York Region

Clause No. 2 in Report No. 8 of the Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on December 19, 2013.

2
REGIONAL FISCAL STRATEGY

Committee of the Whole recommends:

1. **Receipt of the presentation by Bill Hughes, Commissioner of Finance and Regional Treasurer.**

2. **Adoption of the following recommendations contained in the report dated December 2, 2013, from the Commissioner of Finance:**

   1. **Regional Council adopt the fiscal strategy outlined in this report, including using a Debt Reduction Reserve and asset replacement reserves to reduce the need for future tax levy debentures;**

   2. **In accordance with the fiscal strategy, the following reserve funds be established:**

      a. **A Transit Vehicle Replacement Reserve for the major refurbishment and replacement of transit vehicles;**

      b. **A Land Banking Reserve for the purchase of land required for future needs that have been identified as part of the long-term capital plan;**

      c. **A Debt Reduction Reserve to be used at the discretion of the Commissioner of Finance and Treasurer to reduce or eliminate the need to issue previously approved tax-levy funded debentures; and**

      d. **A Sinking Fund Reserve to centralize the accumulated payments and related interest earned associated with the Region's sinking fund debentures.**

3. The following reserve funds be discontinued:

a. The Highway 48 Reserve, with any remaining funds to be transferred to an asset replacement reserve to be determined by the Commissioner of Finance and Treasurer; and

b. The Highway 7 Reserve, with any remaining funds to be transferred to an asset replacement reserve to be determined by the Commissioner of Finance and Treasurer; and

c. The Software Acquisition Reserve Fund, with any remaining funds to be transferred to the Equipment Replacement Reserve Fund.

4. The Commissioner of Finance and Treasurer be authorized to allocate future asset replacement contributions to individual asset replacement reserves based on his estimate of the required need.

5. The Commissioner of Finance and Treasurer be authorized to allocate Federal Gas Tax funding at his discretion and report the results to Council on an annual basis.

6. Up to 100%, but at a minimum 50% of the savings attributable to funding a project from the Debt Reduction Reserve that would have otherwise been payable from tax-levy sources, be placed into the Debt Reduction Reserve, such percentage to be at the discretion of the Commissioner of Finance and Treasurer.

7. The transfers between reserves as shown in Table 3 of this report be approved.

8. The Region's Surplus Management Policy be amended as follows:

Any operating surplus, except any surplus attributable to housing operations, be allocated to reserves in the following order:

a. Contingent liability reserves including the Long-Term Disability Reserve, Workers Compensation Reserve and the Insurance Reserve up to the target levels established for them; and then to the

b. General Capital Reserve, up to its target level; and then to the

c. Fuel Stabilization Reserve when a loss, if any, has been incurred during the year from hedging transactions; and then to the

d. Debt Reduction Reserve.

Any net surplus attributed to housing operations will be allocated 80% to the Social Housing Development Reserve and 20% to the Working Capital Reserve.

Supplemental and Omitted Property Taxes received in a year will be allocated 50% to the Debt Reduction Reserve and 50% to asset replacement reserves determined by the Commissioner of Finance and Treasurer.

9. A technical adjustment to the Capital Financing and Debt Policy be made to increase maximum debt terms for roads and EMS Stations from 10 and 15 years respectively to 20 years.

10. The Long-Term Debt Management Plan attached to this report as *Attachment 2* be adopted.

11. $7,946,197 million dollars be drawn from the Move Ontario Reserve to fund the Toronto-York Subway Extension ("TYSSE") project.

12. The Regional Solicitor be authorized to prepare all necessary bylaws to give effect to these recommendations.

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council adopt the fiscal strategy outlined in this report, including using a Debt Reduction Reserve and asset replacement reserves to reduce the need for future tax levy debentures;

2. In accordance with the fiscal strategy, the following reserve funds be established:

   a. A Transit Vehicle Replacement Reserve for the major refurbishment and replacement of transit vehicles;

   b. A Land Banking Reserve for the purchase of land required for future needs that have been identified as part of the long-term capital plan;

c. A Debt Reduction Reserve to be used at the discretion of the Commissioner of Finance and Treasurer to reduce or eliminate the need to issue previously approved tax-levy funded debentures; and

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6. Up to 100%, but at a minimum 50% of the savings attributable to funding a project from the Debt Reduction Reserve that would have otherwise been payable from tax-levy sources, be placed into the Debt Reduction Reserve, such percentage to be at the discretion of the Commissioner of Finance and Treasurer.

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2. PURPOSE

This report outlines a strategic approach to the use of the reserves that will reduce the amount of tax levy debt financing needed in future years. A number of administrative changes are also required to support the funding of the Region's operating and capital programs.

3. BACKGROUND

The Region has set up reserves for a multitude of reasons

The Region's reserves have increased from $1.12 billion in 2007 to $1.56 billion in 2012. (*Attachment 1*). The Region has established reserves for the following purposes:

- Development Charge Reserves are required by provincial legislation and must be used to accumulate DC collections. DC rates are based on the planned delivery of eligible growth-related projects as outlined in the Region's approved DC background

studies. The reserve funds are used to either directly pay for growth-related infrastructure, or to repay debt incurred for growth-related infrastructure.

- User Rate Reserves are used to stabilize water and wastewater rates, particularly in regard to any large expenditure that may occur due to significant asset replacements.

- Capital Reserves are used to help smooth the funding required for priority capital program areas such as solid waste and affordable housing. These reserves are used to accumulate funds for capital projects that, without the availability of reserve funds, could otherwise result in large impacts on the tax levy. These reserves also include the General Capital Reserve, which in large part has been used to accumulate annual operating surpluses. It can be used at the discretion of Council for one time unanticipated tax-levy-funded capital projects.

- Asset Replacement Reserves are used to accumulate funds to pay for major rehabilitation and replacement of capital assets. This allows for the replacement of assets without major impacts on the tax levy. Reserves have been established for major classes of assets including facilities, vehicles, equipment, roads and regionally-owned housing.

- Human Resources Reserves are used to ensure adequate funding for future expenditures related to human resources management. These reserves include those for potential claims related to Long Term Disability and Worker's Compensation. The Region self-insures for these potential expenses. The balances in these reserves are based on actuarial estimates of the amount required using the Region's historical experience and trends in the overall workforce.

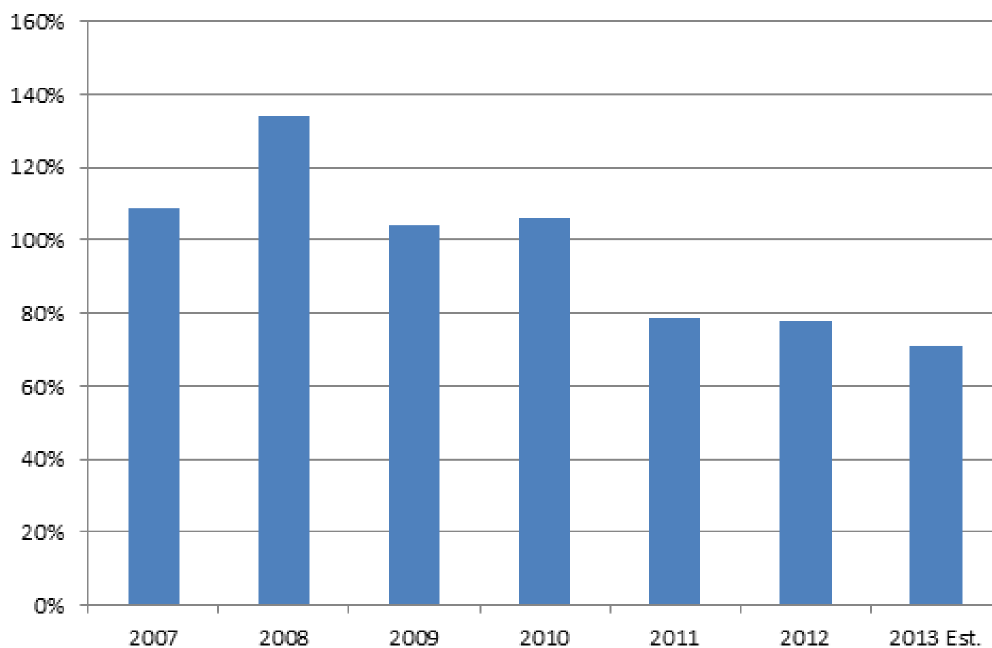
- Corporate Reserves include the Working Capital Reserve, which is used to offset short-term borrowing costs, and Fiscal and Tax Stabilization Reserves that are available for unanticipated in-year operational expenditures or revenue shortfalls. The Insurance Reserve was established for the purpose of accumulating funds that could be paid out to cover insurance claims against the Corporation. The adequacy of this reserve balance is determined through on-going detailed assessments of outstanding claims.

- Other Reserves include the Social Assistance Reserve, which was initially set up for the purpose of funding unanticipated expenditures to the Region related to GTA pooling costs and has now been repurposed by Council to provide support to Community and Health Services' Multi-Year Plan. Other reserves include Federal Gas Tax revenues, which are accumulated until they are allocated to projects, and Provincial Gas Tax revenues, which are used to offset transit operating expenses.

Despite growing reserve balances, the Region's debt levels have been growing at an even faster rate

At the end of 2013, the Region's outstanding debt will be approximately $2.26 billion. Based on the 2013 Budget, this debt was forecasted to rise to more than $5 billion within seven years. While credit rating agencies view the Region's reserve management policies and practices as an example of prudent financial management, they have expressed concern regarding its rising debt levels. The Region's reserve balances have increased, but the reserve to debt ratio has nonetheless been decreasing, as shown in Chart 1. This is an indication that the Region's debt has been increasing at a faster rate than reserves, which is to be expected as it builds the infrastructure needed for growth.

