



**Proposed 2015-2018  
Regional Budget  
Presentation to Council**

**Bill Hughes**

January 22, 2015



# Overview of Presentation

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Part 1: Overview of the 2015 Budget

Part 2: The Budget

- Operating Budget
- Capital Budget
- Rate-Supported Budget

Part 3: Fiscal Planning

- Fiscal Strategy
- Debt Management
- Reserves

Part 4: Budget Review Process and Conclusion

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# Overview of the 2015 Budget

# The proposed budget at a glance

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	2015	2016	2017	2018
Proposed tax increase	3.79%	3.34%	2.94%	2.35%

Operating Budget for 2015

**\$1.9B**

Capital Budget for 2015

**\$826M**

Ten-Year Capital Plan

**\$5.8B**

Capital plan compliant with the Province's  
Annual Repayment Limit regulation

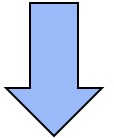


# Fiscal impacts at a glance

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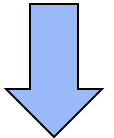
Reduction in peak outstanding debt

\$0.8B



Reduction in debt issued in the next ten years

\$1.3B



Debt repayment (principal) in 2015

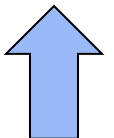
\$173M

Tax levy debt issued in the next 10 years

\$0

Increase in forecast reserves after ten years

\$2.6B



# Key features of the budget

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- ❑ Multi-year budget
- ❑ Selected improvements to service levels
- ❑ More investment in transportation capital
- ❑ Continued major investments in growth-related water and wastewater capital, with some temporary project deferrals
- ❑ Savings for future capital asset replacement
- ❑ Improved fiscal strategy to reduce future debt levels
- ❑ Measures to protect the credit rating

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# Operating Budget

# First implementation of multi-year budgeting for a full Council term

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- Four-year operating budget submission in 2015:
  - Covering the term of Council 2015-2018
  - Council approval of 2015 Budget plus a three-year outlook (“1+3 years”)
  - For 2016, Council would approve the 2016 Budget plus a two-year outlook (“1+2 years”), and so on
  - After 2015, the focus will be on adjustments to the outlook
  - Departments will prepare a rolling four-year budget each year (years beyond term of Council will be prepared for internal review only)



# The value of multi-year budgeting

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- ❑ Better coordination of budgeting and strategic priorities
- ❑ Improved fiscal discipline
- ❑ Clear expectations about tax increases
- ❑ Greater certainty for recipients and users of services that rely on multi-year commitments
- ❑ Greater certainty for departments in planning their expenditures
- ❑ Improved forecasting and analytics

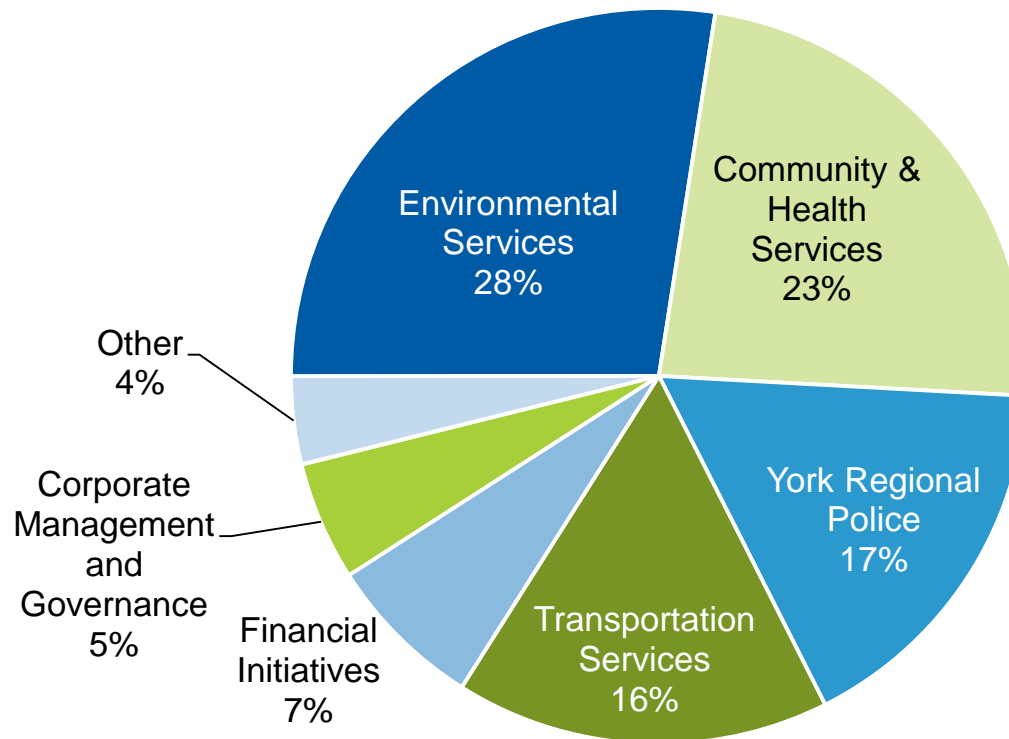
# Proposed operating budget

<b>2015 - 2018 Operating Budget</b>	<b>2015 \$ Million</b>	<b>2016 \$ Million</b>	<b>2017 \$ Million</b>	<b>2018 \$ Million</b>
Gross Expenditures	1,893	1,983	2,066	2,141
Non-Tax Revenue	948	989	1,024	1,056
Net Expenditures	945	995	1,042	1,085
Assessment Growth* (%)	2.16	1.99	1.89	1.82
Proposed Tax Levy Increase (%)	3.79	3.34	2.94	2.35

\*Assessment growth reflects change in taxing capacity

# Expenditures mostly for core services

2015 Gross Expenditures \$1.9 Billion

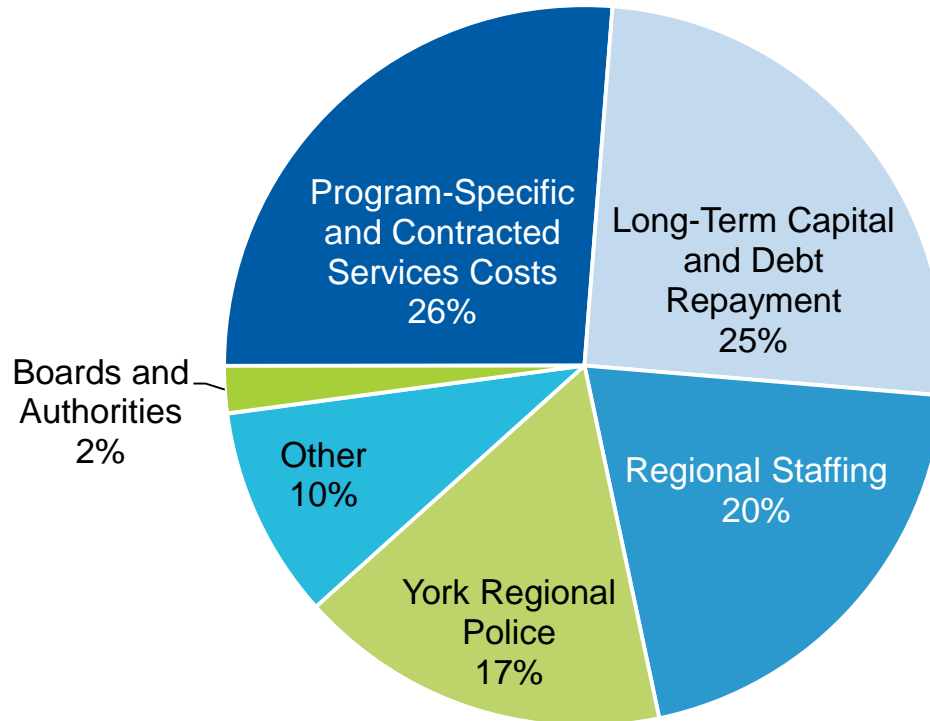


Environmental Services, Community and Health Services, Transportation and Police account for 84% of spending

# Differentiated service delivery

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2015 Gross Budget \$1.9 Billion

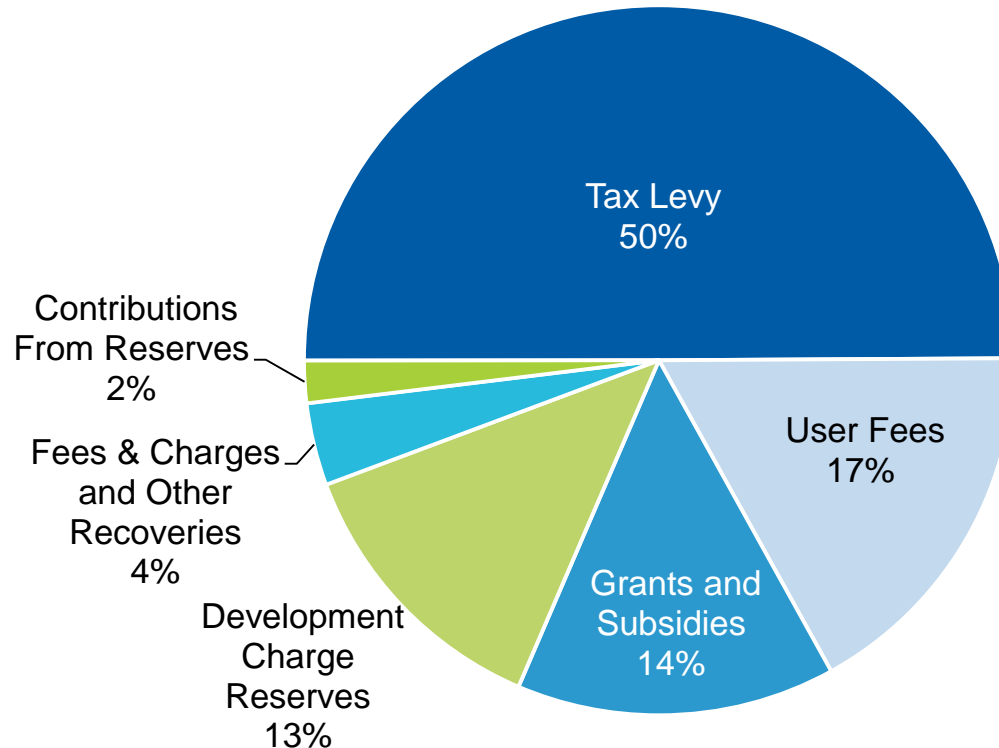


Regional staffing accounts for 20% of total spending

# Non-tax revenue has a big impact on the bottom line

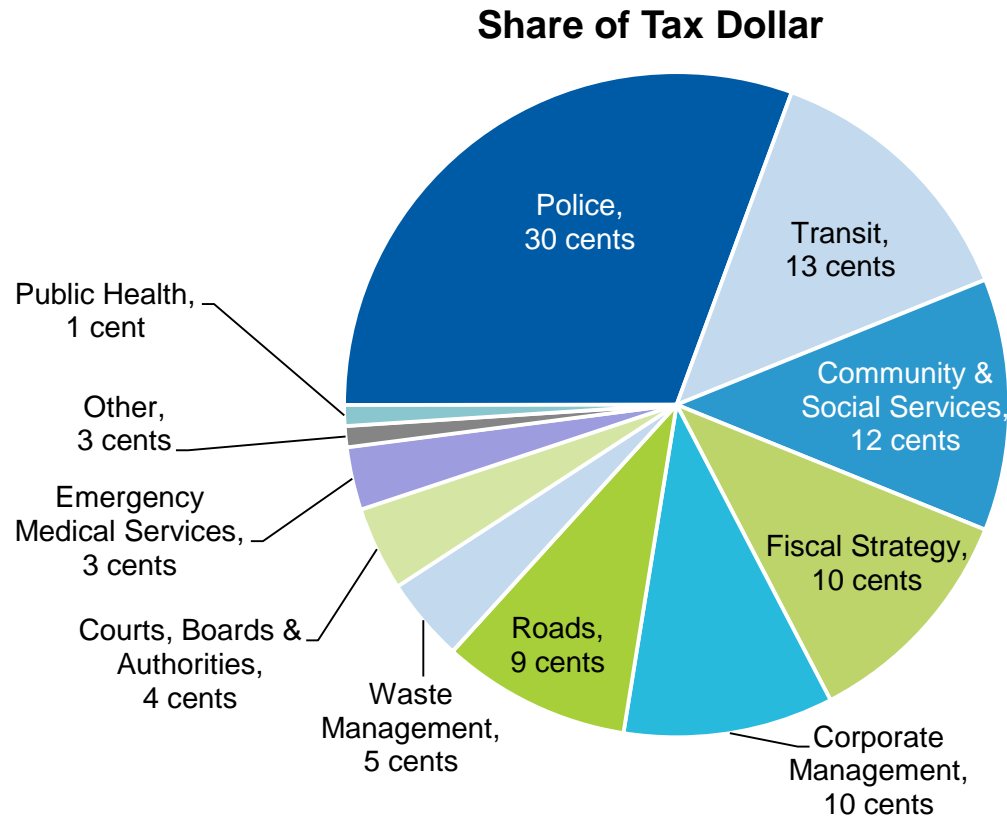
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2015 Total Revenue \$1.9 Billion



