Clause 5 in Report No. 21 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on December 17, 2015.

5

2016 Regional Fiscal Strategy

Committee of the Whole recommends adoption of the recommendation contained in the report dated November 24, 2015 from the Commissioner of Finance:

1. Recommendations

It is recommended that:

1. Council adopt the Fiscal Strategy outlined in this report.

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

3. The following reserve funds be established:
    a. The University Campus Reserve to fund eligible expenditures related to the construction of the new York University-Markham Centre campus;
    b. A Court Services Reserve to hold surplus net revenue related to the Provincial Offences Act;
    c. The Information Technology Licensing and Software Development Reserve to fund enterprise-wide software licensing and financial software development;
    d. The Water Rate Stabilization Reserve to fund unforeseen expenditures and/or revenue shortfalls; and
    e. The Wastewater Rate Stabilization Reserve to fund unforeseen expenditures and/or revenue shortfalls.

4. The following reserve funds should be renamed and repurposed:

a. The Capital Replacement/Rate Stabilization Reserve – Water to become the Capital Asset Replacement Reserve Fund - Water; and
b. The Capital Replacement/Rate Stabilization Reserve – Wastewater to become the Capital Asset Replacement Reserve Fund - Wastewater.

5. The Vacation Pay Reserve for former employees of Greenacres Homes be discontinued and any remaining balance be transferred to the Region's Sick Leave Reserve Fund.

6. The technical amendment shown on Attachment 2 be approved for the Capital Financing and Debt Management Policy.

2. Purpose

The report updates and reports on the Fiscal Strategy, whose principles guided the preparation of the 2016 Budget.

The report also presents the 2016 Long-Term Debt Management Plan, which needs to be adopted or affirmed by Council in order for the Region to access the growth-related cost supplement for its Annual Repayment Limit (ARL).

Finally, it recommends the creation, closing and repurposing of certain reserves, as well as a technical amendment to the Capital Financing and Debt Management Policy.

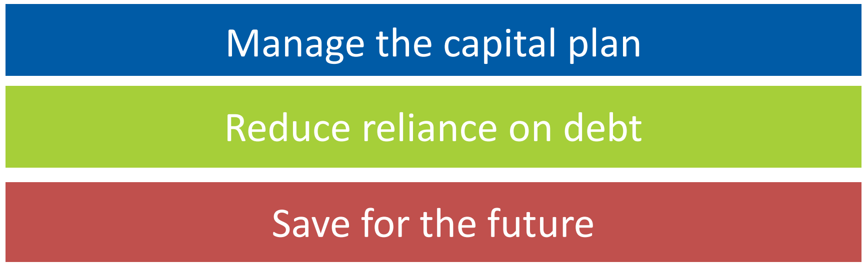
3. Background

The Fiscal Strategy helps to better manage the inter-relationships and integration between capital plan, debt, and reserves

The purpose of the Fiscal Strategy is to better manage the inter-relationships and integration needed between the capital plan, the debt management plan and the reserve management plan. The Fiscal Strategy focuses on the stewardship of the long term, striking a prudent balance between current and near-term investments, and saving appropriately for the future.

Figure 1

Essence of the Fiscal Strategy



During its first two years, the Fiscal Strategy focused on better aligning the growth-related capital expenditures in the Ten-Year Capital Plan with the anticipated development charge (DC) collections over the same period, as well as the establishment and management of certain reserves.

One of the new reserves that was established was the Debt Reduction Reserve. It has helped to reduce, and then ultimately eliminate the need for future tax-levy debentures. Capital Asset Replacement Reserves are forecast to increase by $1.6 billion over the next ten years (shown in Graph 8) and the Region intends to issue approximately $0.8 billion in growth-related debt over the same period.

The move to full cost recovery pricing for water and wastewater has eliminated the need for up to $243 million of new debt

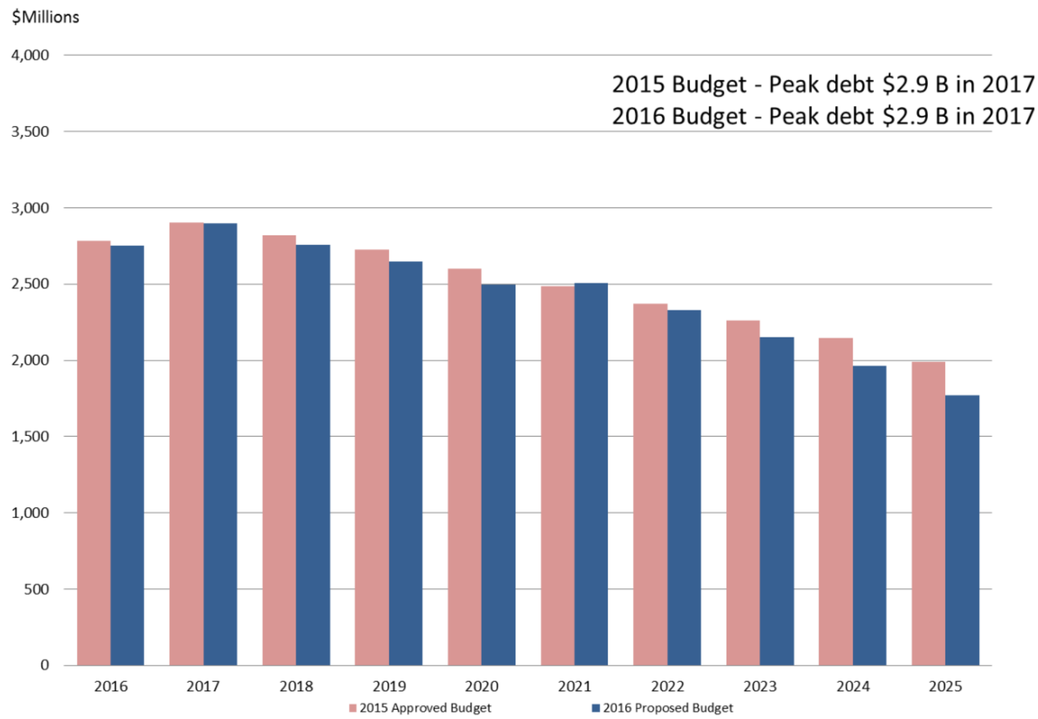
Council approved a new price structure for water and wastewater services to take effect April 2016.

To meet the fiscal demands of maintaining water and wastewater infrastructure, effective April 2016 the Regional portion of an average household's monthly water and wastewater bill will increase nine per cent annually for the next five years. In 2021, it will increase by 2.9 per cent. The move to full cost pricing will allow the Region to avoid issuing $243 million of user rate debt over the next 10 years.

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

Prior to the Fiscal Strategy, the Region's peak outstanding debt was forecast to be over $5.0 billion in 2020. As a result of the strategies employed over the last two budget cycles, peak debt is now forecast to be approximately $2.9 billion in 2017, three years earlier (Graph 1).

Graph 1: Outstanding Debt Projection

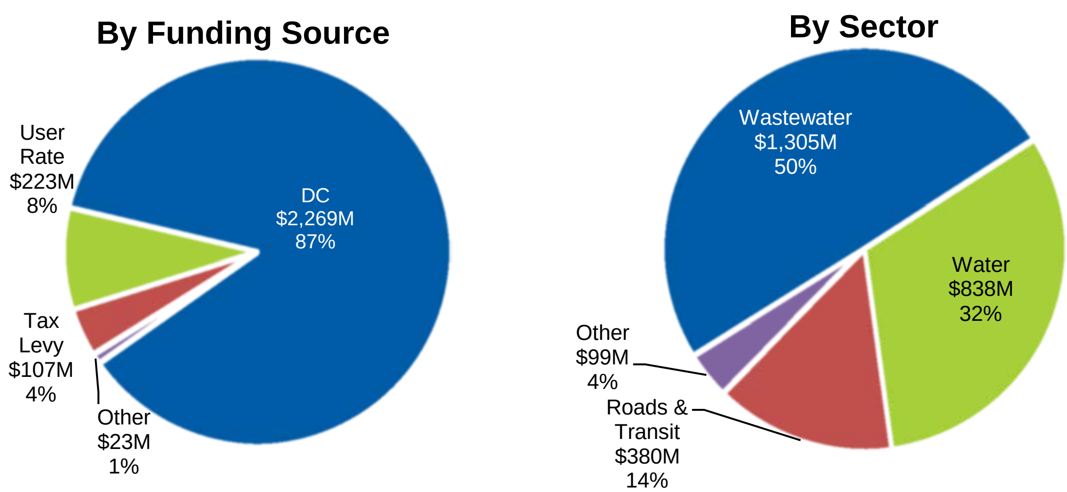


Source: York Region Finance Department

Most of the Region's infrastructure investment has been driven by growth. When building major new infrastructure, such as water and wastewater assets, the Region must often make 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 when growth takes place. Risks associated with growth-related debt will increase if development charge collections arrive more slowly than expected, as has been the case in York Region over the past two years. As shown in Graph 2, approximately 87% of the outstanding debt at the end of 2015 is growth related and DC funded, making the matching of planned growth-related capital expenditure to actual growth very important.

Graph 2: Outstanding Net Debt – York Region as at December 31, 2015

Total Outstanding Debt $2.6 Billion



Source: York Region Finance Department

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

Growth and development charge collections continue to trend lower than forecast over the short-term, but a recovery is expected over the medium to long term

Between 2000 and 2010, York Region experienced strong population growth, with average housing starts over 10,000 units per year[1]. Since 2011, growth has moderated and the Region had an average of 8,700 housing starts[1] per year from 2011 to 2014. This moderation in growth has lowered DC collections relative to 2012 forecasts, an issue that was described in the Region's 2015 Budget.

Development Charge collection forecast is similar to the 2015 forecast

The 2016 population and DC collection forecasts are similar to those used in the 2015 Budget, with moderate starts in the near term and a recovery over the medium and long terms.

[1] CMHC

The next few years of DC collections will be important and potential DC shortfalls could pose a significant risk to the Fiscal Strategy, particularly as the mix of residential construction in York changes. For example, starts for single and semi-detached homes have experienced a reduction over time, from a high of over 9,000 units in 2000[1] to a low of just over 3,100 units in 2014[1]. Conversely, apartment dwellings have increased from a low of approximately 125 starts in 1997[1] to approximately 2,800 units in 2014[1]. In the near-term, the Region is expecting better growth than was experienced in 2013 and 2014. According to the Canadian Mortgage and Housing Corporation, housing starts to September 2015[2] surpassed total 2014 starts[3]; nonetheless, housing growth since 2012 remains below what was forecast in the DC Background Study. In-year DC collections for 2015 were reduced from a forecast of $329 million to $296 million, while the 2016 forecast went from $333 million to $321 million[4].

