York Region

2015 Regional Fiscal Strategy

Presentation to

Committee of the Whole

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February, 19, 2015

Presentation Overview

- Fiscal Strategy Overview

- Long-Term Debt Management Plan

The essence of the Fiscal Strategy

- The purpose of the fiscal strategy is to manage the inter-relationships and integration between the capital plan, the debt management plan and the reserve management plan
- The fiscal strategy is also about the stewardship of the long term – striking a prudent balance between current and near-term investment and saving for the future

Essence of the Fiscal Strategy

Manage the capital plan

Reduce reliance on debt

Save for the future

Elements of
The 2015 Regional Fiscal Strategy

Enhanced Fiscal Strategy

- Disciplined Management of the Capital Plan
- Aggressive Savings for Asset Replacement and Debt Reduction
- Balanced Approach to Debt and Reserve Management

	In 2014 Budget	In 2015 Budget
Capital Plan	↓ $1.3B	↓ $0.8B
Capital Asset Replacement Reserves	↑ $1.2B	↑ $200M
New Tax-Levy Debt	↓ $0.4B	= $0
New DC-Related Debt	↓ $1B	↓ $0.9B
Peak Debt Level	↓ $1.5B	↓ $0.8B

The 2015 fiscal strategy will lower peak debt and eliminate tax levy debt

* Numbers are over the next ten years

Reduced Reliance on Debt

Tax-Levy Debt

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

DC (Growth-Related) Debt

- Defer capital projects temporarily
- Optimize use of DC reserves
- Monitor DC collections

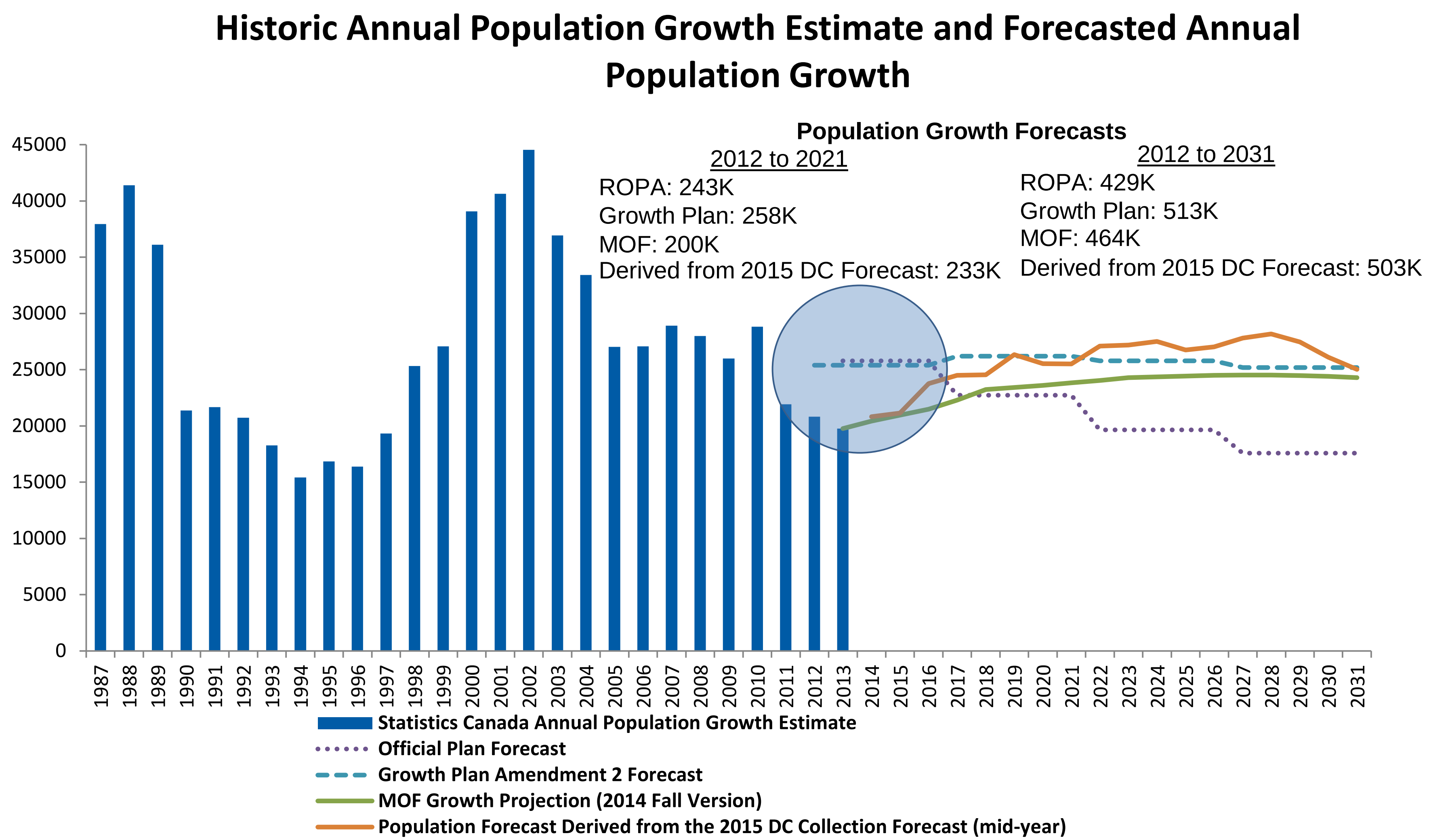
Rate-Supported Debt

- Plan to reduce debt to be developed as part of rate study

Debt is necessary because infrastructure has to be built ahead of growth

- Economies of scale and long lead times mean that major infrastructure is normally constructed in advance of growth
- Initially debt is often required to finance growth-related infrastructure, and this debt is repaid when DCs are collected
- The capital plan needs to be managed so that new infrastructure is not built too far ahead of growth

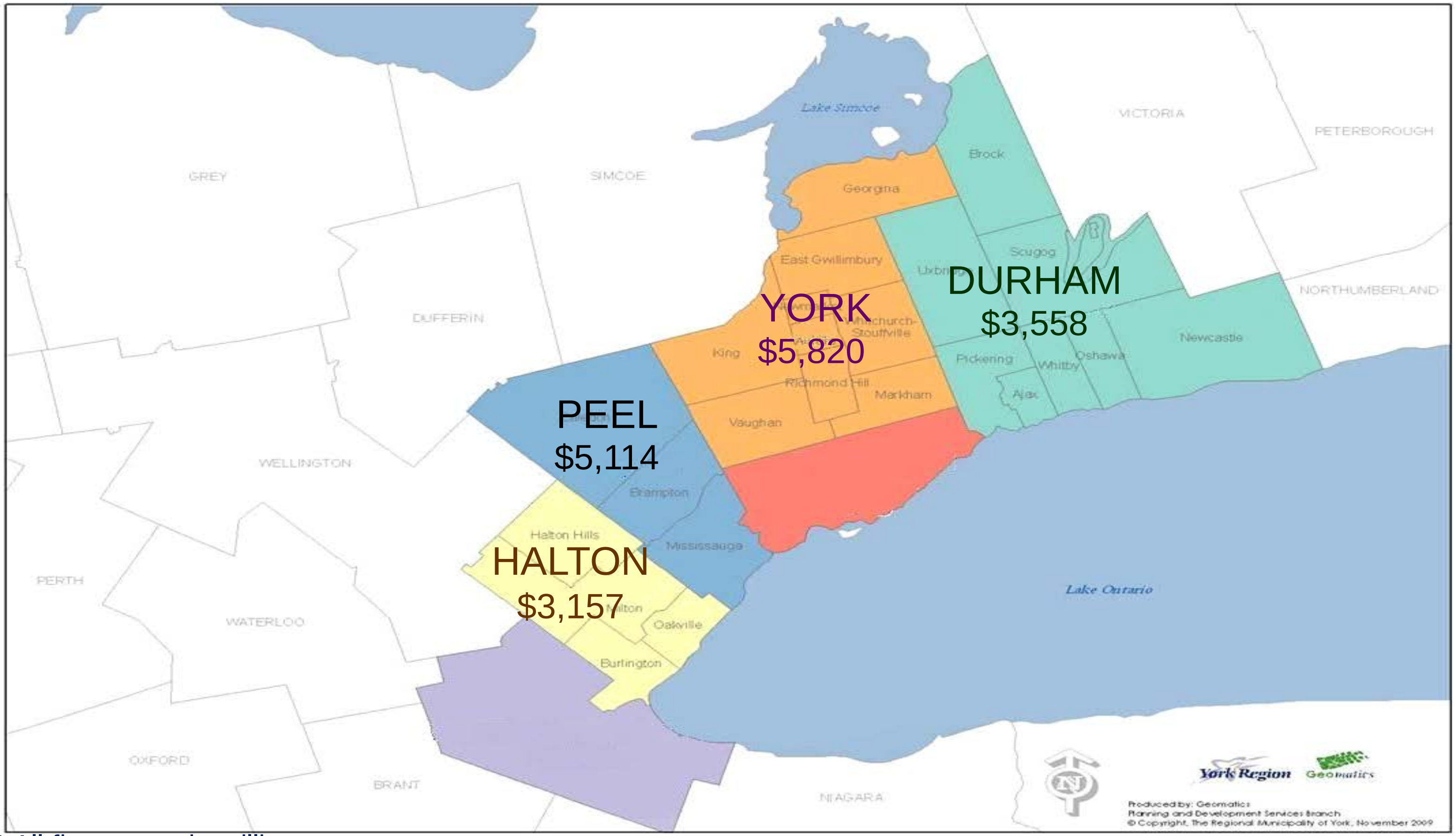
Growth is hard to predict



What are the implications of growth trends for DC collections?

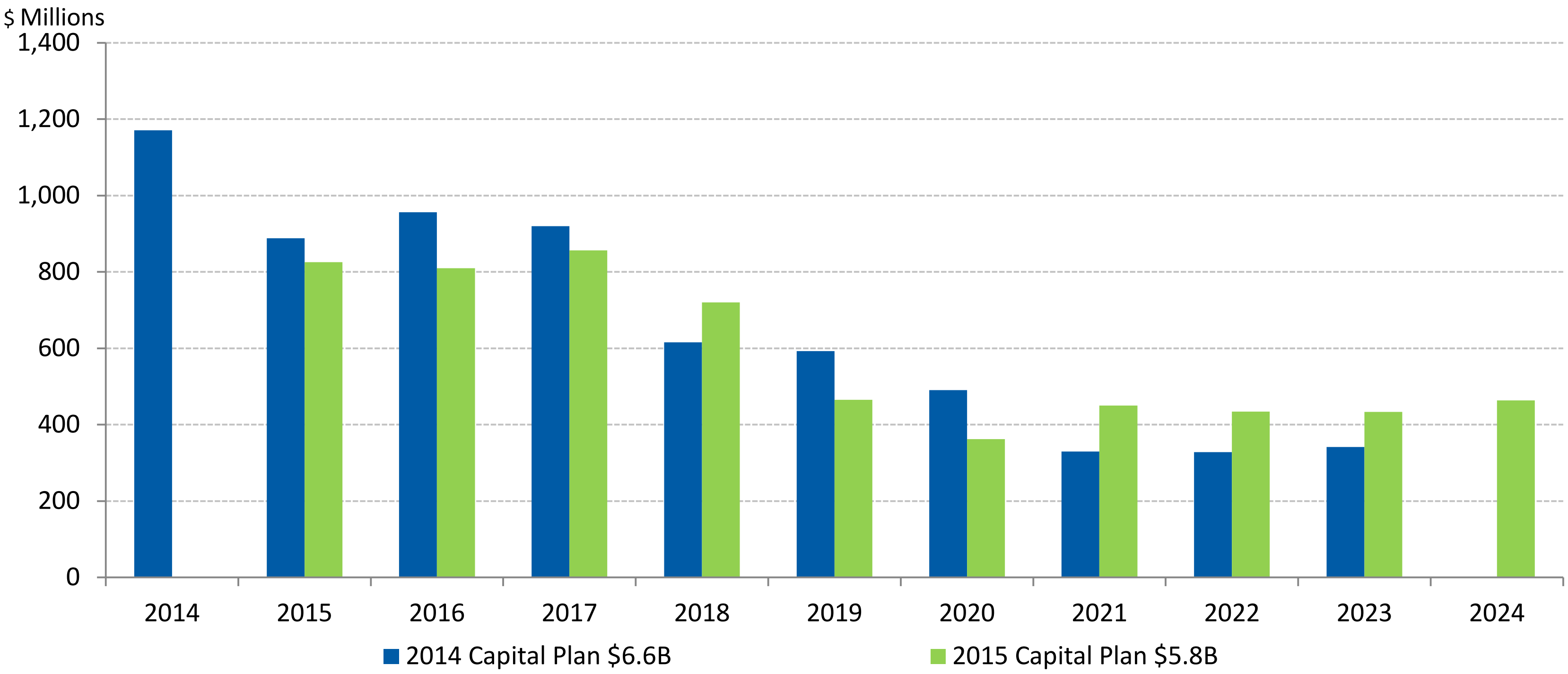
- York Region will continue to grow, but growth in the near future may be slower than previously expected
- Toronto is seeing a resurgence in population and commercial growth
- Slower-than-anticipated housing growth implies lower DC revenue to repay debt and build up DC reserves
- Growth is difficult to predict, so the capital plan will need to be flexible

York's Ten-Year Capital Plan remains among the largest in the 905



* All figures are in millions
Figures reflect Ten-Year Capital Plans approved in 2014, except York and Peel, which are the 2015 Proposed Ten-Year Plans, and Halton, which is the 2015 approved Ten-Year Capital Plan.