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

# Share of 2015 net regional tax dollar



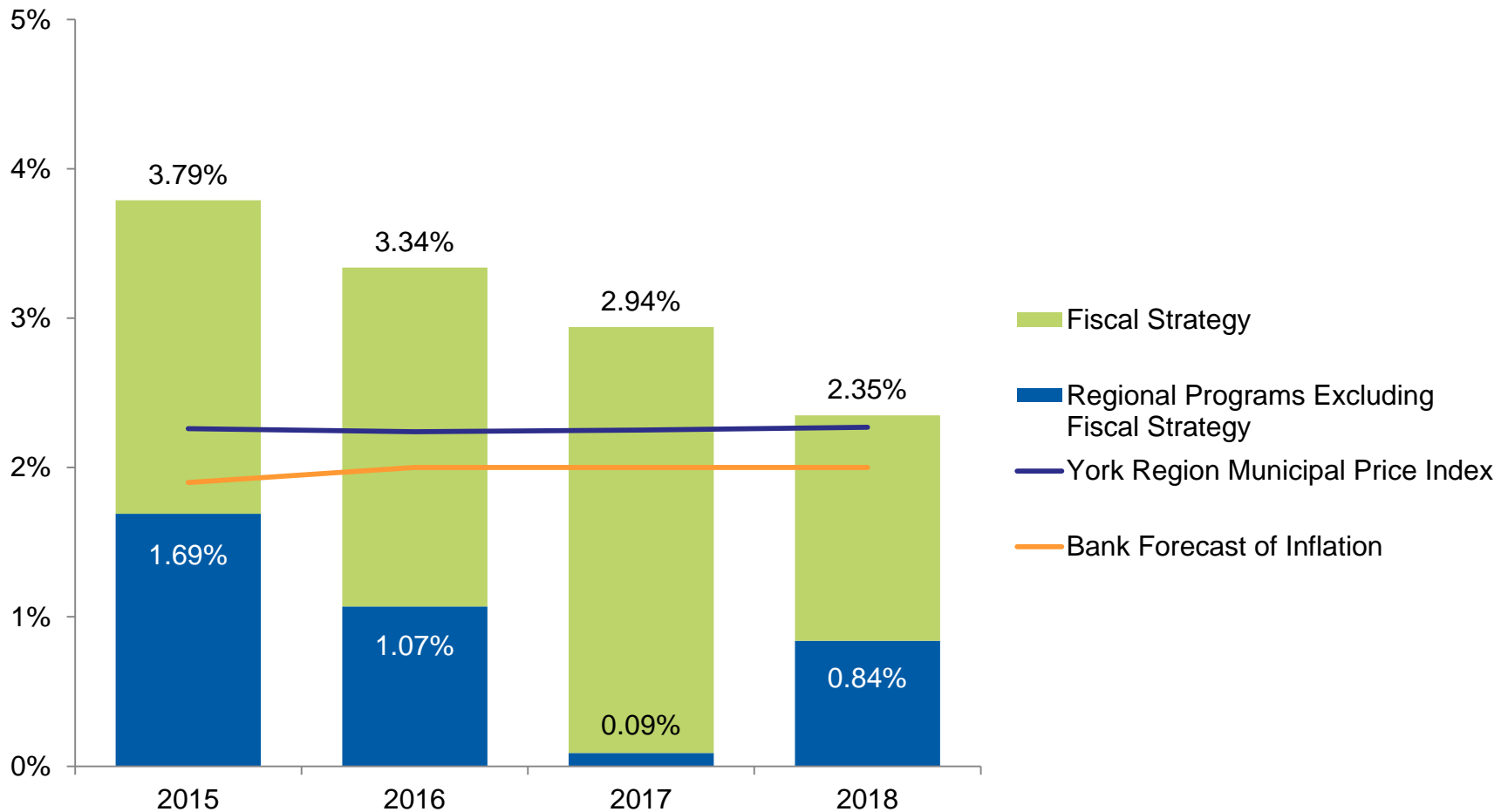
68 cents of every tax dollar is allocated to Police, Transit, Community and Health Services and Roads

# New initiatives included in the budget

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- ❑ 129 new police officers and 51 civilian staff over the next four years to respond to population growth
- ❑ Continued implementation of the Emergency Medical Services 10-year Resources and Facilities Master Plan, including the addition of 100 new EMS staff
- ❑ Responding to an increased need for mental health programs and services
- ❑ Opening of the state-of-the-art transit operations, maintenance and storage facility in 2015
- ❑ Continued implementation of the vivaNext bus rapid transit services on the new rapidways
- ❑ Funding for the Regional contribution to a new university in Markham

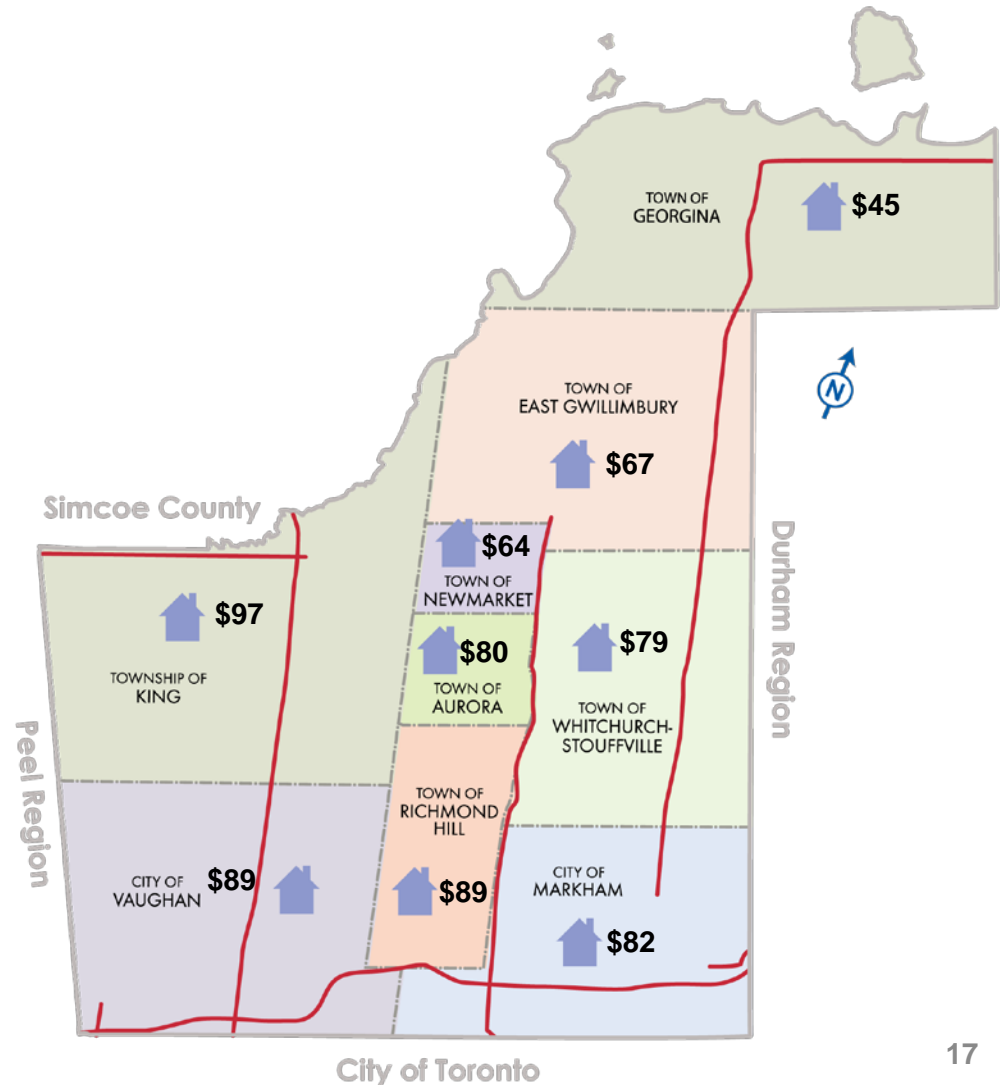
# Proposed multi-year tax increases





# Tax impact on homeowner

The average assessed value of a residential property in the Region is \$515,000. A tax levy increase of 3.79 percent in 2015 equates to \$81 per household, on average.



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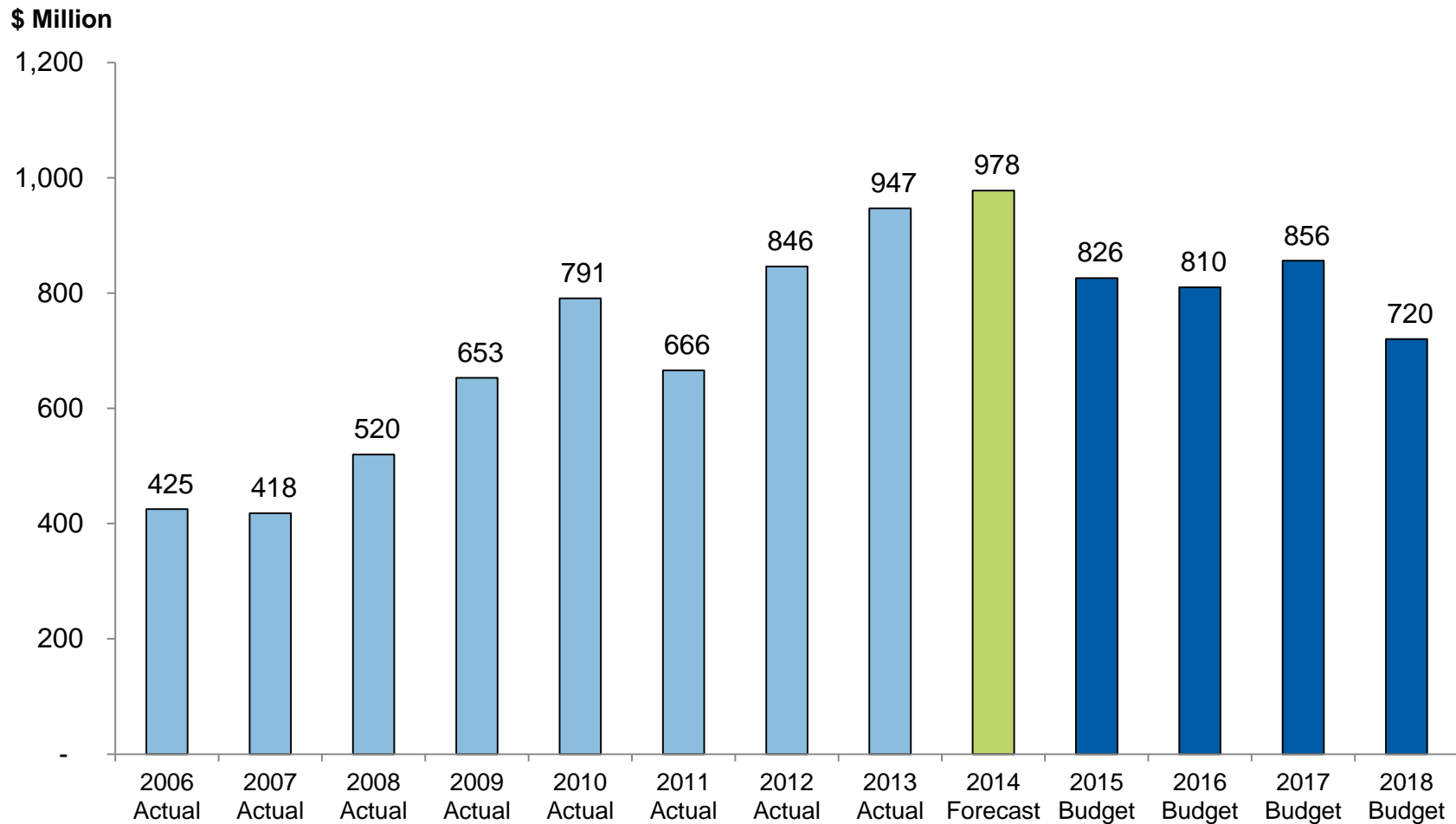
# Capital Budget