Chart 1
Reserve to Debt Ratio
2007-2013



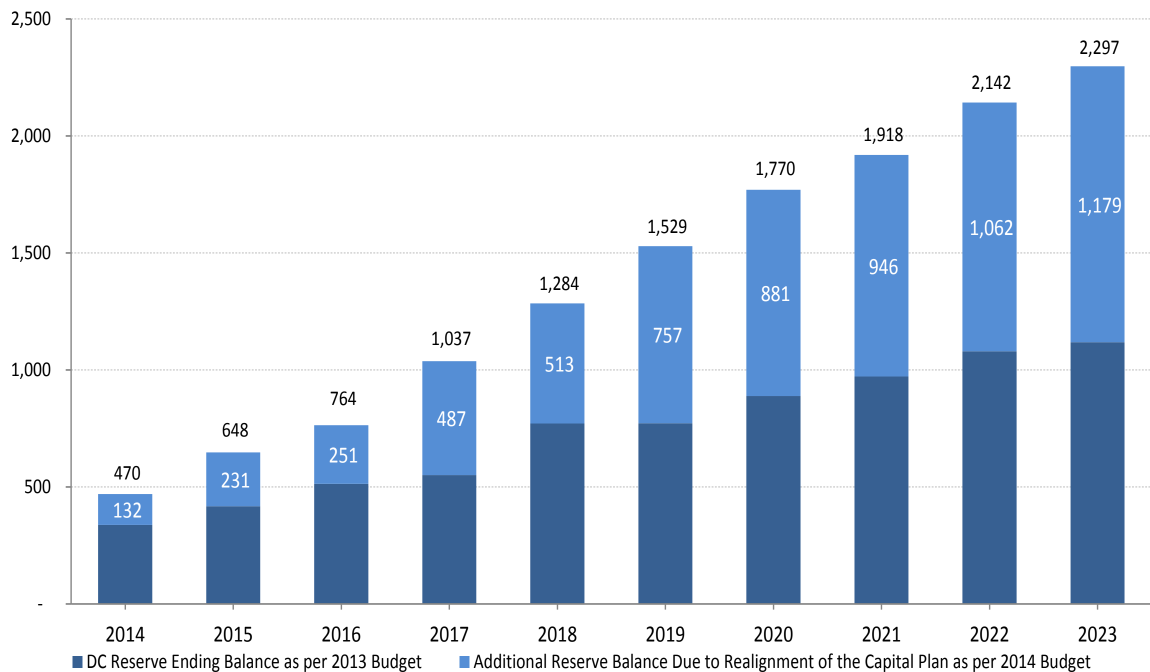
There is a now an opportunity to refine the use of debt and reserve financing to achieve better outcomes than are currently forecast. As part of our evolving strategy, Council approved an update to the Capital Debt and Financing Policy in 2011 requiring that all proposed capital projects be prioritized during the preparation of the budget. The 2014 budget prioritization process resulted in a significant realignment of capital expenditures. This in turn has allowed for a re-examination of our debt and reserve management strategies.

As a result of this year's capital prioritization exercise, it became possible to reduce growth-related debt in the Ten-Year Capital Plan by about $1.0 billion

The significant deferral in capital expenditures arising from the prioritization process allows time for significantly greater balances to build up in the Development Charge Reserves than anticipated in the 2013 capital plan. As a result, it is now estimated that the Region may need to borrow $1.0 billion less in development-charge-related debt over the next 10 years, because funding draws can be drawn directly from the reserves. This outcome is dependent on the realization of the current forecast of development charge collections, which could vary from the forecast if economic conditions change significantly.

Chart 2 shows the DC reserves resulting from the 2014 capital prioritization process. Starting in 2014, an additional $100 million per year can be drawn directly from these reserves rather than debt financed.

Chart 2
DC Reserve Balance Forecast
2014-2023
($Millions)



The Region's current policies are a strong foundation for refining our fiscal strategy

In recognition of the importance of appropriate reserve management, Council approved a Reserve and Reserve Fund Policy in 2006 based on funding adequate reserves to:

- Replace and rehabilitate capital infrastructure assets as required;
- Provide a buffer for significant unanticipated expenditures beyond the control of Council;
- Provide funds for anticipated long-term contingencies and potential liabilities;
- Smooth out expenditures, which because of their size or variability could have large impacts on rates or tax levies; and
- Supply funds for new major capital projects.

In line with this policy, Council has taken significant steps toward continuing the development of an overall reserve funding strategy in the past several years, including:

- In 2006, Council directed annual incremental apportionments of 1% of the prior year's tax levy be set aside in asset replacement reserves starting in 2007. Additionally, starting in 2013, Council directed the increment be increased by 0.2% annually until it reaches 2% of the prior year's tax levy. In 2014, the contribution will be $61 million, and by 2017 it will be approximately $114 million.

- Placing 50% of supplemental tax income in asset replacement reserves each year and the remaining 50% in the General Capital Reserve.

- Annual operating surpluses are placed in the General Capital Reserve, after insuring that reserves representing contingent liabilities, such as the Insurance Reserve and the WSIB Reserve, are appropriately funded. As well, 80% of annual operating surpluses attributable to housing operations are placed in the Social Housing Development Reserve, with the remaining 20% being placed in the Working Capital Reserve.

- In 2011, Council endorsed a policy of having a minimum balance in DC- related reserves equal to at least one year's principal and interest on the corresponding DC-related debt. This cushion provides back-up and liquidity to the Region in case DC collections are less than expected.

- Starting in 2007, an annual contribution of $11.8 million has been made to reduce tax-levy debt.

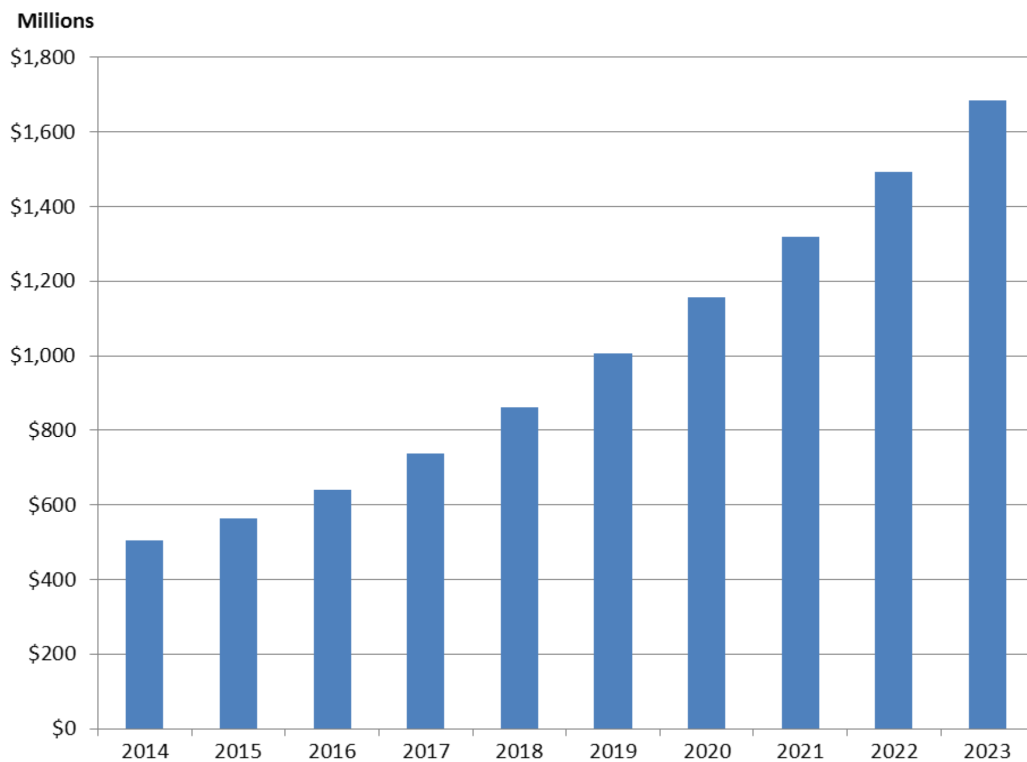
4. ANALYSIS AND OPTIONS

Asset replacement reserves are growing

As shown in Chart 3, asset replacement reserves are expected to increase significantly over the next 10 years. This is primarily due to Council's policy of increasing the annual asset replacement contributions until they reach 2% of the previous year's tax-levy, which lays a solid foundation for future rehabilitation and replacement of tax-levy funded assets.

A Corporate State of the Infrastructure Report is being prepared for 2015 that will further analyze contribution levels that will be needed to adequately fund asset replacement reserves.

Chart 3
Asset Replacement Reserves Projected Balances
2014-2023



A new reserve for the replacement and major refurbishment of Transit Vehicles should be established

It is recommended a Transit Vehicle Replacement Reserve be established for the major refurbishment and replacement of transit vehicles. Transit vehicles comprise a large portion of the Region's requirement for overall vehicle refurbishment and replacement and should be separately tracked to ensure sufficient funds are being set aside.

Asset replacement contributions should be better defined by asset class and current replacement reserves should be re-balanced accordingly

For the past several years, most available asset reserve funding has been placed in only one reserve, the Facilities Rehabilitation and Replacement Reserve. It is recommended that the allocations shown in Table 1 be made on a preliminary basis to better reflect the balances needed for each asset category. Additionally, Table 1 also shows the recommended contributions to be made to each reserve for 2014.

These adjusted reserve balances and contribution levels are based on the latest available accounting data and budget information, and they will be updated after the State of the Infrastructure Report is available.

Table 1
Recommended Re-profiling of Asset Replacement Reserve Balances ($millions)

Description	Currently Projected 2013 Ending Balance	Recommended 2013 Ending Balance	Recommended 2014 Contribution
Housing	13.0	43.2	7.2
Roads	129.8	289.0	29.0
Non-Transit Vehicles	19.0	19.0	6.1
Transit Vehicles (new)	--	--	18.8
Facilities	253.1	63.7	12.3
Equipment	29.5	29.5	13.3
Total	444.4	444.4	86.7

As changes are made to the Region's asset base, differing contribution levels will be required for asset replacement reserves. It is recommended that the Commissioner of Finance and Treasurer be authorized to allocate appropriate contributions to individual asset replacement reserves, within Council's overall allocation to asset replacement reserves.

A new Debt Reduction Reserve should be created and used for the purpose of reducing approved tax-levy-supported debt

It is recommended that the Region establish a Debt Reduction Reserve for the purpose of reducing tax-levy-supported debt that has been previously authorized by Council. The Reserve would be funded as follows:

- An initial re-allocation of existing reserves, without compromising the adequacy of those reserves; plus
- Any specific appropriations identified as part of the annual budget; plus
- In-year contributions arising from the Surplus Management Policy; plus
- Federal Gas Tax funding when available and at the discretion of the Commissioner of Finance and Treasurer to the degree that it is within program guidelines; plus
- Up to 100%, but at a minimum 50% of the savings attributable to funding a project from the Reserve that would have otherwise been payable from tax-levy sources, such percentage to be at the discretion of the Commissioner of Finance and Treasurer.