Disciplined management of capital plan is needed

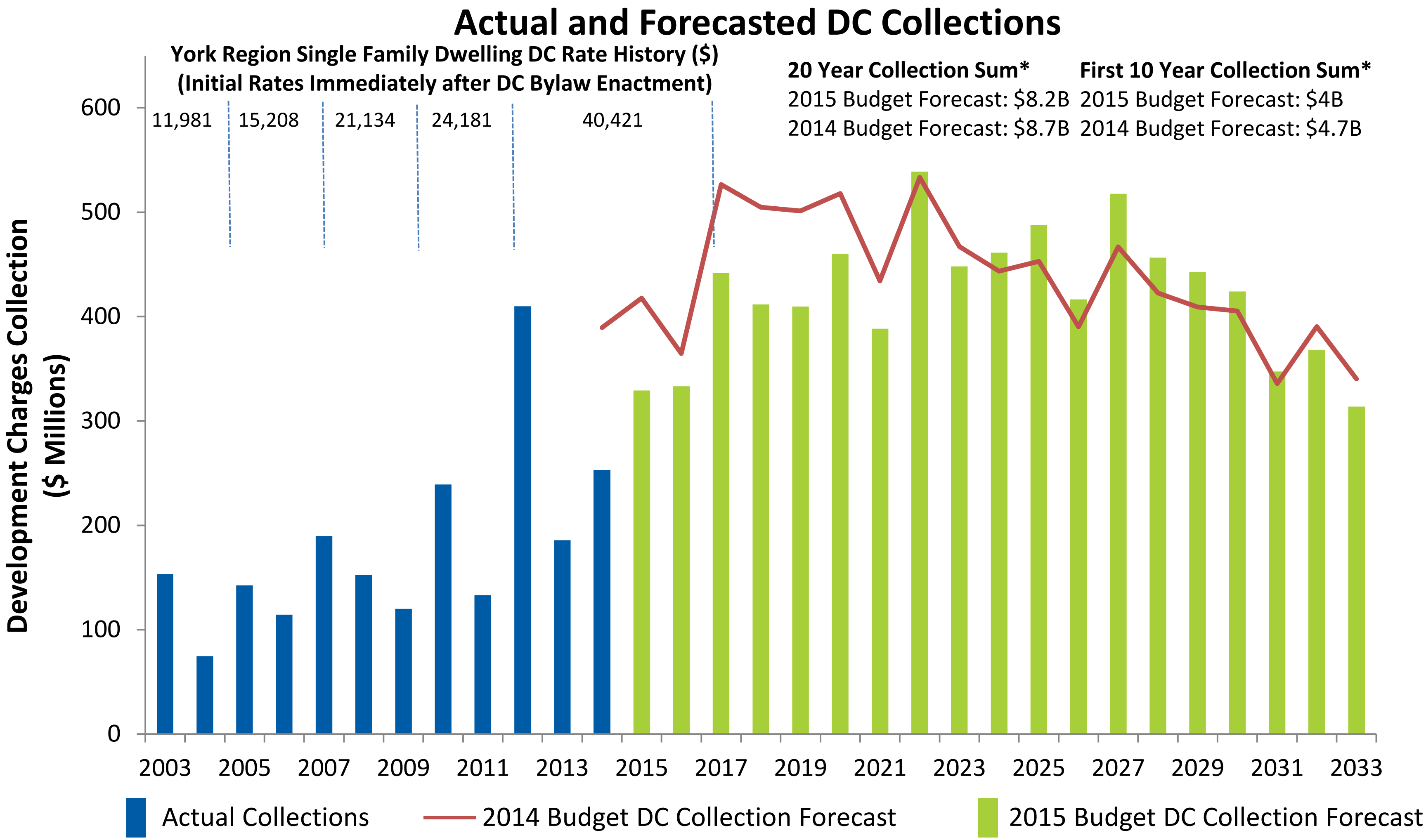


The budget includes proposed deferrals of $0.8B of growth-related capital projects

DC collections are critical to management of DC reserves and debt

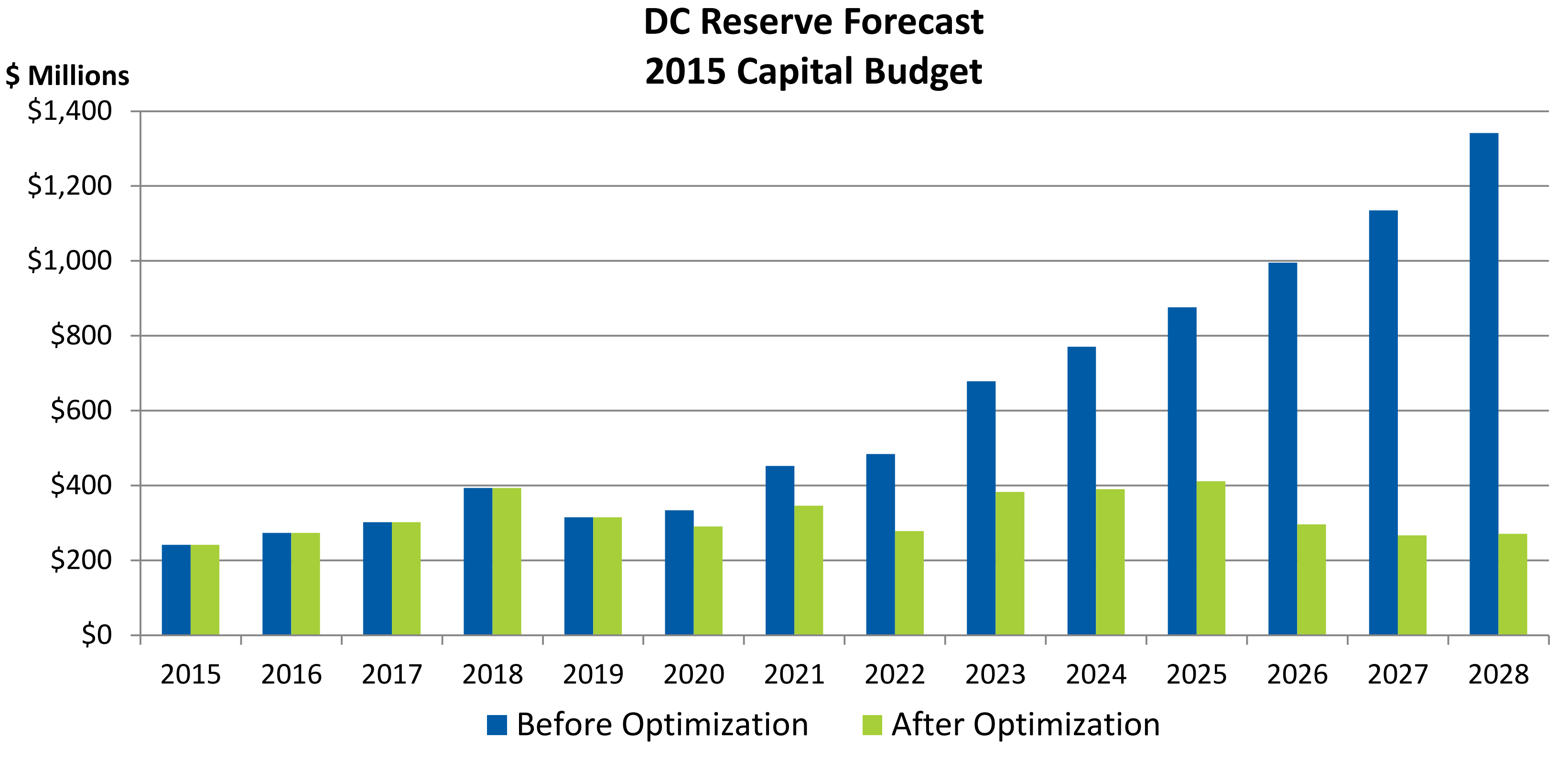
- The level of DC reserves is directly tied to DC collections
- DC collections need to be at the forecast level to implement the ten-year capital plan
- Any additional growth-related capital spending translates directly into additional debt
- To limit the level of debt, DC reserves will be used to fund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

Development charges forecast lower in next ten years and then higher



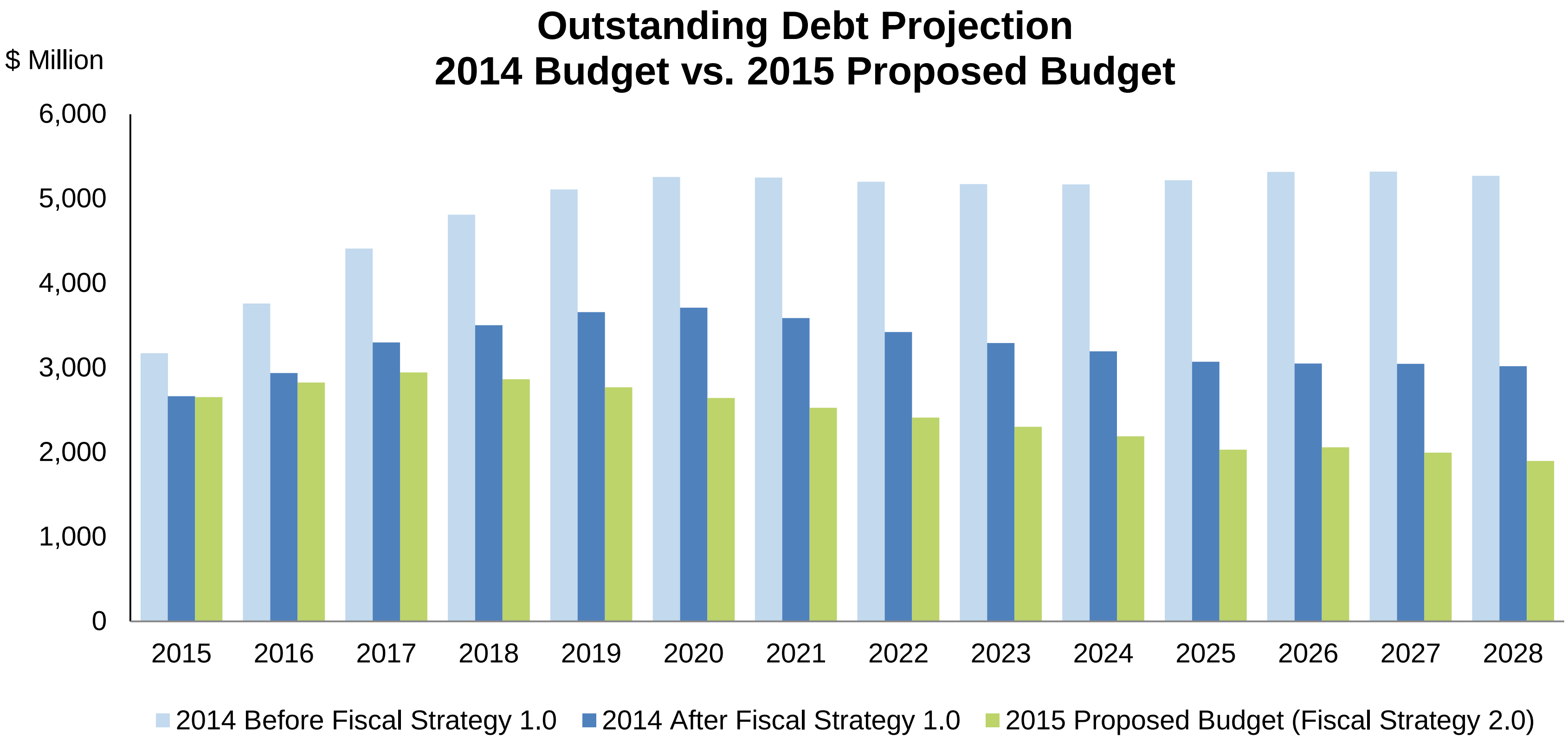
* The 20 year sum and the 10 year sum are shown for the 2014--2033 and 2014-2023 period respectively

