proceeds of the financing.

Refunding: As applied to debentures, describes the process of retiring existing debt by issuing new securities to either reduce the interest rate or extend the maturity date or both.

Rent: A payment made by the Region in respect of property which will be used for the Region's purposes and for which a formal ownership transaction does not take place. Rent includes all payments made to the owner of the property.

Retirement Fund Debentures: Debentures for which money is accumulated on a regular basis, commencing several years after the issuance of the debentures, in a separate custodial account that is used to redeem the debentures.

Rolling Stock: Equipment that moves on wheels used for transportation and/or transit purposes. Examples include subway cars, trucks, buses and tractor trailers.

School Board: Any school board which has jurisdiction within the Region of York.

Short-Term Debt: Any debt for which the repayment of all the principal is due within one year.

Sinking Fund Committee: A committee consisting of the Corporation's Commissioner of Finance and Treasurer and other persons appointed by Council who are responsible for the management of the sinking and/or retirement funds.

Sinking Fund Debentures: Debentures for which money is accumulated on a regular basis in a separate custodial account that when combined with interest earned is used to redeem the debentures.

Syndicated Bank Loans: A loan between the Corporation and a bank listed in Schedule I, II or III of the *Bank Act (Canada)*, a loan corporation registered under the *Loan and Trust Corporations Act* or a credit union to which the *Credit Unions and Liaison Populaires Act, 1994* applies where the loan is obtained through a financing agreement in which each of the institutions that is a party to the agreement contributes a portion of the loan.

Tender: A process whereby formal bids are submitted to acquire debt securities or to provide a lease.

Term Debentures: Debentures that are comprised of a combination of installment and sinking fund debentures.

Tile Drainage Debentures: Debentures issued to finance the construction of a tile drainage system for agricultural land.

Underwriting Syndicate: An individual or group of investment bankers appointed for the purpose of purchasing and reselling new debentures issued by the Corporation at a negotiated price.

Variable Interest Rate Debentures: Debentures that provide for one or more variations in the rate of interest payable on the principal during the term of the debenture.

Description:

A) Philosophy For Capital Financing And Debt Issuance

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes, or those of its municipal business corporations, area municipalities and/or school boards.

"Best interest" will be consistent with the philosophy of the Corporation's *Financial Mission Statement*, adopted by Council in 1999, which includes the following key financial principle with respect to capital financing and debt practices:

> *"Capital financing and debenture practices will be responsive and fair to the needs of both current and future taxpayers and will be reflective of the underlying life cycle and the nature of the expenditure."*

This philosophy will be met through the objectives outlined below.

B) Primary Objectives Of The Capital Financing And Debt Program

The primary objectives for the Corporation's capital financing and debt program, in priority order, shall be:

1) Adhere to statutory requirements;
2) Maintain a superior credit rating;
3) Ensure long term financial flexibility;
4) Limit financial risk exposure;
5) Minimize long-term cost of financing; and
6) Match the term of the capital financing to the lesser of the useful life of the related asset or the period over which third party funding for the retirement of the debt will be received.

1) Adhere to Statutory Requirements

Capital financing may only be undertaken if and when it is in compliance with the relevant sections of the *Municipal Act*, the *Local Improvement Act*, or the *Tile Drainage Act*, and their related regulations. Requirements include but are not limited to the following:

a) The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year;

b) The term of the capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset;

c) Long-term debt will only be issued for capital projects;

d) The total annual financing charges cannot exceed the Growth-related Debt and Financial Obligation Limit or the Debt and Financial Obligation Limit, as applicable, for the municipality responsible for incurring the debt unless otherwise approved by the Ontario Municipal Board;

e) Council has adopted or affirmed a Long-Term Debt and Financial Obligations Management Plan for each fiscal year that a Growth-related Cost Supplement is required;

f) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease in relation to other methods of financing;

g) Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of an undertaking, Council will have considered all financial and other risks related to the proposed construction financing;

h) A credit rating of AA - (or equivalent) will be maintained for the year and the prior year that a Growth-related Cost Supplement is required; and

i) Long-term debt will be the joint and several obligations of the Corporation and its area municipalities.

Furthermore, the awarding of any contract under this Policy, unless otherwise authorized by Council, will follow the procedures and authorities set out in the Corporation's Purchasing By-law.