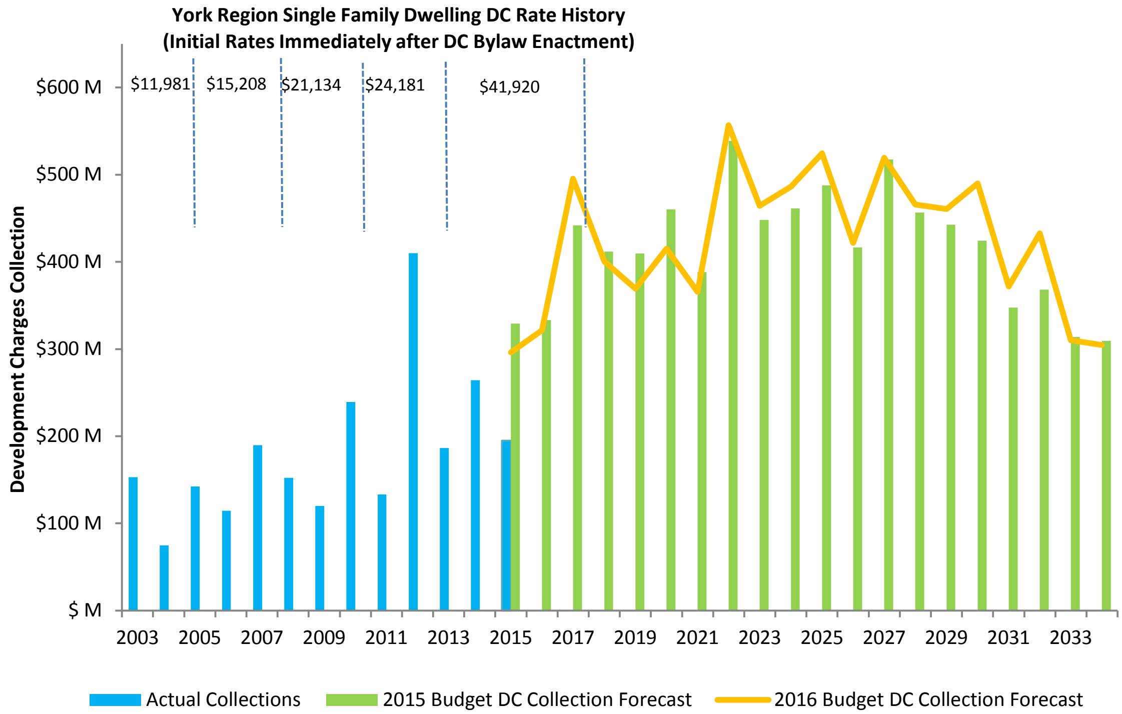
Despite these near-term reductions, the ten-year collections for the 2016 to 2025 time-period are expected to remain close to last year's forecast for the same period. DC collections for 2016 to 2025 are expected to be approximately $4.40 billion (as shown in Graph 3), compared to $4.38 billion in last year's forecast[4].

The Development Charge forecast does not reflect any changes to the capital plan that may result from the new Master Plans currently under development (please refer to page 20 of Attachment 1).

When the DC Bylaw is updated in 2017, there could be an increase in the development charge rate as a result of the new Master Plans, among other things, and this may lead to higher expected revenues. This should also result in a measure of the prior shortfalls being recovered.

[1] CMHC
[2] CMHC Housing Market Tables – October 2015 - Page 6
[3] CMHC Housing Market Tables – January 2015 - Page 6
[4] York Region Finance Department

Graph 3: Actual and Forecast DC Collections



Source: York Region Finance Department

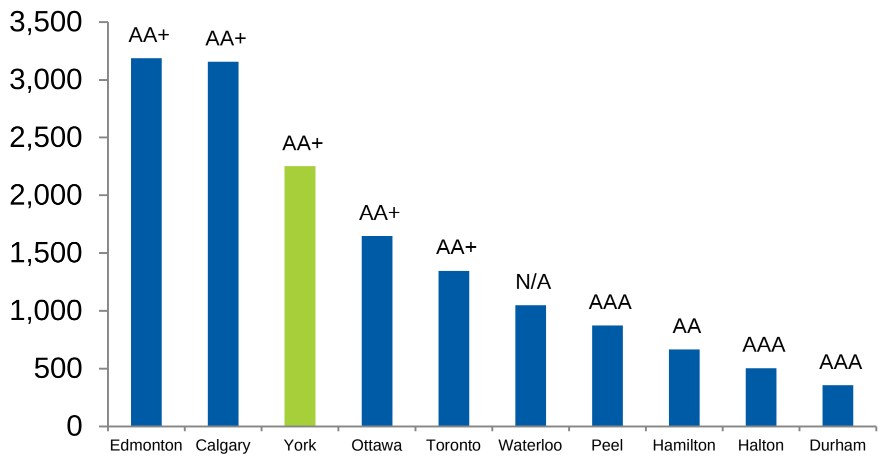
In 2015, both rating agencies reaffirmed York Region's credit ratings (Moody's Aaa/Stable and S&P AA+/Stable)

In 2015, both Moody's Investors Service (Moody's) and Standard & Poor's Rating Services (S&P) reaffirmed their credit rating for the Region of York. As part of their rating rationale, Moody's highlighted the Region's high level of cash and investments, its prudent and far-sighted fiscal management, and its 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 with forecast levels of capital spending, which they consider to be too high. Additionally, S&P noted that, in their view, York is overly reliant on debt financing and has a higher debt burden than its rated peers.

Graph 4 illustrates York's debt-per-capita relative to its peers, which is one of the metrics used by rating agencies when evaluating exposure to economic downturns. The credit ratings shown are from Standard and Poors.

Graph 4: Debt Per Capita in 2014
($)



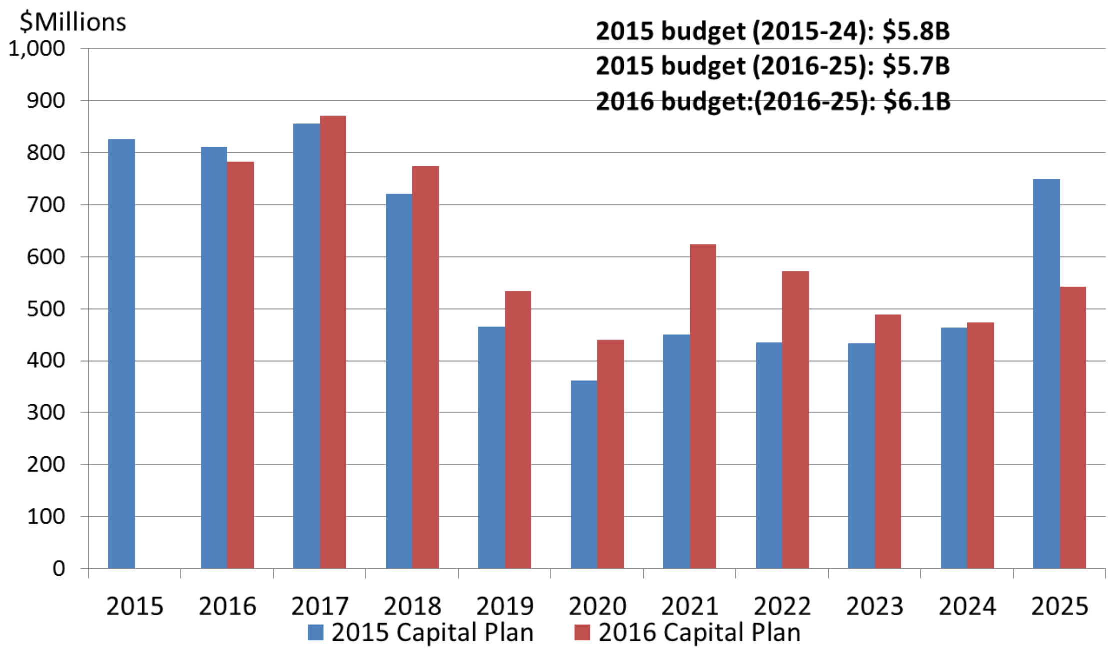
Source: Financial Information Returns and Municipal Financial Statements (Edmonton and Calgary)

4. Analysis and Options

The Ten-Year Capital Plan has increased by $280 million

The 2016 Ten-Year Capital Plan has increased by approximately $280 million over the 2015-2024 Capital Plan shown in last year's budget. For the 2016-2025 period, the 2016 Capital Plan is $358 million higher than last year's forecast, in part to accommodate the potential additional costs associated with Toronto-York Spadina Subway Extension. (Refer to Graph 5.)

Graph 5: Ten-Year Capital Plan Comparison of 2015 and 2016



Source: York Region Finance Department

Infrastructure investment needs to be matched to the pace of growth

A key goal of good financial management is to match the pace of capital projects with the rate of growth. The Region is committed to improving the timing of the capital plan to reduce its associated financing needs. The 2016 Budget emphasizes the alignment of capital spending closely with the fiscal plan. However, the Budget continues to protect planning and development work for previously deferred projects to ensure they are construction-ready should growth pick up.

York Region's Ten-Year Capital Plan is still the highest among the 905 regions

Figure 2
($ Billions)

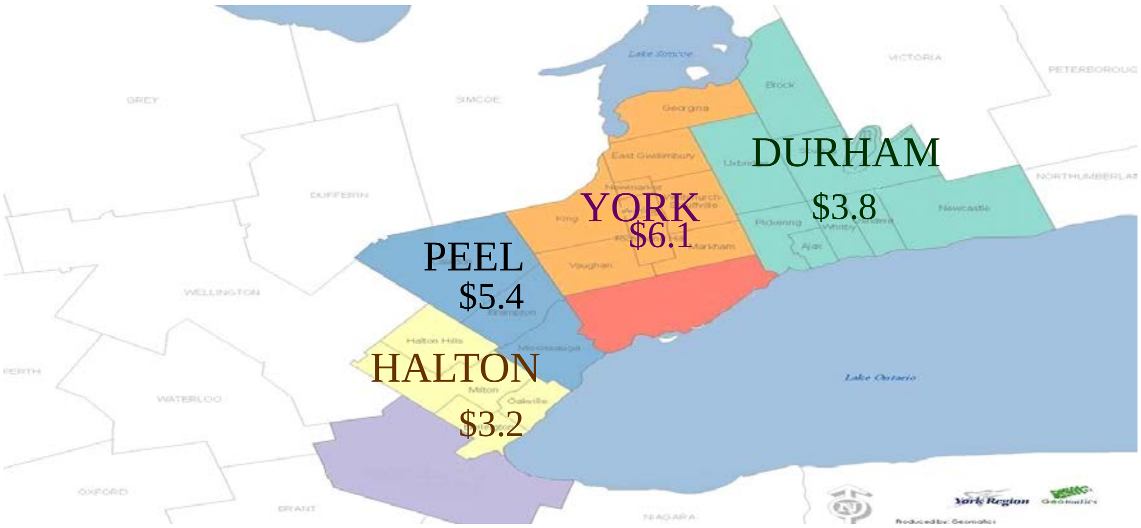
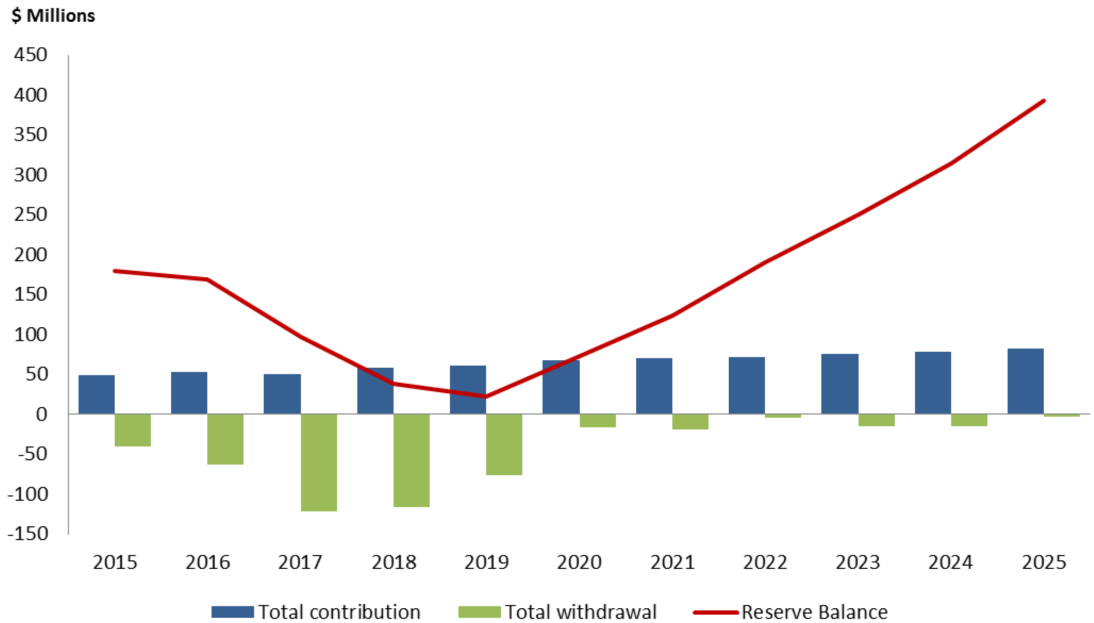


Figure reflects Ten-Year Capital Plans approved in 2015, except York and Peel, which is the 2016 proposed Ten-Year Capital Plan.