The next several sections of this report examine opportunities to shift funding into the Debt Reduction Reserve now and in the future.

The General Capital Reserve is overfunded for its intended purpose

The estimated balance in the General Capital Reserve at the end of 2013 will be $233 million. It is recommended that the target level for the Reserve be in the range of $50-60 million. This target level reflects the past limited usage of the reserve, while still allowing for unexpected one-time capital expenditures. The requirement for the reserve will be further diminished as significant funding for tax-levy financed capital projects will be drawn from the newly established Debt Reduction Reserve. After other transfers from the Reserve discussed below, it is recommended that $136.8 million be transferred from the General Capital Reserve to the Debt Reduction Reserve.

There are opportunities to direct additional funds to tax-levy debt reduction

The Transit Reserve and Roads Capital Reserve were established to allow for funds committed in one year to be carried over to the next year, if a project was unable to be finished as expected in-year. Over time these reserve balances have increased, with estimated reserve balances at the end of 2013 of $15.5 million and $57.8 million respectively. It is recommended that $10 million and $40 million be transferred from these Reserves to the newly established Debt Reduction Reserve.

A review of the Region's outstanding insurance claims shows an opportunity to reprofile $5 million from the Insurance Reserve to the Debt Reduction Fund Reserve.

Currently, 50% of annual supplemental tax revenue is placed in the General Capital Reserve, with the remaining 50% being placed in Asset Replacement Reserves. It is

recommended the practice of placing 50% of these funds in the Asset Replacement Reserves continue, with the other 50% allocated to the Debt Reduction Fund Reserve. This will place a further $5.350 million in the Tax-Levy Debt Reduction Reserve in 2014.

Additionally, there are opportunities to further reduce tax-levy funded debt by using federal gas tax funding for solid waste and transit projects, particularly for the Energy from Waste project. Currently the Region is receiving $27.4 million in Federal Gas Tax revenues and $14.3 million from the Provincial Gas Tax program annually. The Federal Gas Tax program is presently being renegotiated with the Federal government. Based on early indications, it is expected that future contribution levels will remain similar to current contribution levels. It is recommended that the ability to direct the Federal Gas Tax funds for tax-levy debt reduction be delegated to the Commissioner of Finance and be reported to Council on an annual basis.

A summary of the recommended transfers to the Debt Reduction Reserve is shown in Table 2.

Table 2
Transfers into the Tax-Levy Debt Reduction Reserve

Description	$ millions
General Capital Reserve	136.8
Transit Reserve	10.0
Roads Capital Reserve	40.0
Insurance Reserve	5.0
2014 Contribution	17.2
Total transferred to Tax-Levy Debt Reduction Reserve	209.0

It is recommended that 50-100% of the tax-levy savings arising from the use of the Debt Reduction Reserve be placed back into the Reserve. This will accelerate the process of reducing tax-levy-funded debt.

It is recommended that the Region revise its Surplus Management practices to further target funds toward tax-levy debt reduction

Currently, the Region allocates its annual operating surplus as follows:

- To contingent liability reserves, including the Long-Term Disability Reserve, Workers' Compensation Reserve and the Insurance Reserve, when it is determined these reserves are inadequately funded. The adequacy of these Reserve balances is determined either through external actuarial or detailed claim analysis;
- Next, to the Fuel Stabilization Reserve if there is a loss incurred during the year from hedging transactions;

- Finally, to the General Capital Reserve.

Currently, 80% of annual surpluses attributable to housing operational savings compared to budget is placed in the Social Housing Development Reserve; the other 20% is placed in the Working Capital Reserve.

It is recommended that the following changes be made to the Policy:

- Before any transfer is made to the Fuel Stabilization Reserve that funds be placed in the General Capital Reserve if it is determined there is a need for further funds in that Reserve; and
- Funds that would have otherwise be placed in the General Capital Reserve as a last priority now be transferred to the Debt Reduction Reserve.

It is recommended that the housing surplus allocation not be changed at this time.

A Land Banking Reserve should be established to support the Region's capital program and a Sinking Fund Reserve should be established to clarify financial reporting

It is recommended that $10 million be transferred from the General Capital Reserve to seed a Land Banking Reserve. This reserve will be used to purchase land for future planned capital projects when it becomes available at opportune times. Currently, capital projects that require land have the land cost built into project costs in the year that the project is scheduled to begin. Having a Land Banking Reserve will allow the Region to purchase some properties in advance on favourable terms. When the project does proceed, the cost of the land budgeted to the project will flow back to the Land Banking Reserve.

The Region sets funds aside annually to repay its outstanding sinking fund debt. These contributions and the expected interest that will be earned on these contributions over the repayment term of the corresponding debenture should be sufficient to pay back the debenture at its due date.

A separate Sinking Fund Retirement Reserve that records these contributions should be established. The underlying investments related to the Sinking Fund are required by provincial legislation and under the Region's bylaws to be segregated from other investments held by the Region. The interest earned on these underlying segregated investments held for sinking fund purposes will be allocated to this Reserve. Funds will be withdrawn from the Reserve when an underlying debenture is paid.

The General Capital Reserve currently contains $13.1 million related to accumulated interest earned on sinking fund investments. It is recommended that these funds be reallocated to the new Sinking Fund Retirement Reserve.

There are several reserves that should be discontinued

It is recommended the following reserves be discontinued:

- The Highway 48 Reserve, which is estimated to have a balance of $71 at the end of 2013 and is no longer used. The Funds should be transferred to an asset replacement reserve at the discretion of the Commissioner of Finance and Treasurer.

- The Software Acquisition Reserve, with an estimated balance at the end of 2013 of $1.1 million, which should be transferred to the Equipment Replacement Reserve for replacement of IT related equipment.

- The Highway 7 Reserve, with an estimated balance of $1.2 million at the end of the 2013, which should be transferred to an asset replacement reserve at the discretion of the Commissioner of Finance and Treasurer.

A summary of all recommended transactions in this report is provided in the following table.

Table 3
Proposed Transfers From/To Reserves and Reserve Funds
($millions)

Reserve Fund	Transfer From	Transfer To
Debt Reduction		191.8
General Capital	159.9	
Land Banking		10.0
Sinking Fund		13.1
Computer Software Acquisition	1.1	
Equipment Replacement		1.1
Transit	10.0	
Roads Capital	40.0	
Highway 7	1.2	
Roads Infrastructure		160.4
Insurance	5.0	
Regionally-owned Housing		30.2
Facilities Management	189.4	
Total	**406.6**	**406.6**

Council authorization is needed to repatriate funds held for the Toronto-York Spadina Subway Extension (TYSSE") Project

The Move Ontario Trust ("Trust") was established in 2006 to hold and administer funding provided by the Province of Ontario and the Government of Canada towards the construction of the TYSSE project. In March 2009, York received a distribution of $7,946,197 representing its beneficial share of interest earned on funds held by the Trust during 2008. This distribution of interest income was made to York and the City of Toronto in order to avoid the requirement for the Trust to pay taxes. However, it was understood at the time and it was a condition of the Building Canada Fund agreement that these funds would be repatriated to the TYSSE project at a future date as part of the Trust's funding commitment. In September 2013, the Trust notified both York and the City of Toronto that it wished to have these funds applied to project expenses that would normally have been funded directly by the Trust starting in January 2014.

It is recommended that Council authorize the draw of $7,946,197 from the Move Ontario Reserve in order to fund these costs.

Technical changes to the maximum financing terms for selected assets are needed

The Region's Capital Financing and Debt Policy contains maximum financing terms for assets or groups of assets. Currently, roads have a 10 year debt financing maximum and EMS Stations have a 15 year maximum. It is recommended that the maximum debt term for both assets be increased to 20 years to better reflect the life span of the underlying assets and the Region's practice of frequently issuing twenty-year debentures.

It is recommended that Council adopt the Debt Management Plan attached to this report

Council is required under provincial regulation to annually adopt or affirm a Long-term Debt Management Plan as part of its budget approval process. The Plan, which is required to show that the Region will remain within its Annual Repayment Limit, has been required since 2011 when the Province increased the Region's Annual Debt Repayment Limit. The Plan (*Attachment 2)* shows that the Region has and will remain within its Annual Repayment Limit and that appropriate risk mitigation has been put in place.

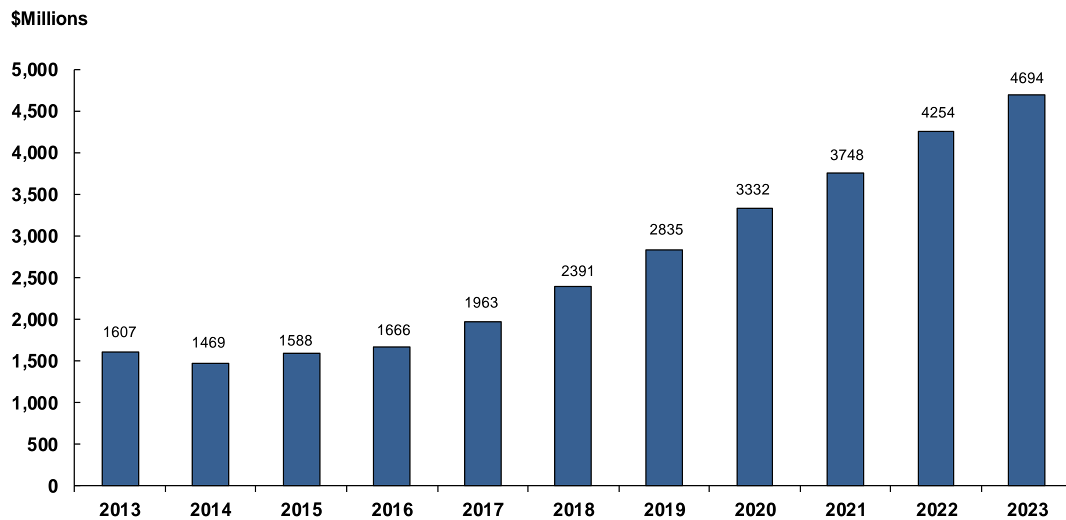
Link to key Council - approved plans

One of the cornerstones of the Region's 2011-2015 Strategic Plan is to manage the Region's finances prudently and more specifically to practice sound fiscal management. This fiscal strategy directly supports these objectives, as it provides an integrated approach to funding the Region's Capital Plan.