# Proposed capital budget

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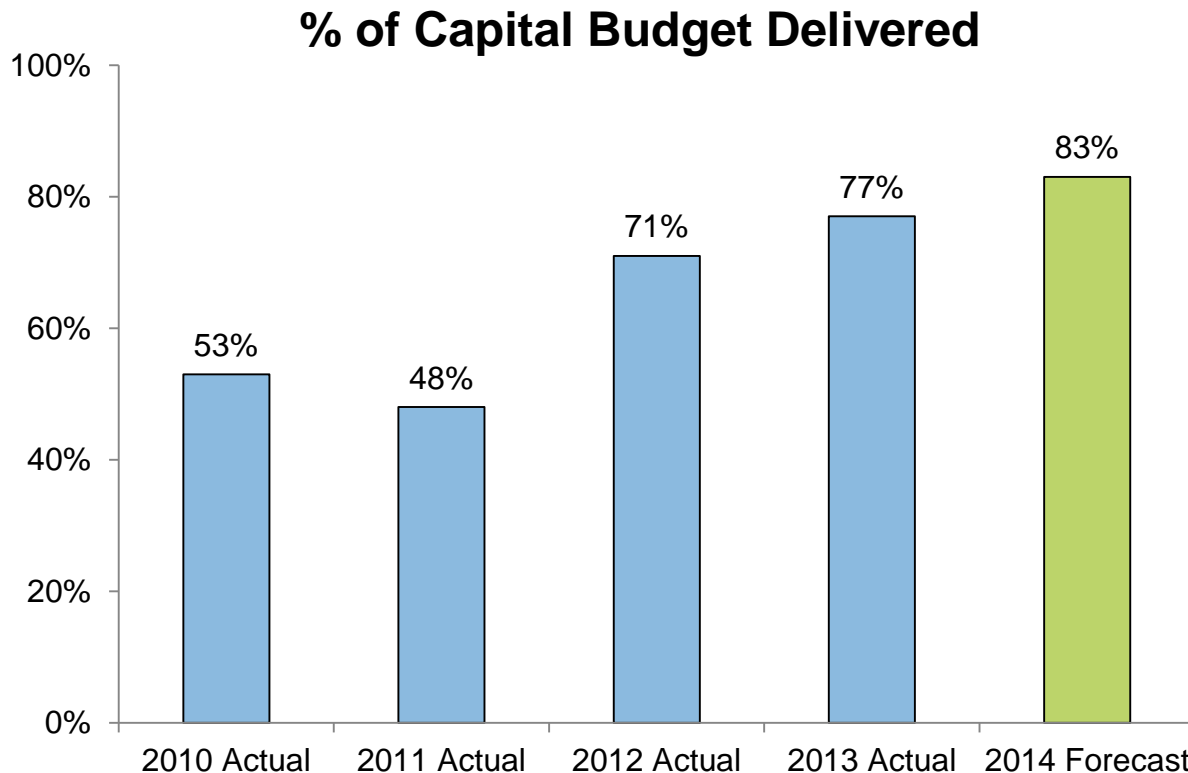
2015 Capital Budget	
Total Capital	\$826M
Ten-Year Capital Plan	\$5,820M
2015 Capital Spending Authority	\$2,460M

# Capital investment has grown significantly



# Capacity to deliver capital plan is improving

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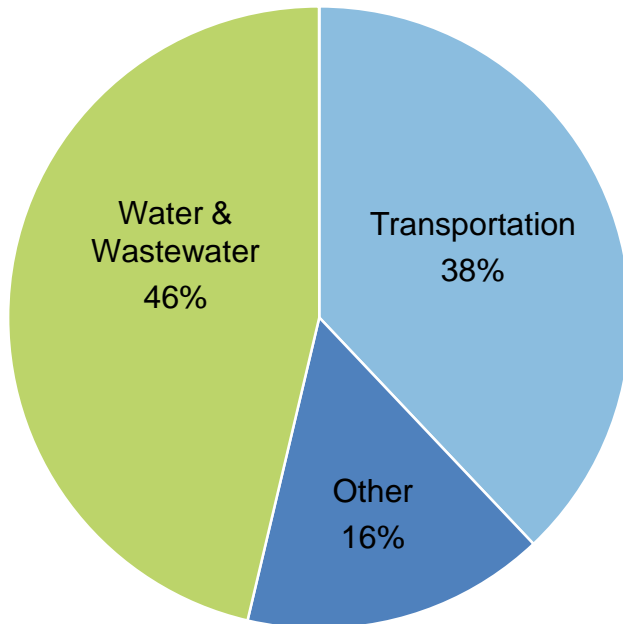


The percentage of the annual capital budget that is being spent continues to increase

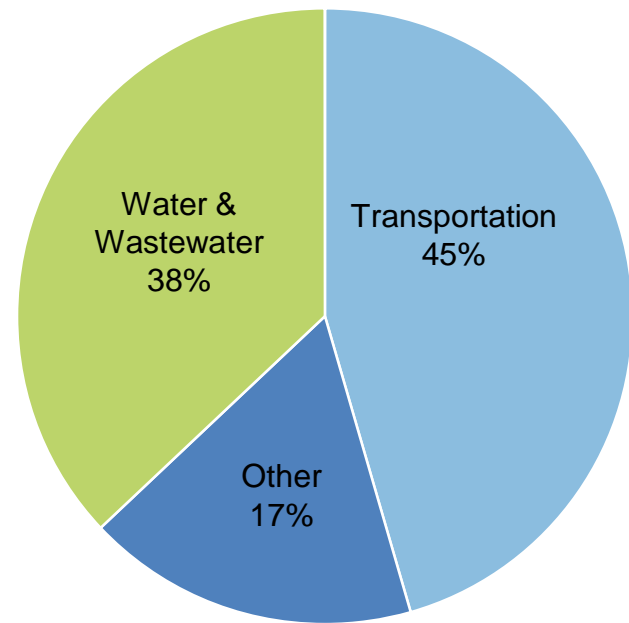
# Capital priorities shifting to transportation

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**2014 Ten-Year Plan**  
\$6.6 Billion



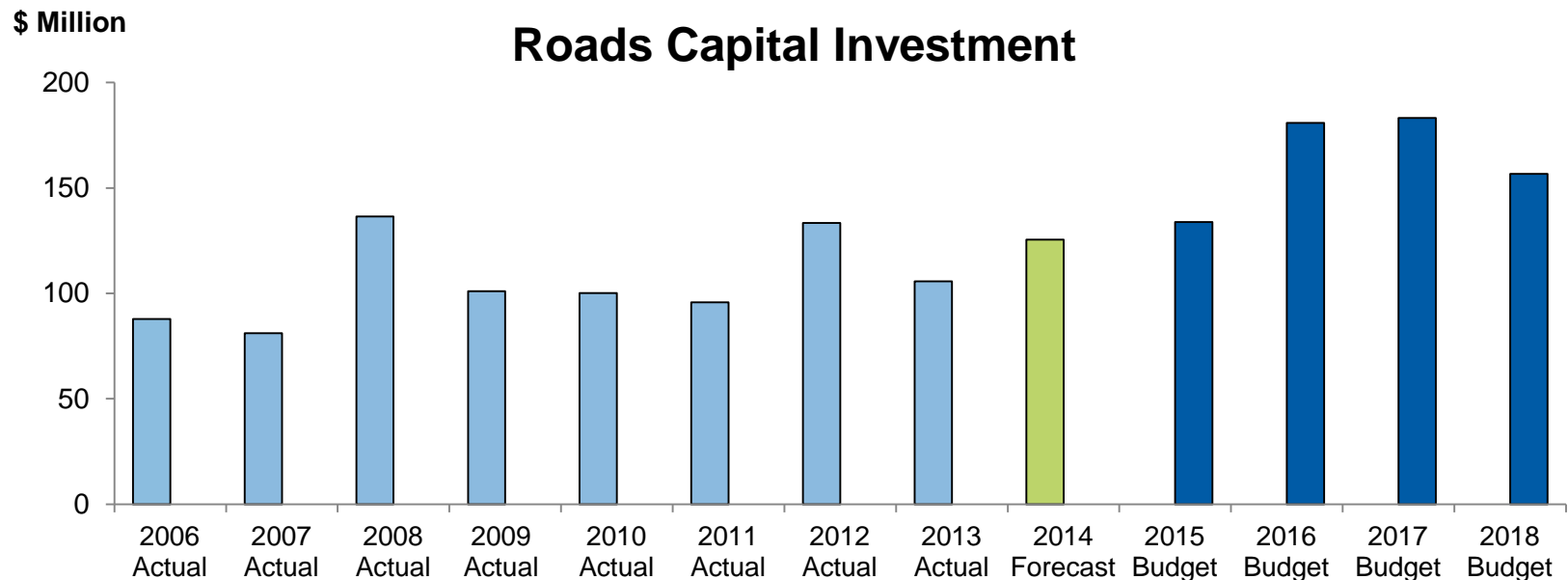
**2015 Ten-Year Plan**  
\$5.8 Billion



Transportation's share of capital investment has increased from 38% to 45%

# Record levels of roads investment

- The capital plan includes record levels of roads investment over the next four years, responding to the need to address congestion



The budget includes \$655 million for roads capital over the next four years

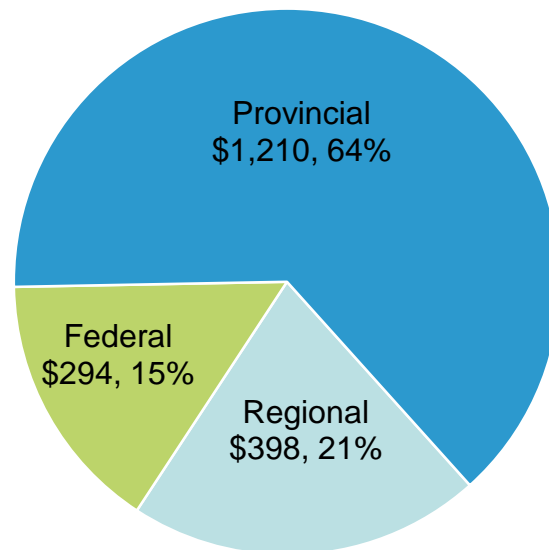
# Transit investment is even higher due to external funding

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- In addition to York Region's own investment in transit, the federal and provincial governments are contributing to the Toronto-York Spadina Subway Extension, and the Province is contributing to the VIVA rapidways

**2015-2019 Transit Investments total \$1.9 Billion**

\$ Million

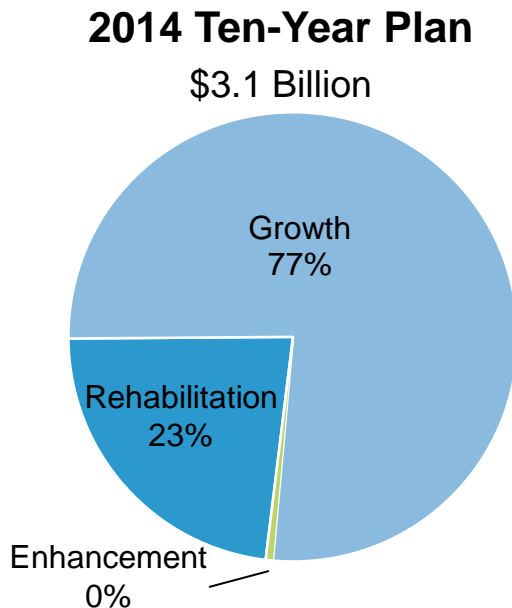




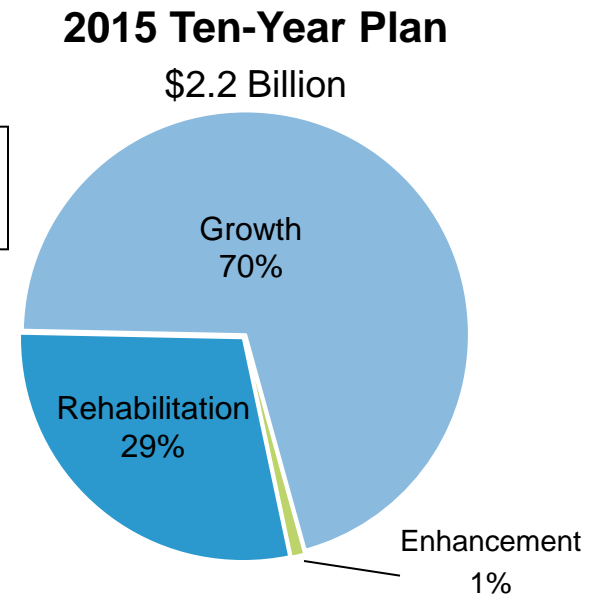
# Continued investment in growth-related water and wastewater capital

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- ❑ Water and wastewater investment is the key to unlocking growth
- ❑ The Region has invested over \$2.0 billion in water and wastewater infrastructure in the past five years
- ❑ High levels of investment will continue