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

The Region created a Debt Reduction Reserve as part of the 2014 Budget to reduce or eliminate debt that was previously approved tax-levy debt. As part of the 2016 Budget, the Debt Reduction Reserve continues to be funded at levels that should allow the Region to avoid all tax-levy-supported debt over the next 10 years (Graph 6).

Graph 6: Growth in Debt Reduction Reserve



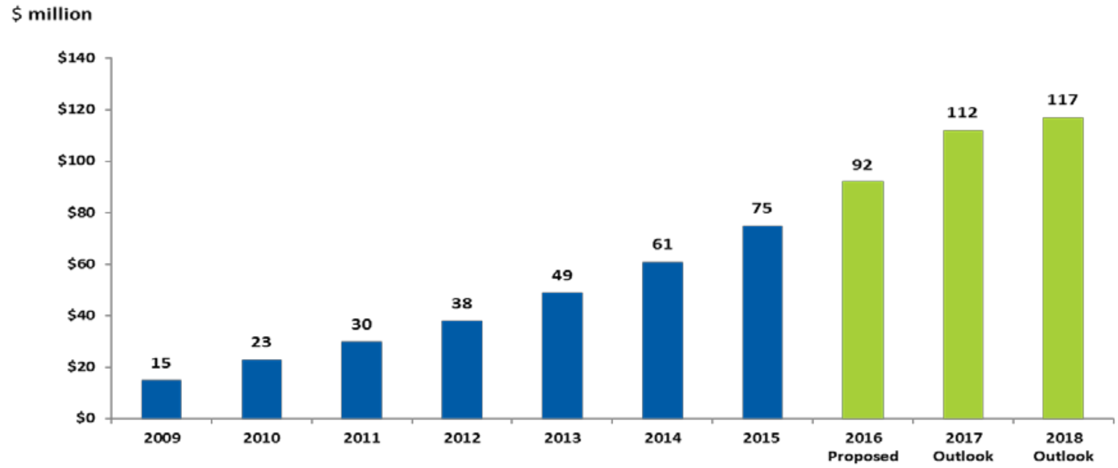
Source: York Region Finance Department

The Region continues to save for asset replacement and for debt reduction

The 2016 Budget continues to emphasize the need for asset management as the basis for good capital planning. Asset management planning ensures that assets are operated and maintained properly to avoid premature failures and that plans are in place for replacement, rehabilitation and/or upgrades when needed. In funding major capital rehabilitation or replacement, the Region is planning to rely on reserves that it has built up for that purpose, instead of issuing debt.

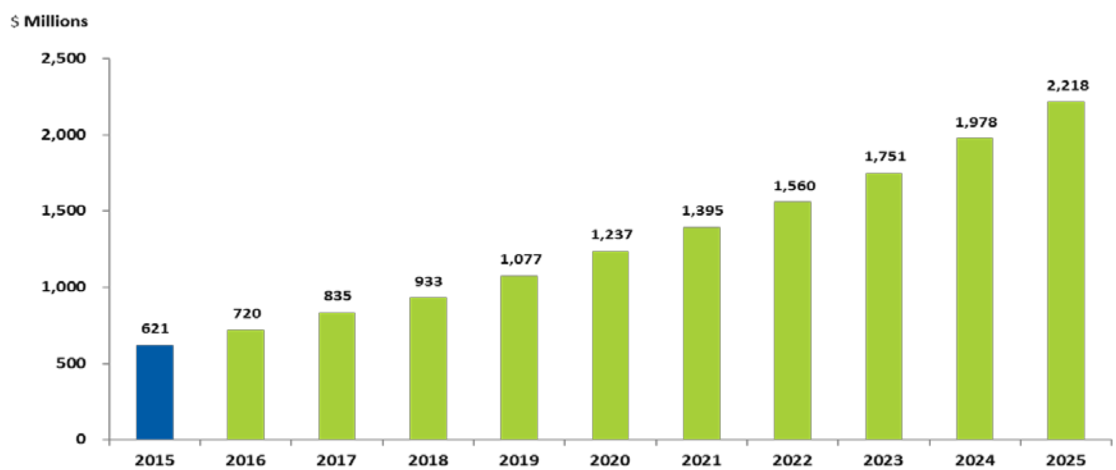
In 2013, Council approved increases to the annual contribution to reserves set up to fund capital asset replacements. The annual increase in the contribution to these reserves had been one per cent of the prior year's tax-levy. The annual increase is now increasing by a further 0.2 of a percentage point a year, until it reaches two per cent of the prior year's tax levy in 2017. Graphs 7 and 8 show the projected contributions to the asset replacement reserves, as well as the growth in amount of capital asset replacement reserves over the 10-year forecast.

Graph 7: Rising Contributions to Asset Replacement Reserves



Source: York Region Finance Department

Graph 8: Growth in Capital Asset Replacement Reserve Balances



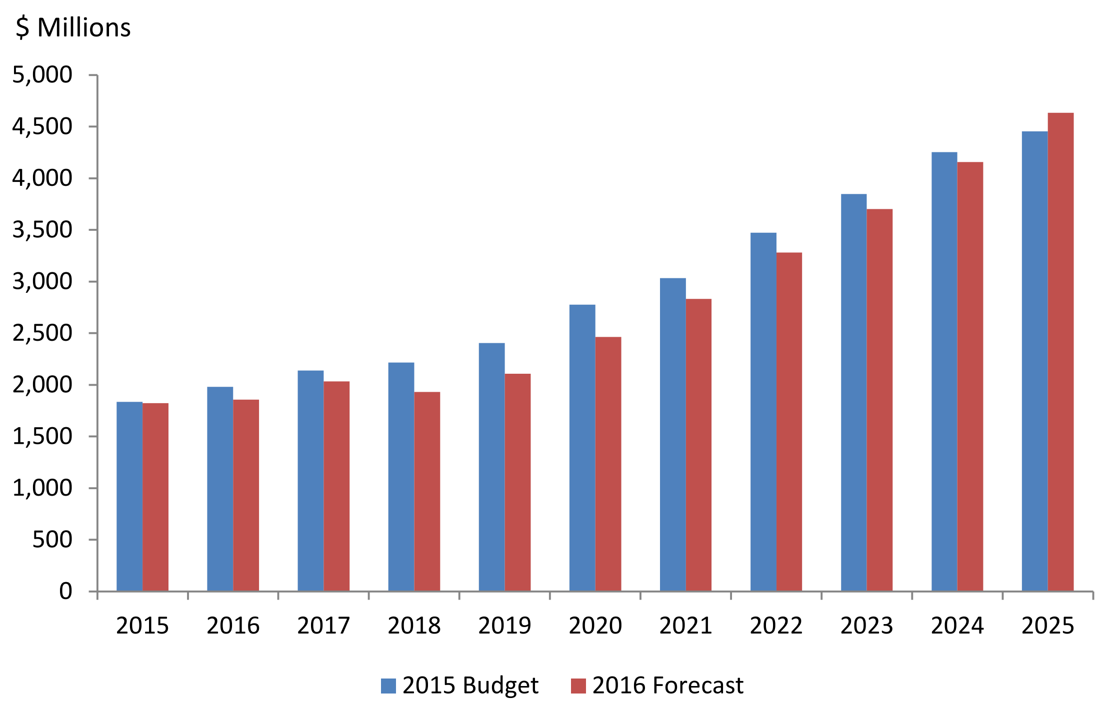
Source: York Region Finance Department

The projected reserve balances will be adjusted once the asset management plans are complete and the full requirements for life-cycle investments are known.

The Region's total reserves are expected to reach $4.6 billion by 2025

Reserves are key elements of the Region's long-term fiscal planning 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 reserves are liquid – that is, they are made up of cash and assets turned into cash relatively easily – they promote investor confidence. As part of its financial management, York Region will continue to maintain and build reserves, with a special emphasis on saving for asset replacement and debt reduction. These efforts will contribute to the increase of $2.8 billion in the overall reserve level by 2025. Despite continued emphasis on reducing DC debt by optimizing the use of reserves, the 2016 reserve projection is comparable with the 2015 budget. Graph 9 shows the total reserves growing to approximately $4.6 billion by 2025.

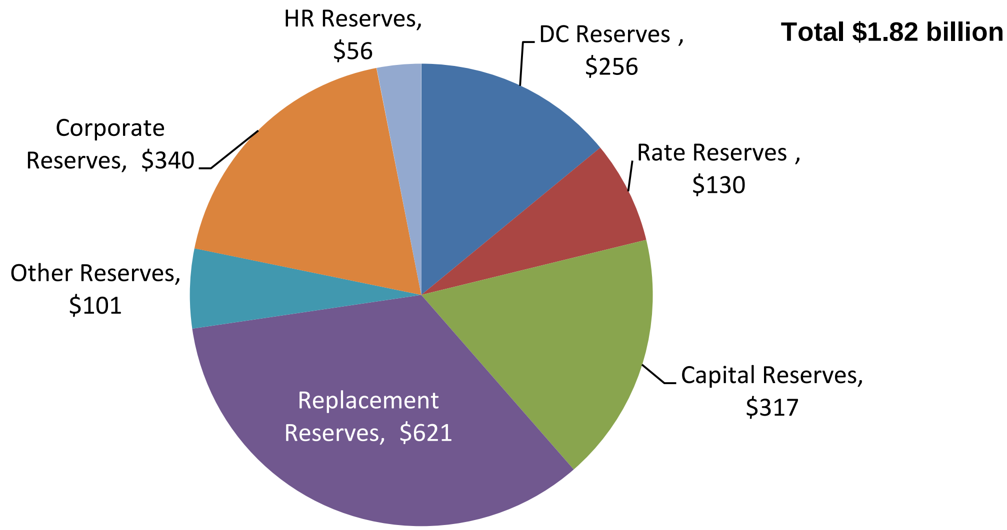
Graph 9: Growing Total Reserves



Source: York Region Finance Department

Graph 10 shows the composition of the Region's reserves as at December 31, 2015, which include over $600M for asset replacement.

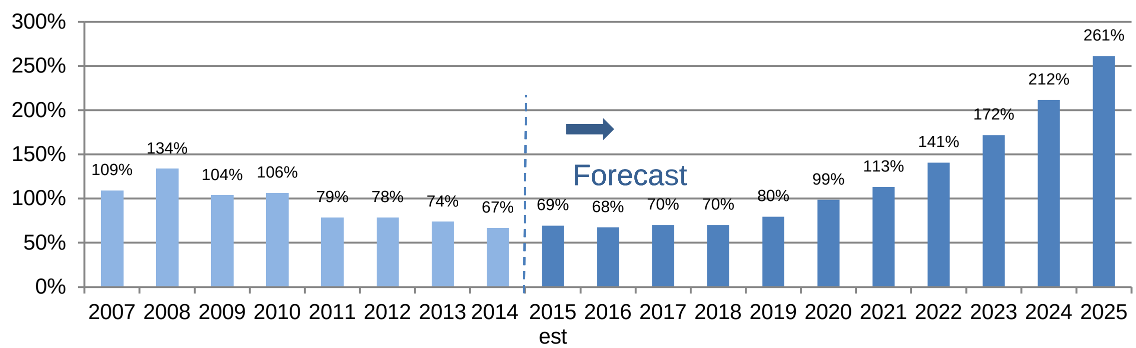
Graph 10: Composition of Reserve as at December 31, 2015 (estimated)
($ Millions)



Source: York Region Finance Department

With peak debt maintained at $2.9 billion in 2017, and a strong commitment to continue to build reserves, York Region will see a significant improvement in its ratio of reserves to debt, with the Region expected to become a net investor by 2021, as shown on Graph 11.