2) Maintain a Superior Credit Rating

Maintaining a superior credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner. Also, as noted elsewhere, a credit rating of a least AA - (or equivalent) will be needed by the Corporation to meet the statutory requirements for entering into certain types of capital financing contemplated by this Policy.

However, some factors affecting the credit rating are beyond the Corporation's direct control, such as the performance of the economy. To partially mitigate this concern, the Corporation has a Reserve and Reserve Fund Policy that ensures its ability to pay operational and financial obligations even if the economy suffers setbacks or other contingencies arise.

Development charges, which are a major source of funding to repay growth-related debt, are particularly sensitive to underlying economic conditions. Having an adequate Development Charge Reserve balance demonstrates to the rating agencies an ability to meet growth-related debt obligations even during periods when collections may temporarily decline.

Therefore, it will be the Corporation's practice to maintain a cash balance in its Development Charge Reserves equal to at least the projected annual principal and interest payments during the fiscal year for growth-related debt.

3) Ensure Long-Term Financial Flexibility

The capital financing program will be managed in a manner consistent with other long-term planning, financial and management objectives.

Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.

To the extent practicable, regular and/or ongoing capital expenditures and the current portion of future rehabilitation and replacement costs will be recovered on a "pay as you go" basis through rates, tax levy, user fees and/or reserve fund monies. Adequate reserves must be developed and maintained for all capital assets owned by the Corporation to ensure long-term financial flexibility. However, where long-term financing is required, due consideration will be paid to all forms of financing including debentures, construction financing, long-term bank loans and lease financing agreements.

4) Limit Financial Risk Exposure

The capital financing program will be managed in a manner to limit, where practicable, financial risk exposure. As a result, it will be the Corporation's normal practice to issue debt that is only denominated in Canadian dollars with an interest rate that will be fixed over its term.

Notwithstanding, if a situation arises where there is a material financial advantage and/or it is deemed prudent for the Corporation to issue debt that is subject to fluctuations, in foreign currency and/or interest rates, a hedging strategy will be considered to either reduce or eliminate the risk.

This strategy would include the following:

a) For debentures that are not denominated in Canadian currency, the rate of exchange will be fixed for the term of the obligation (both principal and interest payments) on or before the date of issuance.

b) For variable interest rate debentures with a term exceeding one year, the interest rate will be fixed within six months of the issuance date.

However, long-term bank loans for which the interest rate may vary will not be fixed if prevailing market conditions are such that in the opinion of the Commissioner of Finance it is in the Corporation's best interests to allow the rate to float where such debt, in addition to any other outstanding variable rate loans or debentures, does not exceed fifteen percent (15%) of the total outstanding debt of the Corporation as authorized by O.Reg 276/02 s(2).

Finally, financing leases have different financial and other risks than traditional debt that must be considered and, where practicable, mitigated prior to its use, including; contingent payment obligations for items such as, lease termination provisions, equipment loss, equipment replacement options, guarantees and indemnities. These risks will be identified prior to entering into any material financing lease.

(Refer to Section E of this Policy – Financing Risk Identification and Mitigation Strategies.)

5) Minimize Long-Term Cost of Financing

The timing, type and term of financing for each capital asset will be determined with a view to minimize both its and the Corporation's overall long-term cost of financing.

Factors to be considered will include: current versus future interest rates; shape of the interest rate curve, the availability of related reserve fund monies; the pattern of anticipated revenues or cost savings attributable to the project or purpose; the applicability of using Bond Forward Agreements to hedge interest costs; and, all costs related to the financing of the project whether by debenture, construction financing or financing lease.

6) Match the Term of the Capital Financing to the Lesser of the Useful Life of the Underlying Asset or the Period over which Third Party Funding for the Retirement of the Debt will be Received

The Corporation's normal practice will be to issue long-term debt for contractual terms that will be well received in the financial market place, typically 10, 20 or 30 years. However, the amortization period over which the debt will be retired may be longer, necessitating that part of the debt will need to be refinanced for an additional term (i.e., debentures with a refinancing provision). Except as noted below, the maximum term over which a capital asset shall be financed will be as set out in Appendix 1 unless otherwise specifically approved by Council or by the Debenture Committee; or for such longer term up to 12 months that may be determined by the Commissioner of Finance and Treasurer and/or Director, Treasury Office where there is a perceived benefit to do so based on the prevailing financial market conditions. In no case shall the term of financing exceed the lesser of the anticipated useful life of the underlying asset or in the case of financing that will be repaid from third party funding (e.g., development charges), the period over which the funding will be received.