**Water and  
Wastewater**



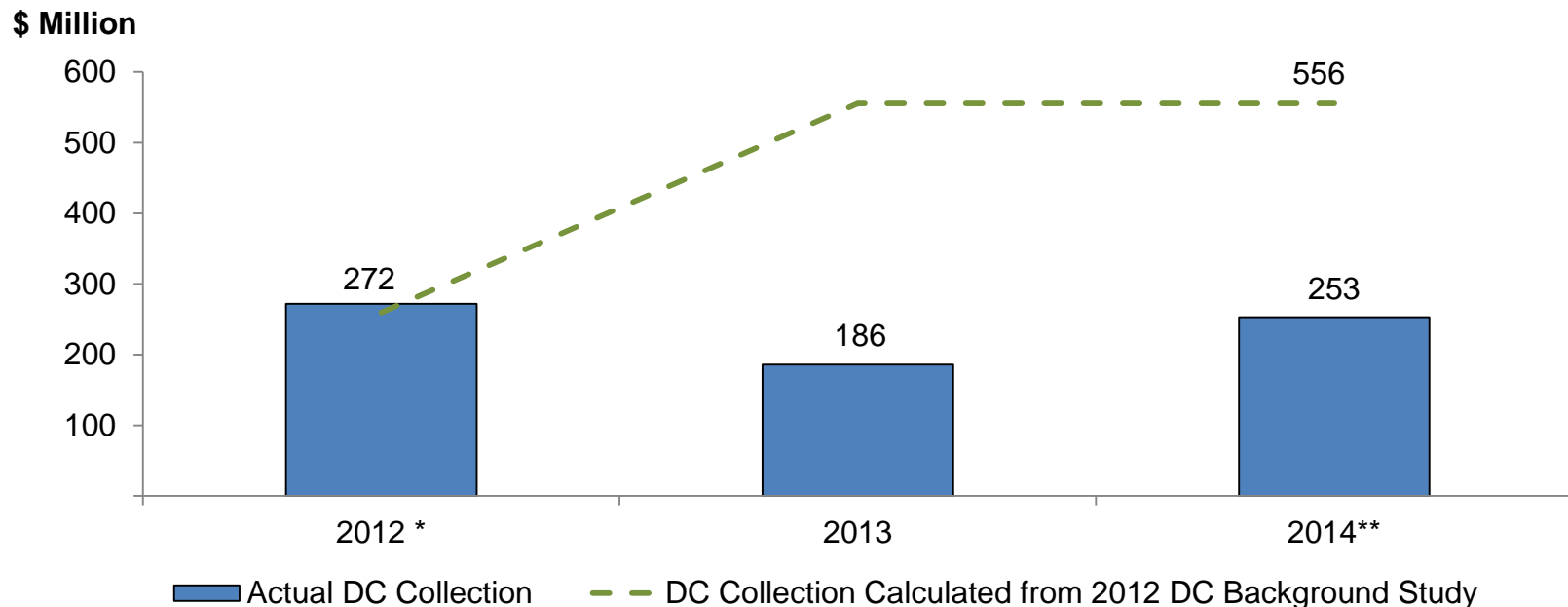
# S&P revised the Region's credit rating

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- ❑ Standard and Poor's (S&P) downgraded the Region's credit rating from AAA with a negative outlook to AA+ stable
- ❑ The primary reason for the downgrade is that the Region has very high levels of capital spending, which is leading to high debt levels

# DC collections below expectations

- DC Collections are used for two purposes:
  - To service growth-related debt (principal and interest)
  - To pay for growth-related capital, to minimize the need for debt

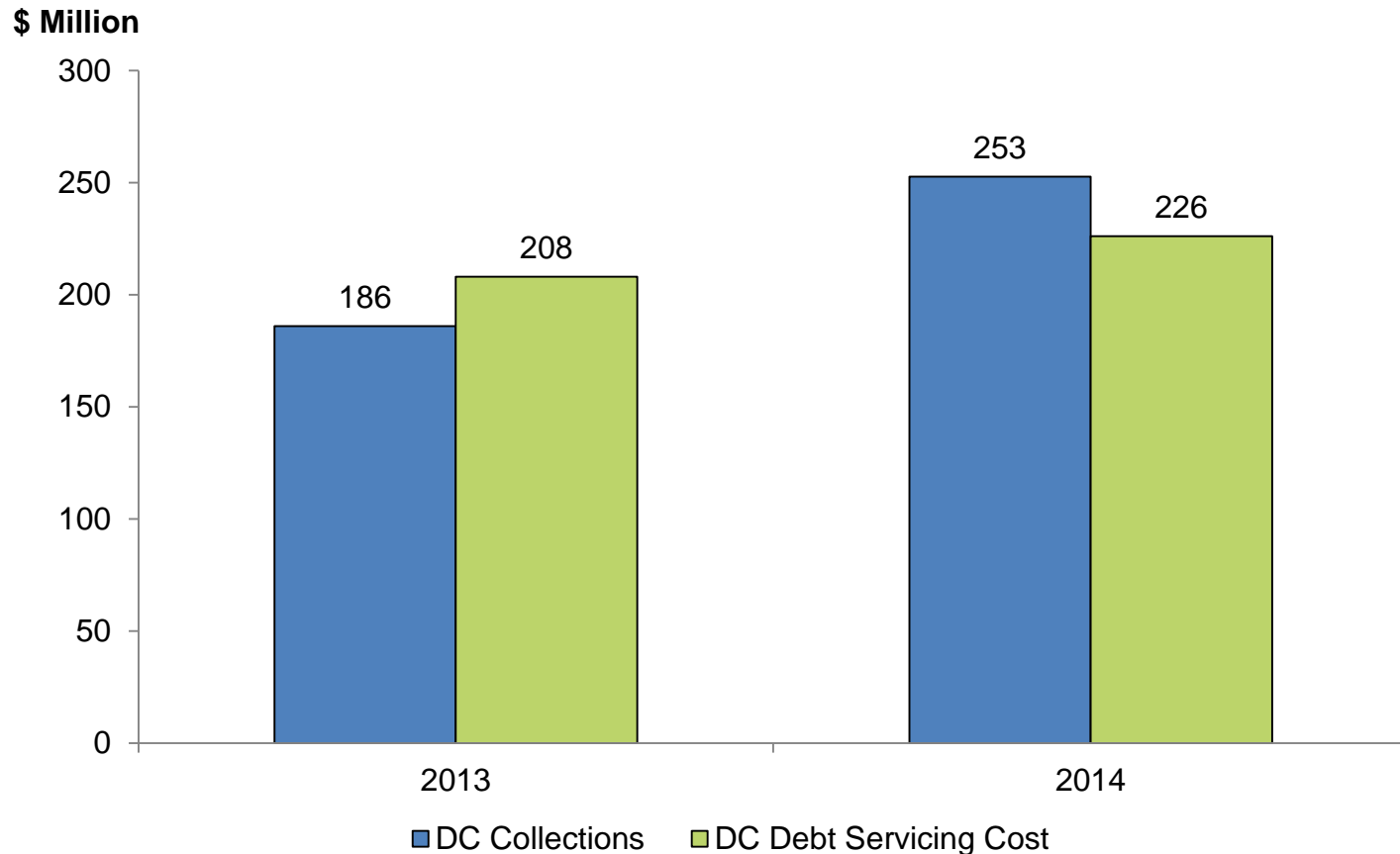


\* To reflect the fact that the 2012 DC Bylaw came into effect mid-year 2012, the 2012 figures include DC collections from July to December 2012

\*\* Total 2014 cash DC collections, does not reflect any potential year-end adjustments

# DC collections expected to cover growth-related debt servicing costs in 2014

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Note: 2014 DC collection figure is cash DC collections for the year, and does not reflect any potential year-end adjustments

# Realignment of the capital plan

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- ❑ Lower-than-planned DC collections and the recent credit rating downgrade have necessitated a realignment of the capital plan
- ❑ This realignment includes an increase in transportation capital and a slowdown of growth-related water and wastewater capital, pending an increase in the pace of DC collections

Ten-Year Capital Plan Changes (\$ Billion)	
2014 Ten-Year Plan	6.6
Natural Decrease (projects completed)	(0.7)
Water and Wastewater Deferrals	(0.7)
Transportation Increase	0.4
Other Changes	0.2
2015 Ten-Year Plan	5.8

# Some water and wastewater investments are being temporarily deferred

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Description	Construction Start Date (2014 Ten-Year Plan)	Construction Start Date (2015 Ten-Year Plan)
Upper York – Water Reclamation Centre*	2017	2020
West Vaughan Water & Wastewater Servicing	2015	Water: 2024 WW: 2022
Northeast Vaughan Water & Wastewater Servicing	2018	2025
Primary Trunk Sewer	2022	2026
Sutton WPCP Expansion	2019	2030

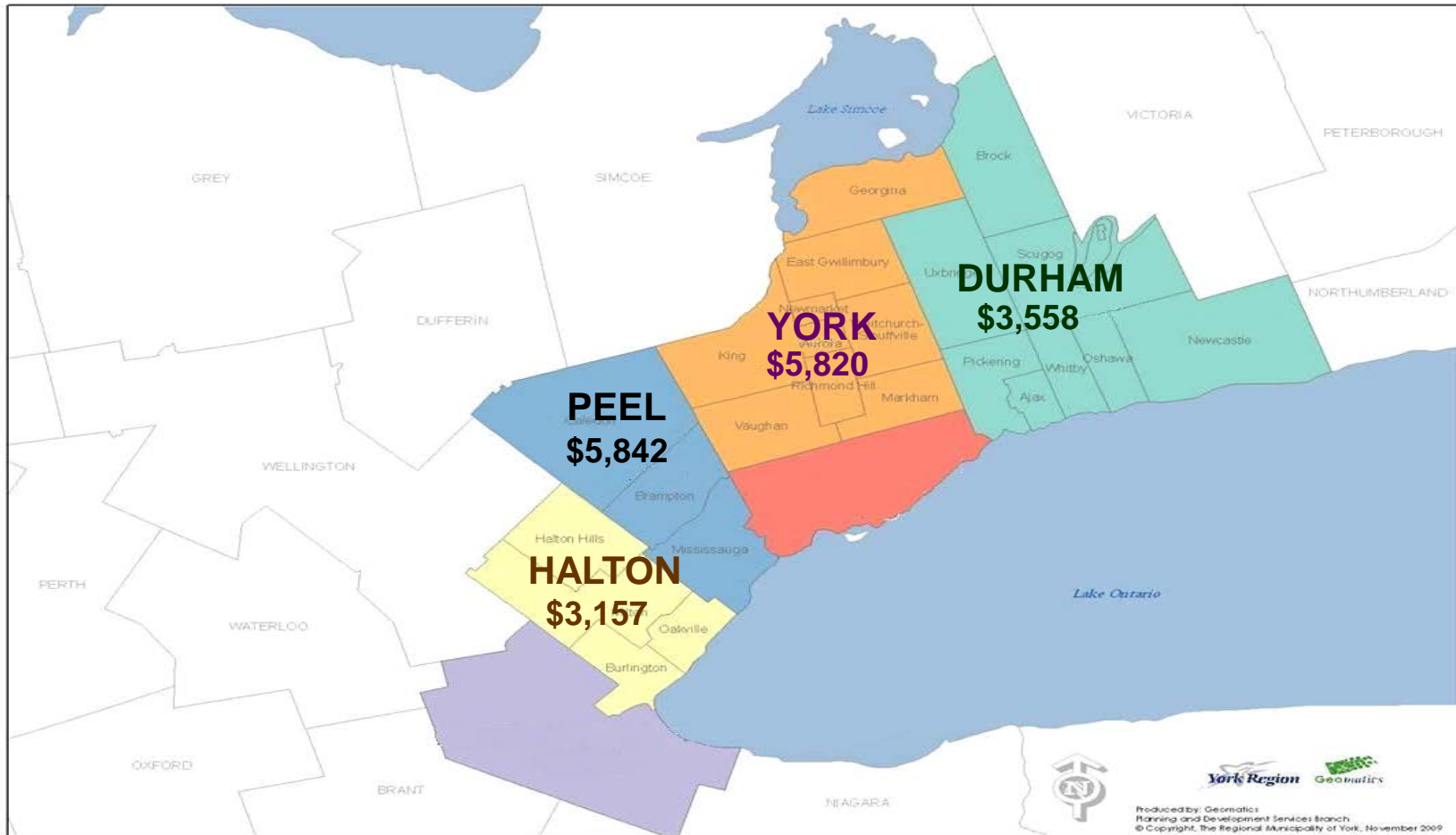
\* Upper York – YDSS Modifications maintains a start date of 2017

# Bringing deferred projects forward

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- ❑ The capital plan protects the planning and development work for the deferred projects, including environmental assessments and design, to ensure that projects are ready for construction
- ❑ The ten-year plan can be revised and updated every year to reflect new information or changing priorities
- ❑ If growth is faster than expected and DC collections improve, projects can be moved forward