Graph 11: Reserve to Debt Ratios

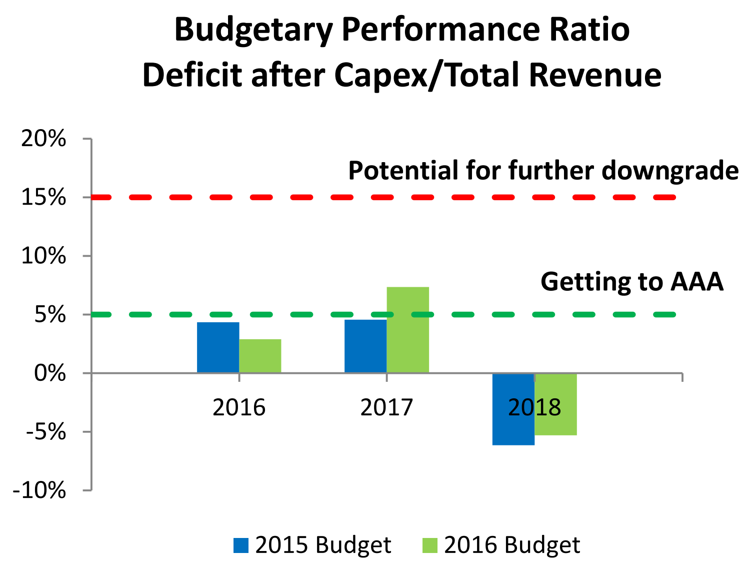


Source: York Region Finance Department

Region back on the path to a Triple A Credit Rating

Regaining its AAA rating with S&P requires that the Region closely monitor the capital plan and ensure that its capital investments are financially sustainable. As well, the reduced reliance on debt brought about through the debt and reserve management strategies should lead to a significant improvement in the Region's financial performance, as shown in the following two key S&P ratios.

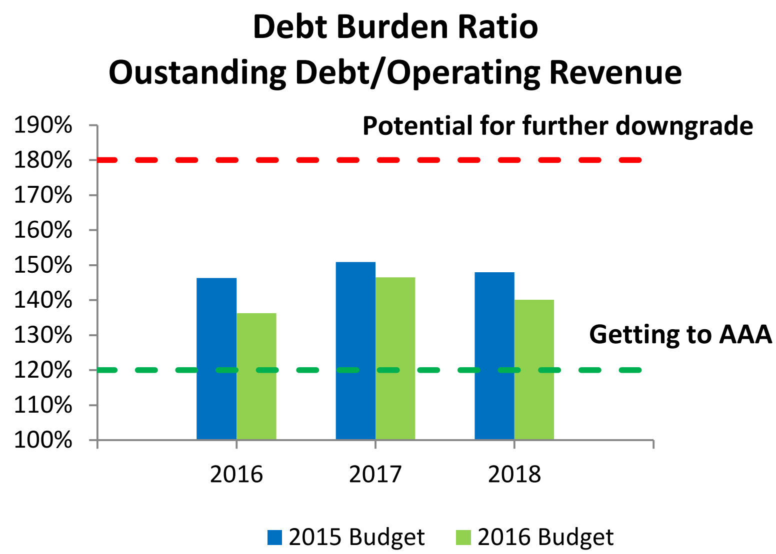
Graph 12: Budgetary Performance Ratio – Deficit After Capital Expenditure/Total Revenue



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

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

Graph 13: Debt Burden Ratio – Outstanding Debt/Operating Revenue



Source: York Region Finance Department

Several new reserve funds need to be established and others repurposed or closed

A University Campus Reserve

On September 11th, 2014, Council authorized the execution of a Memorandum of Understanding (MOU) with York University to provide financial support to a maximum value of $25 million towards the proposed York University-Markham Centre campus project.

As information on the exact timing and make-up of the Region's contribution (e.g., cash vs. in-kind contributions) is not yet known, the establishment of a general reserve would provide flexibility to help ensure funds are set aside for this investment. The creation of a University Campus Reserve is recommended to hold current and future budget contributions, and to disburse funds to support construction of the project.

Any difference in timing as to when funds are placed in the reserve and when contributions to the project are made could be addressed through borrowing from other reserves.

A Court Services Reserve

The creation of a Court Services Reserve is recommended to assist the department in planning and managing its costs, which can vary significantly each year, in order to help ensure funding is in place to cover necessary expenditures and maintain program self-sustainability. The proposed Court Services Reserve would be funded through any net Provincial Offences Act revenue in the prior year, after allocations, up to a maximum of $1 million per year. As part of establishing the Court Services Reserve, forecasted 2015 year-end net revenue of approximately $413,000 would be contributed to the new reserve. This approach is intended to help ensure that court services do not create a tax levy pressure.

An Information Technology Licensing and Software Development Reserve

With the increasing use of cloud-based software as a service, the Region is licensing rather than purchasing and installing software on its servers. It is recommended that a Software Licensing and Development Reserve be established to fund enterprise-wide software licensing and development of financial applications.

The reserve will be funded at approximately $540,000 per year. The contribution amount will be reviewed annually as part of the budget process to ensure that business needs are met.

A Water Rate Stabilization Reserve and a Wastewater Rate Stabilization Reserve

The full cost recovery rates approved by Regional Council in October 2015 put the Region in the position of receiving enough revenue to cover all of its cost of providing water and wastewater services. For additional prudence, the rate structure also included a proposed rate stabilization reserves to protect against unforeseen one-time changes that reduce revenue, increase costs, or both.

The reserves will be funded from the user rate at a base contribution of $2 million per year that will phase in between 2016 and 2018.

The Vacation Pay Reserve for Greenacres Homes employees

The Vacation Pay Reserve for Greenacre Homes was set up in 1993 to finance lump sum vacation payouts for terminating employees when the Region assumed the responsibility for the operating of the home from Metro Toronto. Any employees from Greenacres Homes have been absorbed in to Long Term Care and this is no long a valid reserve.

It is recommended that the remaining balances be transferred to the Sick Leave Reserve for regional staff.

The following reserve funds should be renamed and repurposed

With the establishment of separate reserve funds for water and wastewater rate stabilization, it is recommended that the existing reserve funds be renamed and repurposed to fund only future major rehabilitation and/or the eventual replacement of Water and Wastewater assets. The new names will be:

Capital Replacement Reserve Fund – Water; and

Capital Replacement Reserve Fund – Wastewater

These reserves will be funded from user rates.

Council needs to adopt or affirm 2016 Long-Term Debt Management Plan

The amount of municipal debt and other financial obligations that a municipality can assume is regulated through an Annual Repayment Limit (ARL) regulation under the *Municipal Act*. The Province recognizes that York Region is a high growth municipality with special debt needs, and provides a York-specific regulation that allows the Region to borrow a higher amount subject to its DC 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, as attached in this report (Attachment 1).

Capital Financing and Debt Policy requires a technical amendment in order to provide flexibility under certain market conditions

It is recommended that Council also approve a technical amendment to Paragraph 6, Section B of the Capital Financing and Debt Policy.

This amendment proposes that the maximum financing term of a capital asset may be increased by up to 12 months where there is a perceived benefit to do so based on the prevailing financial market conditions. This would ensure that the Region’s long-term debt will be well received in the financial market place.

The proposed amendment is shown in Attachment 2.

Link to key Council-approved plans

One of the Strategic Priority Areas of the Region's *2015-2019 Strategic Plan* is to ensure a fiscally prudent and efficient Region. This fiscal strategy directly supports these objectives, as it provides an integrated approach to funding the Region's capital plan.

5. Financial Implications

The 2016 Regional Fiscal Strategy slightly increases the Ten-Year Capital Plan by approximately $280 million, but maintains the peak debt level of $2.9 billion.

6. Local Municipal Impact

Local municipalities will benefit from the Region's evolving Fiscal Strategy, as it will support the Region's credit rating. Local municipalities must issue debenture debt through the Region, and therefore pay the same financing costs for their long-term debt as the Region. Good credit ratings help ensure that the best cost of financing is obtained for the Region and local municipalities.

7. Conclusion

The Regional Fiscal Strategy is an evolving strategy that has so far successfully managed the large capital plan, reduced reliance on debt and built reserves with the aim to meet the increased needs of the growing population.

The Fiscal Strategy will continue to be revisited to achieve potential efficiencies and manage the Region's finances prudently.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at ext. 71644.

The Senior Management Group has reviewed this report. November 24, 2015

Attachments (2)

6439695

Accessible formats or communication supports are available upon request

2016 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 (ARL) regulation under the *Municipal Act*. The ARL limits 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 Region's last three fiscal years of Development Charge (DC) collections. The combination of the ARL and the growth cost supplement is called the Growth-Related ARL, but will be referred to as the ARL 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 2015, 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 Standard and Poor's Rating Services.

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 Region's needs for its long-term debt and financial obligations over a multi-year period;

2. Projections of the ARL 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 Region's long-term debt strategy;

4. 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 2016; and

7. Evaluation and comparison of 2015 projections and outcomes.

1. The Region's Needs for its Long-Term Debt and Financial Obligations Over a Multi-Year Period

The Fiscal Strategy guided the preparation of the 2016 Budget

In preparing the 2016 Budget, staff followed principles of the Fiscal Strategy, which was first formally approved by Council in 2014, to help better manage the Region's financial resources. A major tenet of this strategy is to use a more balanced approach when funding long-term capital expenditures. To accomplish this, a detailed review of both the forecasted capital expenditures and funding sources is undertaken each year. Where necessary, the level of expenditures may be adjusted to match more closely to the available funding, while maintaining overall capital priorities.

The ten year Capital Plan that has been submitted to Council for 2016 is $358 million higher when compared to the same period or $280 million compared to last year's ten-year capital plan. In addition, the timing of some capital projects has shifted.

While the Development Charge (DC) collections are down for 2015 (estimated $296 million versus $329 million originally forecast), the forecast for the next ten years remains largely unchanged.

The Region continues to use the Tax-Levy Debt Reduction Reserve to avoid approximately $453 million of new tax-levy debt over the next ten years.

Finally, the phase-in of full cost recovery for water and wastewater services, starting in 2016, will allow the Region to avoid issuing approximately $286 million of user rate debt.

Overall, the Region's need for new long-term debt during the 2016-2025 period is expected to be $0.8 billion, which is about the same when compared to the same period or $0.3 billion lower compared to last year's ten-year capital plan.

