Proposed 2014 Budget

Presentation to Council

Bill Hughes

November 21, 2013

Overview of Presentation

Part 1: The Budget

- Overview of 2014 Budget
- Operating Budget
- Capital Budget

Part 2: Fiscal Planning

- The Fiscal Environment
- Debt
- Reserves

Part 3: Budget Review Process and Conclusion

Overview of 2014 Budget

The Proposed Budget at a Glance

Tax increase for 2014	**1.54%**
Change from Approved Outlook	**-0.21%**
Capital Budget for 2014	**$1.2B**
Capital Spending Authority	**$2.6B**
Capital Plan compliant with the Province's Annual Repayment Limit regulation	✓

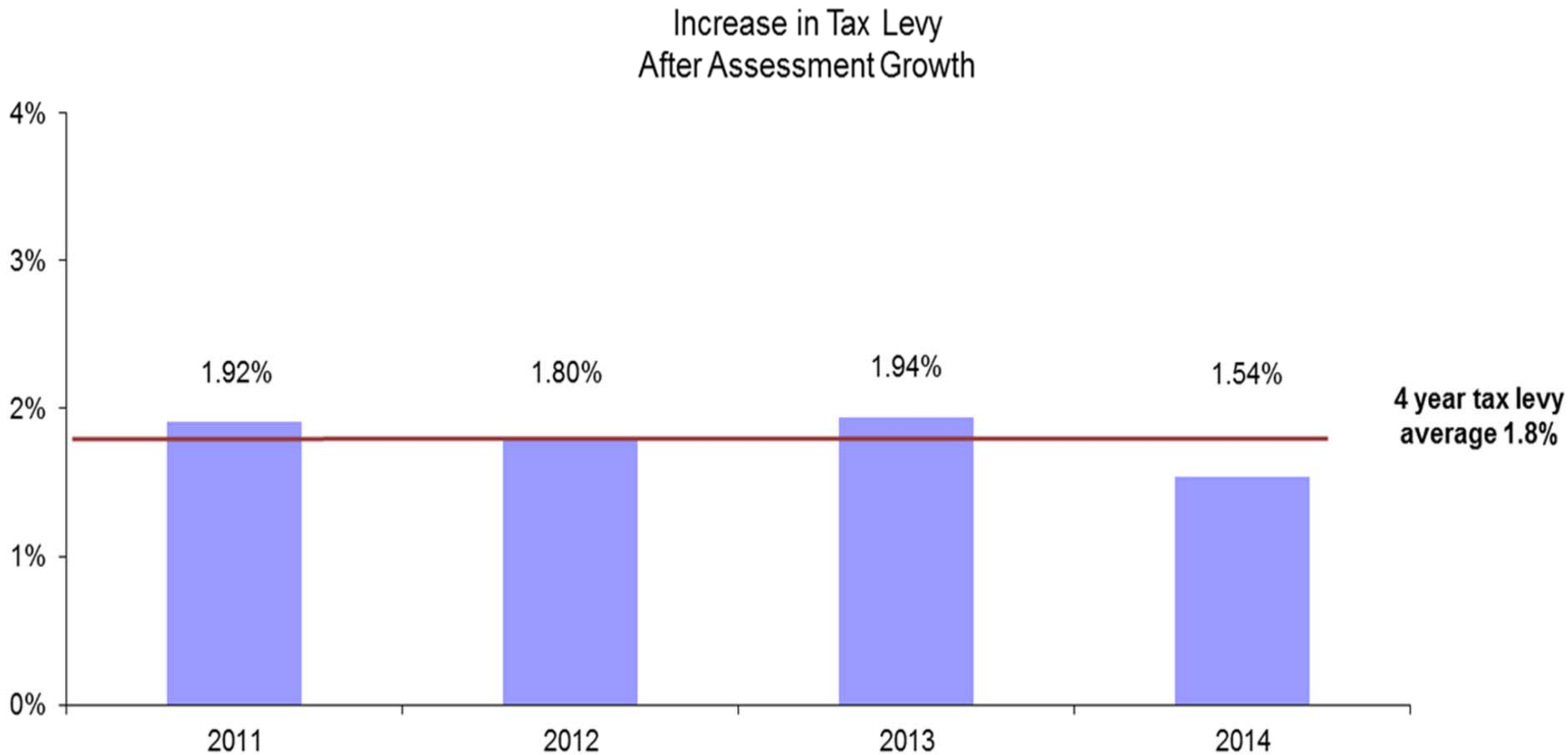
Fiscal Impacts at a Glance

Reduction in peak outstanding debt	**-$1.5B**
Increase in forecast reserves after ten years	**+$3.1B**
Contribution to capital reserves in 2014	**$217M**
Debt repayment (principal) in 2014	**$179M**
Triple A credit rating confirmed	✓

Key Features of the Budget

- Based on 2014 Outlook approved last year
- Continued low tax increases
- Selected improvements to service levels
- Major investments in growth-related capital
- Savings for future capital asset replacement
- Improved fiscal strategy to reduce future debt levels