DC reserve surpluses will be used to avoid issuing additional debt



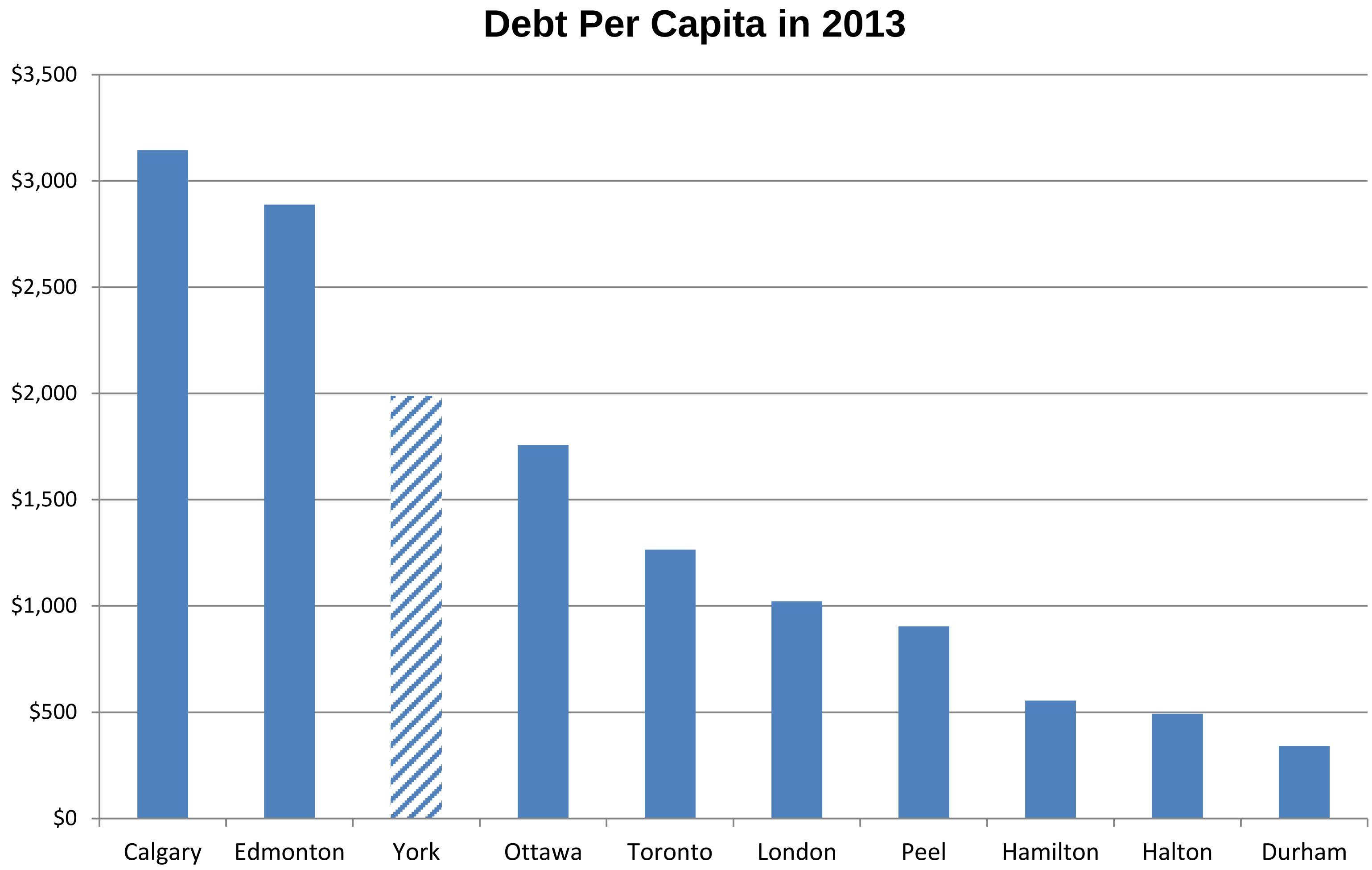
DC reserve balances in excess of one year's worth of principal and interest will be used to fund capital projects that would otherwise be financed by debt, thereby avoiding $2.5B of debt

Fiscal strategy lowers debt levels

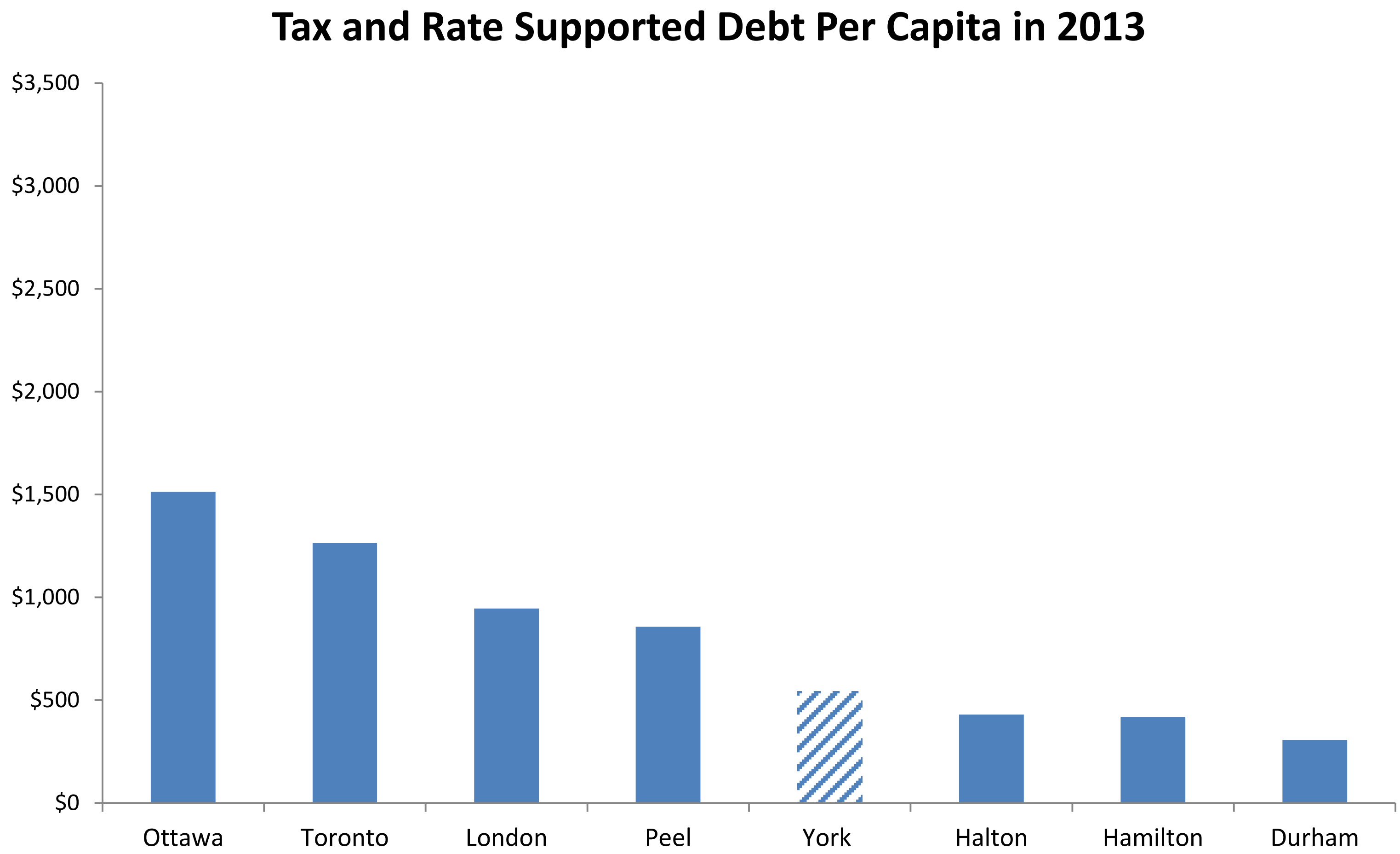


The fiscal strategy will lower the peak level of debt to $2.9 billion

Debt per capita comparison



Low tax and rate supported debt per capita



Building Up Reserves

Reserve management strategy is key to achieving financial sustainability

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

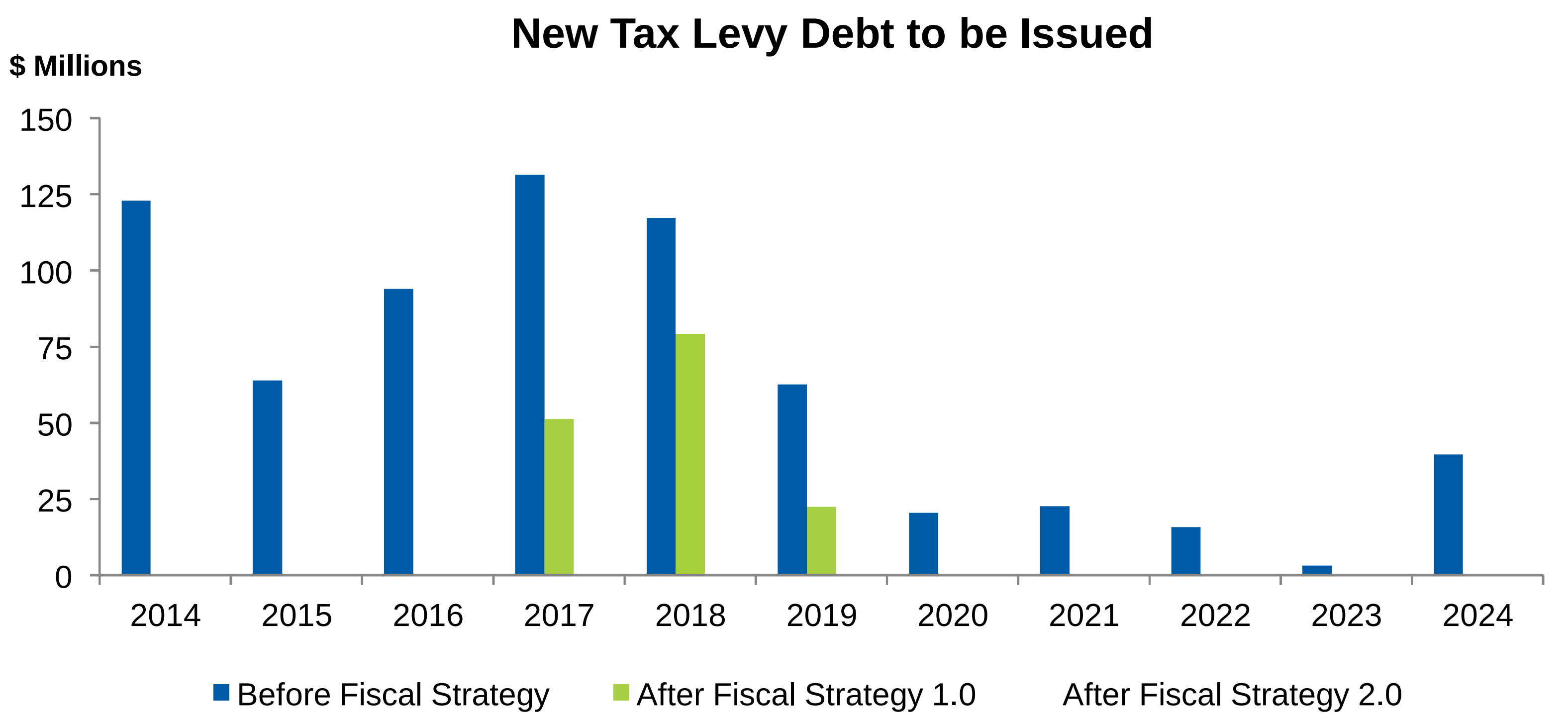
Reserve management critical to debt management

- Reserves are critical to the Region's debt management plan because:
  - Adequate reserves reduce the need to issue debt for asset rehabilitation and replacement
  - Credit rating agencies evaluate liquidity and consider reserves an indicator of fiscal prudence
- Reserves also protect the Region against long-term liabilities and external shocks

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

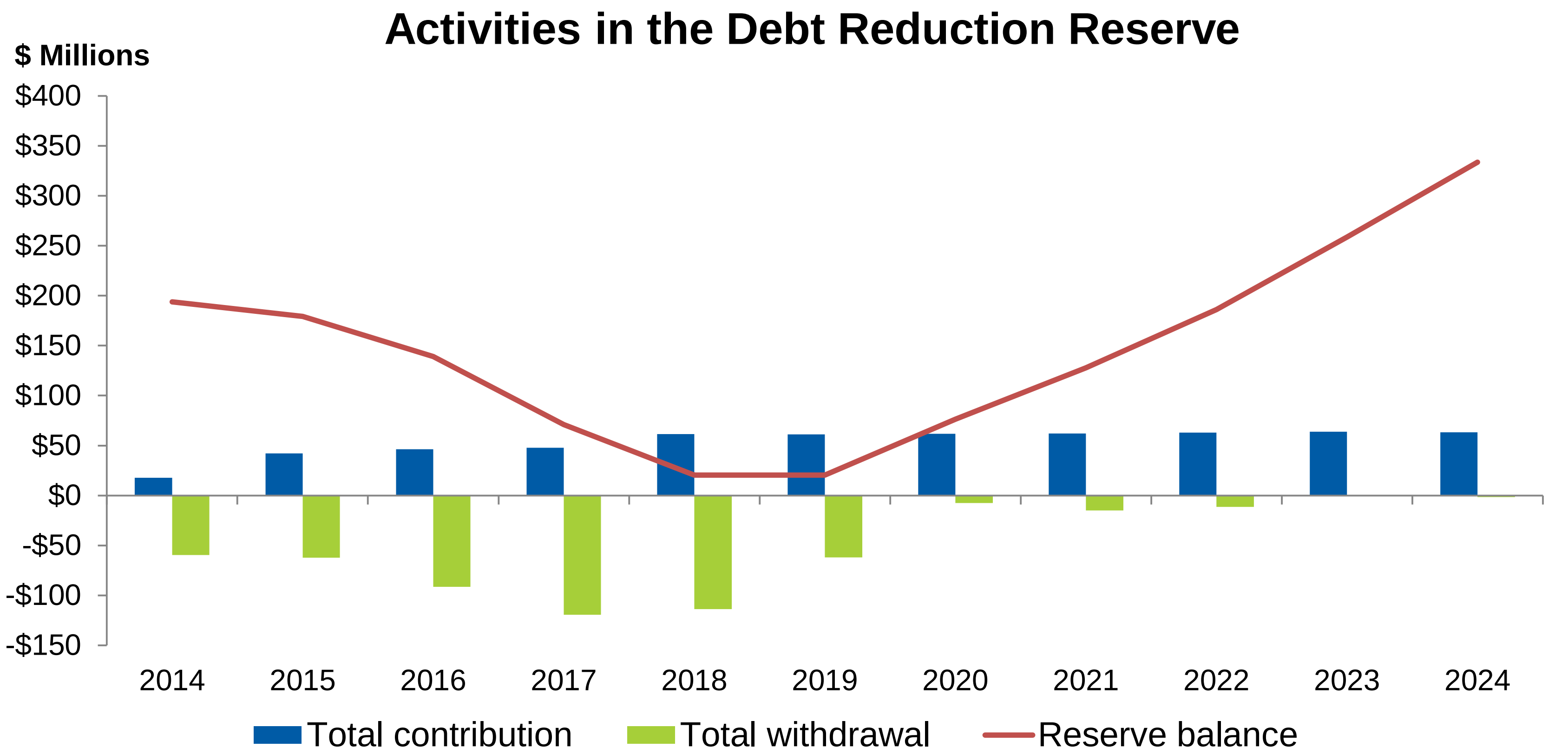
- Council approved a new Debt Reduction Reserve last year
- Amounts that would have been used to service tax levy debt are instead being contributed to the Debt Reduction Reserve
- The total amount of tax levy debt outstanding at the end of 2014 was $129 million
- $58.5 million was drawn from the Debt Reduction Reserve in 2014 to fund projects that would otherwise have required tax levy debt
- There was no tax levy debt issued in 2014