# 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 Halton, which are 2015 proposed Ten-Year Capital Plans

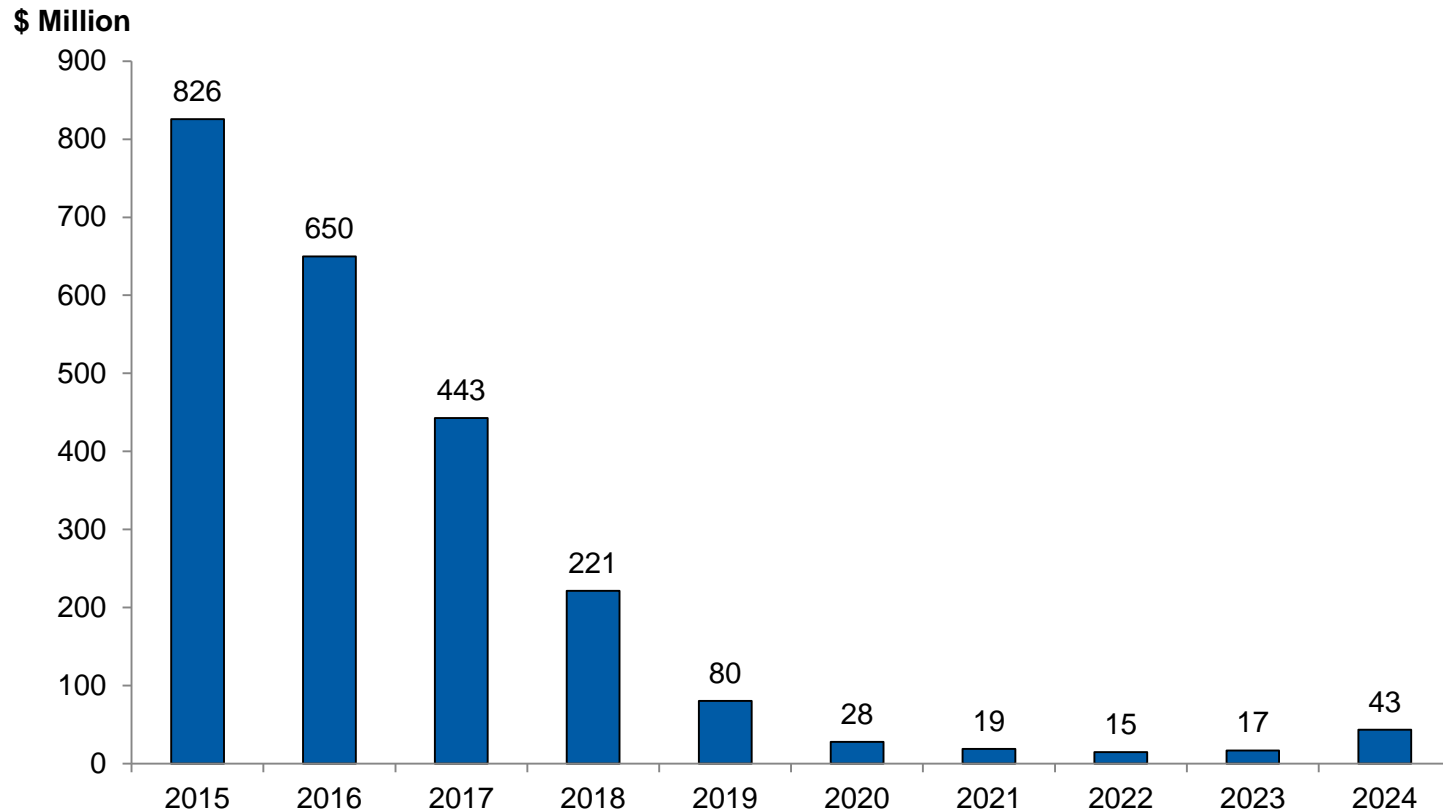


# Capital Spending Authority and planned investment

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- ❑ Capital Spending Authority (CSA):
  - ❑ CSA is the authority from Council to commit funding to a capital project
  - ❑ It is a multi-year authority for large multi-year projects
  - ❑ Capital Spending Authority must be forecast for each year of the capital plan to ensure that the Region will comply with the provincial Annual Repayment Limit
- ❑ The 2015 budget seeks 2015 CSA of \$2.5 billion

# 2015 Capital Spending Authority request



The proposed 2015 Capital Spending Authority is \$2.5 billion (including \$0.2 billion beyond 2024)

# Top 10 capital projects by CSA

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Projects	Proposed 2015 CSA (\$ Million)
Spadina Subway Extension	408
Duffin Creek Incinerator 1 & 2 Rehabilitation	170
Duffin Creek Stage 1 & 2 Upgrades	149
Peel Water Supply Cost-Shared Work	112
Bus Rapid Transit (BRT) Facilities and Terminals	79
Upper York Sewage Solutions	76
York Durham Sewage System (YDSS) Southeast Collector	67
Toronto Water Supply Cost-Shared Work	65
West Vaughan Sewage Servicing	59
Southeast Collector Rehabilitation Primary System	55

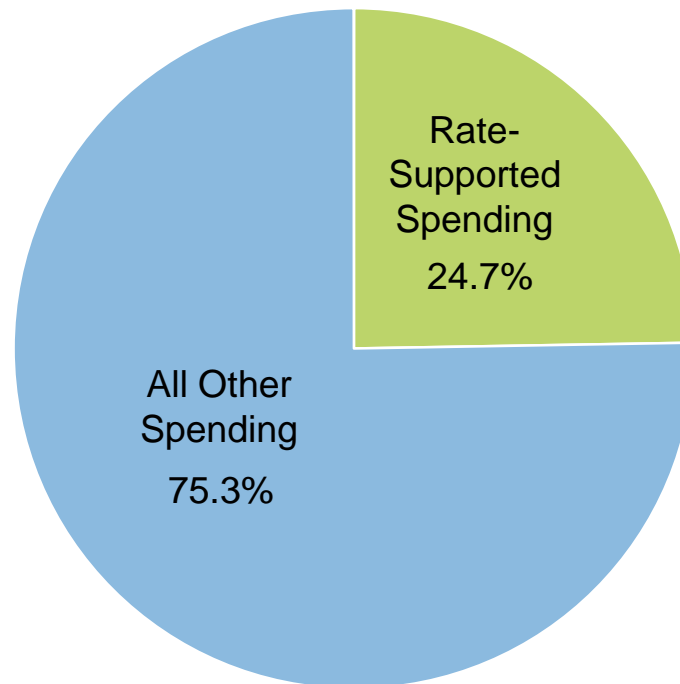
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# Rate-Supported Budget

# Rate-supported budget is a quarter of gross spending

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**Rate-Supported Budget Share of Gross Spending**



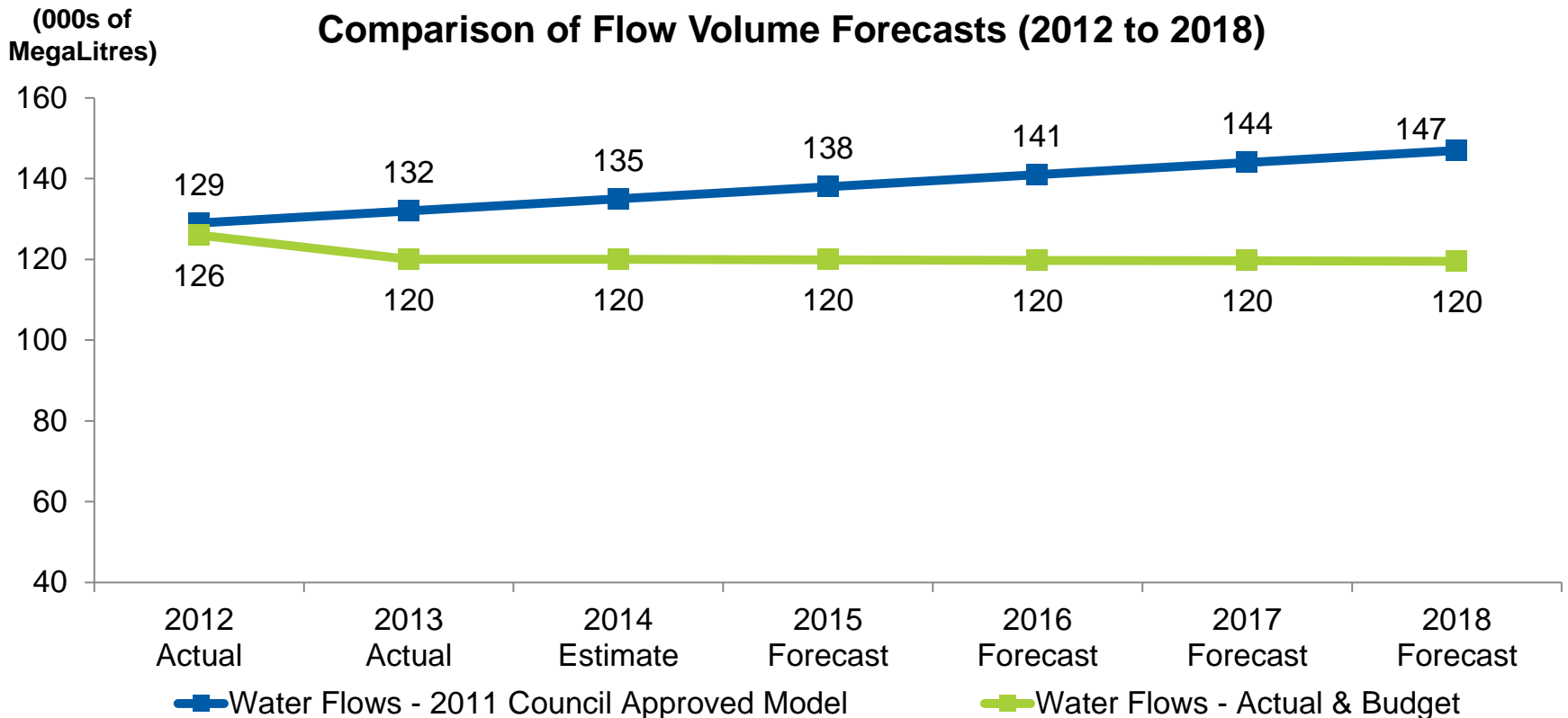
# Rate-supported budget – expenditures

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<b>Rate Supported Budget (\$ Million)</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Operating Expenditures	132.9	139.9	146.8	152.5
Financing and Capital Related Costs	318.6	331.8	342.9	360.6
Conservation Authorities	7.2	7.1	7.1	7.1
<b>Total Expenditures</b>	<b>458.7</b>	<b>478.8</b>	<b>496.8</b>	<b>520.7</b>

# Flow volumes lower than anticipated

- ❑ Reduced flow volumes from cooler/wetter summers, slower than expected population growth and successful conservation efforts have resulted in an estimated \$57 million reduction in user rate revenue from 2012 to 2014



# Rate review and update is underway

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- ❑ A steering committee and working group have been formed with staff from Finance and Environmental Services
- ❑ Mandate is to develop a long-term financial plan for the Region's water and wastewater system, including:
  - ❑ Strategies and policies to help manage and strengthen the financial health of the service
  - ❑ Recommendations on future rates and rate structures
- ❑ The project kicked off in mid-2014 with recommendations to Council currently slated for Q4 2015



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# Fiscal Strategy

# The essence of the fiscal strategy

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- ❑ 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