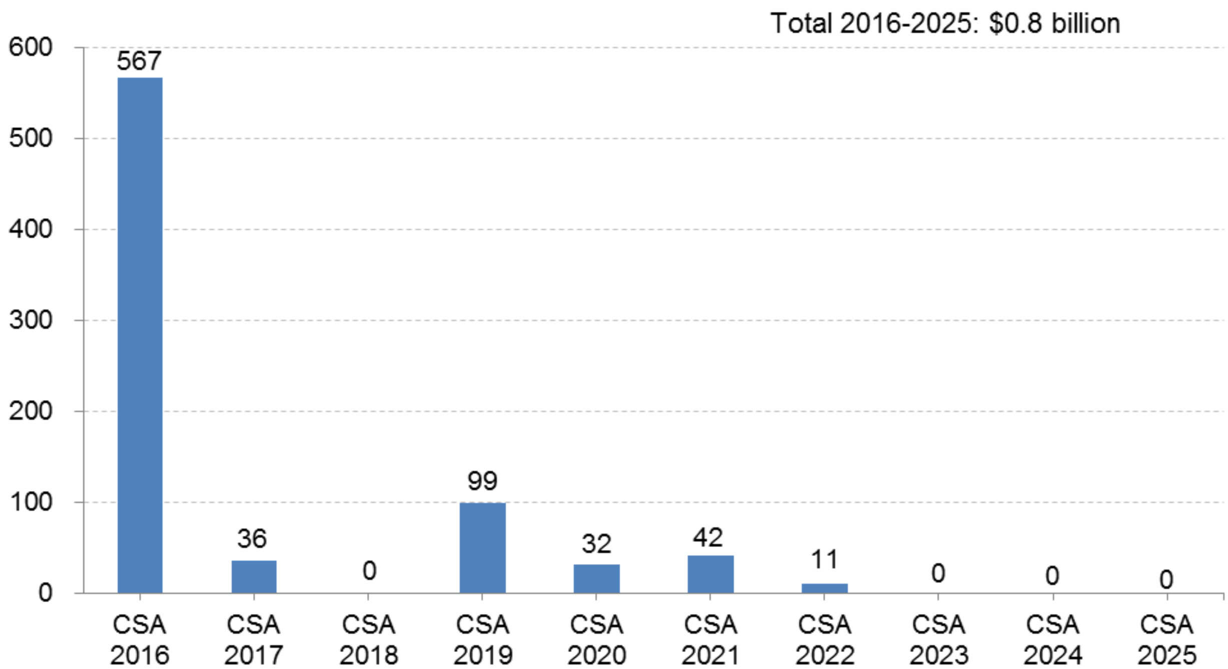
The Region's reliance on debt to finance its capital plan is similar to last year

The 2016 Capital Plan contains approximately $6.1 billion in spending over the 2016-2025 forecast period. Of this, around $0.8 billion will be funded from debenture proceeds, for a debt funding ratio of 13 per cent. This level is similar to that forecasted in the same period in the 2015 Capital Plan. Approximately $0.6 billion of the $0.8 billion in projected debenture requirements has been included within the Capital Spending Authority (CSA) for 2016, as illustrated on Chart 1.

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 (ARL).

The Region's capital plan also contains projects with an estimated debt of about $0.2 billion that are planned, but do not yet have Capital Spending Authority. For the purposes of this Debt Management Plan, Finance has estimated the Region's future debt requirements for each year of the plan on a CSA basis. Chart 1 illustrates the amount of new debt to be issued on a CSA basis. For example, the Region will seek Council authorization to issue $567 million of new debt to commit to capital projects within the CSA for 2016. However, the actual capital expenditures associated with the $567 million is expected to flow over three years: $288 million in 2016, $260 million in 2017 and $19 million in 2018.

Chart 1
Multi-Year Forecast of New Debt to be Issued
2016-2025
($Millions)



Source: York Region Finance Department

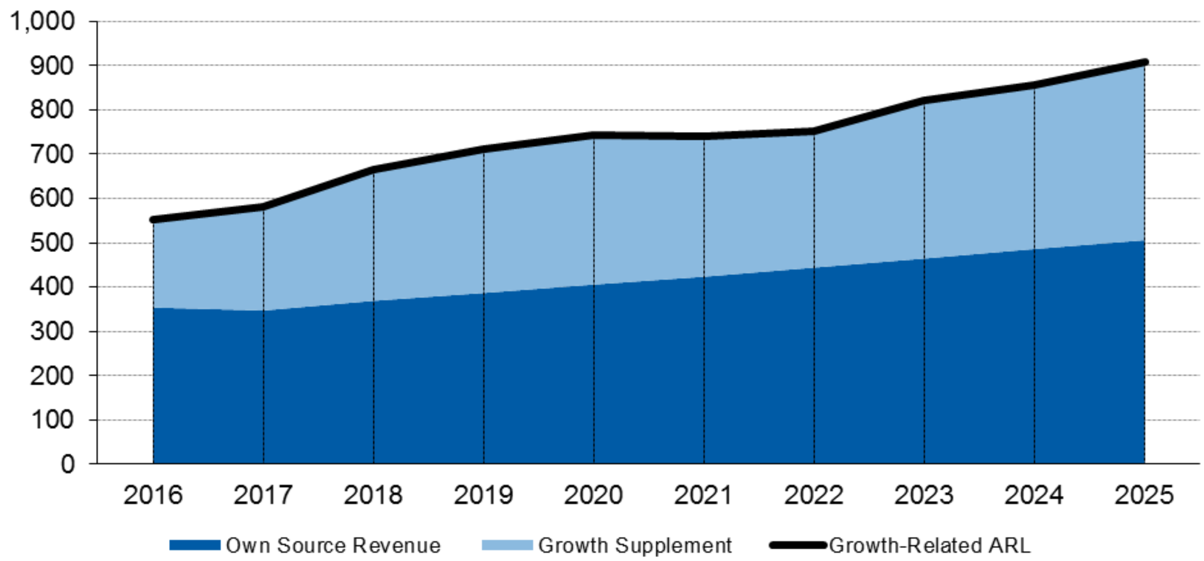
2. Projections of the ARL for Each Year of the Multi-Year Period Compared to Existing and Proposed Long-Term Debt-Related Payments

How much debt room will we have?

The ARL is calculated by determining and projecting 25 per cent of the Region's 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 Region's 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 ARL will increase from $553 million in 2016 to $908 million by 2025, as illustrated on Chart 2 below:

Chart 2
Annual Repayment Limit Forecast
2016-2025
($Millions)



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 $316 million in 2016, but are estimated to decline to approximately $241 million by 2025. The largest component of these obligations will be the principal and interest on existing debt, which is expected to decrease from $301 million in 2016 to $210 million by 2025 as existing debt is repaid. Hospital financing is forecast to increase at a rate of 2 per cent per year, rising from $13.6 million in 2016 to $16.2 million by 2025. The 2016-2018 Regional Budget will initially contribute $3 million of University funding spread $1 million annually. The Region committed to contributing a total of $25 million of University funding.

As noted earlier, the Capital Spending Authority budgeting concept employed by the Region requires that there be enough debt room under the ARL at the time of project authorization. For example, in order to assign CSA to projects as part of the 2016 budget process, the Region must have sufficient room under its 2016 ARL to recognize the full financial cost of the projects “as if” they were going to be incurred entirely in 2016, even if the actual costs are spread out over multiple years. This is the case for each year of the Capital Plan.

The Capital Spending Authority in the 2016 Budget is $2.7 billion, of which $0.6 billion will be debt financed. Assuming an annual interest rate of 4.25 per cent in 2016 and a term of 20 years, the annual obligation arising from this debt for 2016 will be approximately $46 million.[1]

Will the Region be within its ARL?

For 2016, the Region will be within its ARL, as shown in Table 1 below.

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

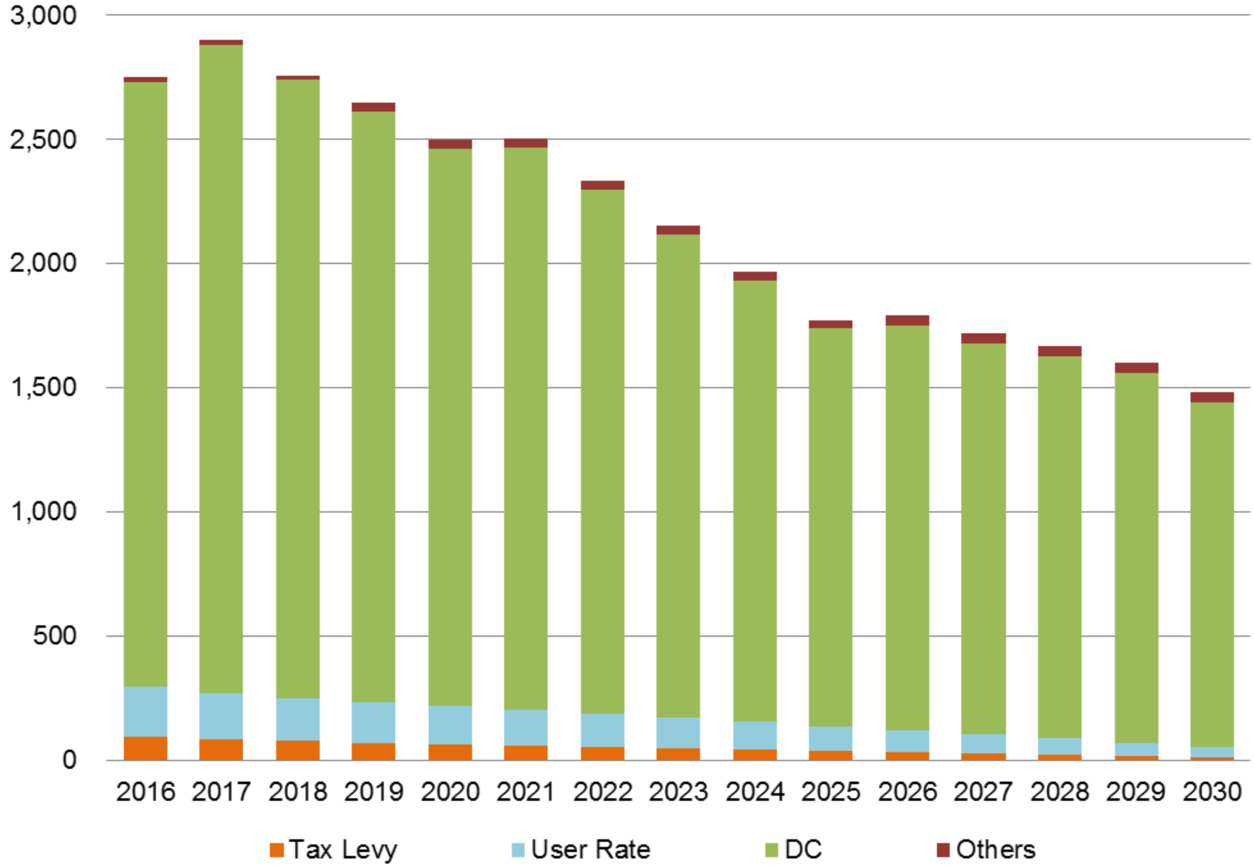
Table 1
Region's 2016 ARL Calculation
($Millions)

Component Description	Forecast 2016
25% of Own Source Revenues	354
Plus: Growth Cost Supplement[2]	199
Total ARL	**553**
Less: Existing Debt Payment and Financial Obligations	316
Less: Anticipated New Debt Payment	46
Remaining ARL	**191**

To replicate this calculation over a multi-year period, future CSA has been estimated based on the anticipated timing of future project commitments. While debt authorities will not be carried forward from one year to the next, it is assumed that the amount of debt authorized in 2016 will form the "base" for the debt request to be authorized in subsequent years. Assuming that the debt needs remain as shown in the ten-year capital budget and all future CSA debt occurs as planned, the Region's outstanding debt will increase from $2.8 billion in 2016 to a high of $2.9 billion in 2017 and then start to decrease in 2018, as illustrated on Chart 3.

[2] Growth Cost Supplement in 2016 is calculated at 80 per cent of the 3-year rolling average of Development Charge collections (2013-2015 inclusive).