Debt Reduction Reserve will be used to eliminate new debt funded from tax levy



Under the new reserve strategy, all tax levy debt will be avoided

Growth in debt reduction reserve



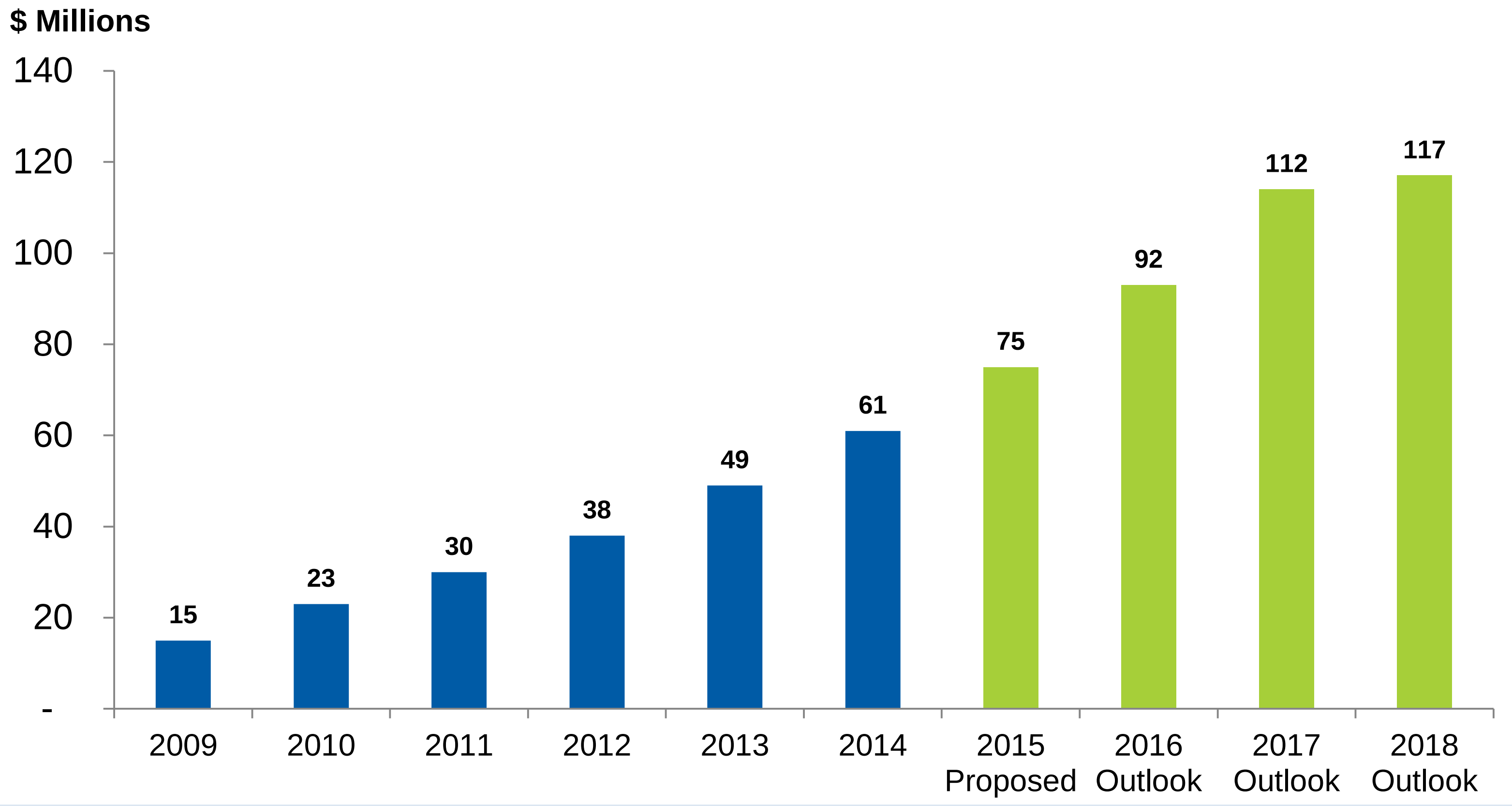
Debt Reduction Reserve is built up to avoid all tax levy supported debt over the next 10 years

The Region is providing for its asset management needs

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

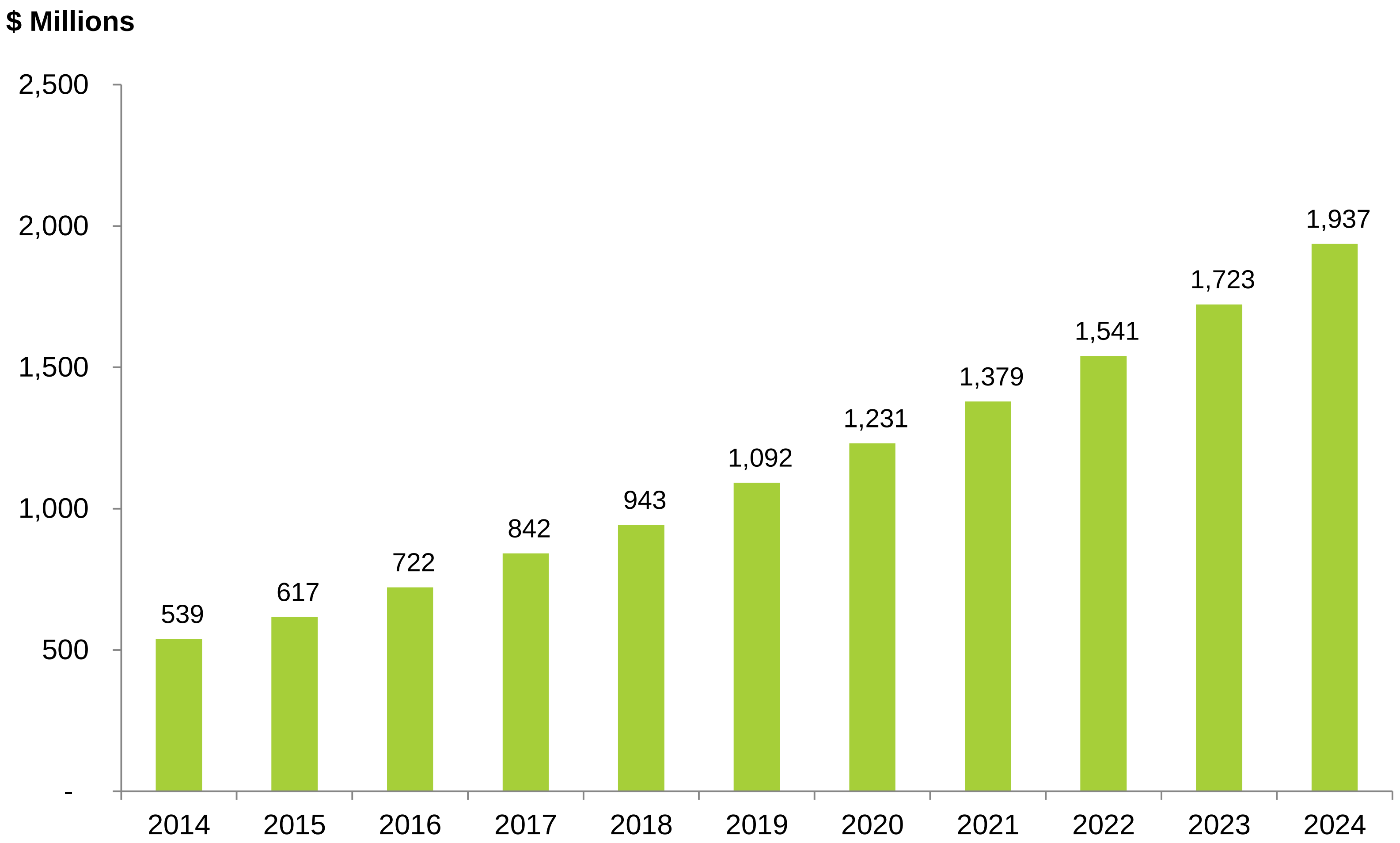
(%)	2013	2014	2015	2016	2017
Contribution to replacement reserves (increment of prior year's tax levy)	1.2	1.4	1.6	1.8	2.0