5. FINANCIAL IMPLICATIONS

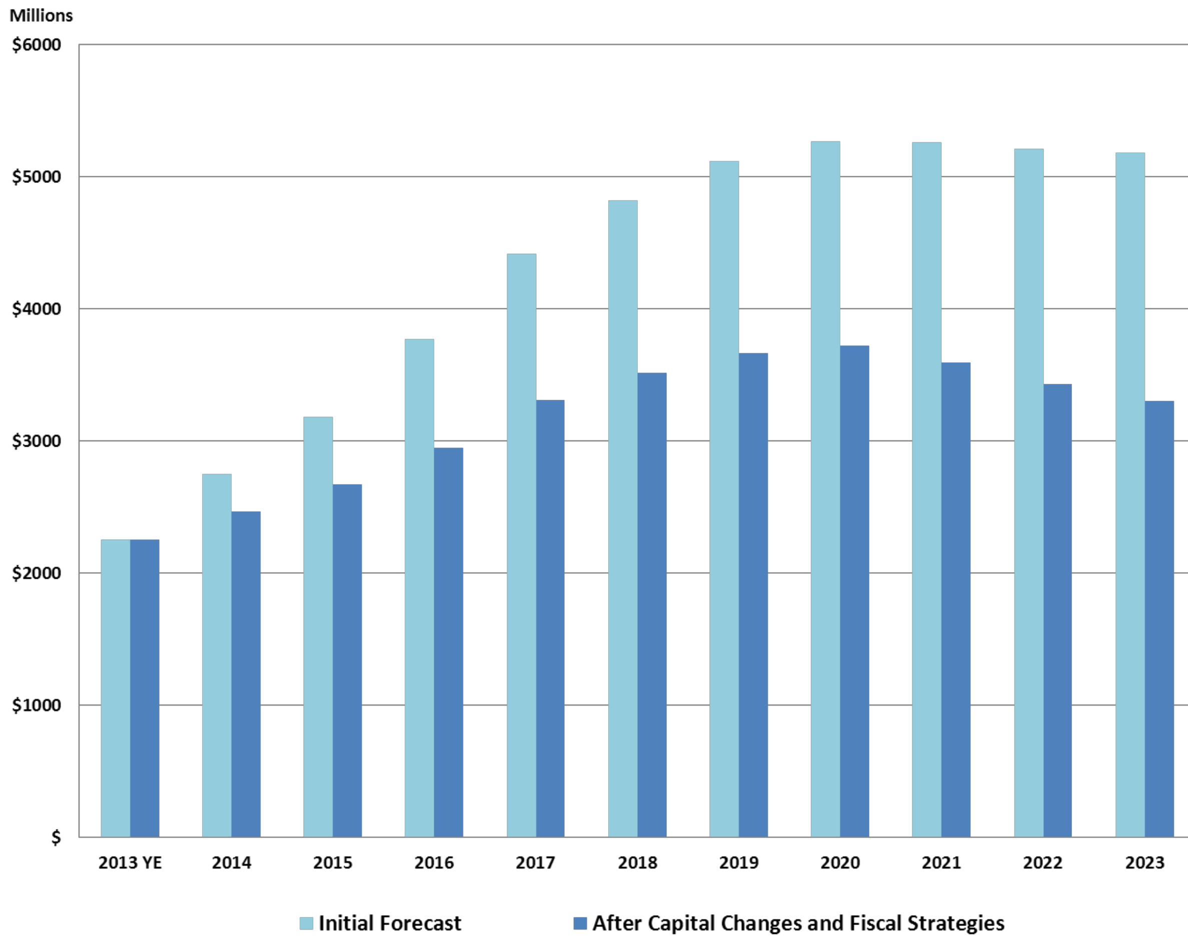
As a result of the ten-year capital plan realignment identified in the 2014 Budget and the reserve management policies described in this report, reserve balances are expected to grow significantly over the next 10 years, as shown in Chart 4.

Chart 4
Projected Reserve Balances
2013-2023



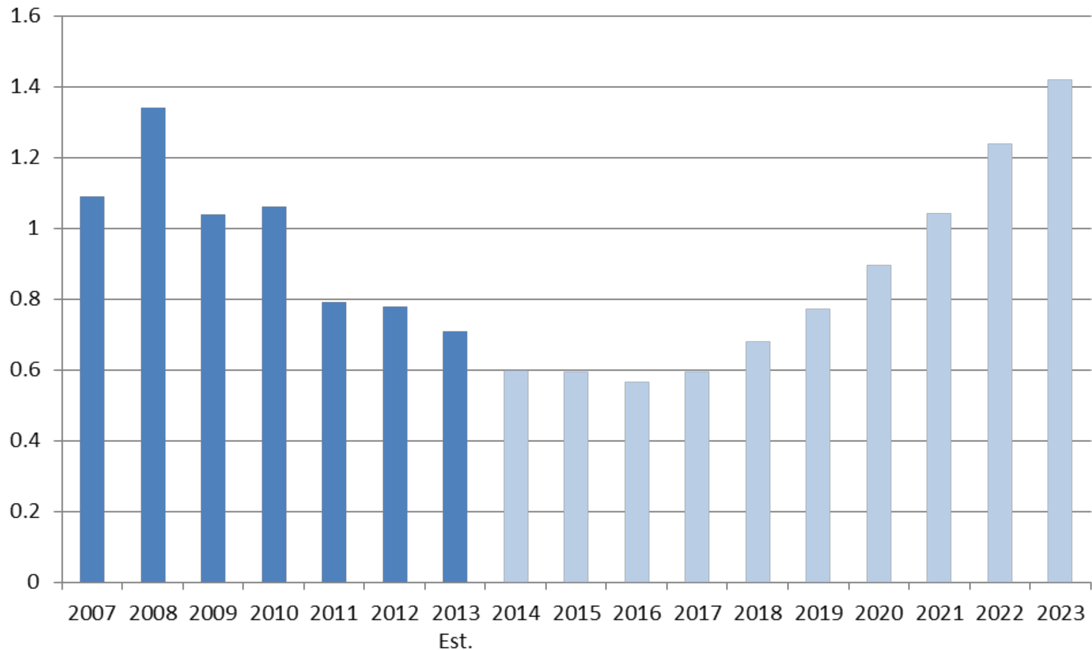
Additionally, the peak level of debt is expected to decline significantly over the same time period compared to initial forecasts, as shown in Chart 5. The 2013 and the initially proposed 2014 Capital Plans showed forecast debt increasing to over $5 billion by 2019. As a result of being able to use Development Charge Reserves more effectively and reducing tax-levy debt through redirected reserves and revenue, the Region's outstanding debt is now forecast to peak at $3.7 billion in 2020, and then start to decline.

Chart 5
Debt Reduction from Initial Budget Forecast



Furthermore, the downward trend in the Region's reserve to debt ratio is expected to stabilize in the next four years before rising sharply. Reserve levels are now forecasted to increase at a greater rate than debt levels. This will provide the Region with increased liquidity and back-up for its debt payments if required.

Chart 6
Reserve to Debt Ratio
2007-2023



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 in the Region's name and therefore pay the same financing costs for their long-term debt as the Region. Superior credit ratings help ensure that the best cost of financing is obtained for the Region and local municipalities.

7. CONCLUSION

The Region's evolving fiscal strategy will contribute toward a significant increase in its reserve levels and a significant reduction in its debt levels. This will greatly improve the Region's liquidity and back-up for its debt payments and will contribute to the maintenance of the Region's superior credit ratings.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at Ext. 1644.

The Senior Management Group has reviewed this report.

Attachments (2)

#

Reserve and Reserve Fund Balances
At December 31, 2012

Reserve/Reserve Fund		Balance ($)
Development Charges		
Development Charges	377,638,790	
Subtotal		*377,638,790*
Replacement Reserves		
Equipment Replacement	29,803,322	
Roads Replacement	125,747,553	
Regionally Owned Housing Replacement	12,580,478	
Vehicle Replacement	21,657,595	
Facilities Rehabilitation & Replacement	194,384,541	
Subtotal		*384,173,489*
Capital Reserves		
General Capital Reserve	219,797,402	
Social Housing Development	123,554,836	
Move Ontario	29,884,167	
Non-Profit Housing Capital	12,965,404	
Hospital Financing	15,692,626	
IT Development	9,959,839	
Roads Capital	57,760,160	
Transit	15,468,003	
Computer Software Acquisition	1,175,024	
Solid Waste Management	51,494,010	
Highway 48	71	
Highway 7	1,175,882	
Subtotal		*538,927,424*
User Rate Reserves		
Water & Wastewater Stabilization	(22,427,324)	
Subtotal		*(22,427,324)*
Human Resources Reserves		
Long-Term Disability	27,698,158	
Vacation Pay	833,239	
OMERS (Type 3)	94,604	
Group Benefits	2,472,905	
Sick Leave	23,437,078	
Workers' Compensation	14,999,490	
Subtotal		*69,535,474*

Corporate Reserves		
Working Capital	41,819,788	
Fuel Cost Stabilization	1,083,207	
Tax Stabilization	47,398,636	
Fiscal Stabilization	8,677,065	
Insurance	23,710,779	
Insurance Claims & Certificate System	10,689	
Subtotal		*122,700,164*
Other Reserves		
Alternative Community Living	213,356	
Seized Funds	278,297	
Land Securement	3,011,580	
Social Assistance	26,146,128	
Innovation	4,219,010	
Provincial Gas Tax	1,595,505	
Federal Gas Tax	52,996,001	
Subtotal		*88,459,877*
Total Reserves and Reserve Funds		**1,559,007,895**

2014 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% of a municipality's own source revenue plus, in the case of York Region alone, a growth cost supplement equal to 80% of the average of the Region's last three fiscal years of development charge 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 November 2013, the Region had met the first condition by maintaining a AAA credit rating with both Moody's Investor Service and Standard and Poor's Rating Services for the thirteenth and twelfth year in a row respectively.