Standard Of Care:

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

1) Ethics and Conflicts of Interest

Officers and employees involved in the capital financing process are expected to abide by the Corporation's Code of Conduct.

In particular they shall:

a) Refrain from personal business activity that could conflict with the proper execution and management of the capital financing program, or that could impair their ability to make impartial decisions;

b) Disclose any material interests in financial institutions with which they conduct business;

c) Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties; and

d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Region.

2) Delegation of Authority

The Commissioner of Finance and Treasurer will have the overall responsibility for the capital financing program of the Corporation. The Director, Treasury Office normally will have responsibility for directing/implementing the activities of the capital financing program and the establishment of procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for capital financing activities. No person shall be permitted to engage in a capital financing activity except as provided for under the terms of this Policy. The Director shall establish a system of controls to regulate the activities of subordinate officials and exercise control over the staff.

Notwithstanding, the Chief Administrative Officer, as authorized by the Purchasing By-law, may approve non-material financing leases as previously defined.

3) Requirement for Outside Advice

The Corporation's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion the appropriate level of knowledge not exist for instances such as capital financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

D) SUITABLE AND AUTHORIZED FINANCING INSTRUMENTS

The form of financing that meets the objectives listed above will be dependent in part upon its term and the type of asset to be financed.

1) Short-Term – Under One (1) Year

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing may be from one or more of the following sources:

a) Reserves and reserve funds. (This may be used as the primary source of short-term financing provided that interest is paid at the prevailing market rate);

b) Bank line of credit;

c) Short-term promissory notes issued to aforementioned institutions;

d) Bankers' Acceptances; and

e) IO (or its successor organizations) short-term advances pending issuance of long-term debentures.

2) Long-Term – Greater than One (1) Year

Financing of assets for a period of greater than one year may be from any of the following sources:

a) Debentures (including those issued to IO or its successor organizations), which may be in the following form or a combination thereof:
   - Installment
   - Sinking Fund
   - Term (including those with a refunding provision)
   - Amortizing
   - Variable Interest Rate
   - Foreign Currency
   - Retirement Fund

b) Reserves and Reserve Funds

These may be used for both interim and medium-term for a period of no greater than five-year financing if deemed cost effective or otherwise necessary. However, reserves and reserve funds are for a defined purpose and must be available when that purpose occurs or requires them. Notwithstanding this policy, intrafund borrowing between development charge reserve accounts for a longer period of time is permitted if the funds are available when needed.

c) Long-Term Bank Loans (including Syndicated Bank Loans)

These may be used if deemed cost effective or otherwise necessary. These loans may be either fixed or variable interest rate loans as determined by the Commissioner of Finance and Treasurer.

d) Construction Financing

May be used for a period up to five (5) years during construction or rehabilitation of certain facilities from which a revenue stream is expected to be generated (e.g., water plant) upon its completion.

e) Lease Financing Agreements (Capital Financing Leases)

May be used when it provides material and measurable benefits compared with other forms of financing. Capital financing leases may include cross-border and rolling stock leases.

f) Tile Drainage Debentures

These will be used to finance the construction of tile drainage systems for agriculture and for those individual farmers who apply and are accepted for financing.

3) Credit Rating Requirements for Issuing Certain Types of Debt

The Corporation may only issue foreign currency debentures, variable rate debentures, or variable rate long-term bank loans if its long-term debt obligations are rated by:

a) Dominion Bond Rating Service Limited as “AA (low)” or higher, or

b) Fitch Ratings as “AA-“ or higher, or

c) Moody’s Investors Service, Inc. as “Aa3” or higher, or

d) Standard and Poor’s as “AA-“ or higher.

E) Financing Risk Identification And Mitigation Strategies

There may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered in relation to other forms of financing that would be available. Also, the mitigation strategies discussed below will be used to reduce the additional risk when deemed practicable.

1) Availability of Debt Capacity for Future Priority Projects

The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan, based on its ARL or Growth-related Debt and Financial Obligation Limit. To manage this risk, the capital plan will show the amount of debt financing that will be required for each project and each year of the plan. Each project will also be prioritized on the basis of its impact on the Corporation’s growth plan and/or any strategic plan approved by Council. Project prioritization would permit the most critical elements of the capital plan to proceed in an expeditious manner.