Rising contributions to corporate capital asset replacement reserves

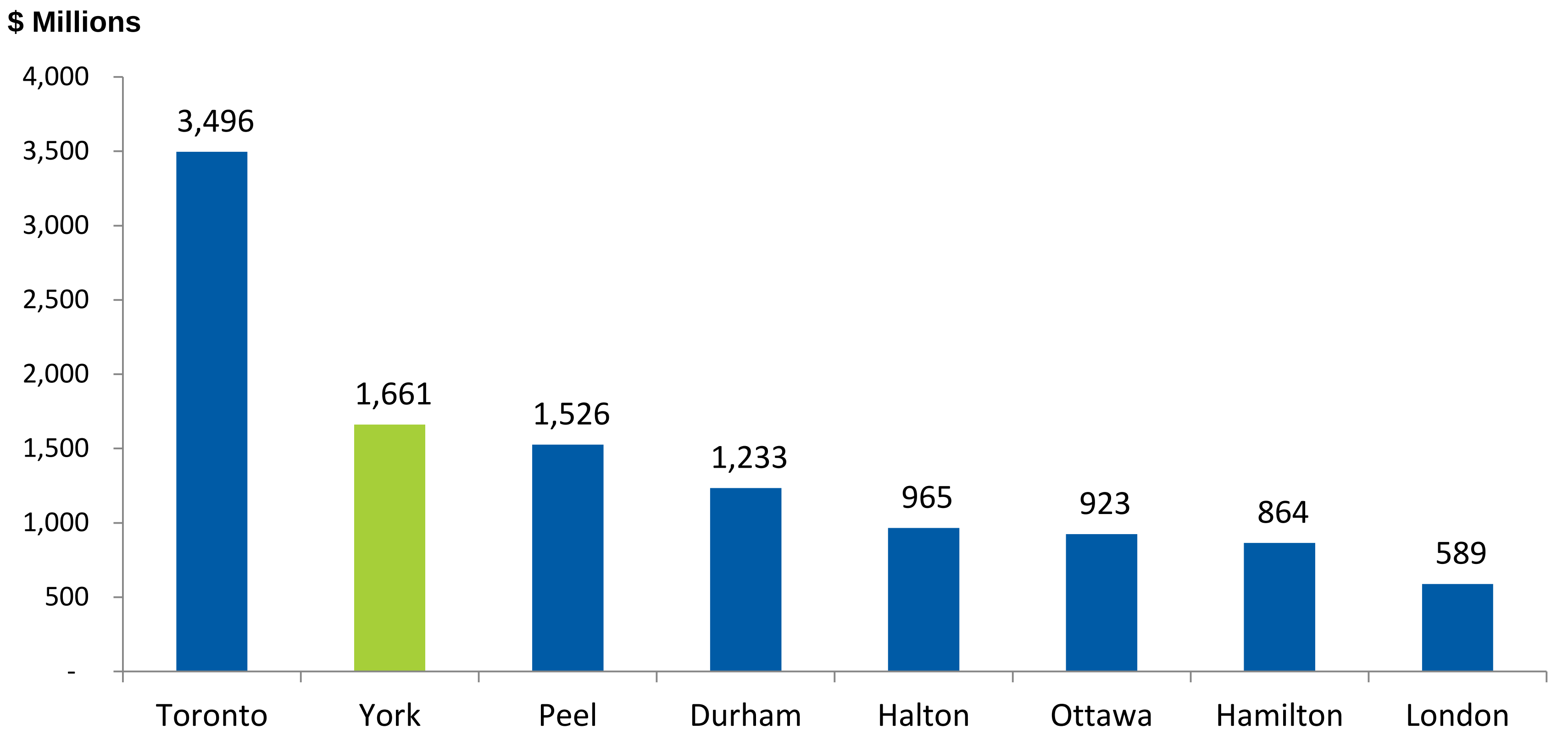


Contributions to corporate capital asset replacement reserves continue to grow

Strong growth in capital asset replacement reserve balances

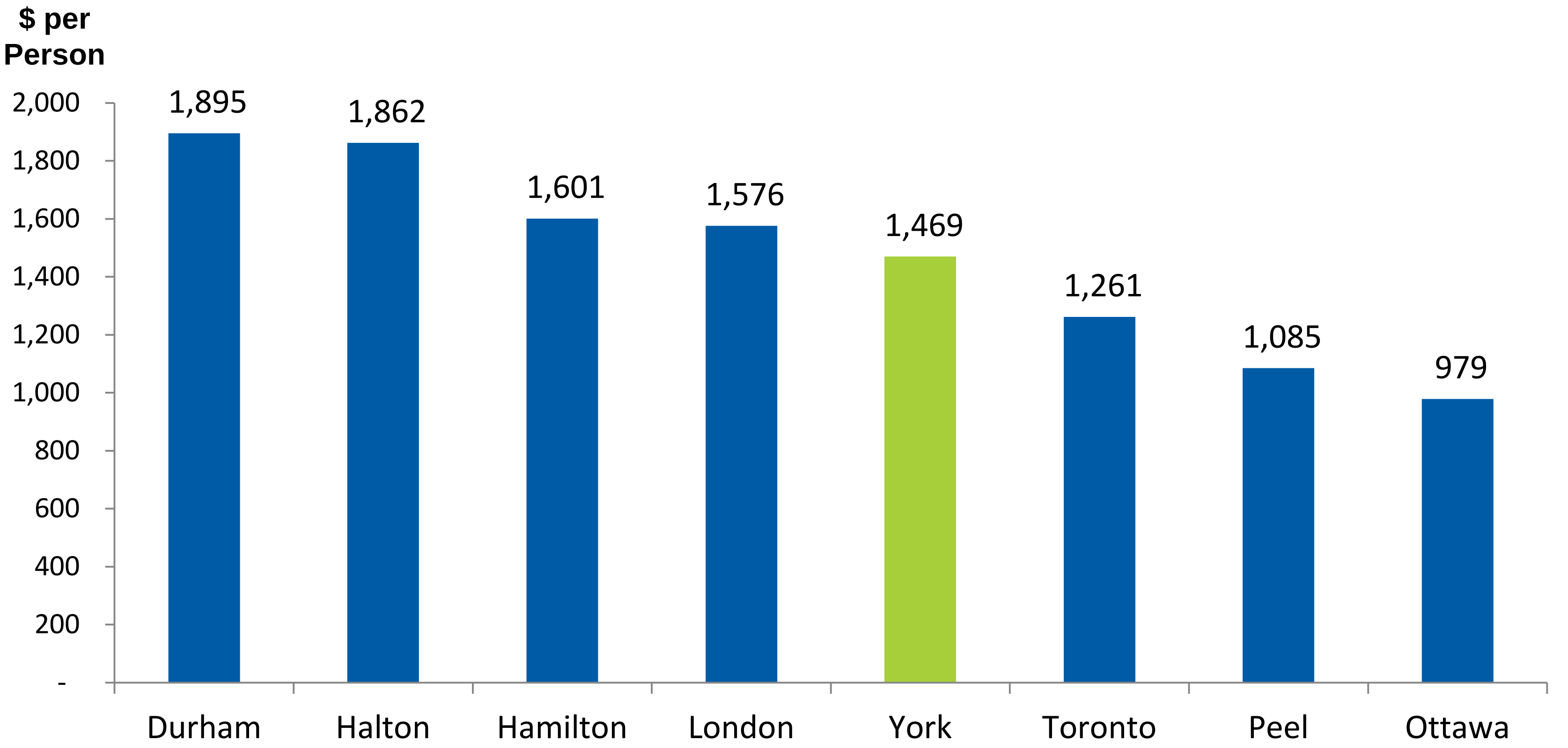


High levels of reserves



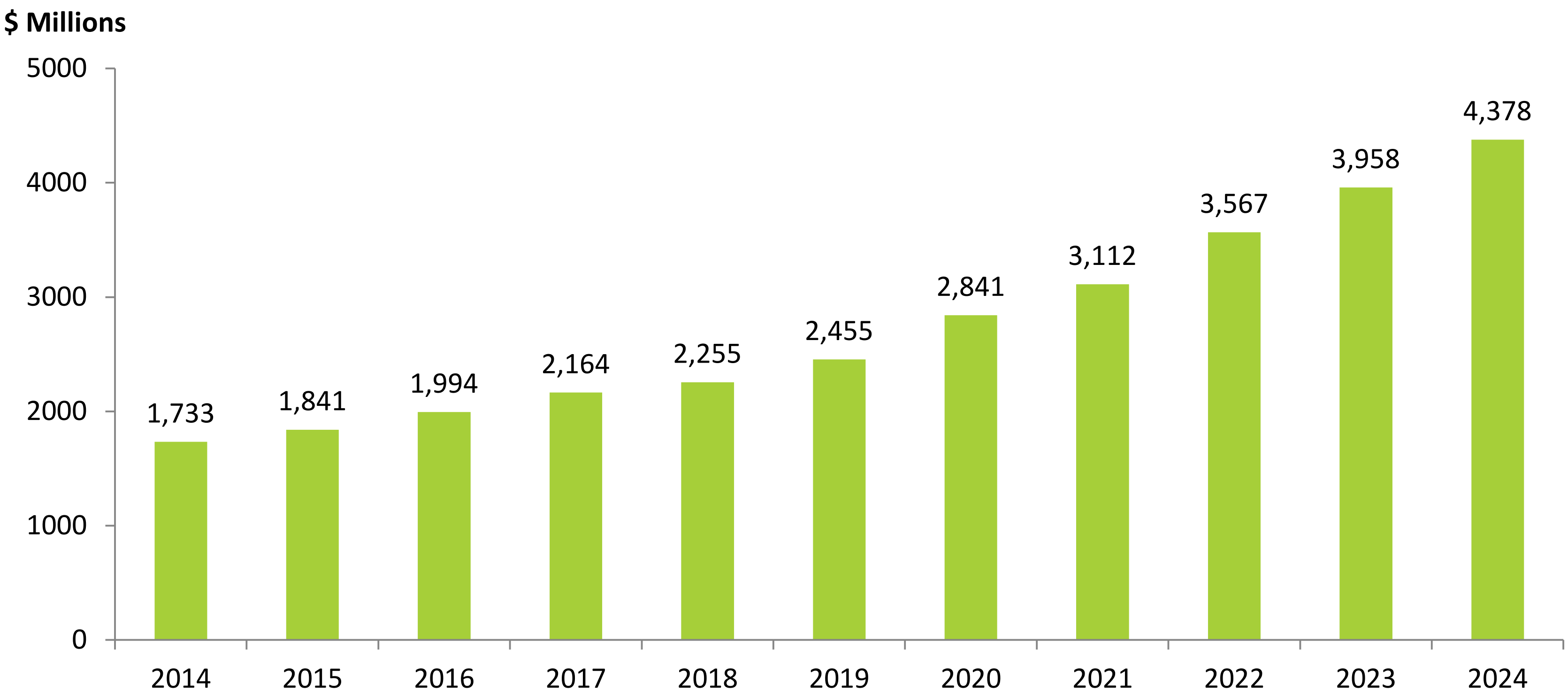
In 2013, York Region's reserves were second only to Toronto

Healthy reserves per capita in 2013



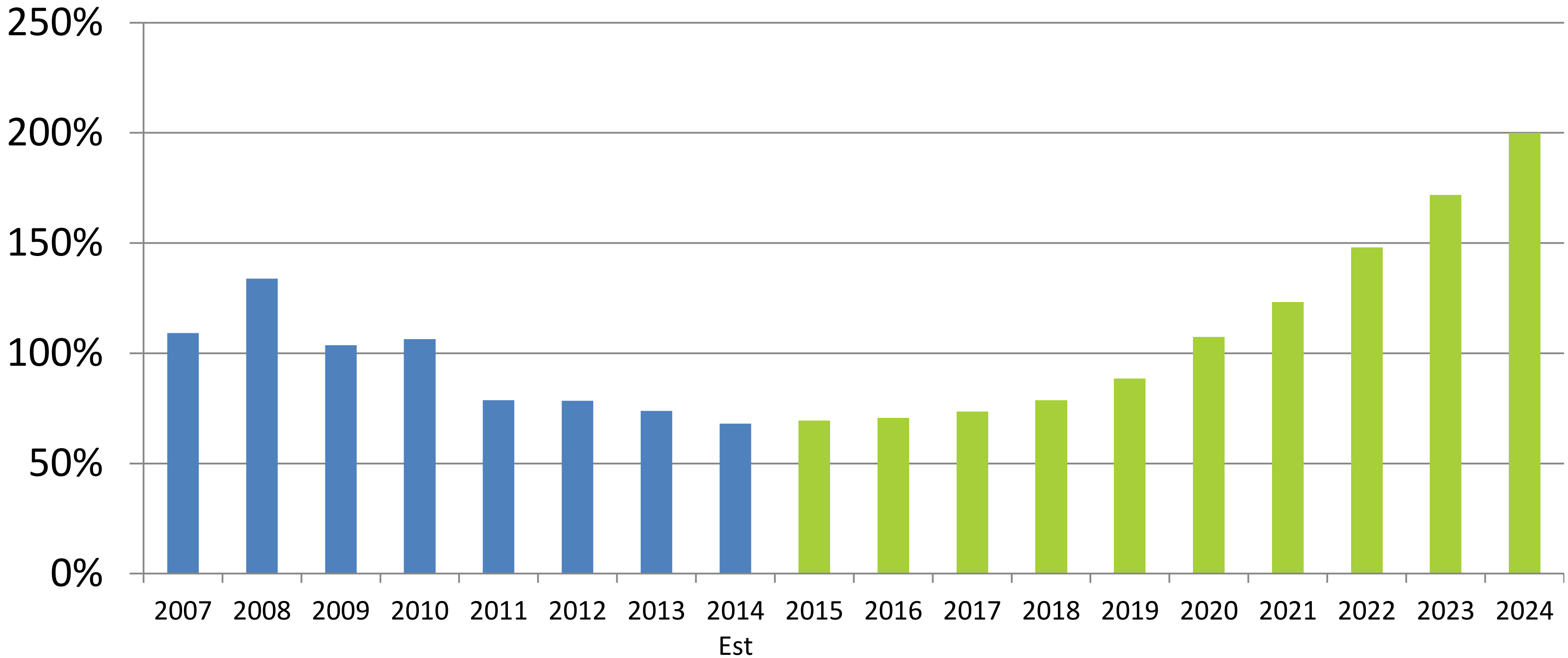
York Region’s reserve levels per capita compare well to other municipalities

Growing total reserves



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

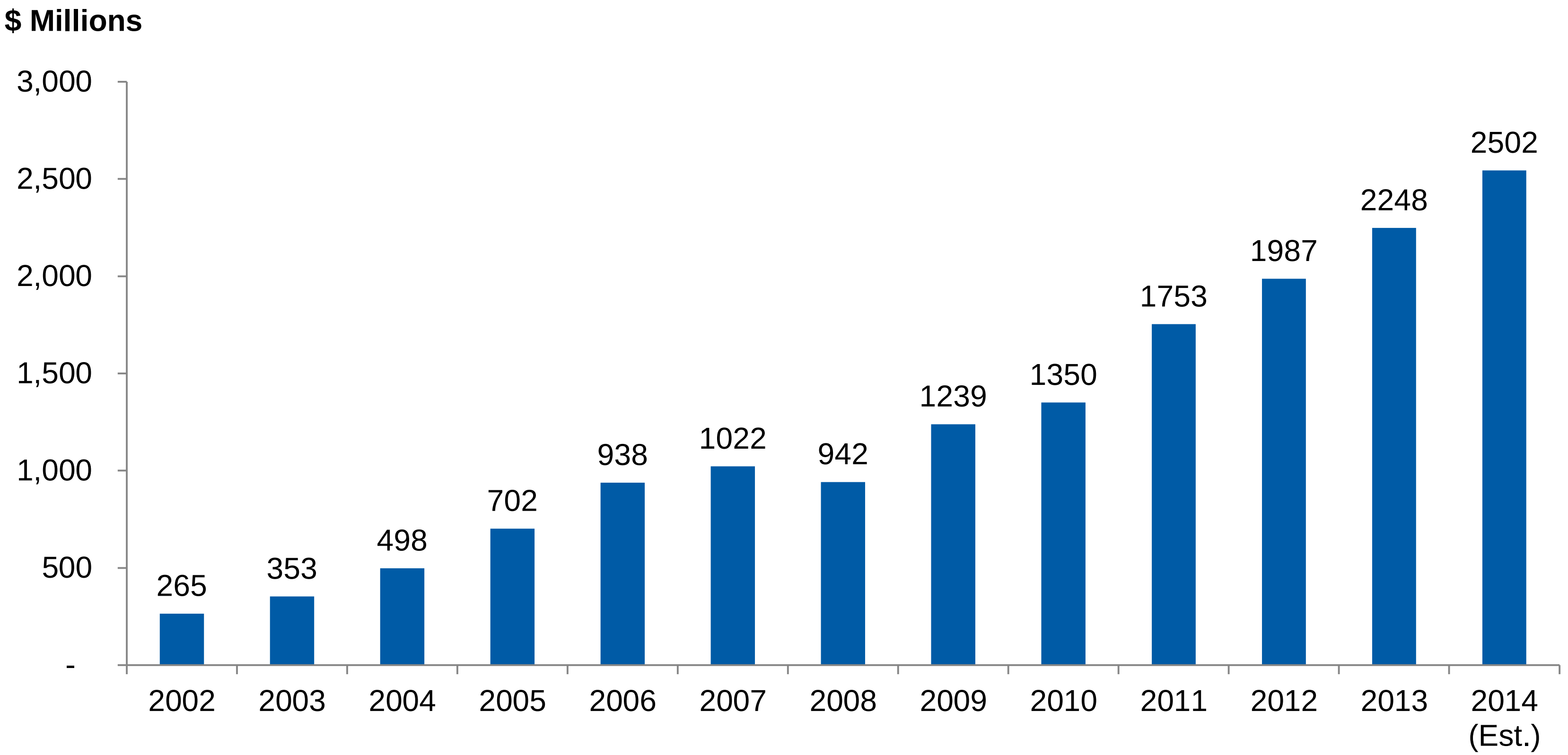
Fiscal Strategy will improve reserve to debt ratio