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 2014

7. Evaluation and comparison of 2013 projections and outcomes.

2014 Long-Term Debt Management Plan

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

The Region's reliance on debt to finance its capital plan has decreased significantly

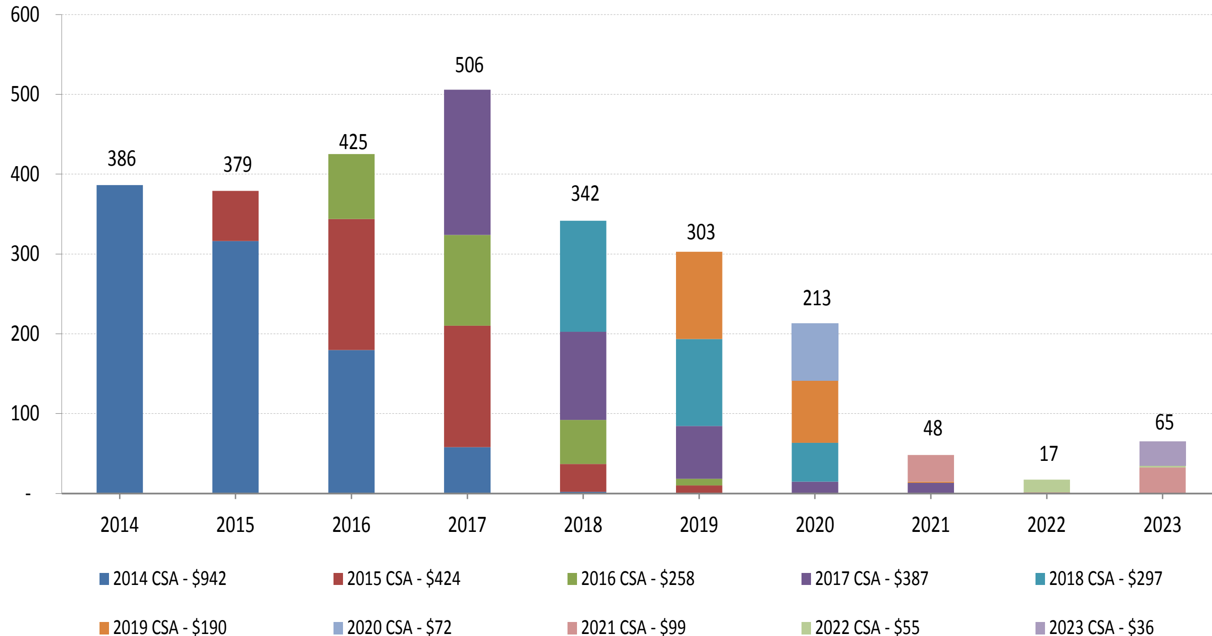
As part of the 2014 budget process, staff has developed a fiscal strategy to help guide the funding of the Region's capital plan. A major objective of this strategy is to develop a more balanced approach to funding long-term capital expenditures. To accomplish this, a detailed review of both expenditures and funding sources was undertaken by departmental staff across the Region. Through the review, it was determined that certain capital expenditures could be deferred into later periods without negatively affecting the Region's ability to maintain service levels. Doing so relieved major development-charge-related funding pressures, allowing for more flexibility in the use of DC reserve funds. In addition, the fiscal strategy aimed to reduce tax-levy related debt through a debt reduction plan that used cash funds in reserves to replace tax levy debt financing. As a result of these fiscal measures, anticipated debt needs have been significantly reduced from previous forecasts.

The 2014 Capital Plan shows capital expenditure needs totaling approximately $6.6 billion over the 2014-2023 forecast period. Of this, approximately $2.7 billion or 40 per cent will be funded from debenture proceeds. This compares to a debt funding ratio of over 65 per cent anticipated for the same period in the 2013 capital plan. Approximately $0.9 billion of the $2.7 billion in projected debenture requirements is included within the Capital Spending Authority (CSA) for 2014, as illustrated in 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.

The Region's capital plan also contains projects with an estimated debt of about $1.8 billion that are planned, but do not yet have Capital Spending Authority. For the purposes of this Debt Management Plan, departments have estimated the Region's future debt requirements for each year of the plan on a CSA basis. This will be described in further detail below.

Chart 1
Multi-Year Forecast of New Debt to be Issued - $2.7 Billion
Based on CSA Forecast by Year
2014-2023
($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

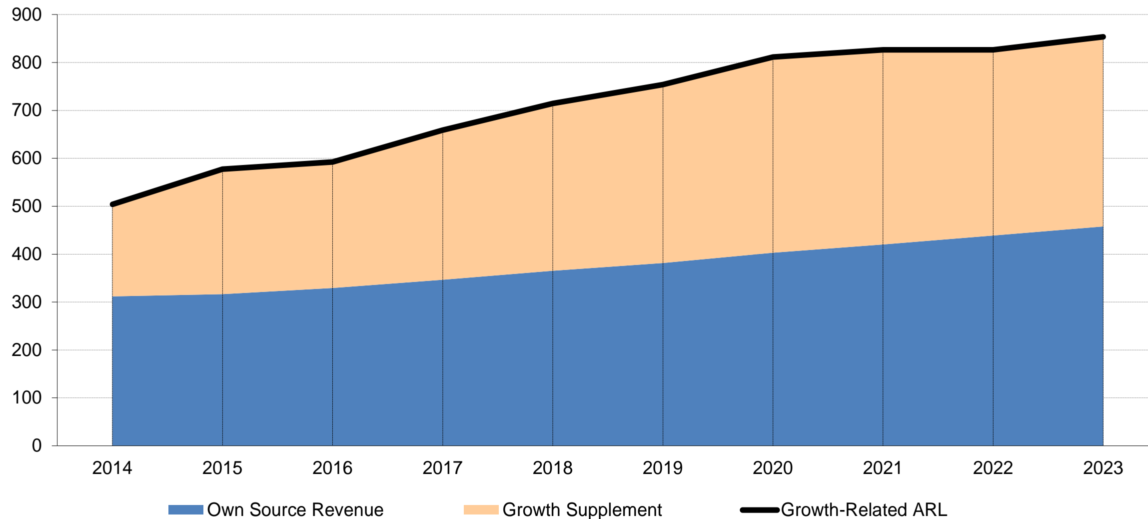
How much debt room are we estimating we will have?

The ARL is calculated by determining and projecting 25% of the Region's own-source revenues, and adding 80% of the three-year rolling average of historic development charge collections. 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 increases from $504 million in 2014 to $854 million by 2023, as illustrated in Chart 2 below:

2014 Long-Term Debt Management Plan

Chart 2
Annual Repayment Limit Forecast
2014-2023
($Millions)



Source: York Region Finance Department

What are our estimated debt and financial obligation payments?

The existing debt payment and financial obligations include the following components:

- Principal Obligations
- Interest Obligations
- Social Housing Mortgages
- Long-term Leases
- Hospital Funding.

These existing obligations totaled approximately $295 million at the end of 2013, but are estimated to decline to $185 million by 2023. The largest component of these obligations is the principal and interest on existing debt, which will decrease from $266 million in 2013 to $155 million by 2023 as existing debt is repaid. Hospital financing is forecast to increase at a rate of 2% per year, rising from $12.7 million in 2014 to $15.2 million by 2023.

As noted earlier, the CSA 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 2014 budget process, the Region must have sufficient room under its 2014 ARL to recognize the full financial cost of the projects “as if” they were going to be incurred entirely in 2014, even if the actual costs are spread out over multiple years. This is the case for each year of the capital plan.

2014 Long-Term Debt Management Plan

The Capital Spending Authority in the 2014 Budget is $2.6 billion, of which $0.9 billion is debt financed. Assuming an annual interest rate of 5.11% in 2014 and a term of 20 years, the annual obligation arising from this debt will be approximately $75 million.[1]

Will the Region be within its ARL?

For 2014, the Region will be within its ARL, as shown in Table 1 below.

Table 1
Region's 2014 ARL Calculation
($Millions)

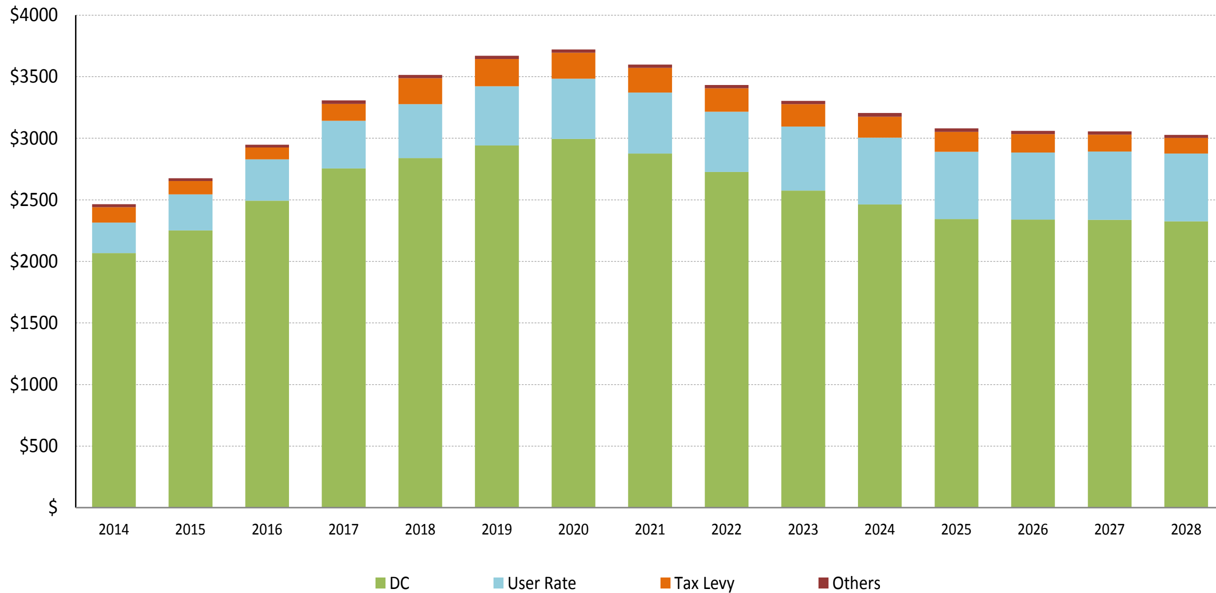
Component Description	Forecast 2014
25% of Own Source Revenues	312
Plus: Growth Cost Supplement[1]	192
Total ARL	**504**
Less: Existing Debt Payment and Financial Obligations	321
Less: Anticipated New Debt Payment	75
Remaining ARL (>$0)	**108**

1. Growth Cost Supplement in 2014 is calculated at 80% of the 3-year rolling average of Development Charge collections (2011-2013 inclusive)

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 2014 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 $2.5 billion in 2014 to a high of just over $3.7 billion in 2020 and then start to decrease in 2021, as illustrated in Chart 3.