2) Refunding Risk

The Corporation may issue debentures for which the amortization to retirement period is longer than the contractual term of the debenture, similar to a home mortgage. For those debentures, the balance of the debt remaining at the end of the contractual term will need to be refinanced.

A risk to the Corporation would be that interest rates may be higher during the second financing period, resulting in higher than anticipated debt payments. For this reason the use of refunding debentures will not be a preferred method of financing by the Corporation whenever tax levy is the primary source of funding. However, there will be no restriction to the use of refunding debentures funded mainly from development charges or user rates which tend to be for longer periods and are better able to absorb increases (or decreases) to their cost of financing over time.

Further risk to the Corporation may arise if market conditions are unfavorable at the end of the first contractual term of a refunding debenture. In those situations, several strategies will be employed, including pre-financing, short term borrowing from reserves, using variable rate debt and lines of credit, and making borrowing applications to government agencies such as Infrastructure Ontario.

3) Construction Financing

Construction financing may be used to “lock-in” the debt needed for a capital project that will eventually generate a revenue stream which could be used to make principal and interest payments (e.g. water plant). Construction financing is unique in that the debt and interest may be accrued in advance of the project’s completion and no payments are made during the building period.

The following risks compared to other forms of financing will be considered prior to the use of construction financing:

a) The financial risks include the following:

- The possibility that interest rates may fall from the time the rate for the construction loan is established and completion of construction. Should there be a high probability of this occurring, staff will consider the use of variable interest rate rather than fixed rate financing as a method to mitigate this risk; and

- The possibility that the final cost of construction could be materially less than initially forecasted and financed. Staff will consider whether or not to issue debt until a fixed rate contract has been awarded or to issue debt that does not exceed 75% of the projected cost as a method to mitigate this risk.

b) Other risks include that the construction project may not be able to proceed or is not completed for technical or other reasons. The mitigation option to be considered in this case will be not to issue long-term debt until all critical construction contracts have been awarded.

4) Financing Lease Agreements

Leases may be used to finance equipment, buildings, land or other assets that the Corporation does not have a long-term interest in or may not be able to acquire through other means.

The following risks compared to other forms of financing will be considered prior to the use of capital financing lease agreements.

a) The financial risks include the following:

- The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument (generally expressed as a particular Government of Canada Bond). This risk usually applies only to new assets being added to a leasing schedule and would be the same as new debt being issued from time to time;
- The ability for lease payments to vary based on changes in the assumed residual values of the asset being leased. Again, this risk usually applies only to new assets being added to a leasing schedule and would not be riskier than other forms of financing; and
- Uncertainty over leasing costs if a contract needs to be extended or renewed. The normal practice of the Corporation will be to negotiate these costs prior to the leasing agreement being executed.

b) Other risks include the potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to creditors, and its creditors have the legal right to seize assets of the leasing company. The practice of the Corporation will be to assess the financial strength of the leasing company prior to the leasing agreement being executed.

5) Variable Interest Rate Debenture and Long-Term Bank Loans

Variable rate debentures and long-term bank loans may be used when there is volatility in the financial market and/or there is an expectation of significantly lower interest rates occurring within a few months of their issue. In all cases, the interest rate will be fixed no later than 6 months after issue by means of a interest rate exchange (i.e. hedging) agreement to mitigate the financial exposure.

The Corporation may only enter into interest rate exchange agreements as part of a variable rate debenture with an eligible institution whose credit ratings are equivalent to those cited in Section D(3) above.

6) Foreign Currency Debentures

Foreign currency debentures may be used when the “all in” cost of financing in a foreign market is cheaper or the market conditions are such that domestic financing is not practicable. The risk associated with foreign currency debentures is that the rate of exchange incurred for future interest and principal payments could significantly increase over the term of the debt, raising its overall cost.

The Corporation’s practice with respect to foreign currency debentures will be to have the rate of exchange for all interest and principal payments fixed prior to their issue by means of foreign currency exchange or hedging agreements to mitigate the financial exposure.

The Corporation may only enter into a foreign currency exchange agreement with an institution whose credit ratings are equivalent to those cited in Section D(3) above.

Any foreign currency exchange agreement or agreements for a debenture will, when read together, provide for the reduction of currency risk with respect to the entire amount of principal and interest payable under the debenture and shall require any amount payable to any person under the agreement or agreements to be expressed as a Canadian currency amount.