The reserve to debt ratio is declining, but is forecast to increase in 2017 and exceed 100% by 2020

Debt Management Plan

Debt levels have grown to finance new infrastructure

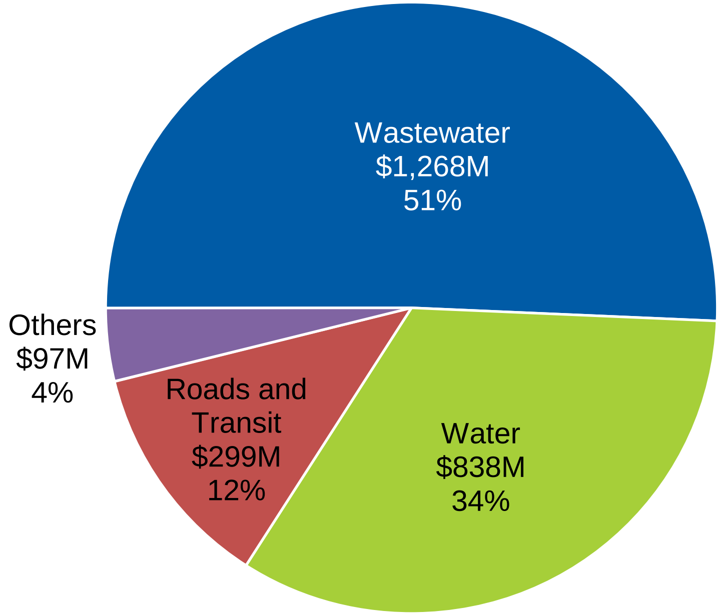


The Region's current debt is $2.5 billion

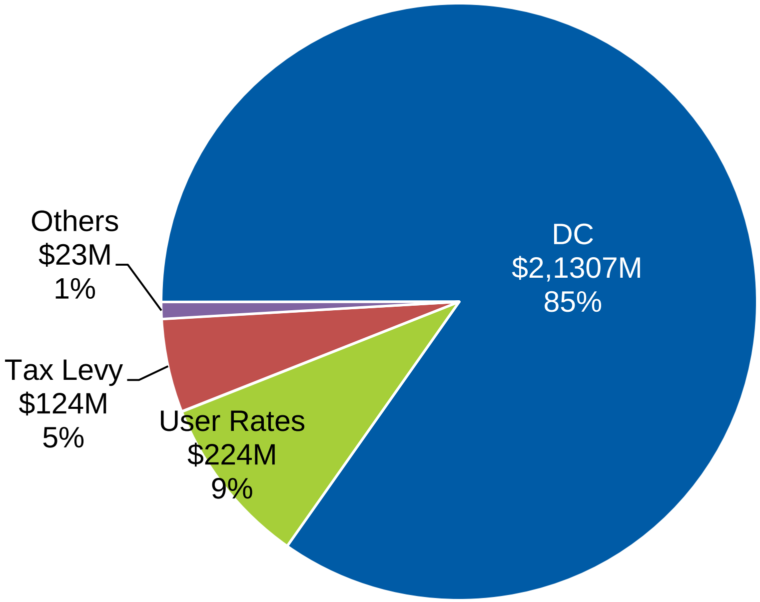
Most of the debt was for water/wastewater projects and will be repaid mainly with DCs

2014 Outstanding Debt: $2.5 Billion

By Sector



By Funding Source



Approval of new debt is highly regulated

- The amount of debt that can be authorized by a municipality is restricted by the provincial Annual Repayment Limit (ARL) Regulation

- Councils may not approve financial obligations that will, in total, exceed 25% of a municipality's own-source revenues, not including development charge collections

- Financial obligations include all forms of long-term financing payments as well as future commitments/liabilities to third parties (i.e., hospital funding)

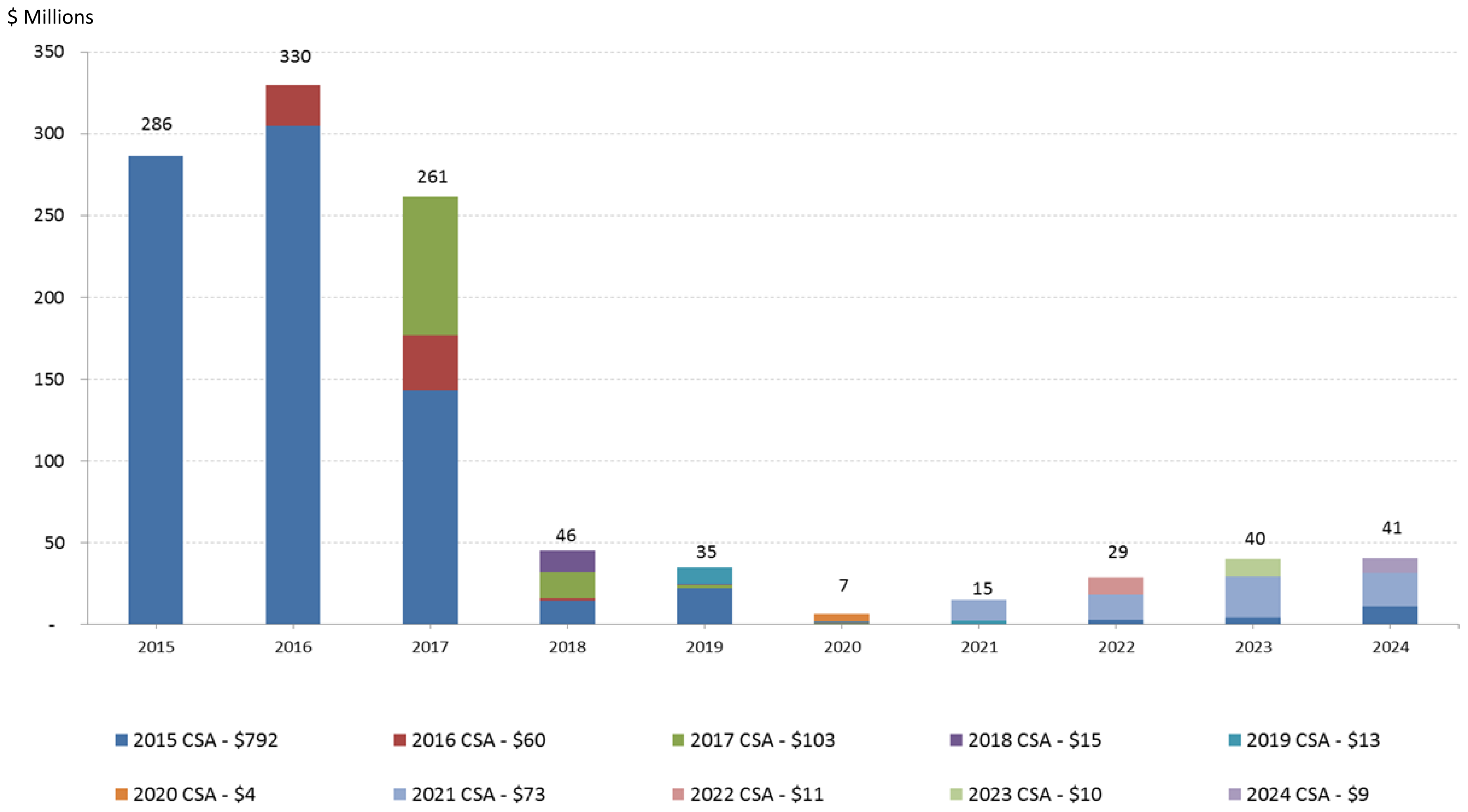
The Region has its own ARL calculation

- The ARL regulation was amended by Province in 2011 to give York Region additional debt room
- A Growth-related “Cost Supplement” calculated as 80% of the average of previous three years’ DC collections is added to the base ARL
- Two conditions must be met in order to be eligible for the Cost Supplement:
  1. Region must maintain a minimum AA (low) credit rating
     - ✓ Condition met: as of December 2014, Region has maintained Aaa credit rating with Moody’s and received AA+ from S&P
  2. Council must annually adopt or affirm a Long-Term Debt Management Plan as part of its budget for the fiscal year

Council must consider the following when adopting a Long-Term Debt Management Plan

- Long-term debt needs over a multi-year period compared to the growth-related ARL for each year
- Risks and mitigation strategies associated with the Long-Term Debt Management Plan
- Compliance with the Region's Capital Financing and Debt Policy
- Estimated needs during the fiscal year for temporary borrowing
- Evaluation of prior year (2014) outcomes

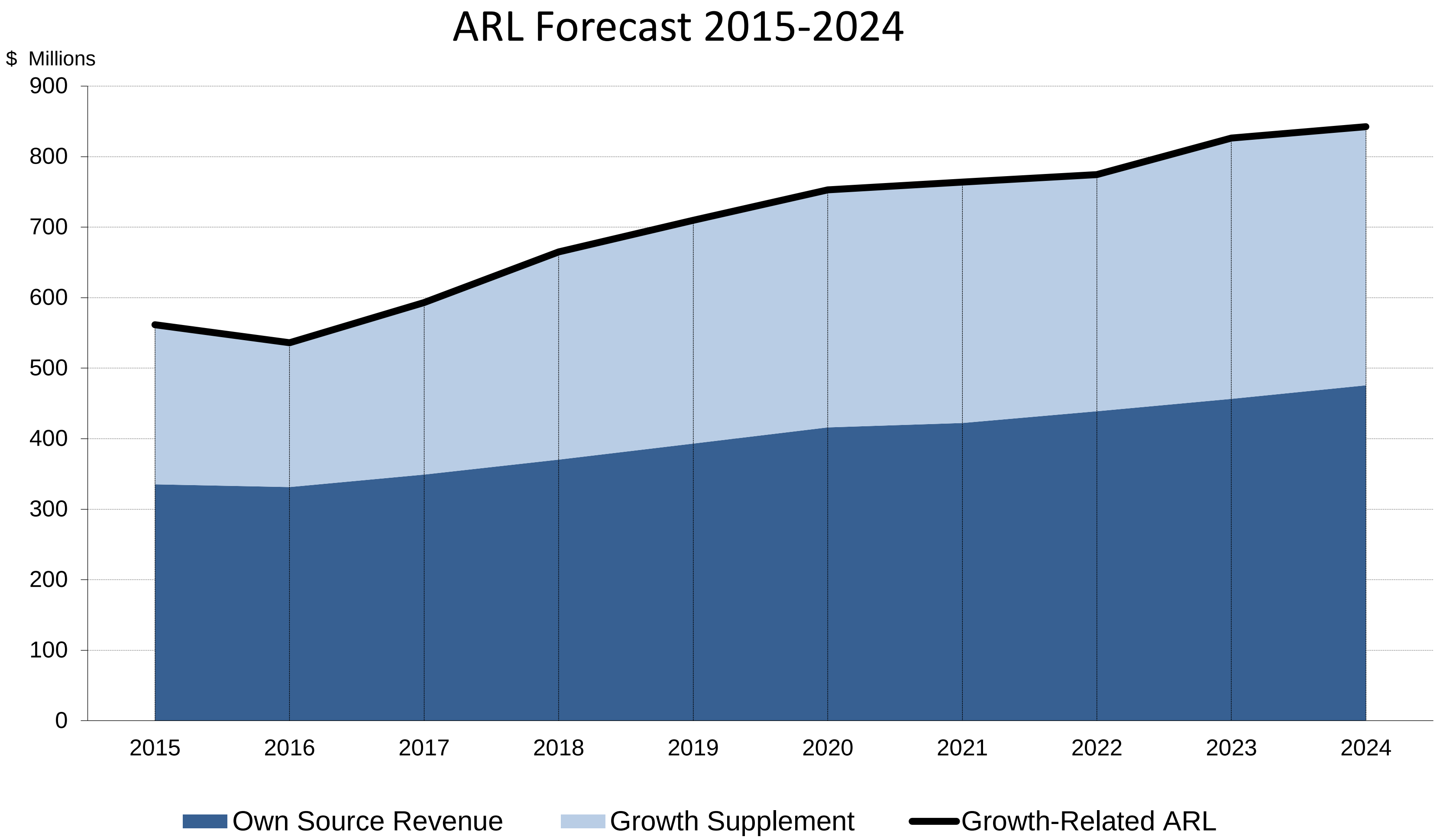
New long-term debt is forecast to be $1.1B over the next 10 years