Record of Low Tax Increases



Operating Budget

Proposed Operating Budget

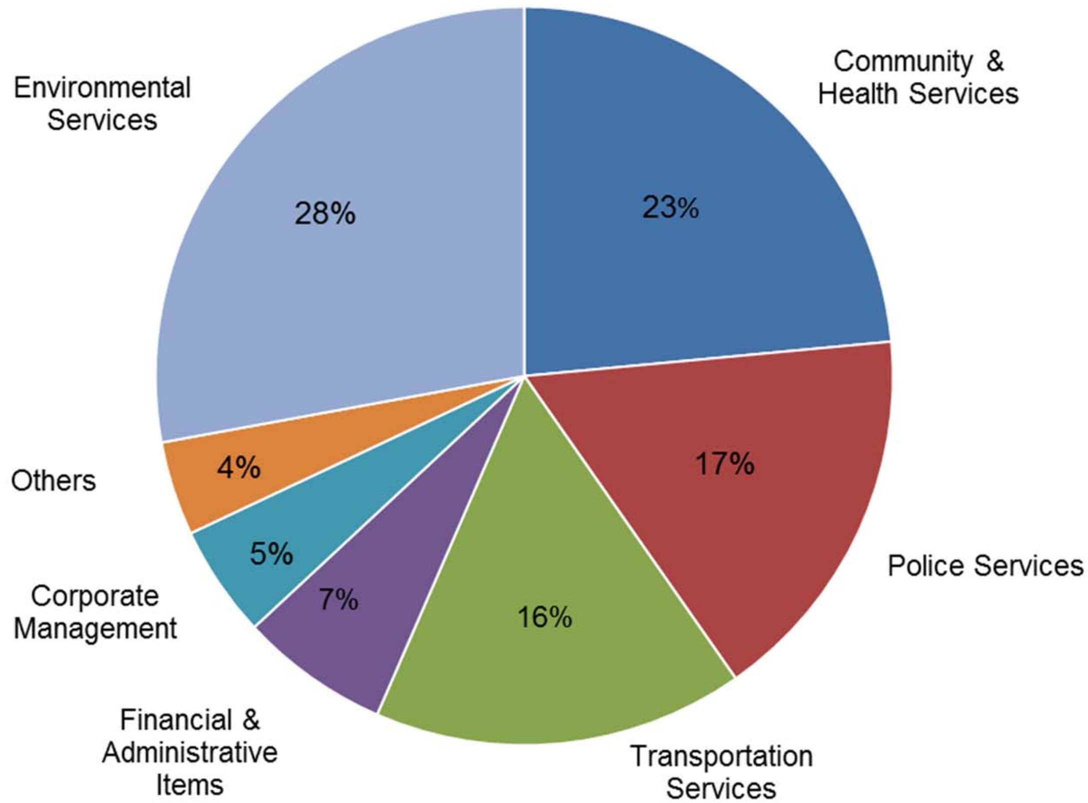
2014 Operating Budget	
Gross Operating	$1,816.1M
Non-Tax Revenue	$924.2M
Net Operating	$891.9M
Assessment Growth	2.1%
Proposed Tax Levy Increase	1.54%

Changes from the 2014 Outlook

- In addition to the normal adjustments that take place in the budget process, the proposed budget includes:
  - Achievement of the $5.9 million savings/revenue target established last year
  - A reduction in the tax levy increase from 1.75% to 1.54%
  - Increased contributions to debt reduction and capital asset replacement