The currencies set out in Appendix 2 are prescribed foreign currencies eligible under provincial regulation.

7) Bond Forward Agreements

The timing of the Corporation’s debenture issues is very dependent upon market or economic conditions. Market-out conditions can occur due to competing issuers and in times of financial crisis. Bond Forward Agreements allow the Corporation to lock-in the underlying interest rate on a portion of a planned debt issue, facilitating the issuing process.

Bond Forward Agreements may only be used for the issue or the refinancing of debentures denominated in Canadian currency for which Council approval has already been given.

Furthermore, it will be the Corporation’s normal practice to limit Bond Forward Agreements to no more than seventy-five percent (75%) of the principal amount of debentures to be issued. Bond Forward Agreements may have a settlement up to the maximum period permitted by provincial regulation.

It will be the Corporation’s normal practice that counterparty payments resulting from the use of these agreements, if material, will be added to or deducted from the principal of the amount being financed.

Using Bond Forward Agreements exposes the Corporation to the following risks:

a) Credit risk to the counterparty (financial institution) in the event interest rates have risen and the counterparty cannot fulfill the terms of the agreement. Although this is considered a remote risk, credit exposure resulting from any or all outstanding Bond Forward Agreements executed with any financial institution will be added to any outstanding investments held in the Corporation's investment portfolio and will be subject to the same limitation guidelines set out in Appendix 1 of the Investment Policy.

b) There will be an opportunity cost if interest rates fall and the Corporation has to pay the counterparty to the Bond Forward Agreement. However, the primary use of a Bond Forward Agreement is to "lock-in" the anticipated borrowing rate associated with the future debenture issue and reduce or eliminate the risk of higher interest rates. The Corporation's practice of hedging less than 100% of the planned debenture issue would result in some of the savings still being achieved if interest rate fell.

By not using a Bond Forward Agreement, the Corporation will be exposed to movements in interest rates that will be either beneficial or detrimental and will have less certainty about the cost of borrowing on a prospective debenture.

Before entering into a Bond Forward Agreement, Treasury Office staff and the Commissioner of Finance and Treasurer will analyze:

a) The fixed costs and estimated costs to the Corporation resulting from the use of such agreements.

b) A detailed estimate of the expected results of using such agreements.

Bond Forward Agreement may only be entered into with a bank listed in Schedule I, II or III to the *Bank Act (Canada)* and only if the bank's long-term debt obligations on the day the agreement is entered into are rated by:

a) Dominion Bond Rating Service as "A(high)" or higher; or

b) Fitch Ratings as "A+" or higher; or

c) Moody's Investors Service Inc. as "A1" or higher; or

d) Standard and Poor's as "A+" or higher.

F) METHODS OF MARKETING/SELLING DEBENTURE ISSUES

Debenture securities may be sold by the following means:

a) Underwriting Syndicate
The use of an underwriting syndicate appointed by the Commissioner of Finance and Treasurer will be the normal method by which debentures will be sold by the Corporation. Considerations used for appointment to the

syndicate will include, among other things: the demonstrated ability of the firm to underwrite and/or sell debentures in the various financial markets used by the Corporation; its commitment to provide an active and robust “secondary market” for municipal debt; and, its support for maintaining and developing new investors for municipal debentures. The composition of the Underwriting Syndicate will be reviewed periodically and at least once every five years;

b) Tender
A tender process may be used when and if significant savings could be expected when compared to issuing through an Underwriting Syndicate; or

c) Bought Deal/Private Placement
This may be appropriate for "one off" or unusual financing structures when significant savings would be expected or when market conditions are volatile or otherwise difficult.

G) Debt Issued On Behalf Of Other Jurisdictions

Council may approve the issuance of debentures for the purposes of its area municipalities and school boards provided:

a) They are used for capital projects approved by the Area Municipality and School Board;

b) The term of the financing is in excess of one (1) year but does not exceed the guidelines set out in Appendix 1;

c) It has received satisfactory evidence of approval authority and statutory compliance. Accordingly, the Financial Officers of the Area Municipalities must provide to the Corporation, at the time of their financing request, an updated Debt and Financial Obligation Limit for their respective municipality and attest to the validity of the calculation to ensure compliance with the Municipality’s Annual Repayment Limit. As well, mandated approvals from provincial ministries, if necessary, and the council of the Area Municipality will be required prior to Council granting financing approval;

d) The issuance and administrative costs attributable to borrowings on behalf of Area Municipalities and School Boards will be recovered. Costs not directly or specifically attributed to any one participant shall be allocated on a prorata basis to all participants. Conversely, costs incurred which are directly or specifically attributable to any one participant shall be allocated to that participant. Such costs may include, but are not limited to, the following: legal fees; commissions; cost of certificates; registration and re-registration charges; and courier charges.