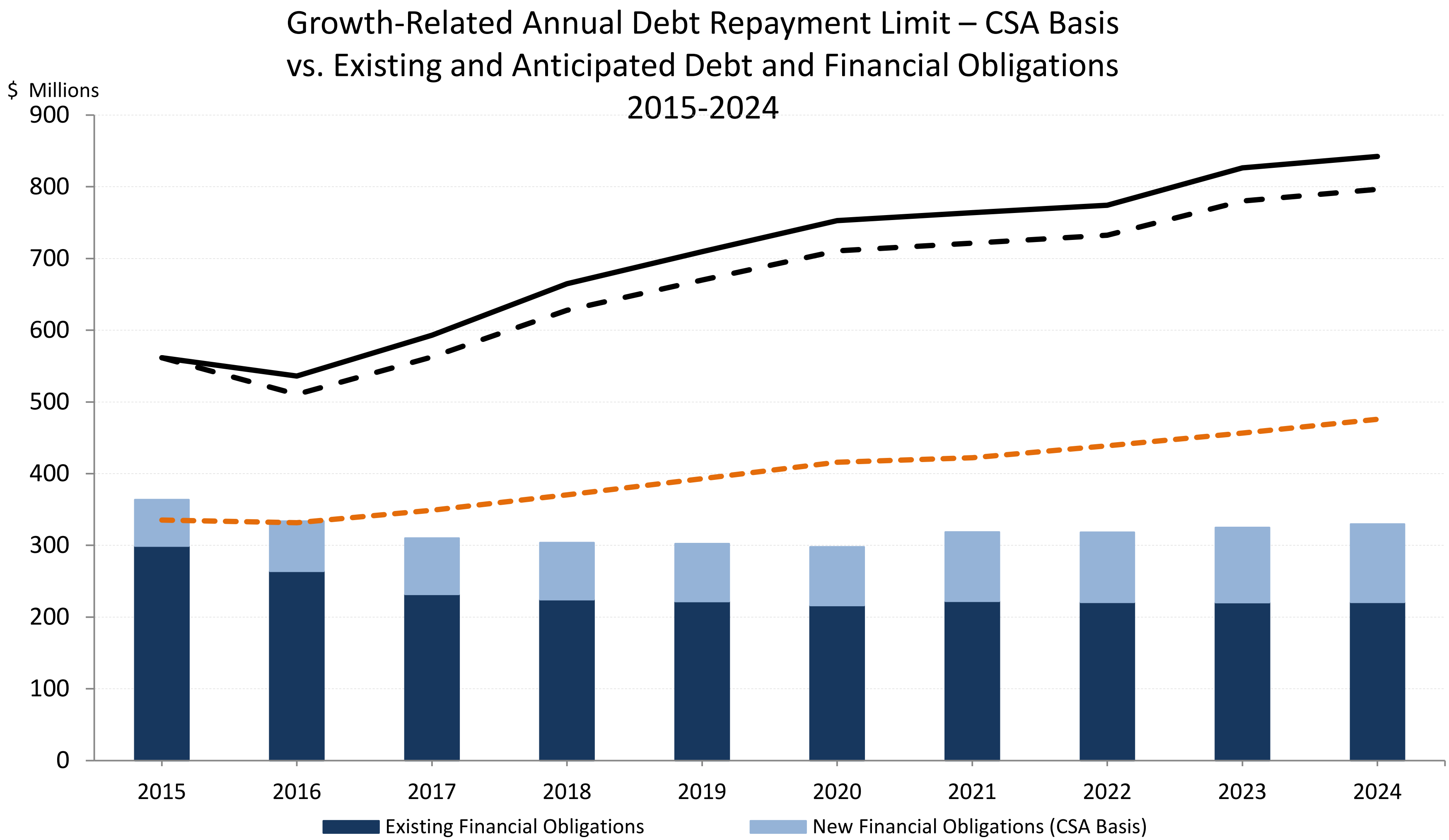
ARL determined as 25% of own source revenue plus a growth-related cost supplement

Component ($Millions)		Forecast 2015
Step 1:		
Property Taxes/PIL's		880
User Rates – Sewer/Water/Solid Waste		225
Transportation User Fees		65
Other User Fees		39
Provincial Fines		10
Other Revenue		121
Total Own Source Revenue)		1,341
25% of Own Source Revenue	**(A)**	**335**
Step 2:		
DC Collections (3-year rolling average)		283
DC Cost Supplement (80% of 3-year rolling Average)	**(B)**	**226**
TOTAL ARL (A +B)		**561**

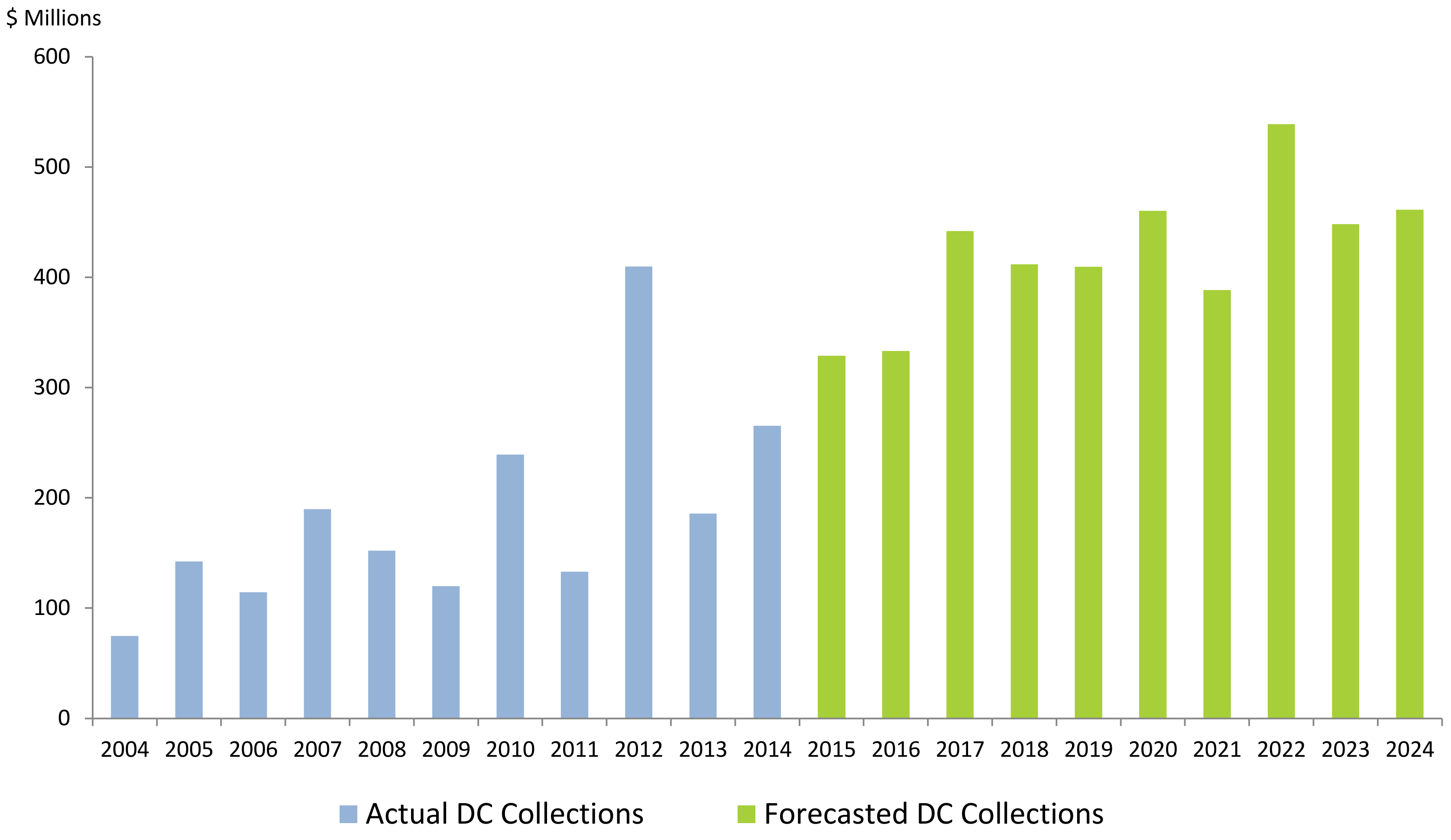
ARL will increase over the next 10 years



The Region is well within its ARL over the forecast



DC collections are expected to increase with growth



Risks associated with DC collections have been mitigated

- 10-year Capital Plan is better aligned with current DC forecast

- Council policy is to budget using only 70% of the forecasted 3-year average of DC collections versus the 80% permitted, except where specific Council approval is obtained to do otherwise

- One year P&I maintained in the reserve

Other financing risks and their mitigation strategies

- Interest rate increases (after 2015) – Plan assumes 5.29%, rising to 6.91% by 2024
    - Use of pre-borrowing and bond forward agreements
- Ability to access financial markets
    - Use of back-up credit facilities (i.e., Infrastructure Ontario), temporary use of reserves, limitations on refunding debt, and Investor Relations Program
- Higher than anticipated capital costs due to scope changes, overruns, inflation, and non-budgeted expenses
    - Prioritization of projects during annual budget process and careful monitoring of project capital costs

Additional risk mitigation strategies

- Maintaining high investment returns on reserves to lower future reliance on debt
- Ensuring efficient debt issuance to maintain lowest costs possible
- Further refinement of development charge forecasting model

Capital financing and debt policy underpins the Long-term Debt Management Plan

- Guides borrowing decisions

- Covers all financial obligations entered into by the Region and establishes objectives, standards of care, authorized financing instruments, reporting requirements, and responsibilities in order to ensure that financing needs are addressed as effectively as possible

- Policy is under constant review to identify and incorporate best practices in the municipal field

- Policy last updated in 2014

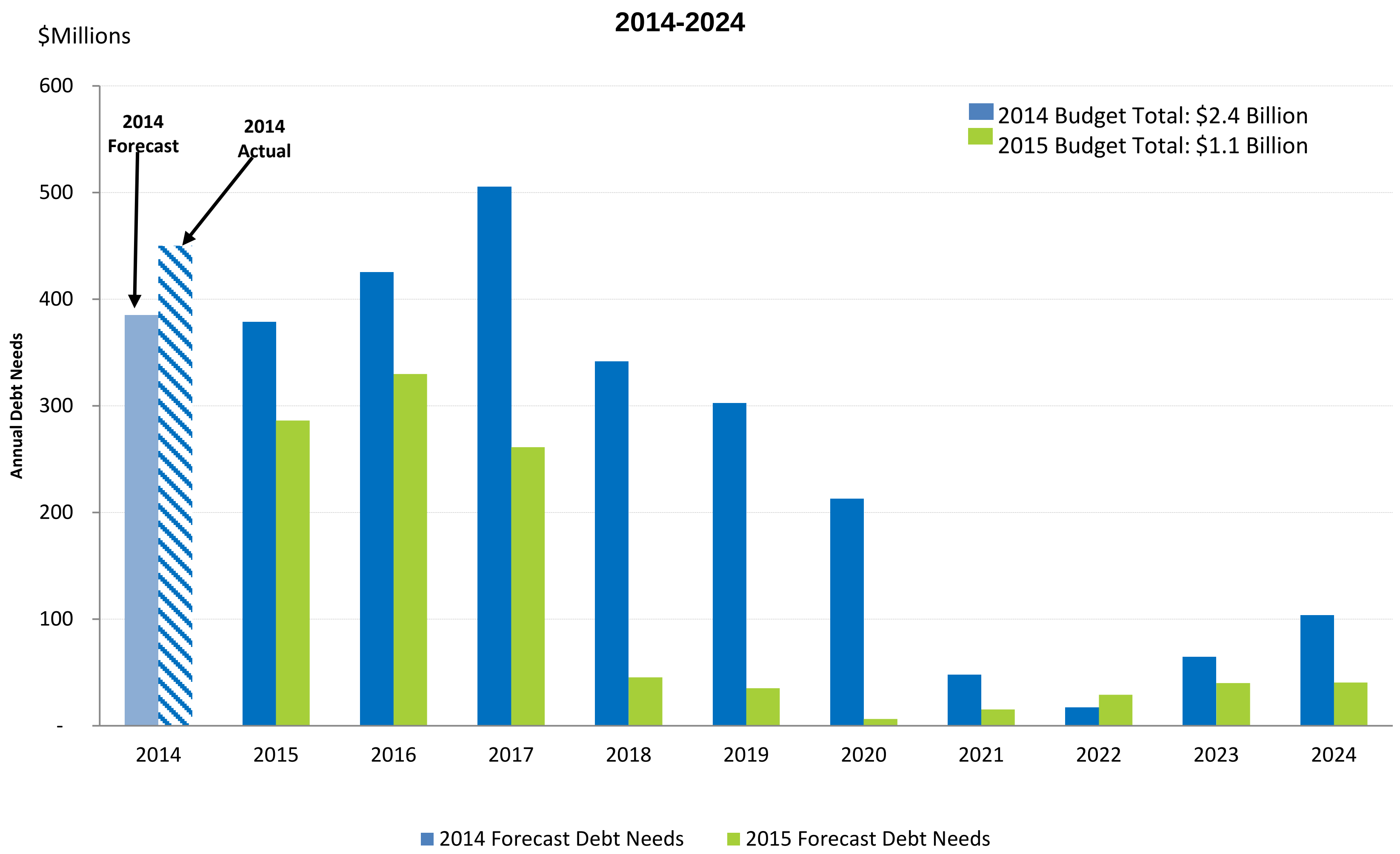
Temporary borrowing needs arise due to timing differences

- Delay in receipt of taxes and other revenues results in short-term funding gap for operational expenditures
- In any given year, interim funding will be required for capital asset expenditures until long-term financing is in place (i.e., spring and fall debenture issues)
- Province limits the amount of temporary funding to 50% of budgeted total revenue from January to September and 25% from October to December
- For 2015, the Region’s temporary borrowing needs are estimated at $350 million for operating and $275 million for capital, and are well within the Provincial limits