[1] 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.

Chart 3
Outstanding Debt Projection
2014 to 2028
($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 2014 CSA, except that the assumed interest rate will increase to 6.25% by 2021.[2] As a result, the financial obligations associated with new debt-related CSA will increase to $223 million by 2023.

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

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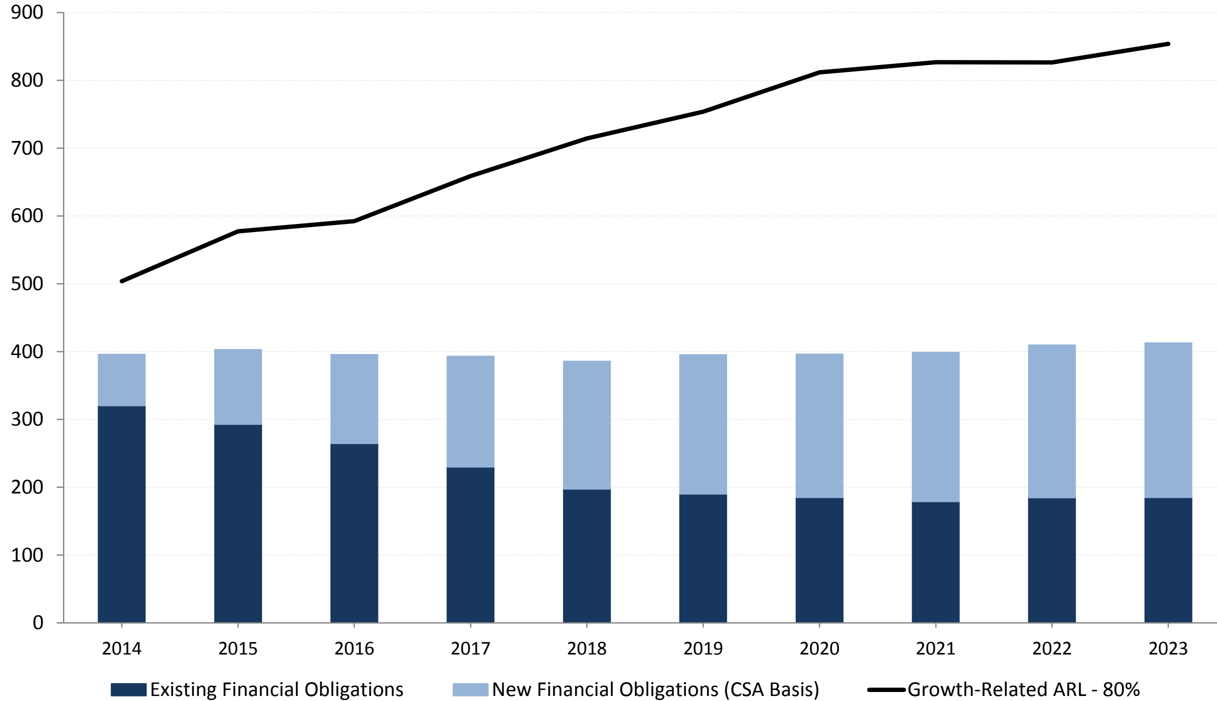
[2] The base rate assumptions increase from 5.0% to 6.50% by 2024 and are held constant thereafter. The term will remain 20 years and the payment will continue to be calculated on a "Full Commitment" basis for the entire forecast.

Chart 4
Annual Repayment Limit vs.
Annual CSA Based Debt and Financial Obligations
2014-2023
($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

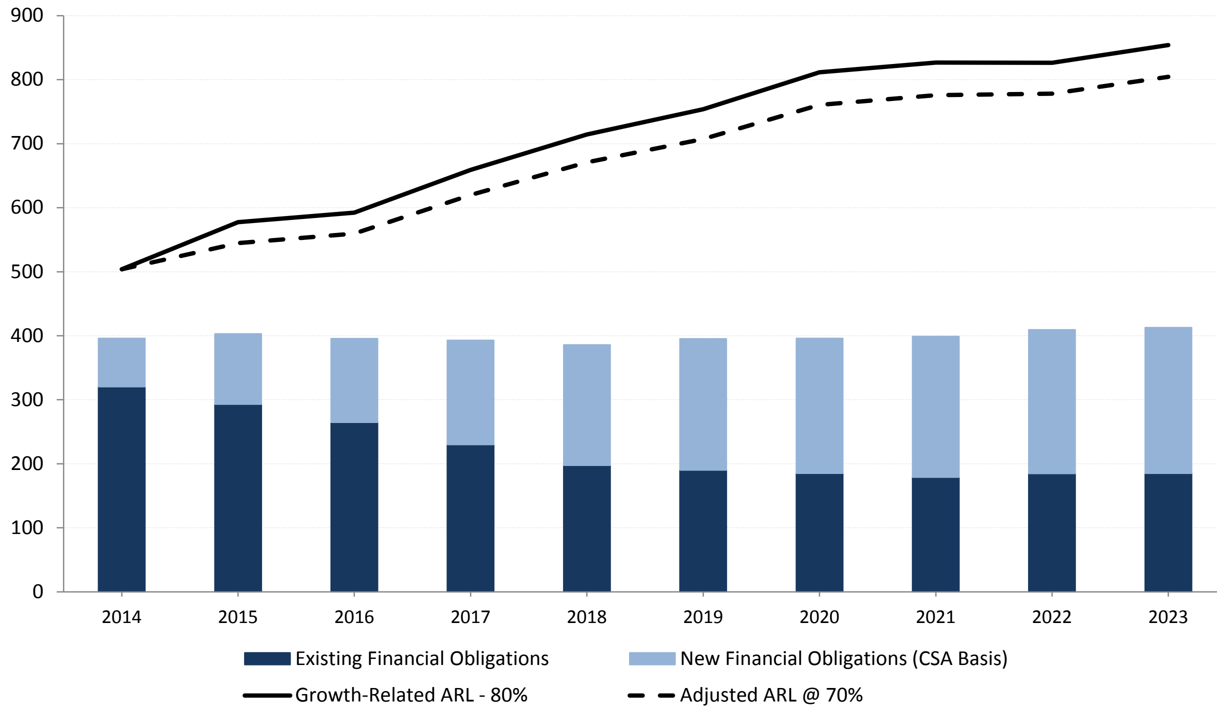
Anticipated development charge collections represent one of the most significant risks to remaining within the ARL

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.

As a matter of normal practice, the Region's capital plan will be measured against an adjusted ARL that uses only 70% of the three-year rolling average of historic DC collections as a cost supplement, versus the 80% 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. However, the DC collections achieved in 2013 suggest that we will meet and even exceed anticipated collection levels. Given this added level of certainty, the ARL limit for

2014 has been calculated based on the full cost supplement permitted (e.g., 80%). The impact on the ARL calculations is illustrated in Chart 5.

Chart 5
Adjusted Annual Repayment Limit vs.
Annual CSA Based Debt and Financial Obligations
2013-2022
($Millions)



Source: York Region Finance Department

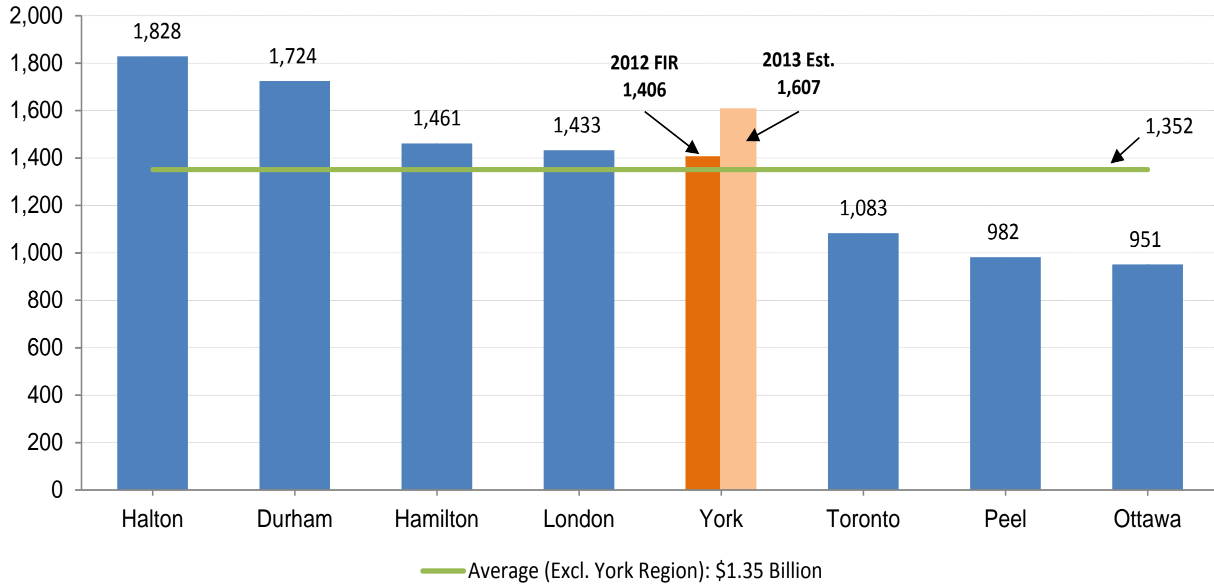
Lower-than-expected DC collections in any given year can result in a decrease in liquidity and debt servicing ability. To help mitigate this, it is Regional policy to maintain overall DC reserve balances that are at least equal to the next year's estimated DC-related principal and interest obligations.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

2014 Long-Term Debt Management Plan

Chart 6
Reserves Per Capita Comparison
($Millions)

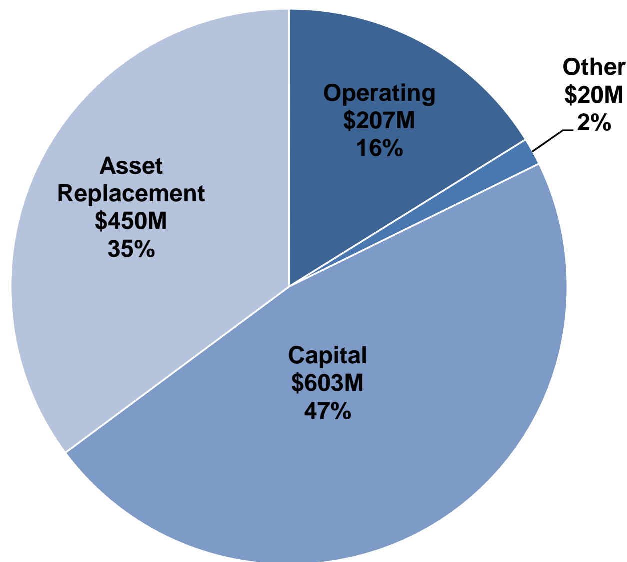


Source: Figures for comparator peer group are based on results summarized in 2012 Financial Information Returns.