H) Financial Guarantees And Letters Of Credit

Financial guarantees and/or letters of credit provided by the Corporation, its boards and subsidiaries will be considered as debt and will be governed by this Policy.

I) Sinking/Retirement Fund Debentures

A Sinking Fund Committee will be established whenever sinking and/or retirement fund debentures are outstanding anytime during a calendar year. The committee will meet at least annually and will be chaired by the Commissioner of Finance and Treasurer and will have at least two additional members appointed by Council. The committee will establish investment guidelines and ensure that adequate funds will be available to retire the debt at its maturity.

When setting the internal capitalization rate for new sinking/retirement fund debt at the time of its issue, the rate shall not exceed the lesser of the rate allowed in the Municipal Act, or the yield of the debenture at the time of its issue.

J) Reporting Requirements

In addition to any information requested by Council or that the Commissioner of Finance and Treasurer considers appropriate, the following reports will be provided:

1) Annually, the Commissioner of Finance and Treasurer shall submit to Council a report or reports that:

    a) Requests authority for temporary borrowing up to a stipulated amount to meet day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year;

    b) Requests authority, if required, to finance certain capital items detailing for each type of item, the amount and the maximum term of financing;

    c) States the sum, if any, that must be raised for sinking fund purposes in that year;

    d) As part of the annual budget a Long-Term Debt and Financial Obligation Management Plan to be adopted or affirmed by Regional Council that will contain at least the following elements:

        - Projections for each year over a multi-year period of estimated long term debt and financial obligations payments compared to the Growth-related Debt and Financial Obligation Limit;

- Strategies for prudently and cost effectively dealing with risks associated with planned long term debt and financial obligations and mitigation strategies for adverse contingencies which might arise;
- An evaluation of the outcomes of the previous year's Long-Term Debt and Financial Obligations Management Plan as well as a comparison to the current year's plan;
- A statement indicating the Plan is in compliance with this Policy.

2) As required, the Commissioner of Finance shall submit to Council, the following:

   a) A report, before entering into a material financing lease with a recommendation assessing the costs and financial and other risks associated with the proposed financing lease. This report shall include:

      - A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing;
      - A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary, and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease;
      - A statement summarizing any contingent payment obligations under the lease that in his or her opinion would result in a material impact for the municipality, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities;
      - A summary of the assumptions applicable to any possible variations in the lease payment and contingent payment obligations.

   b) Lists of any outstanding financing leases including the following details:

      - Estimates of the proportion of financing leases to the Corporation's total long-term debt and a description of any change in that proportion since the previous year's report; and
      - A statement that in his or her opinion all financing leases were in accordance with the lease policy and goals as outlined in this Policy or as otherwise adopted by Council.

c) A statement before passing a by-law providing for construction financing, which shall consider:

- The fixed and estimated costs to the Corporation;
- Whether the costs of the proposed financing for the construction of the undertaking are lower than other methods of financing available;
- A detailed estimate with respect to the terms of the Corporation's expectations of revenue generation from the undertaking, once constructed;
- The risks to the Corporation if the undertaking is not constructed or completed within the period of construction as estimated by Council; and
- The financial and other risks for the Corporation.

d) A report detailing at least once in a fiscal year, any Bond Forward Agreements in a fiscal year which the Corporation has entered into.

The report must contain the following information and documents:

- A statement comparing the expected and actual results of using Bond Forward Agreements during the period of the report; and
- A statement indicating whether, in his or her opinion, all of the Bond Forward Agreements entered during the period of the report are consistent with the bond forward policies and goals in this Policy or as otherwise adopted by Council.

e) A report detailing at least once in a fiscal year, any subsisting variable interest rate bank loan agreements and any subsisting interest rate exchange agreements applicable to them.

f) Lists of any outstanding construction financing debentures, including the following details:

- A description of the estimated proportion of the total debentures of the municipality issued to the total long-term debt of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;
- A statement as to whether, in his or her opinion, all debentures issued were in accordance with this construction financing policy and goals outlined in this Policy or as otherwise adopted by Council;