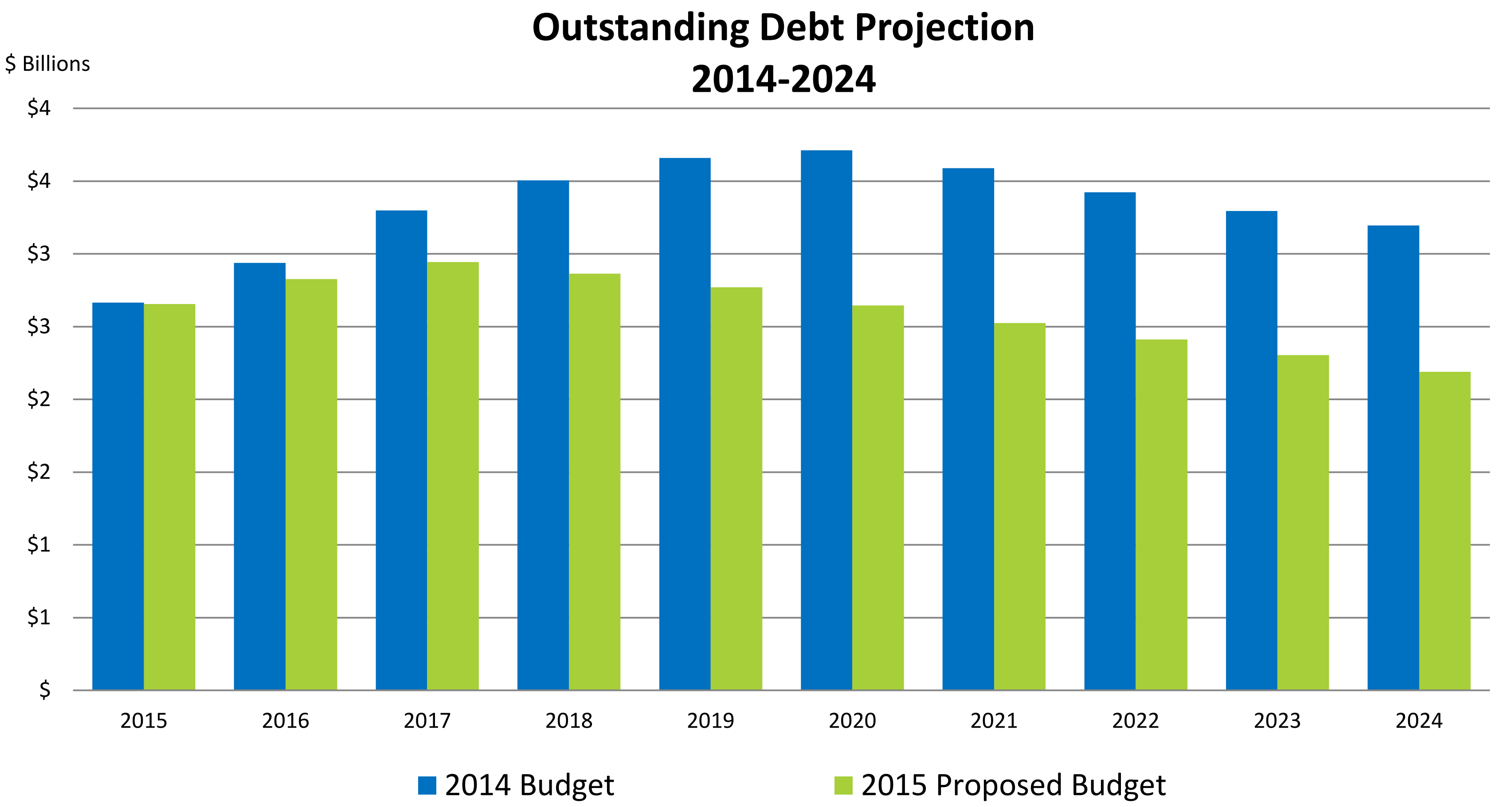
The Region was fully compliant with its ARL in 2014

Component ($Millions)	Forecast	Actual	Difference
25% of Own Source Revenue	312	312	-
Plus: Growth Cost Supplement	192	194	2
Total ARL	**504**	**506**	**2**
Less: Existing Financial Obligations	321	329	8
Less: Anticipated New Financial Obligations	75	75	-
Remaining ARL (>0)	**108**	**102**	**(6)**

2015 Debt Management Plan shows significantly lower requirements over the next 10 years than previous forecast



Lower peak and outstanding debt levels



The peak debt level now expected to be $2.9B in 2017

The Long-Term Debt Management Plan addresses all the matters Council must consider

- Anticipated long-term debt needs will be within the Region’s ARL over the 10-year forecast period.
- Risks of the debt management plan have been identified and mitigation strategies are in place.
- Temporary borrowing needs are well within Provincial limits.
- The Region is compliant with its Capital Financing and Debt Policy.
- The 2015 Debt Management Plan requires substantially less debt than previously anticipated.
- The Region was within its ARL during 2014.

Credit agencies' view of York Region

- From Moody's:

  "The Regional Municipality of York's Aaa debt rating is supported by…prudent and far-sighted fiscal management"

  "…given York's track record, we are confident that medium-term pressures will be addressed successfully through the budgetary process."

- From Standard & Poor's:

  "York's financial management is strong…Management has a track record of meeting its goals, and revising them as necessary…Revenue and expenditure management is very strong"

  "We expect that York's liquidity will remain exceptional"

Market risks were reflected in the S&P 2014 revision

- Historically, the Region had a AAA credit rating from both Moody’s and S&P
- In 2014, while Moody’s reaffirmed their “Aaa/Stable” rating, S&P lowered its rating from “AAA/Negative” to “AA+/Stable”
- S&P’s two main concerns were:
  - Capital spending was deemed too high (or “very weak” budgetary performance)
  - Over reliance on debt financing (or “high” debt burden)

Municipality	S&P’s	Moody’s
Halton	AAA	Aaa
Peel	AAA	Aaa
Durham	AAA	Aaa
York	AA+	Aaa
Toronto	AA	Aa1
Calgary	AA+	N/A
Edmonton	AA+	Aaa

Implications of the credit rating downgrade

- The Region will likely maintain its AA+ S&P rating under its current capital plan

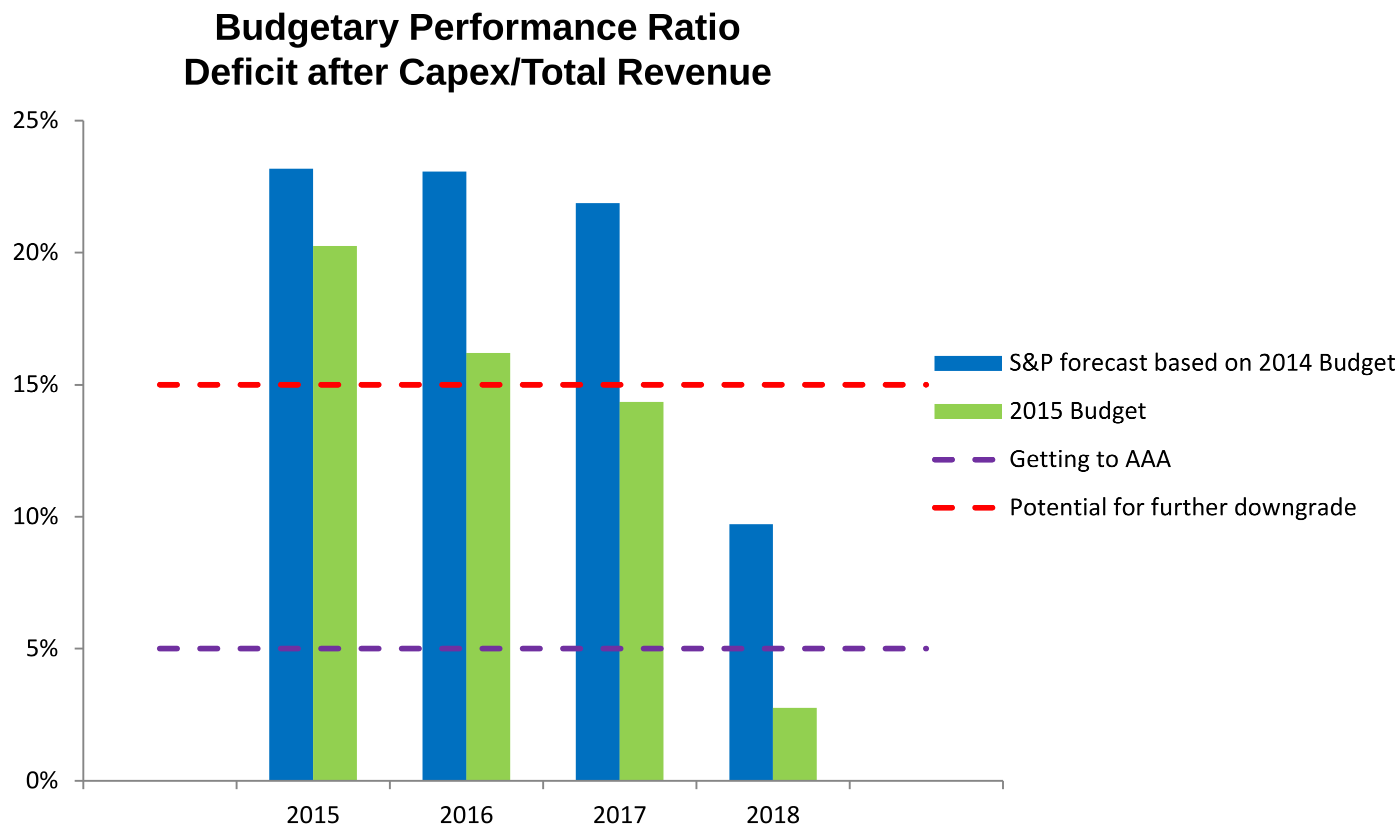
- At the same time, the Region can plan to regain its triple A rating. This requires:

  - Close monitoring of the Capital Plan to ensure the capital investments are financially sustainable; and

  - Implement the debt and reserve management strategy to gradually reduce reliance on debt

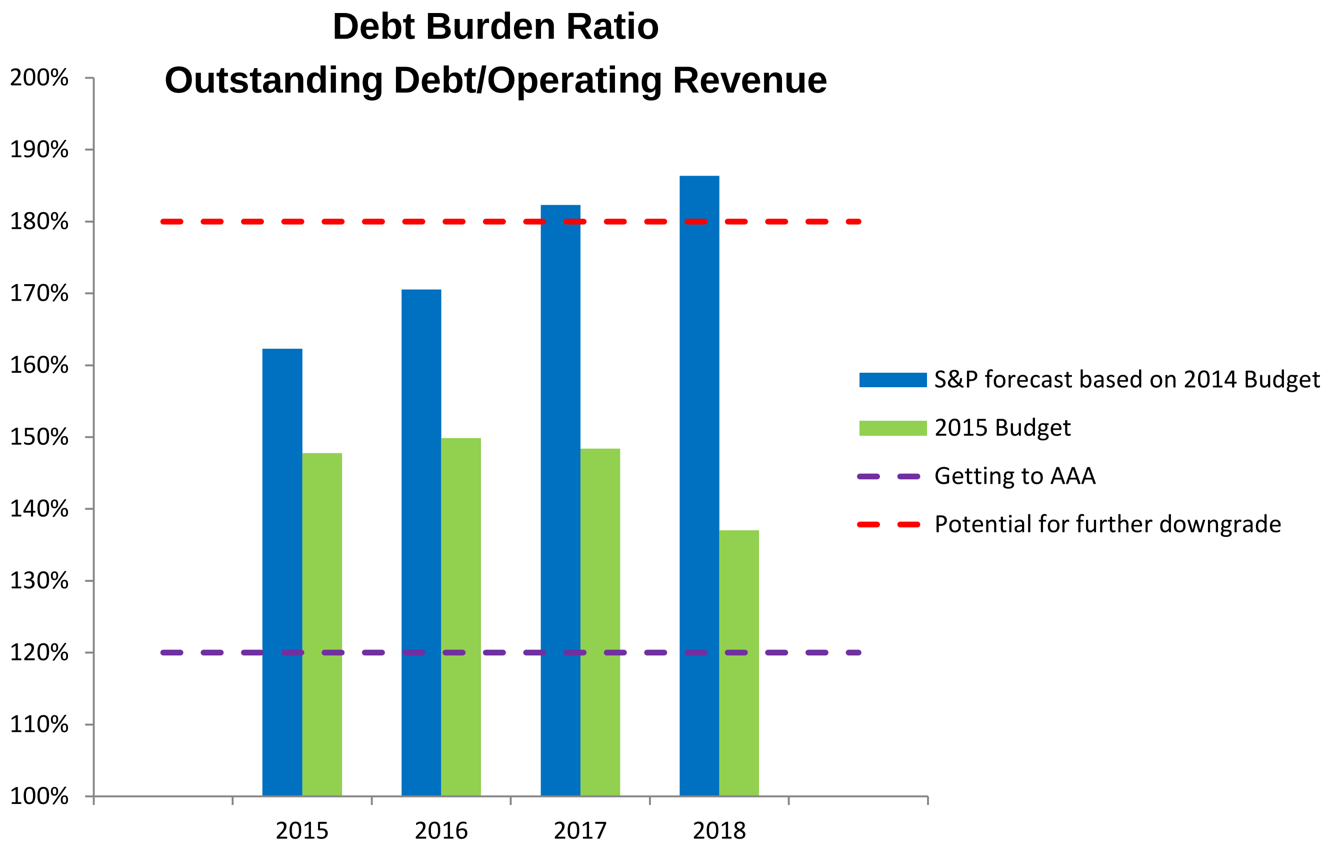
- Downgrade has not had any impact on the Region's ability to obtain financing or its cost of new debt

Budgetary performance improves with the budget plan



Budgetary performance will get to AAA territory by 2018

Debt ratio improves with the budget plan



The debt ratio also improves significantly by 2018

Recommendations

Council to adopt:

- Fiscal Strategy outlined in the report as part of the 2015 Budget
- 2015 Long-Term Debt Management Plan

Thank you

York Region