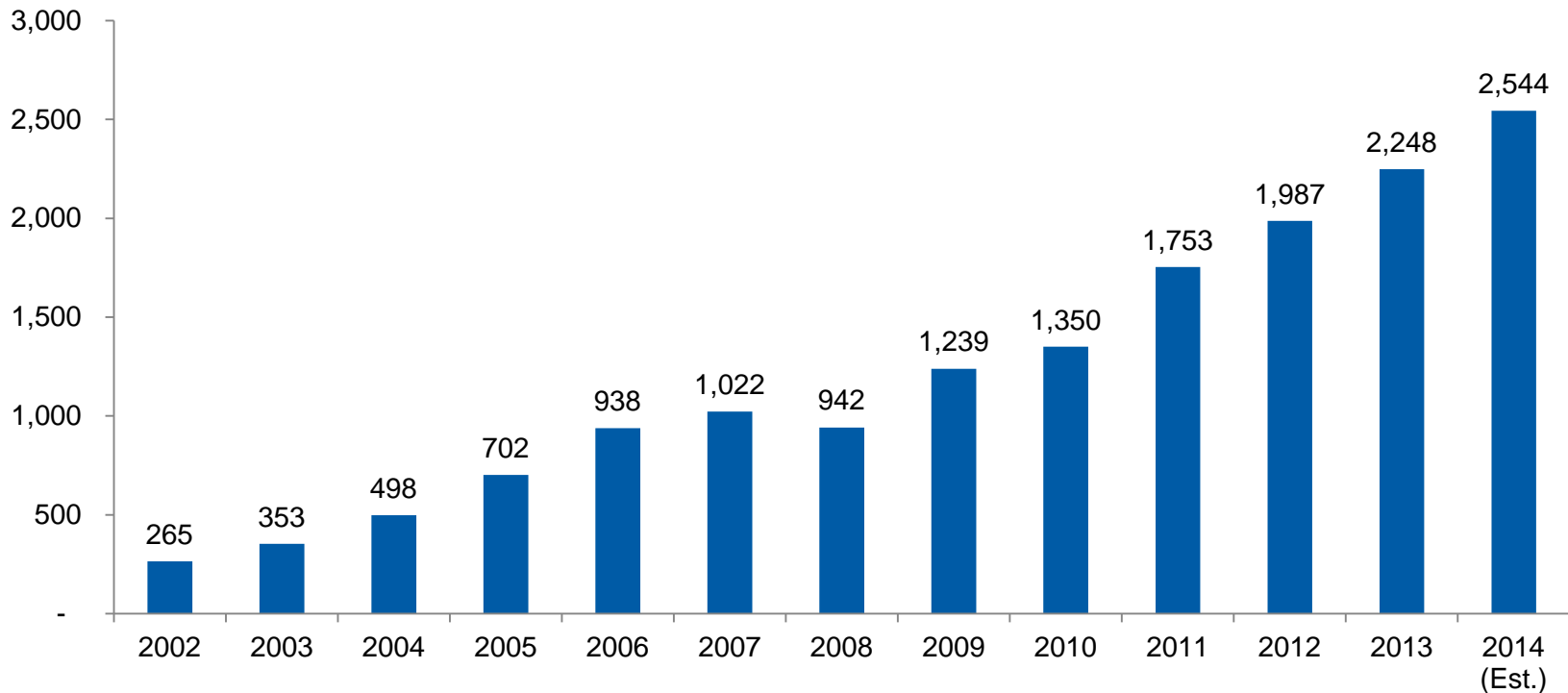
Save for the future

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# Debt Management

# Historical debt levels

\$ Million

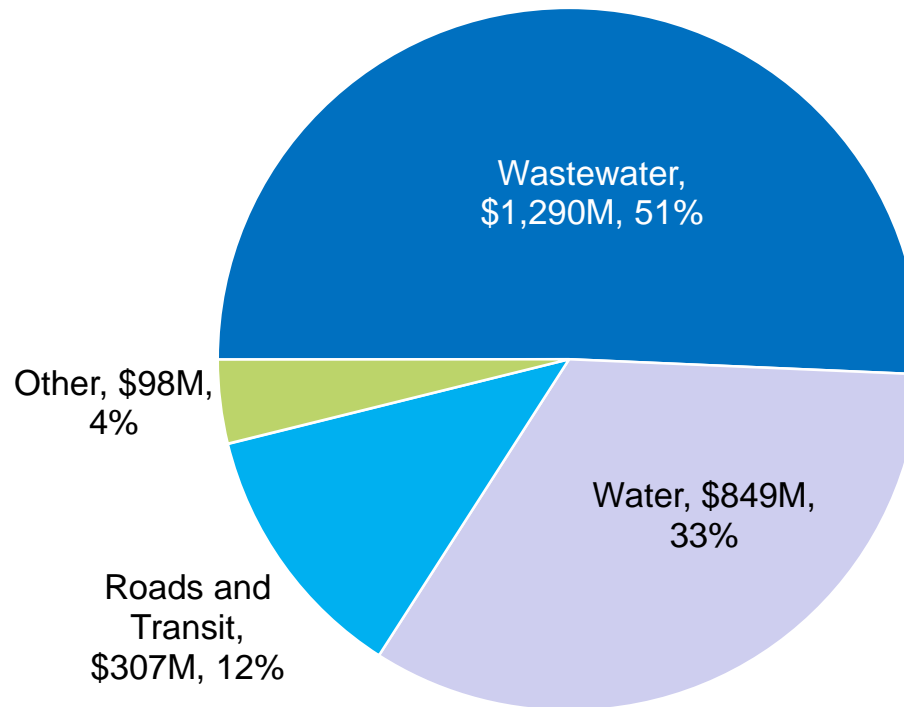


The Region's current debt is \$2.5 billion

# Purpose of debt is to finance infrastructure

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Estimated 2014 Outstanding Debt: \$2.54 Billion

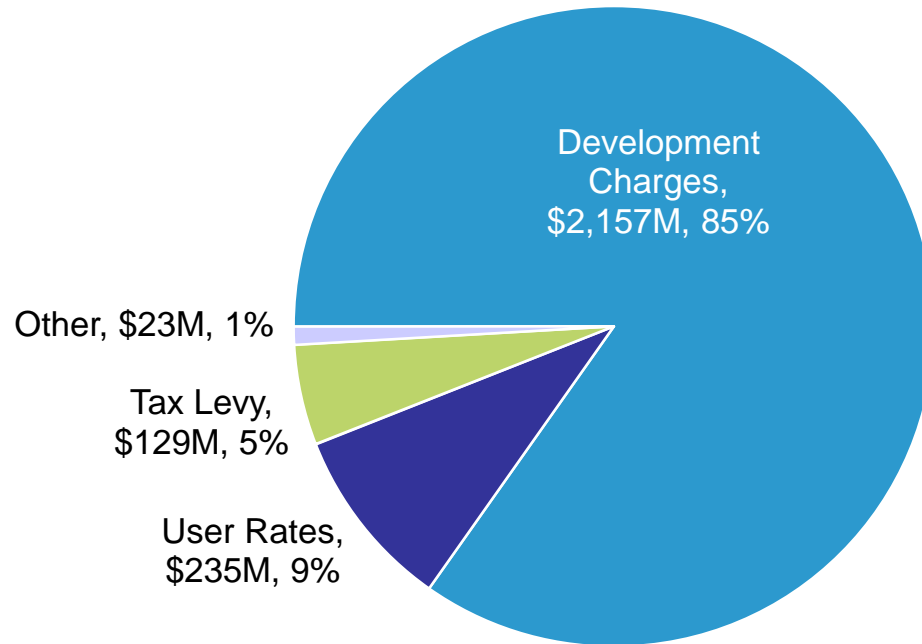


84% of the current debt is related to water and wastewater projects

# Funding sources for debt servicing

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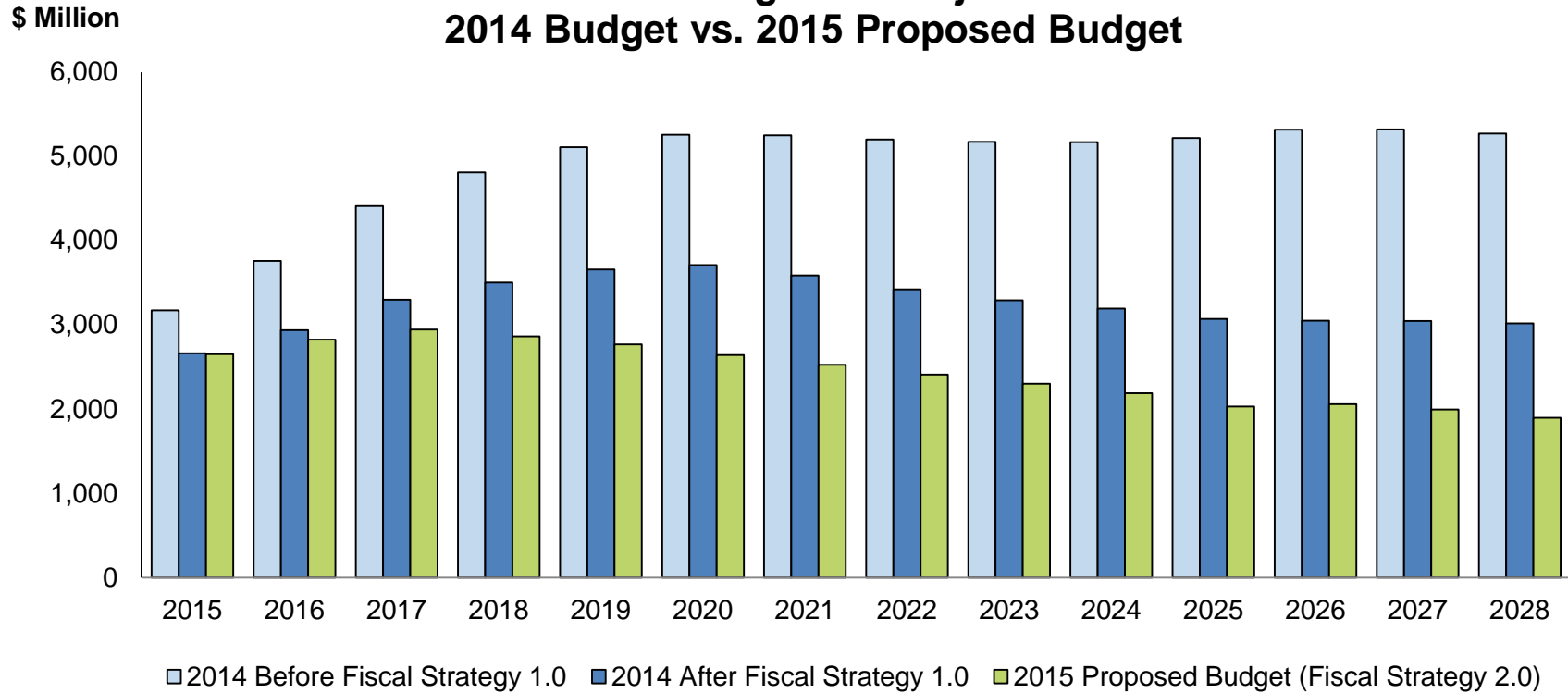
**2014 Total Outstanding Debt: \$2.54 Billion**