- An update of the detailed estimate with respect to the terms of the municipality's expectations of revenue generation from the undertaking;
- A record of the date of the repayment of each installment of principal, interest or both principal and interest during the period of construction of the undertaking for which the debentures were issued; and
- A statement of the outstanding installments of principal, interest or both principal and interest repayable during the currency of the debentures issued that will be due and payable in each year.

g) Details of all outstanding hedging instruments related to foreign exchange, interest and swap agreements, describing type, amount and purpose; and

h) A report detailing, at least once in a fiscal year, any outstanding variable interest rate debentures or foreign currency debenture and any subsisting interest rate or foreign currency exchange agreements applicable to them.

3) The Debenture Committee will report to Regional Council as required under the Region's Procedural Bylaw on each and every occasion it exercises its delegated authority.

Responsibilities:

Officers and staff of the Corporation complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified therein.

In addition, the following specific responsibilities are identified:

1) Commissioner of Finance and Treasurer:

- Appoints firms to be members of the Corporation's Underwriting Syndicate;
- May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the appointment of the Underwriting Syndicate; and
- Is a member of the Debenture Committee.

2) Commissioner of Finance and Treasurer and/or Director, Treasury Office:

- Reviews and recommends the type and term of financing for capital projects and operating requirements;
- Calculates the Growth-related Debt and Financial Obligation Limit for the Corporation as prescribed by the Municipal Act;
- Assigns the lead underwriter(s), members of the management group (if needed) and determines the percentage share of a planned debt issuance that will be allocated to each member of the Underwriting Syndicate;
- In consultation with the lead underwriters, approves the timing and structure of debt issues;
- Coordinates the preparation of debt issue by-laws for Council or the Debenture Committee;
- May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities and Bond Forward Agreements, including the payment of principal, interest or other related fees
- Liaises and assists rating agencies in the evaluation of the credit worthiness of the Corporation's debt securities;
- Reviews and recommends to Council the financial and business aspects of any material lease agreements and transactions; and
- Ensures all reporting requirements identified within this Policy are met.

3) Chair of Council

- May execute and sign documents on behalf of the Corporation with respect to the issuance of debt securities.
- Is a member and Chair of the Debenture Committee

4) Regional Clerk

The Regional Clerk may certify and sign documents on behalf of the Corporation with respect to the issuance of debt securities.

5) Chief Administrative Officer

- Is a member of the Debenture Committee

6) The Debenture Committee may exercise the authorities granted to it under Bylaw No. 2010-69 in terms of enacting bylaws authorizing the issuance of debentures.

Reference:

Committee of the Whole Report 8, Clause 2, adopted by Council December 19, 2013

Finance and Administration Committee Report 9, Clause 1 adopted by Council November 17, 2011

Replaces Finance and Administration Committee Report 1, Clause 3 adopted by Council January 27, 2011

Replaces Finance and Administration Committee Report 7, Clause 6 adopted by Council September 23, 2010

Replaces Finance and Administration Committee Report 7, Clause 8 adopted by Council September 18, 2008

Replaces Finance and Administration Committee Report 1, Clause 2 adopted by Council January 23, 2003.

Municipal Act, 2001, S.O. 2001, c. 25 Sections 405(1), 407(1), 408(3,4), 409(2)
Local Improvement Act, R.S.O. 1990, c.L.26, Section 53(2)
Tile Drainage Act, R.S.O. 1990, c.T.8, Section 2(1)
Ontario Regulation 266/02 - Financing Leases for Municipal Capital Facilities
Ontario Regulation 278/02 - Construction Financing
Ontario Regulation 276/02 – Bank Loans
Ontario Regulation 653/05; 291/09 – Debt Related Financial Instruments and Financial Agreements
Ontario Regulation 403/02 – Debt and Financial Obligation Limits

Contact:

Ed Hankins, Director, Treasury Office, Finance Department, ext. 71646

Approval Information:

Council Approval Date: December 17 2015	**Committee Name:** Committee of the

Council Minute No.:	Whole **Report No.:** **Clause No.:**

Accessible formats or communication supports are available upon request.