Chart 3
Outstanding Debt Projection
2016 to 2030
($Millions)



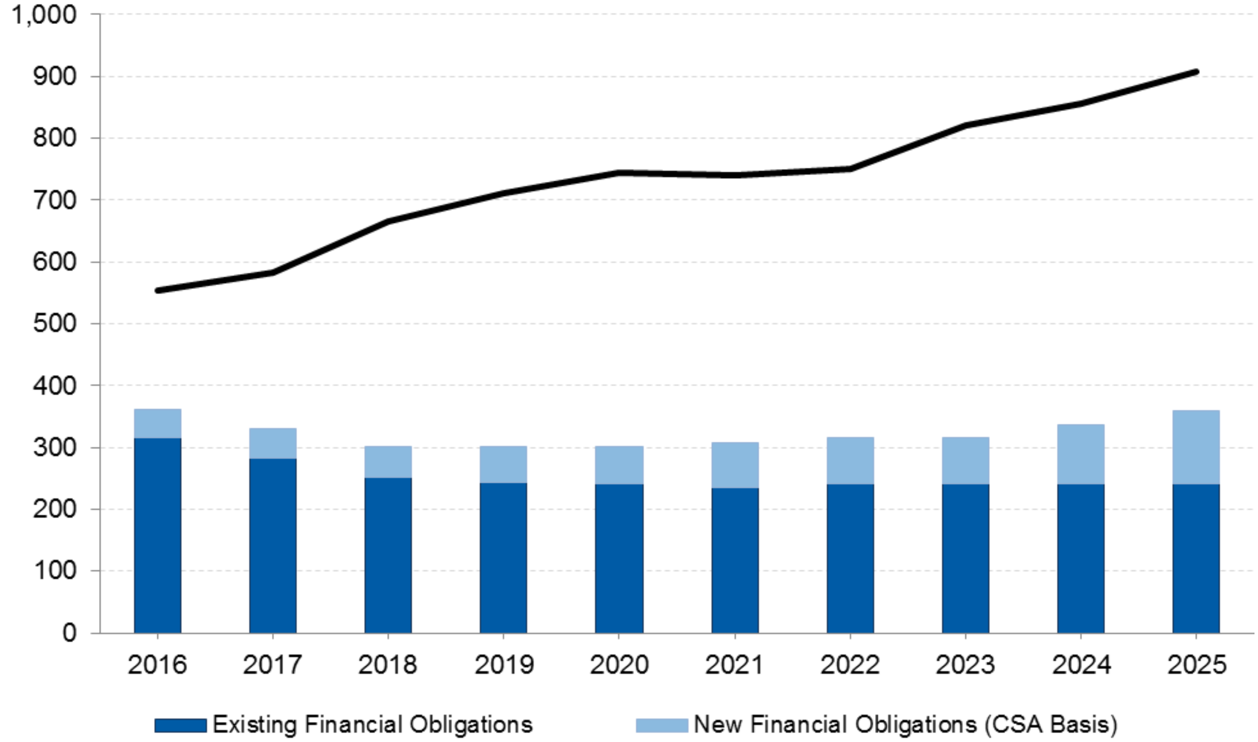
Source: York Region Finance Department

The annual debt payments related to each year's increment have been calculated on the same basis as the 2016 CSA, except that the assumed interest rate will increase to 5.50 per cent by 2025.[3] As a result, the financial obligations associated with new debt-related CSA will increase to $119 million by 2025.

Chart 4 shows that the Region's financial obligations will be well within its ARL for all years.

[3] The base rate assumptions increase from 4.25 per cent to 5.50 per cent by 2022 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.

Chart 4
Annual Repayment Limit vs.
Annual CSA Based Debt and Financial Obligations
2016-2025
($Millions)



Source: York Region Finance Department

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

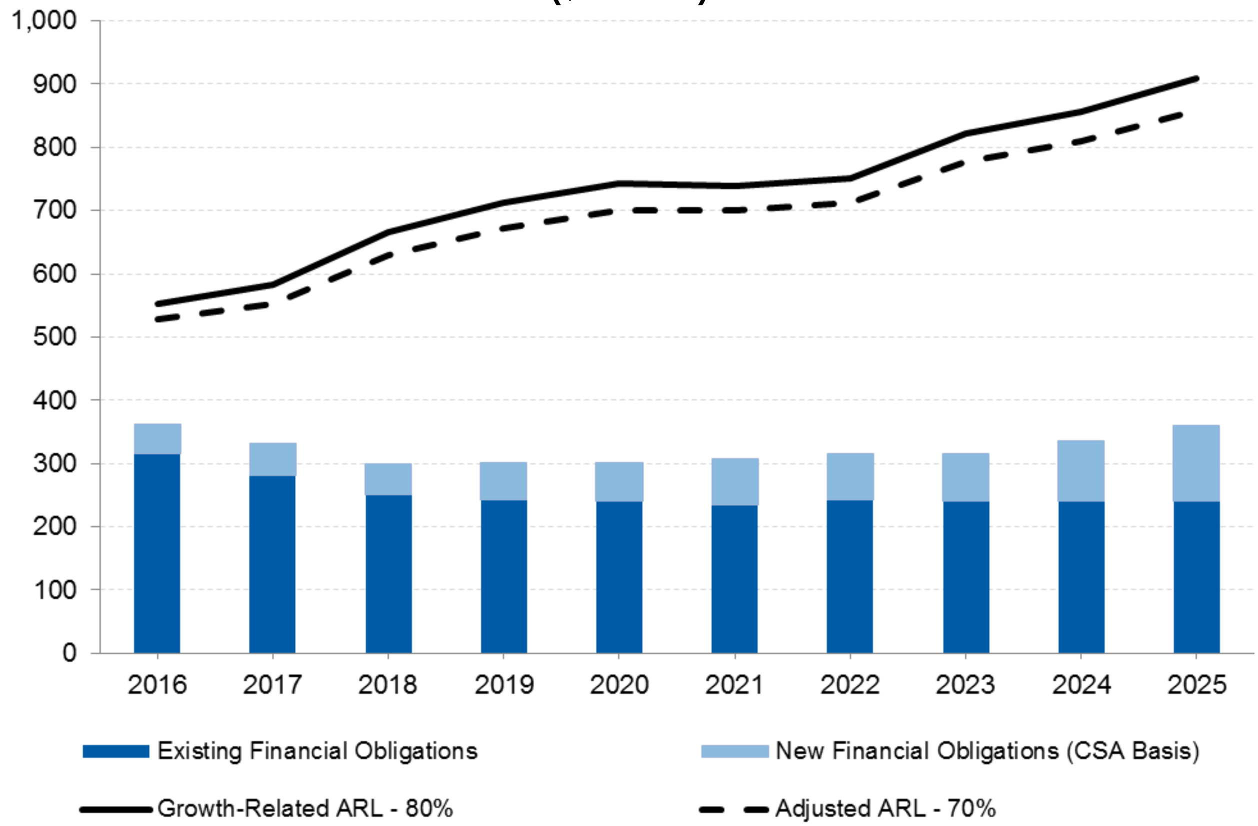
Anticipated development charge collections represent one of the most significant risks to remaining within the ARL

Development charge collections are difficult to predict from one year to the next and can vary significantly as economic conditions change over time. Lower-than-forecast DC collections 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 DC collection trends and forecasts annually to enable further changes before finalization of the capital plan.

As a matter of normal practice, the Region's capital plan will be measured against an adjusted ARL that uses only 70 per cent of the three-year rolling average of historic DC 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 DC collections. The impact on the ARL calculations of the adjusted ARL that uses only 70 per cent of the three-year rolling average of historic DC collections as a cost supplement is illustrated on Chart 5, which shows that the Region's obligations would still be well within its ARL even if only 70 per cent of forecast DC collections are considered as a cost supplement.

Chart 5
Adjusted Annual Repayment Limit vs.
Annual CSA Based Debt and Financial Obligations
2016-2025
($Millions)



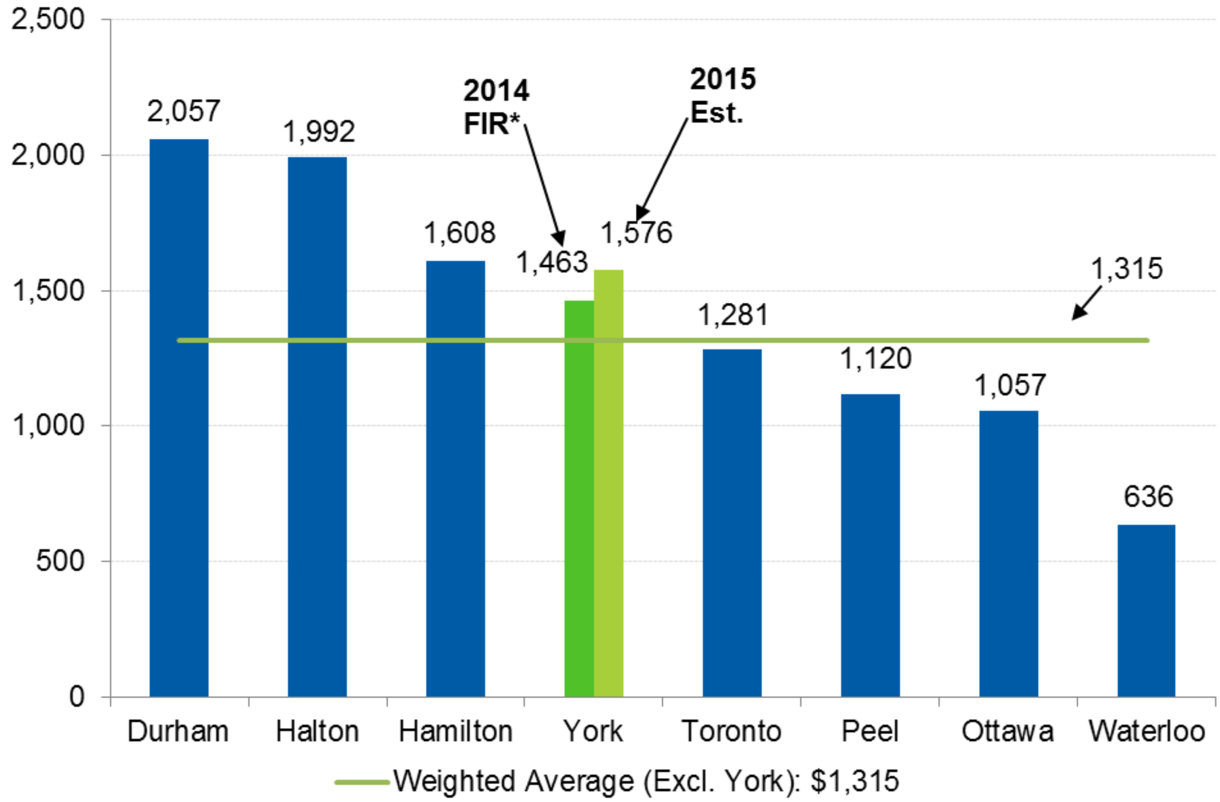
Source: York Region Finance Department

Lower-than-expected DC collections in any given year can result in a decrease in liquidity and debt servicing ability. To help mitigate this, it is Regional policy to maintain overall DC reserve balances that are at least equal to the next year's estimated DC-related principal and interest obligations. Moreover, the Region maintains significant non-DC reserves (as detailed below) that could be used to fund DC-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 the Region 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 Chart 6.