The Region has a number of different non-growth reserves, broadly categorized into capital, asset replacement, operating, and other reserves, as summarized in Chart 7.

Chart 7
Summary of Non-DC Reserves
Forecast December 31, 2013

Total Non-DC Reserves: $1.3 Billion



Source: York Region Finance Department

2014 Long-Term Debt Management Plan

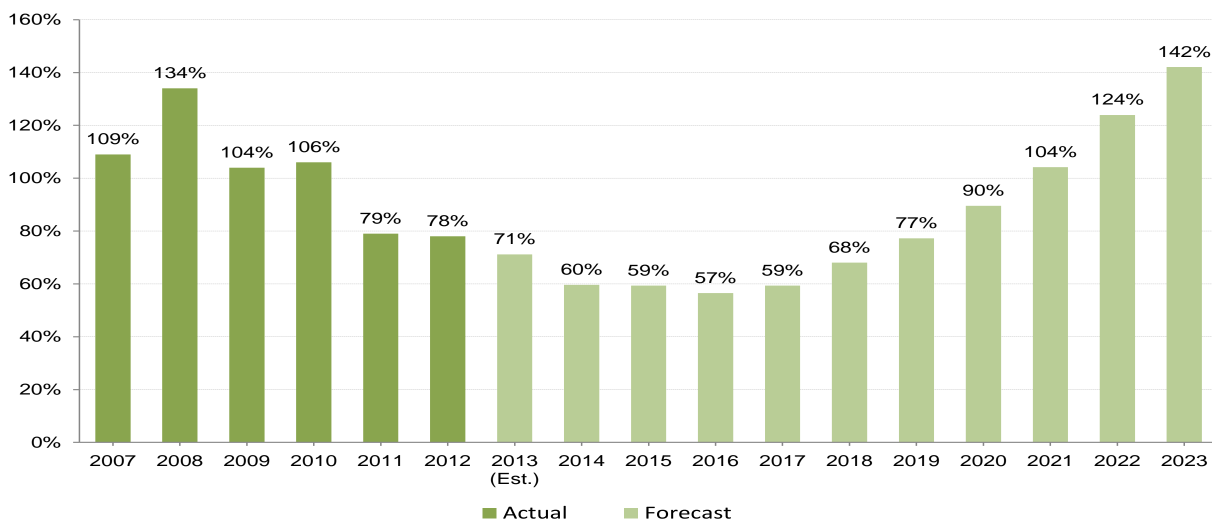
The fiscal strategy involves continuing to build up reserves over time to help meet future capital funding requirements

As infrastructure ages, it periodically needs major (usually expensive) rehabilitation and ultimately needs to be replaced. Development charges cannot be used for this purpose, making it necessary to find other funding sources such as taxes and/or user rates. To minimize the impact that rehabilitation needs will have on tax/rate payers in any given year, debentures can be used to spread the costs out over time.

An alternative to issuing debt for capital rehabilitation and replacement is to build reserves for that purpose. Notwithstanding increased reserve and reserve fund draws included in the 2014 capital plan, the fiscal strategy recognizes the need to build up reserves over time to fund future capital needs. To this end, the contribution strategy introduced in 2006 and revised in the 2013 budget is maintained. Since 2006, annual contributions have been increasing by an increment equal to 1 per cent of the prior year's tax levy. In 2013, Council approved a policy to gradually increase the increment by 0.2 per cent each year until it reaches 2 per cent of the prior year's tax levy. Based on this plan, the annual contribution for 2014 is anticipated to be approximately $61 million. It will increase to approximately $114 million by 2017. In addition, annual operating surpluses help build reserves, in accordance with Council's approved surplus policy.

As illustrated in Chart 8, the ratio of reserves to debt has been decreasing 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 142% by 2023.

Chart 8
Reserve to Debt Ratio
Actual and Forecast
2007-2023



Source: York Region Finance Department

2014 Long-Term Debt Management Plan

Reserves will be used to reduce tax-levy related debt requirements

One way to mitigate the risks associated with the Region's debt needs is to eliminate the debt need 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. The analysis considered the magnitude of the expenditures and compared opportunity costs with financing costs to ensure the proper balance between reserves and debt. As a result, tax levy-related debt needs were reduced by a total of approximately $417 million over the 2014 to 2023 forecast period. It is estimated that this will save approximately $175 million in principal and interest costs over the same period.

We have built an increase into our expected costs of debt financing over time

The forecast will be sensitive to interest rate fluctuations over the forecast period. For example, a 1% increase in interest rates would result in approximately $0.68 million in additional 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, interest rates are weight-averaged 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
2014-2023

Interest Rate	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Annual Estimate (%)	5.00	5.15	5.25	5.25	5.50	6.25	6.25	6.25	6.25	6.25
Weighted Average (%)	5.11	5.28	5.34	5.56	5.90	6.25	6.25	6.33	6.42	6.29

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. For existing debt, this risk has been accounted for by calculating the annual repayment on the amount outstanding after the contract term expires (e.g., 2019) using an additional ten-year term with an annual interest rate of approximately 5.25%. For new debt, forecasted 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 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 will be employed to deal with this eventuality include:

- Use of bond forward agreements to hedge interest costs
- Pre-financing
- Borrowing applications to government agencies such as Infrastructure Ontario
- Limiting the use of debt repaid from tax levy where the amortization period differs from the term of the debt
- Use of variable rate debt/lines of credit or short-term borrowing from reserves during periods of market turmoil or in anticipation of significantly lower interest rates
- Use of underwriting syndicates
- An 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. It is now Regional policy to prioritize projects each year as part of the budget process to ensure sufficient debt financing is available for the highest priority projects. In addition, phase-in strategies for large capital projects will also 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 2011, is under constant review 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 2014 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

The Region's temporary borrowing requirements are addressed in detail under a separate report to Council. In 2014, it is estimated that approximately $325 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 2014, it is estimated that approximately $350 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% of budgeted total revenue from January to September and 25% from October to December.[3] 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 2014. Any funds borrowed from reserves are always paid back during the year of borrowing.

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[3] Temporary borrowing provisions are set out in Section 405 and 407 of the Municipal Act. Temporary borrowings are not part of the ARL calculations.

7. Evaluation and Comparison of 2013 Projections and Outcomes

As Table 3 shows, the Region was in compliance with its ARL for 2013.

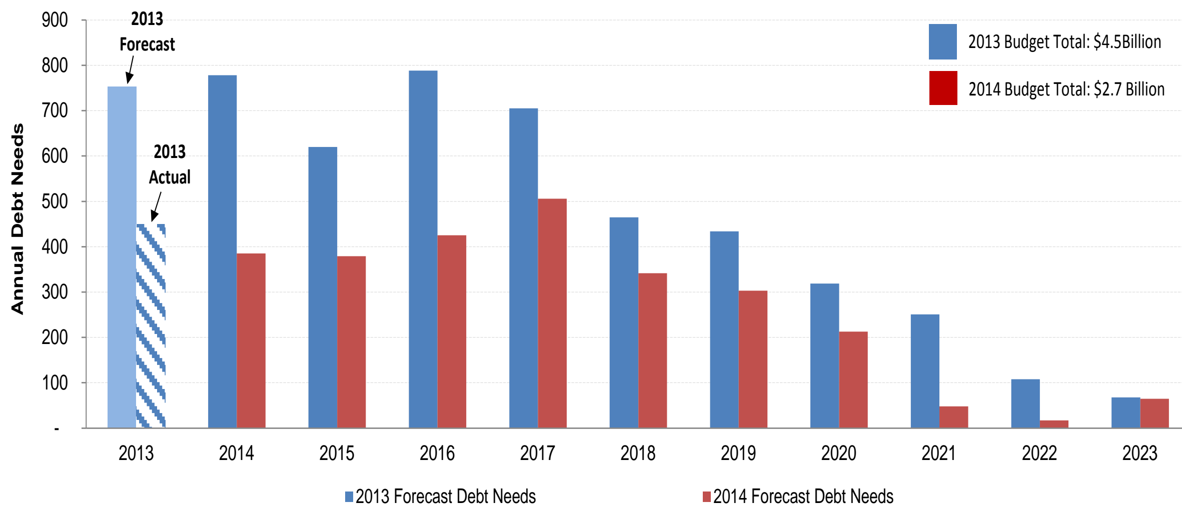
Table 3
Region's 2013 ARL
($Millions)

Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	293	293	-
Plus: Growth Cost Supplement[1]	182	208	26
Total ARL	**475**	**501**	**26**
Less: Existing Debt Payment and Financial Obligations	298	295	(3)
Less: Anticipated New Debt Payment and Financial Obligations	154	154	-
Remaining ARL (>$0)	**23**	**52**	**29**

1. DC collections for 2013 are estimated to be $179 million based on year-to-date collections as of October 29, 2013

A year-over-year comparison of annual debt requirements is shown in Chart 9.