85% of the existing debt will be repaid through development charges

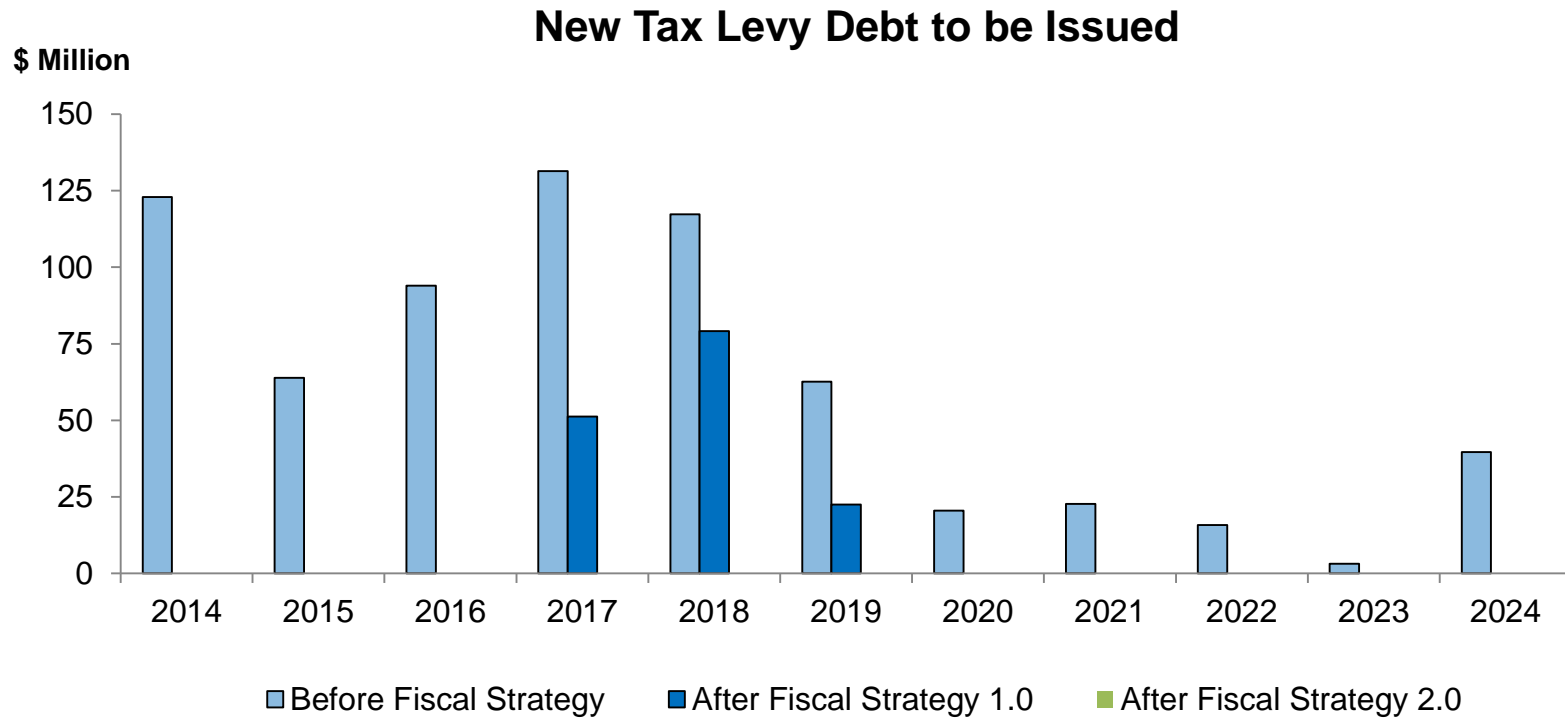
# Fiscal strategy lowers debt levels

**Outstanding Debt Projection  
2014 Budget vs. 2015 Proposed Budget**



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

# Reserve management will reduce new debt funded from tax levy



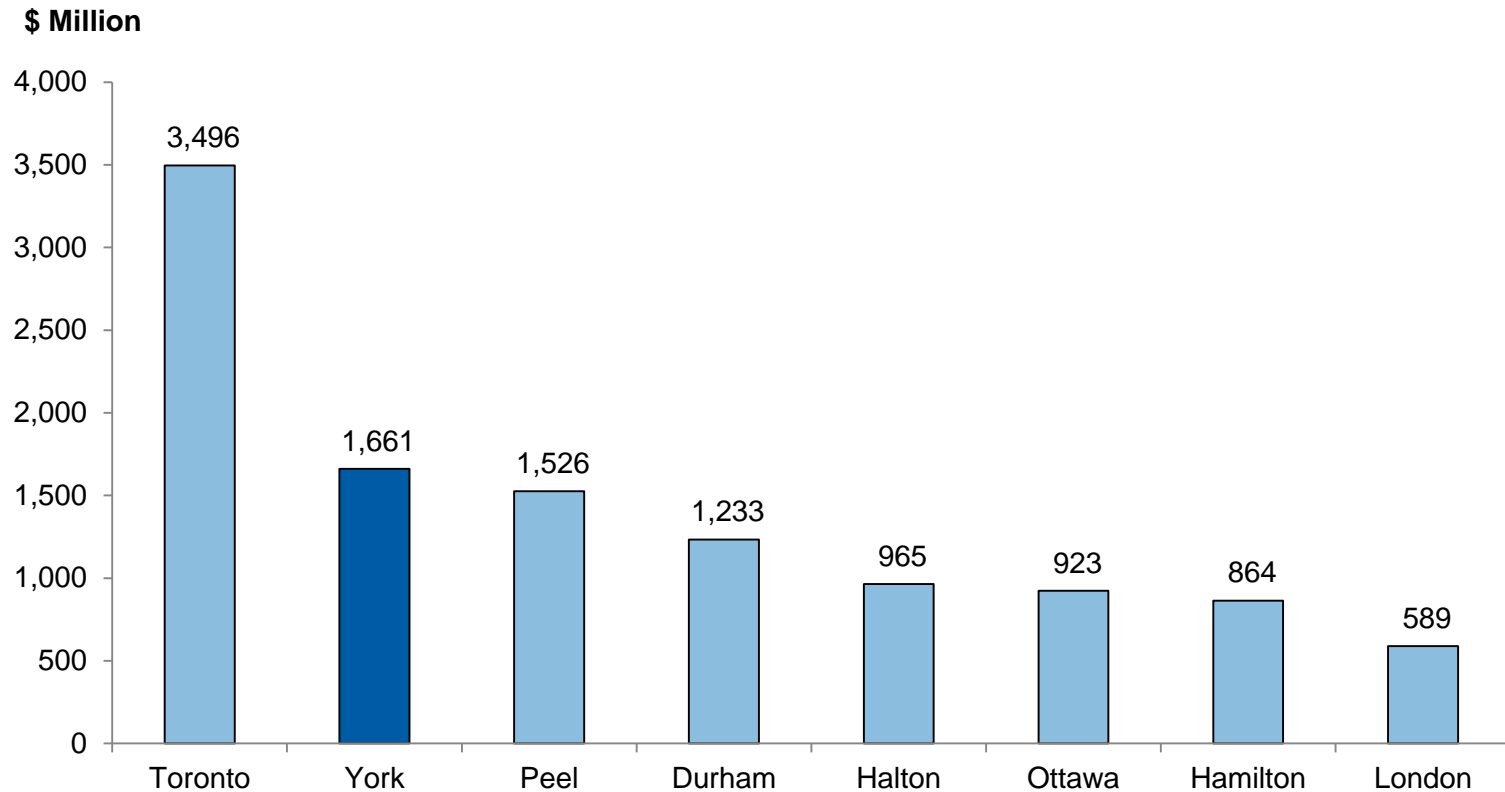
Under the updated fiscal strategy, all Tax Levy Debt will be avoided



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# Reserves

# High levels of reserves



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

# Reserve management critical to debt management

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

# Reserve management plan is key to achieving financial sustainability

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- ❑ 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 plan includes continued implementation of Council's policy to increase contributions for capital asset replacement

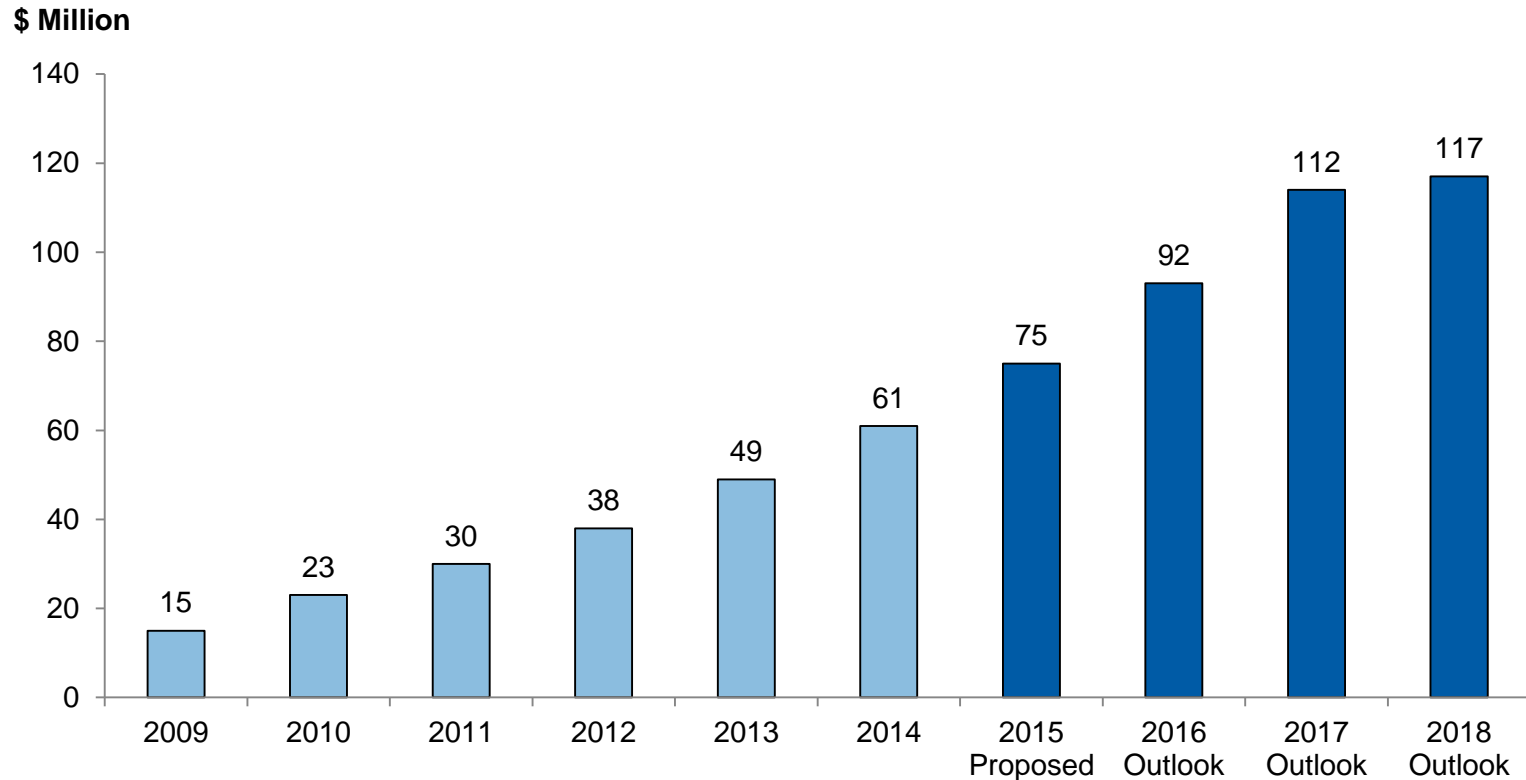
# The Region is providing for its asset management needs

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- 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

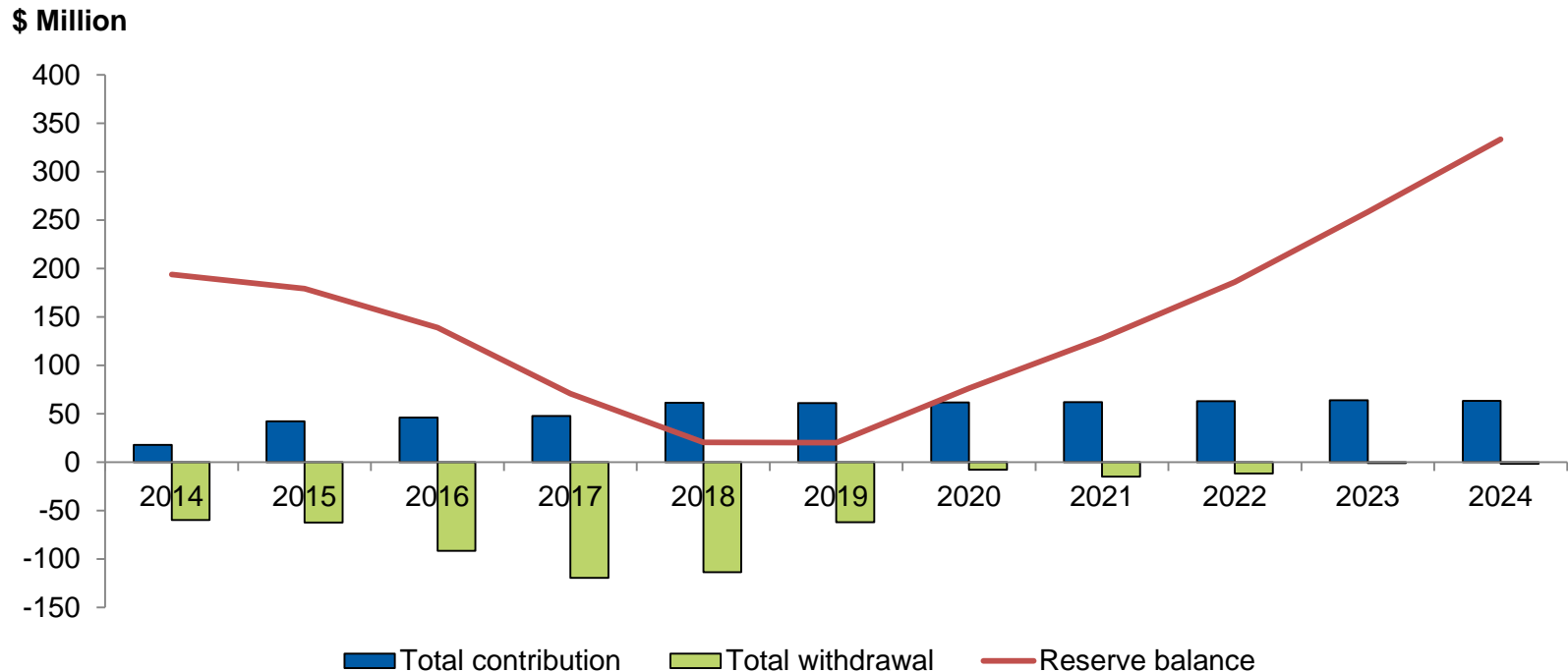
# Growing capital asset replacement reserve contributions



Contributions to capital asset replacement reserves continue to grow. Council's policy to increase reserve contributions for capital asset replacement is bearing fruit.