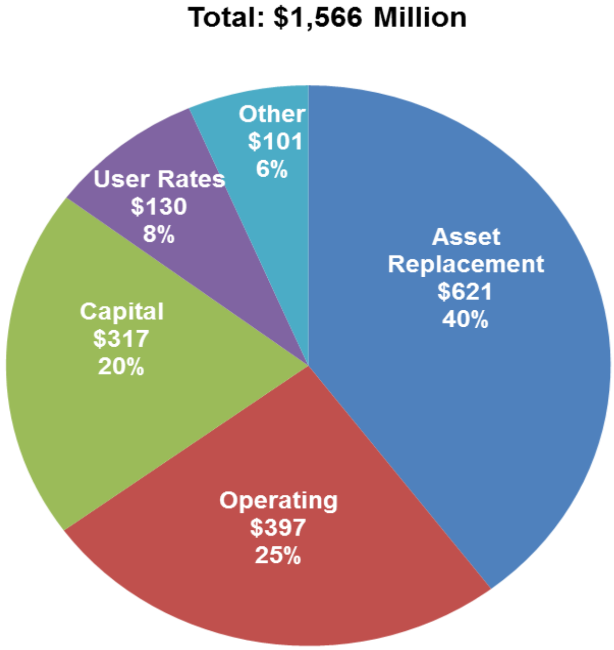
Chart 6
2014 Reserves Per Capita Comparison*
($)



*Source: Figures for comparator peer group are based on results summarized in 2014 Financial Information Returns (FIR).

The Region has a number of different non-growth reserves, which have been broadly categorized into capital, asset replacement, operating, user rates, and other reserves. These reserves are estimated to be approximately $1.6 billion by the end of 2015, are shown on Chart 7.

Chart 7
Summary of Non-DC Reserves
As at December 31, 2015 (estimated)
($ Millions)



Source: York Region Finance Department

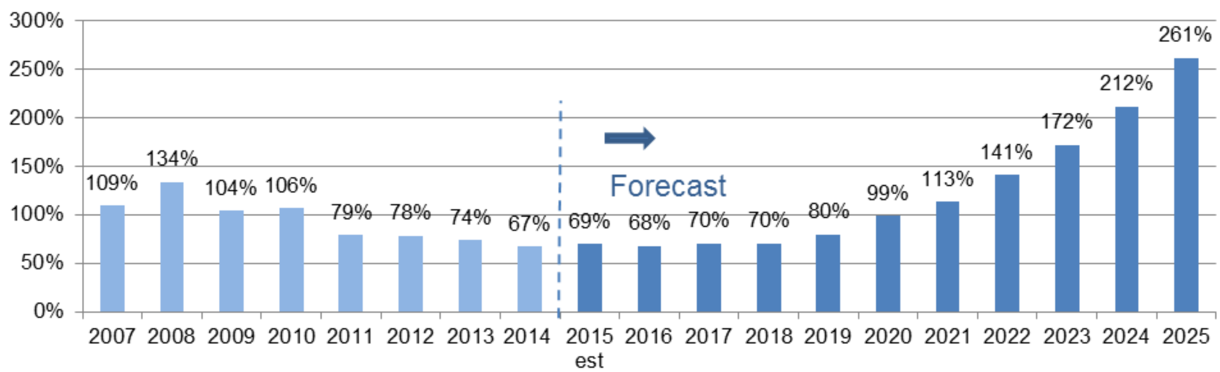
The Fiscal Strategy involves continuing to build up reserves over time to help meet future capital funding requirements

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, Council approved a policy in 2006 of increasing the annual contributions for 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 reaches 2 per cent of the prior year's tax levy in 2017. The Fiscal Strategy maintains this policy and anticipates the annual contribution for 2016 will be approximately $92 million, increasing to approximately $117 million by 2018. In addition, annual operating surpluses help build reserves, in accordance with Council's approved surplus management policy.

As illustrated on Chart 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 will stabilize over the next four years and then trend sharply upward, reaching 261 per cent by 2025. 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” starting in 2021.

Chart 8
Reserve to Debt Ratio
Actual and Forecast
2007-2025



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 that need for debt altogether. For this purpose, staff undertook a detailed review of debt-financed tax-levy related capital expenditures to determine if cash funds on hand (i.e., reserves/reserve funds) could be used in place of debt. In 2014, the Debt Reduction Reserve was established for this purpose. As a result, tax-levy-related debt needs were reduced by a total of approximately $453 million over the 2016 to 2025 forecast period, avoiding approximately $291 million in principal and interest costs over the same period. At this time, we are not anticipating a need for 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 will be 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 and are expected to increase moderately in the near term. Interest rate assumptions have been adjusted based on a review of current and historic rates so as to incorporate the impact of increasing rates on the ARL. Moreover, average interest rates are weighted to incorporate the actual cash flow timing of a given year's CSA commitment to reflect the multi-year nature of these projects. Interest rate assumptions are summarized in Table 2.

Table 2
Interest Rate Forecast
2016-2025

Interest Rate	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Annual Estimate (%)	4.25	4.65	4.75	4.75	5.00	5.25	5.50	5.50	5.50	5.50
Weighted Average (%)[4]	4.45	4.65	0.00*	5.18	5.25	5.59	5.38	5.75	5.75	5.75

*As a result of the Fiscal Strategy, the Region will avoid issuing new debt for CSA 2018 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.

We have 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

[4] The weighted average interest rates apply to new debenture requirements in the 2016 Capital Plan.

- 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

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 2014, 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 Region's 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 vs. 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 in order 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 2016 Needs of the Region for Temporary Borrowing

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 2016, it is estimated that approximately $370 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 2016, it is estimated that approximately $275 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.[5] 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 2016. Any funds borrowed from reserves are always paid back during the year of borrowing.

7. Evaluation and Comparison of 2015 Projections and Outcomes

As Table 3 shows, the Region was in compliance with its ARL for 2015. A total of $17.2 million of the 2016 capital requirement was pre-funded in 2015, and included in the 2015 new debt payment and financial obligations.

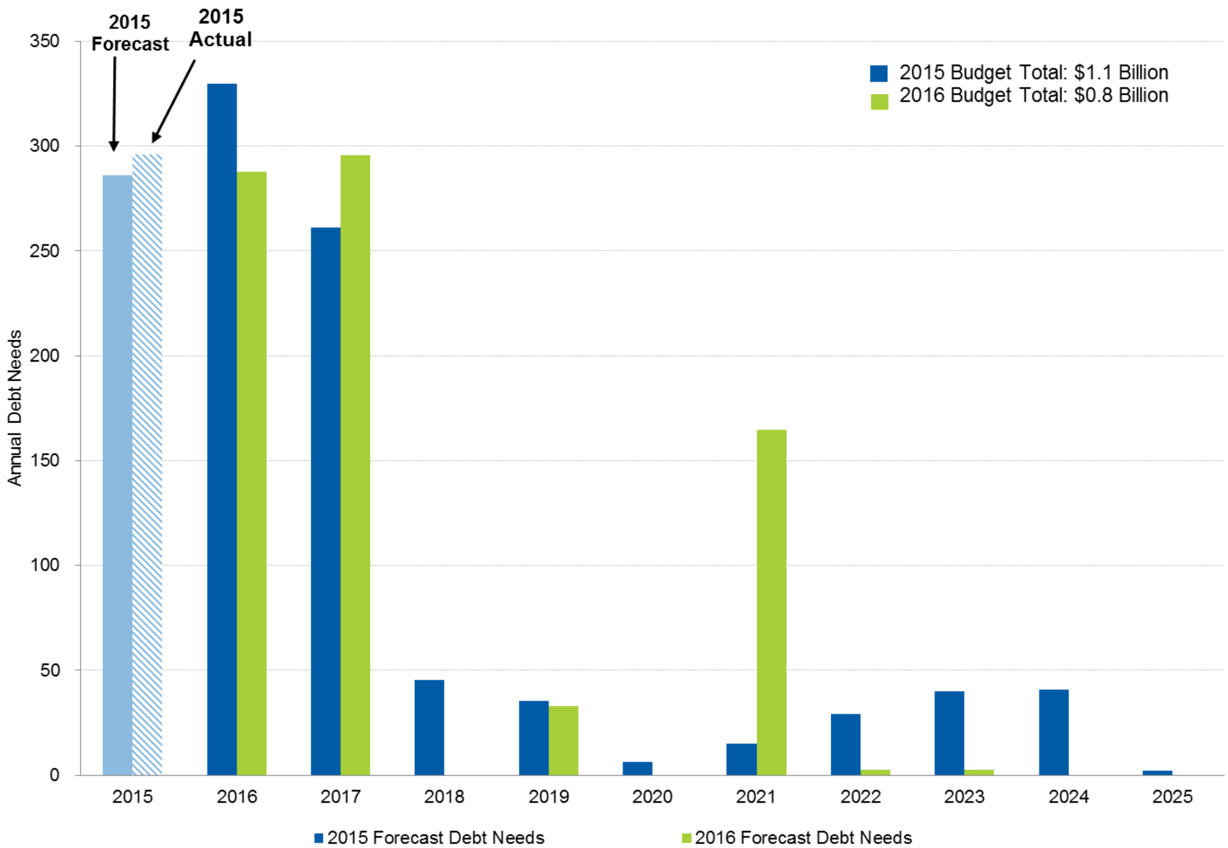
[5] Temporary borrowing provisions are set out in Sections 405 and 407 of the *Municipal Act, 2001*. Temporary borrowings are not part of the ARL calculations.

Table 3
Region's 2015 ARL
($Millions)

Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	335	335	-
Plus: Growth Cost Supplement	226	229	3
Total ARL	**561**	**564**	**3**
Less: Existing Debt Payment and Financial Obligations	299	297	(2)
Less: Anticipated New Debt Payment and Financial Obligations	65	65	-
Remaining ARL	**197**	**202**	**5**

A year-over-year comparison of annual debt requirements is shown on Chart 9. The 2015 actual debt requirement includes $17.2 million of 2016 capital requirements pre-funded in 2015, whereas the 2015 forecast does not include this pre-funding of capital.

Chart 9
Comparison of Debt Needs
2015 Budget vs. 2016 Budget
($Millions)

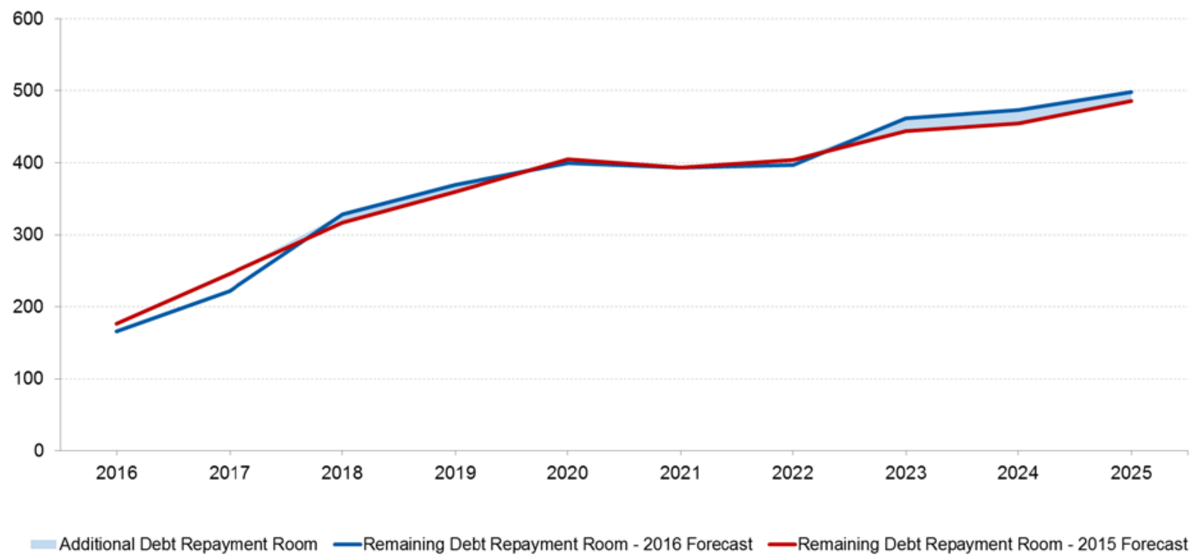


Source: York Region Finance Department

The capital plan included in the 2016 budget shows a total debt requirement of $0.8 billion over the 2016-2025 period. This represents the same debt requirements when compared to the equivalent period shown in last year's capital plan (for the 2015-2024 period, the capital plan required approximately $1.1 billion in debt). The lower debt requirement is primarily due to fiscal strategy measures such as continuing to optimize the use of DC charge reserves to reduce reliance on DC debt and deferring capital projects to align capital spending more closely with the fiscal plan.