Chart 9
Comparison of CSA Debt Needs
2013 Budget vs. 2014 Budget
2013-2022
($Millions)



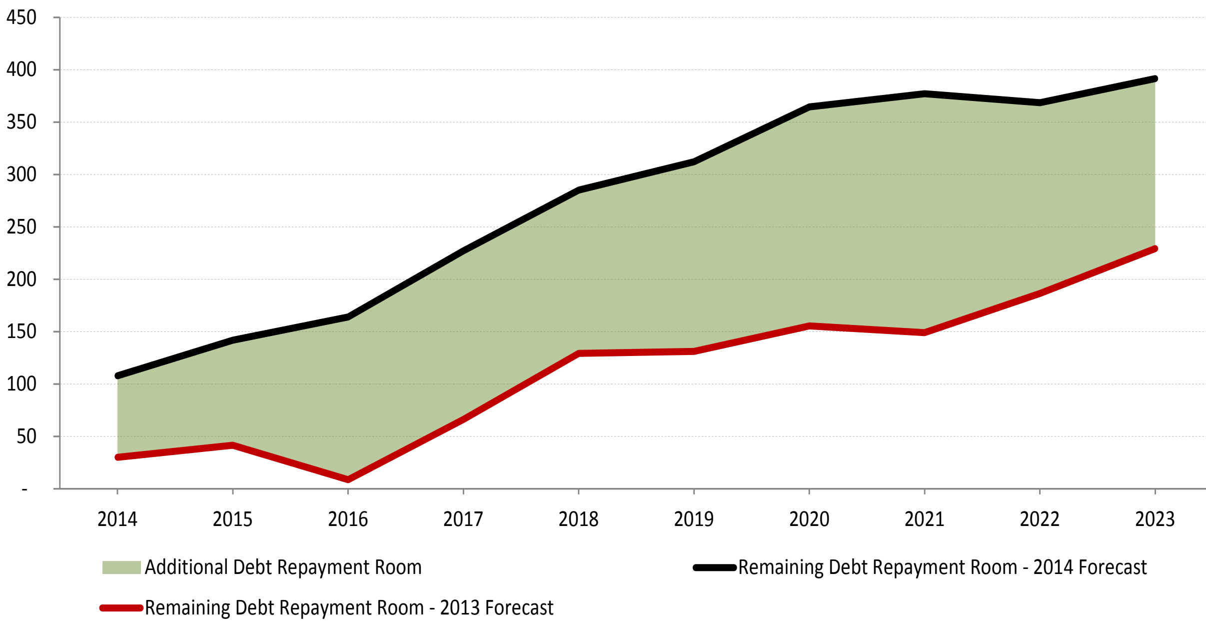
Source: York Region Finance Department

The capital plan included in the 2014 budget shows a total debt requirement of $2.7 billion over the 2014-2023 period. This represents a $1.8 billion decrease from the debt requirements identified for the same period in 2013, primarily due to fiscal strategy measures noted earlier.

2014 Long-Term Debt Management Plan

As illustrated in Chart 10, the decrease in debt requirements has reduced the pressures on the Region's ARL identified in previous forecasts and has provided additional annual debt repayment room. This will also help to further mitigate other risks such as DC collection uncertainty and interest rate risk. Overall, the Region has improved its ability to deliver the capital budget.

Chart 10
Comparison of Forecasted Remaining
Annual Repayment Room
2013 vs. 2014
($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.

2014 Long-Term Debt Management Plan

APPENDIX 1
Determination of ARL

Step 1: Calculate 25% 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 2014-2023 forecast based on information and assumptions contained in the 2014 Operating Budget.

2014 Long-Term Debt Management Plan

Table A1
Annual Repayment Limit Calculation – 25% of Own Source Revenues
Forecast Budget Years 2014-2023
($Millions)

ARL Determination	Budget Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	FIR Year[1]	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Revenues											
Property Taxes/PIL's[2]		847	861	892	928	964	1,003	1,041	1,080	1,119	1,161
User Rates - Sewage/Water/Solid Waste		221	239	259	287	314	335	355	358	372	386
Transportation User Fees		52	55	57	58	63	57	62	64	65	66
Other User Fees[3]		33	27	29	30	31	32	33	34	34	34
Provincial Fines		10	12	13	13	13	13	13	14	14	15
Other Revenue[4]		84	72	67	70	75	86	107	132	151	168
Total - Net Revenues[5]		**1,247**	**1,266**	**1,317**	**1,386**	**1,460**	**1,526**	**1,611**	**1,682**	**1,755**	**1,830**
25% of Net Revenues		**312**	**317**	**329**	**347**	**365**	**382**	**403**	**421**	**439**	**458**

Notes:

1. Own Source Revenues from two years prior to the current year are included in current year ARL calculations as represented by FIR Year. FIR Year 2014 is based on actual results. FIR Years 2013-2018 are based on the 2014 Operating Budget and departmental estimates for outlook years.
2. Property Taxes for 2014 assume approximately 2.06% assessment growth plus 1.54% net tax levy growth for a total of 3.60%. Property Taxes for FIR Year 2014-2018 are based on adjusted outlook assumptions and are assumed to grow at an average annual rate of 3.9% and for the remaining years, 3.7% (e.g., FIR Years 2019-2021).
3. Other User Fees include revenues generated by: Police Services, Public Health, EMS, Community and Health Services, Social Housing, and Planning. These are assumed to grow at an average annual rate of 2.7% over the forecast period (e.g., FIR Years 2012-2021).
4. Other Revenue includes: Investment Income, Sale of Publications etc., and recoveries.
5. Total Net Revenues equal total budgeted net revenues from the 2014 Operating Budget and departmental estimates of the outlook years. These are forecast to increase at an average annual rate of 4.6% over the forecast period (e.g., FIR Years 2014-2020).

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.

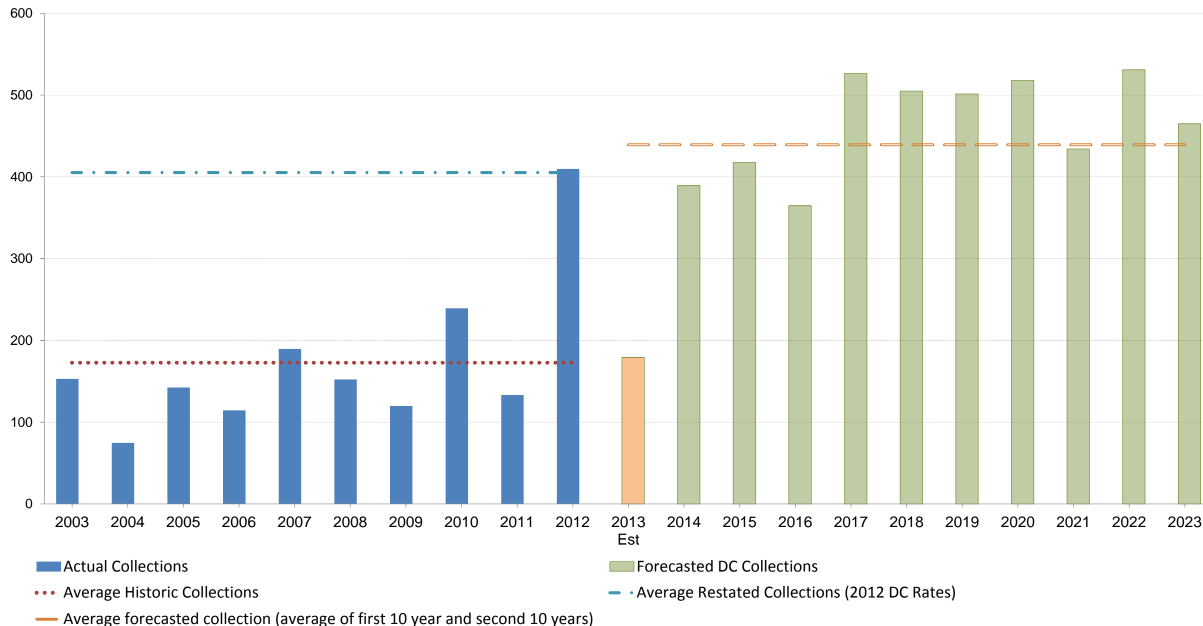
The DC collections forecast was developed for 2014 to 2023. A DC collection estimate was generated for 2013, based on the actual year-to-date collections realized by September, and historic trends in monthly DC collections.

DC collections are very sensitive to economic conditions and regional policies, and collections can vary widely from year to year. The collection forecast is calculated based on:

- Historic trends in residential building permits, population growth and household size
- Historic trends in the relationship between residential building permits and interest rates
- Population and employment projections that are consistent with the Region's Official Plan and the Growth Plan
- Recent data on average gross floor area of non-residential developments
- Recent trends in the relationship between employment growth and non-residential construction activity
- Policies regarding DC prepayments, deferrals, and exemptions

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

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



Source: York Region Finance Department

Over the ten year period 2003-2012, annual collections have averaged approximately $173 million[4], with peaks in 2012, 2010, and 2007 due to developer prepayments resulting from rate increases. The 2013 collection is estimated to be $179 million. Collections were significantly lower in 2008 and 2009 due to the recession. The actual historic average collection level is not a good indicator of future average collections because the Region has stopped the practice of phasing in DC rate increases.

Average collections are anticipated to increase to approximately $439 million annually from 2013- 2023. This is largely due to the fact that the Region is anticipated to continue to grow and the discontinuation of phase-ins.

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
2014-2023
($Millions)

Component	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Own Source Revenues	1,247,430	1,266,001	1,317,452	1,386,212	1,461,395	1,525,979	1,611,918	1,680,885	1,755,521	1,831,219
Own Source Revenues at 25%	**311,858**	**316,500**	**329,363**	**346,553**	**365,349**	**381,495**	**402,980**	**420,221**	**438,880**	**457,805**
DC Collections (3-year rolling avg.)	239,906	326,091	328,779	390,568	436,308	465,327	510,882	507,998	484,427	495,068
DC Cost Supplement - %	80%	70%	70%	70%	70%	70%	70%	70%	70%	70%
DC Cost Supplement - $	**191,925**	**228,264**	**230,145**	**273,398**	**305,416**	**325,729**	**357,617**	**355,599**	**339,099**	**346,547**
Growth Related Debt and Fin. Ob. Limit (ARL)	**503,782**	**544,764**	**559,508**	**619,951**	**670,765**	**707,224**	**760,597**	**775,820**	**777,979**	**804,352**

Note:

1. While the Regulation allows the Region to include an amount equivalent to 80% of the average DC collections for the previous three fiscal years as growth cost supplement, the 2015 to 2023 ARL is calculated based on 70% DC collection for conservative projection purposes.

[4] Note that if 2012 DC rates are applied to the historic level of registration and building permits, the average collection between 2003 and 2010 is estimated to be approximately $405 million.