APPENDIX 1

Maximum Financing Term of an Asset

3 Years

- Computer software
- Police patrol vehicle

4 Years

- General purpose vehicle
- Personal computer and monitors

5 Years

- Mainframe computer/server and network equipment
- Radio and telecommunications system
- Office furnishings
- Audio and Video equipment
- Printers

10 Years

- Specialized vehicle/equipment
- Parking lot
- Public Works facility (depot, dome, etc.)
- Solid waste equipment
- Transit vehicle
- Park, recreational facility
- Dock, wharf, pier, breakwater
- Retaining wall, embankment, flood control
- Sidewalk, path
- Tile drainage
- Street lighting
- Underground wiring

15 Years

- Police station
- Health clinic
- Library
- Fire station

20 Years

- Water main, hydrant, filtration plant, storage facility, pumping station
- Sanitary sewer, storm sewer, treatment plant, pumping station
- Solid waste landfill site
- Home for the aged
- School, other educational building
- Office building
- Hospital
- Dam, reservoir
- Road
- Emergency Medical Services station

Greater than 20 years

- Major infrastructure –only when term approved by Council

30 Years

- Water and wastewater main projects, subject to:
  a) the underlying assets having a useful life of at least 30 years; and
  b) the project being in receipt of dedicated revenues for a similar period.

- Housing projects, subject to:
  a) the underlying assets having a useful life of at least 30 years; and
  b) the project being in receipt of dedicated revenues for a similar period.

APPENDIX 2

Prescribed Foreign Exchange Currencies

1. Dollars of Australia.
2. Yen of Japan.
3. Francs of Switzerland.
4. Sterling money of the United Kingdom.
5. Dollars of the United States of America.
6. The euro currency adopted by member states of the European Union.

O. Reg. 247/01, Sched.

Attachment 4

Status:
Approved By:

The Regional Municipality of York

Reserve and Reserve Fund Policy

Policy No.: eDOCs #

Original Approval Date: October 19, 2006

Policy Last Updated: June 26, 2014

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.

- These funds are directed to first 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) Preamble

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; and*
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:

- Adherence to statutory requirements;
- Promotion of financial stability and flexibility;
- Provision for major capital expenditures; and
- 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; and
- 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; and
- 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:

  a) Appropriations as part of the annual Operating Budget;
  b) Contributions as part of the Surplus Management Policy;
  c) Savings from the avoidance of debt as a result of draws from this reserve in either the current or prior years;
  d) 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.

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 tothe 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.

d) RESPONSIBILITIES

The Commissioner of Finance has overall responsibility for the management of reserves and reserve funds.

Specifically, the Commissioner of Finance will approve 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:

Ed Hankins, Director, Treasury Office, Finance Department, ext. 71646

Approval Information:

Council Approval Date: June 26 2014 **Council Minute No.:** **Extract eDOCS #:** 7041135	**Committee Name:** Committee of the Whole **Report No.:** **Clause No.:**

Accessible formats or communication supports are available upon request.

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

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 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 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.

YORK REGION
RESERVES AND RESERVE FUNDS FOR STABILITY AND FLEXIBILITY

Name	Year Established	Bylaw	Purpose	Sources of Funding
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 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.	Historically, a surcharge of 1% of payroll had been allocated to departmental operating budgets to fund this reserve.

YORK REGION
RESERVES AND RESERVE FUNDS FOR STABILITY AND FLEXIBILITY

Name	Year Established	Bylaw	Purpose	Sources of Funding
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 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. 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.
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.

YORK REGION
RESERVES AND RESERVE FUNDS FOR STABILITY AND FLEXIBILITY

Name	Year Established	Bylaw	Purpose	Sources of Funding
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.

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 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.	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	2015-78	To fund future major rehabilitation and/or replacement of wastewater assets.	Appropriations made from time to time from the user rate budget
Capital Replacement–Water	2015	2015-79	To primarily fund major maintenance and replacement of water plants and facilities. It is also used to finance the non-growth component of new water plants and facilities and has provided water rate stabilization from year to year.	Funding is a result of surcharges on the water user rate. In addition, any surplus in the water annual operating budget has been contributed to supplement the reserve balance.

YORK REGION
RESERVES AND RESERVE FUNDS FOR MAJOR CAPITAL EXPENDITURES

Name	Year Established	Bylaw	Purpose	Sources of Funding
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 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.)	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. 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.

YORK REGION
RESERVES AND RESERVE FUNDS FOR MAJOR CAPITAL EXPENDITURES

Name	Year Established	Bylaw	Purpose	Sources of Funding
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 to the funds.	Shall be operated and maintained from funding received from the Province of Ontario.
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