As illustrated on Chart 10, the similar debt requirement maintains the Region's ARL room. Overall, the Region's financial flexibility is maintained in the 2016 forecast.

Chart 10
Comparison of Forecasted Remaining Annual Repayment Room
2015 vs. 2016
($Millions)



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 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 ARL methodology as outlined in the Regulation.

APPENDIX 1
Determination of ARL

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 2016-2025 forecast based on information and assumptions contained in the 2016 Operating Budget.

Table A1
Annual Repayment Limit Calculation – 25 per cent of Own Source Revenues
Forecast Budget Years 2016-2025
($Millions)

ARL Determination	Budget Year	2016	2017	2018	2019	2020
	FIR Year[1]	2014	2015	2016	2017	2018
Net Revenues						
Property Taxes/PIL's[2]		912	937	981	1,025	1,067
User Rates - Sewage/Water/Solid Waste[3]		239	267	296	321	349
Transportation User Fees		68	69	72	76	79
Other User Fees[4]		40	33	36	37	37
Provincial Fines		13	12	13	15	15
Other Revenue[5]		144	71	79	74	76
Total - Net Revenues[6]		**1,416**	**1,389**	**1,477**	**1,548**	**1,623**
25% of Net Revenues		**354**	**347**	**369**	**387**	**406**

ARL Determination	Budget Year	2021	2022	2023	2024	2025
	FIR Year[1]	2019	2020	2021	2022	2023
Net Revenues						
Property Taxes/PIL's[2]		1,108	1,150	1,193	1,239	1,286
User Rates - Sewage/Water/Solid Waste[3]		376	409	429	445	462
Transportation User Fees		81	83	86	88	91
Other User Fees[4]		38	38	39	39	39
Provincial Fines		15	15	15	15	15
Other Revenue[5]		77	82	97	119	132
Total - Net Revenues[6]		**1,695**	**1,777**	**1,859**	**1,945**	**2,025**
25% of Net Revenues		**424**	**444**	**465**	**486**	**506**

Notes:

1. Own Source Revenues from two years prior to the current year are included in current year ARL calculations as represented by Financial Information Return (FIR) Year. FIR Year 2014 is based on actual results. FIR Year 2015 is based on the year-end forecast. FIR Years 2016-2018 are based on the 2016 Operating Budget and departmental estimates for outlook years.
2. Property Taxes for FIR Year 2016 assume 1.76 per cent assessment growth plus 1.09 per cent net tax levy growth for a total of 2.85 per cent. Property Taxes assume to increase 2.69 per cent for FIR Year 2017 and 2.35 per cent for FIR Year 2018. FIR 2019-2023 Years assume an annual average increase of 3.80 per cent.
3. Water and wastewater rates are approved for increase of 9.0 per cent annually for FIR Years 2016-2020 and increase 2.9 per cent for FIR Year 2021. FIR Years 2022-2023 assume rates will continue to increase 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. FIR Years 2016-2018 are based on the 2016 Operating Budget and grow at an average annual rate of 1.94 per cent. FIR Years 2019-2023 assume an annual average increase of 1.00 per cent.
5. Other Revenue includes: Investment Income, Sale of Publications, recoveries and etc. Investment income is based on reserve balance forecasts assuming a rate of return of 3.00 per cent for FIR Years 2016-2020, 3.25 per cent for FIR Year 2021 and 3.50 per cent for FIR Years 2022-2023.
6. Total Net Revenues equal total budgeted net revenues from the 2016 Operating Budget and departmental estimates of the outlook years. These are forecast to increase at an average annual rate of 4.61 per cent over the forecast period (e.g., FIR Years 2016-2023).

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 DC collections for the previous three fiscal years. A forecast of DC collections is also required as part of this plan.

The DC collections forecast was developed for 2016 to 2025. A DC collection estimate was generated for 2015, based on the actual year-to-date collections realized by September, and historic trends in monthly DC collections.

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

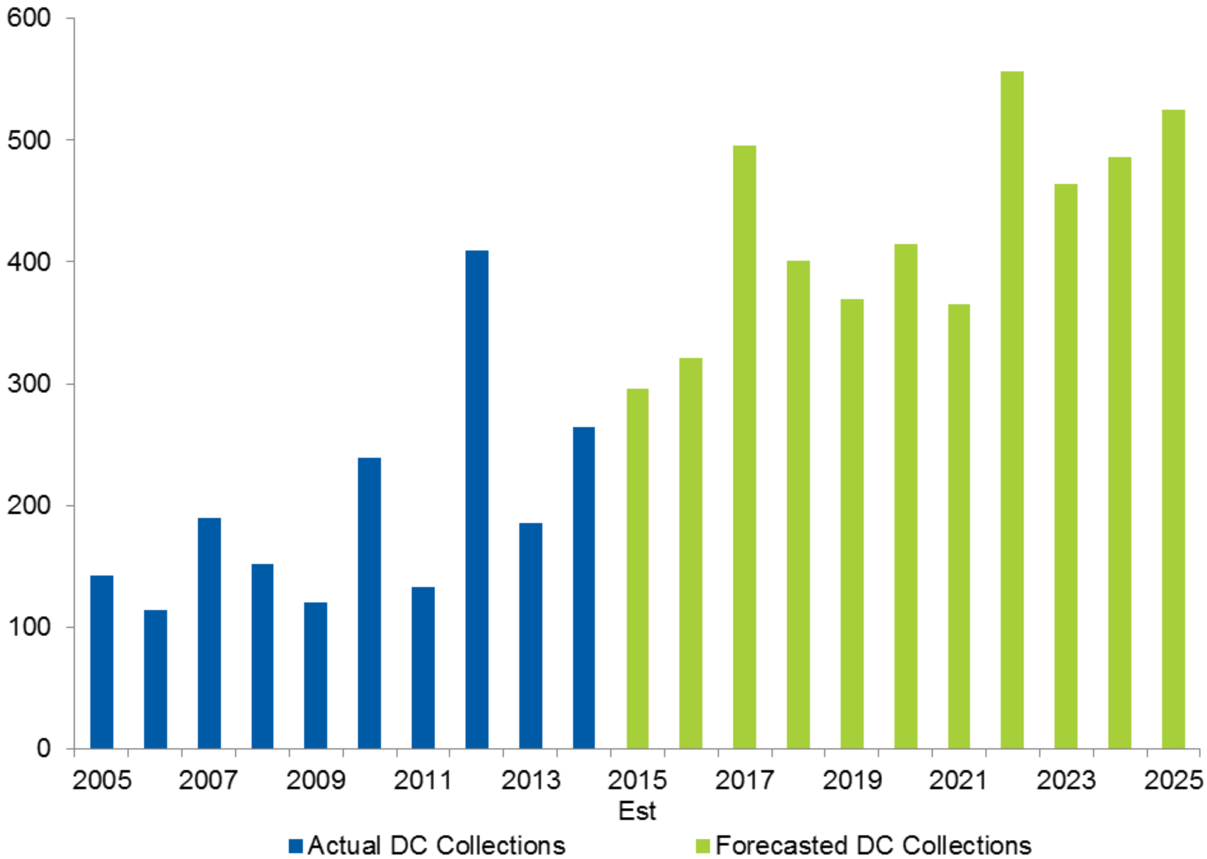
1. The amount of development activity in the Region, including registration of new residential subdivisions and the issuance of building permits for residential and non-residential buildings
2. DC rate changes and transitional provisions such as prepaid DC agreements that could lead to early registration, and result in lower collections in subsequent years
3. DC collection policies such as DC deferrals, prepayments and Ontario Municipal Board minutes of settle prepayments that change the timing of DC collections.

The 2016 to 2025 collections forecast is generated using econometric models that differentiate between the short, medium and long terms:

- The short-term forecast is based on quarterly new unit sales, a strong leading indicator of building permit issuance
- The medium term forecast is based on anticipated population growth and links together the short-term forecast to the long-term forecast
- The long-term forecast is informed by demographic and policy factors including population and employment growth and planned density. It is an evenly weighted average of Ministry of Finance and Growth Plan Amendment 2 forecasts
- In addition, the DC collections forecast is informed by:
    - Recent data on average gross floor area of non-residential developments
    - Regional policies regarding DC prepayments, deferrals and exemptions

Historic and forecast DC collections are provided on Chart A1 below.

Chart A1
Annual DC Collections Actual and Forecast
($Millions)



Source: York Region Finance Department

Over the ten year period 2004-2014, annual collections peak in 2012, 2010, and 2007 during DC bylaw updates. Collections were significantly lower in 2008 and 2009 due to the economic recession. The actual historic average collection level is not a good indicator of future average collections because DC rates have increased, and the Region has stopped the practice of phasing in DC rate increases.

DC collections from 2015 to 2025 are anticipated to increase due to the expectation that the Region will continue to grow.

Step 3: Calculate Total ARL

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

Table A2
Total ARL 2016-2025
($Millions)

Component Description	2016	2017	2018	2019	2020
Total Own Source Revenues	1,416	1,389	1,477	1,548	1,623
25% of Own Source Revenues (A)	**354**	**347**	**369**	**387**	**406**
DC Collections (3-year rolling avg.)	249	294	371	406	422
DC Cost Supplement (%)	70%	70%	70%	70%	70%
DC Cost Supplement ($) (B)	**174**	**206**	**260**	**284**	**295**
Growth Related Debt and Fin. Ob. Limit (ARL) (A+B)	**528**	**553**	**629**	**671**	**701**

Component Description	2021	2022	2023	2024	2025
Total Own Source Revenues	1,695	1,777	1,859	1,945	2,025
25% of Own Source Revenues (A)	**424**	**444**	**465**	**486**	**506**
DC Collections (3-year rolling avg.)	395	383	446	462	503
DC Cost Supplement (%)	70%	70%	70%	70%	70%
DC Cost Supplement ($) (B)	**277**	**268**	**312**	**323**	**352**
Growth Related Debt and Fin. Ob. Limit (ARL) (A+B)	**701**	**712**	**777**	**809**	**858**

Note:

1. While the Regulation allows the Region to include an amount equivalent to 80 per cent of the average DC collections for the previous three fiscal years as growth cost supplement, the 2016 to 2025 ARL is calculated based on 70 per cent DC collection for conservative projection purposes.

York Region

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

The Regional Municipality of York

Capital Financing and Debt Policy

Policy No.: eDOCs # 6392234

Original Approval Date: January 23, 2003

Policy Last Updated: November 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.

C) 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 5-year Government of Canada bond rate at time of 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

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

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Insert eDOCS # for policy and any attachments (provide full access to the "CAO Policy Manual Group" for policy and any attachments)

Insert eDOCS # for *archived policy* if any (provide full access to the "CAO Policy Manual Group" for *archived policy* and any attachments)

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. Francs of France.
3. Marks of Germany.
4. Yen of Japan.
5. Guilder of the Netherlands.
6. Francs of Switzerland.
7. Sterling money of the United Kingdom.
8. Dollars of the United States of America.
9. The euro currency adopted by member states of the European Union.

O. Reg. 247/01, Sched.