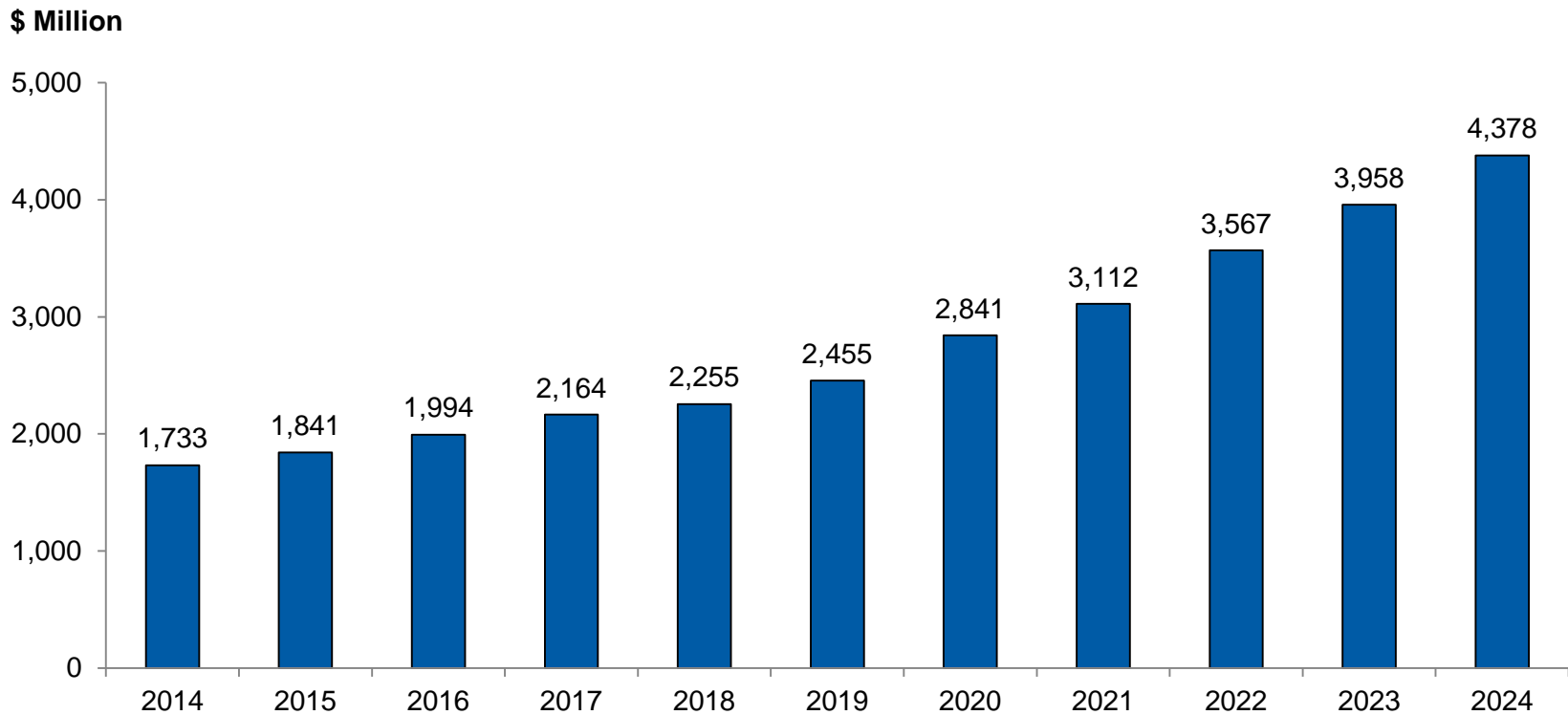
# Growth in Debt Reduction Reserve

## Activities in the Debt Reduction Reserve



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

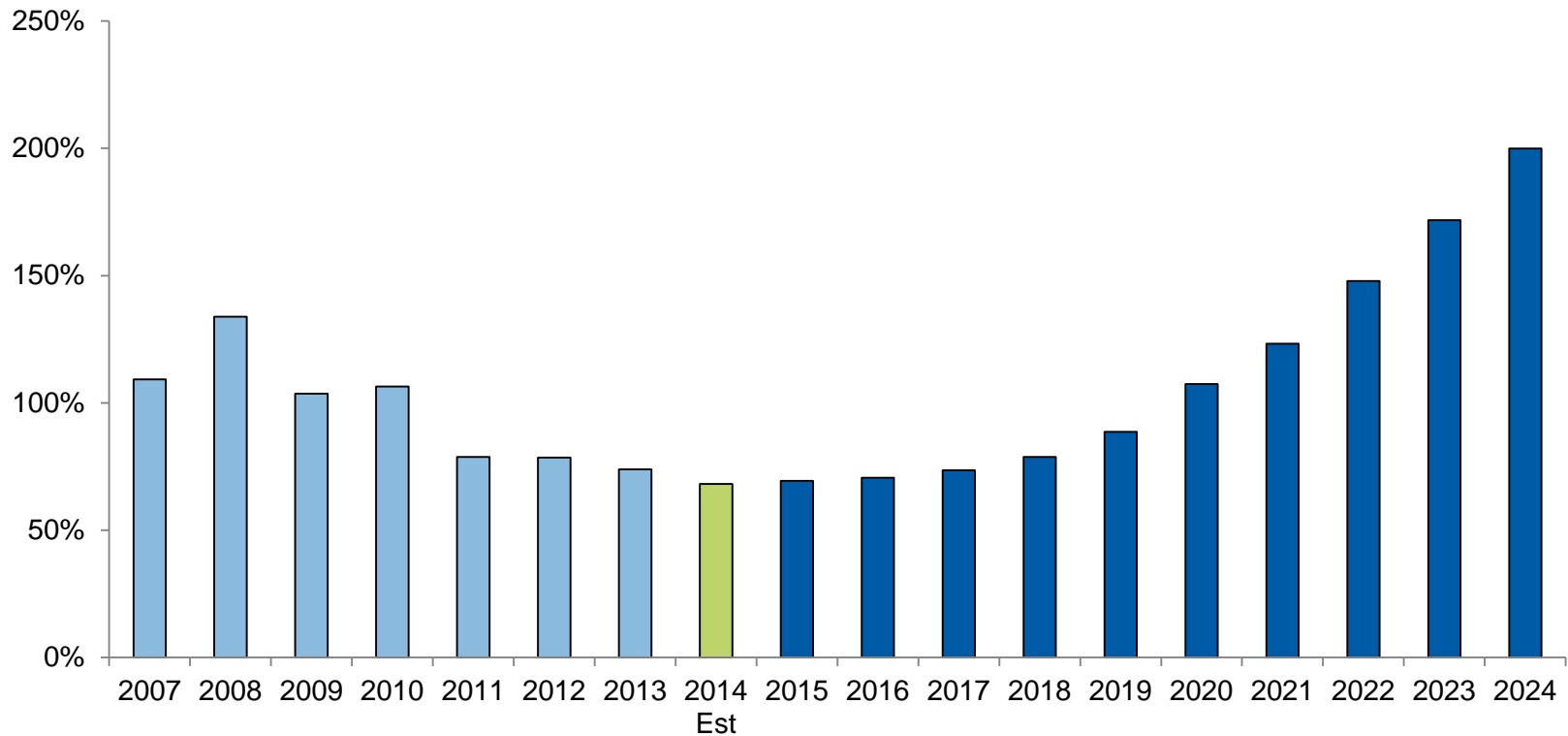
# Growing total reserves



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



# Reserve to debt ratio will improve



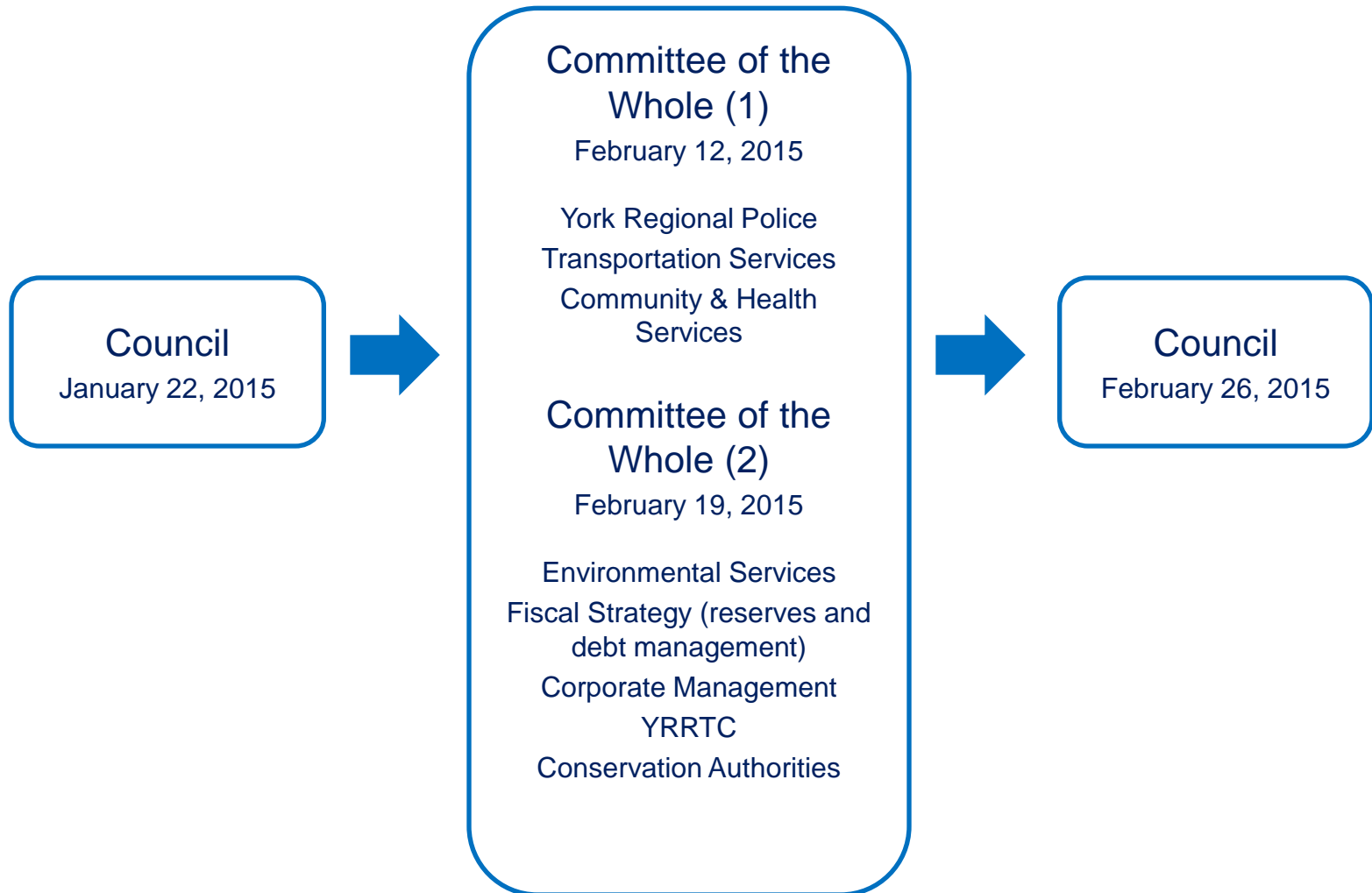
The reserve to debt ratio is declining, but is forecast to increase in 2017 and exceed 100% by 2021

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# Budget Review Process and Conclusion

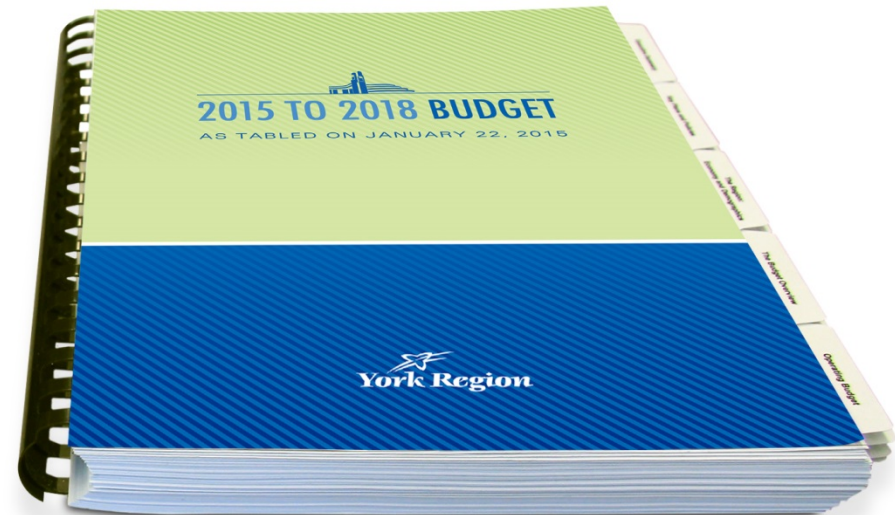
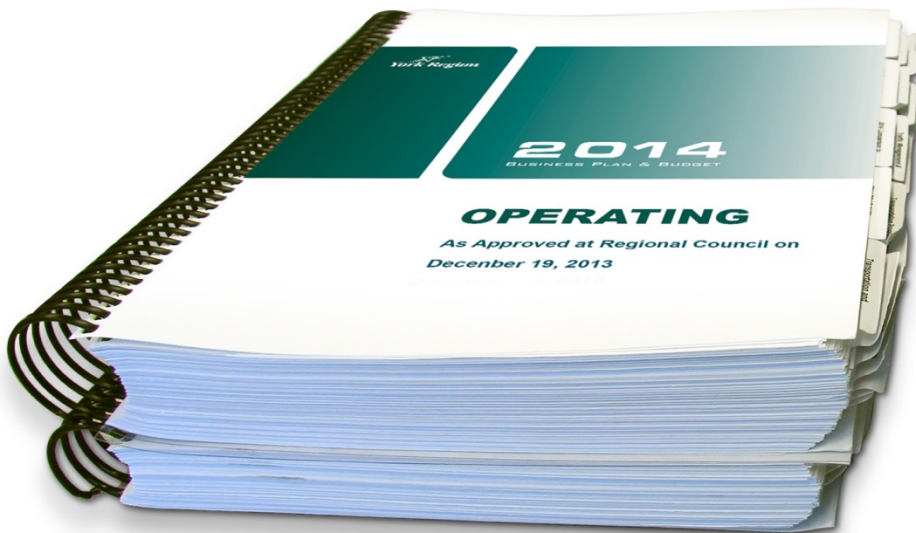
# Council / Committee Review Process

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# New budget book

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# Summary of the budget

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- ❑ A multi-year budget to align with the term of Council
- ❑ A robust capital plan that better aligns the timing of projects with expected growth
- ❑ Lower peak debt levels and higher reserve balances
- ❑ No tax levy debt in next ten years
- ❑ Improved budget book format and structure
- ❑ Proposed tax increases of 3.79%, 3.34%, 2.94% and 2.35%