Expenditures Mostly For Core Services

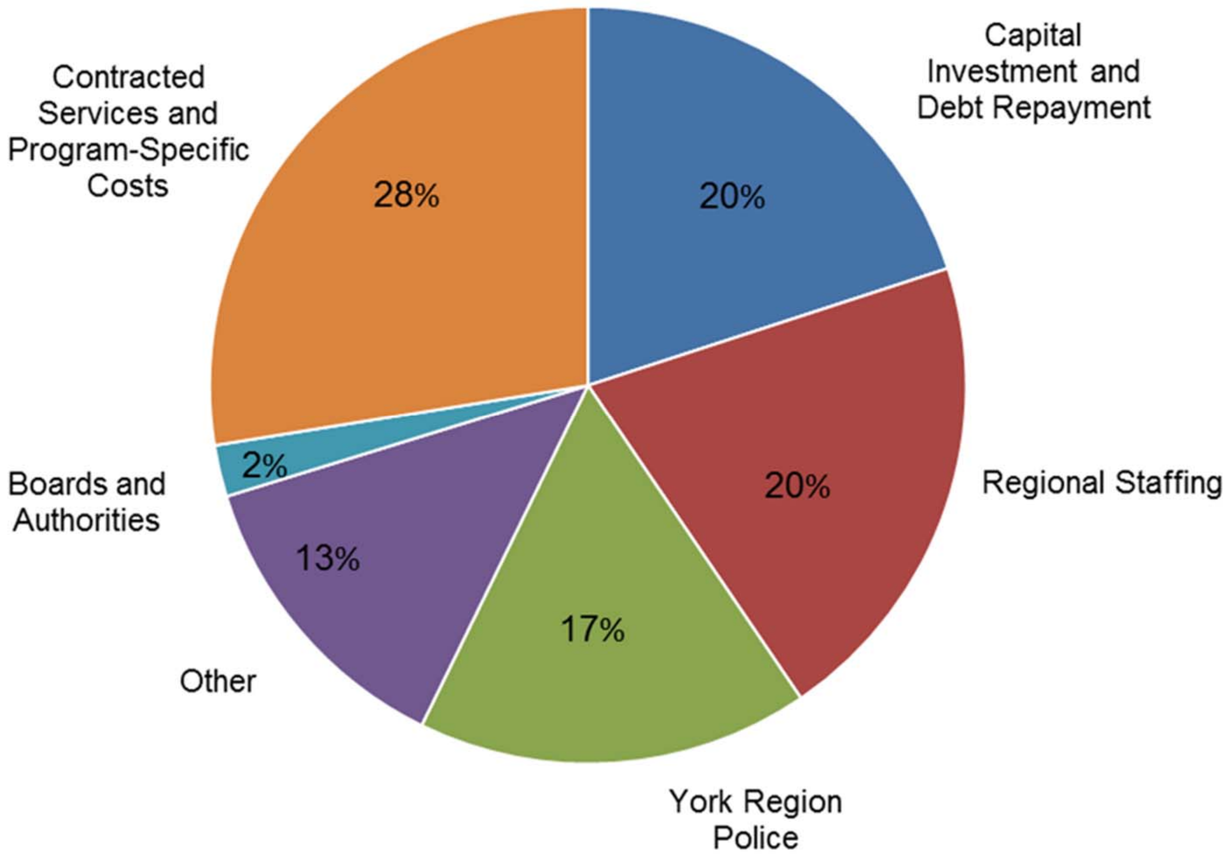
2014 Gross Budget $1.8 Billion



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

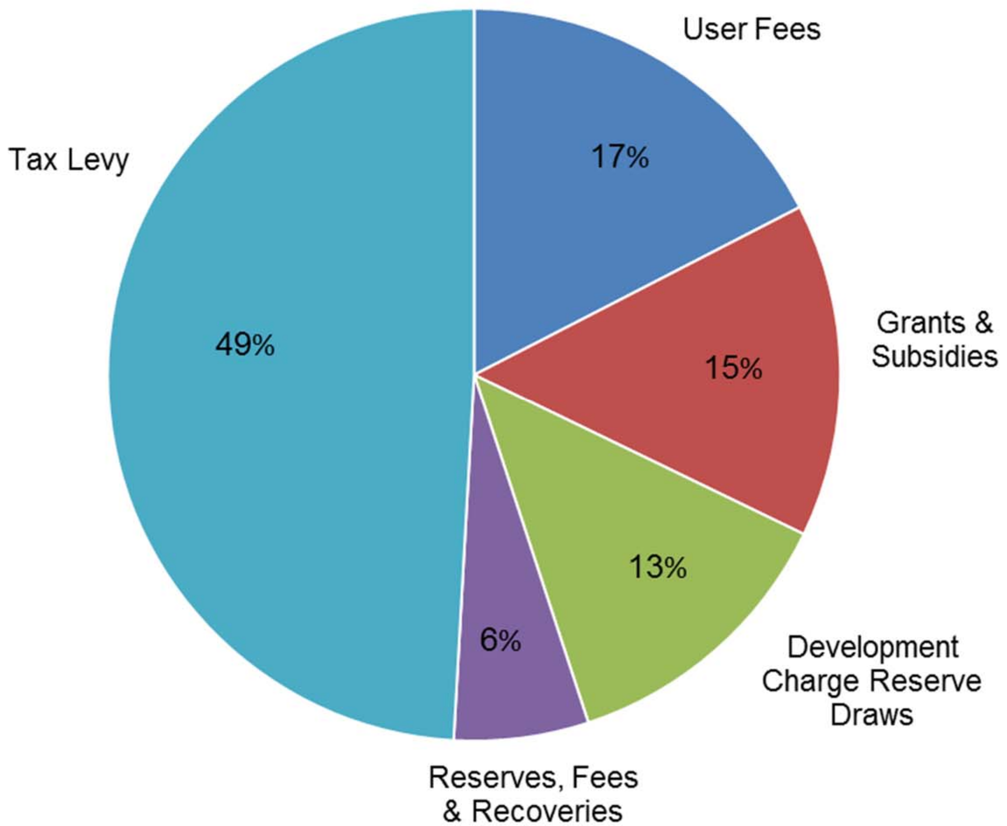
Differentiated Service Delivery

2014 Gross Budget $1.8 Billion



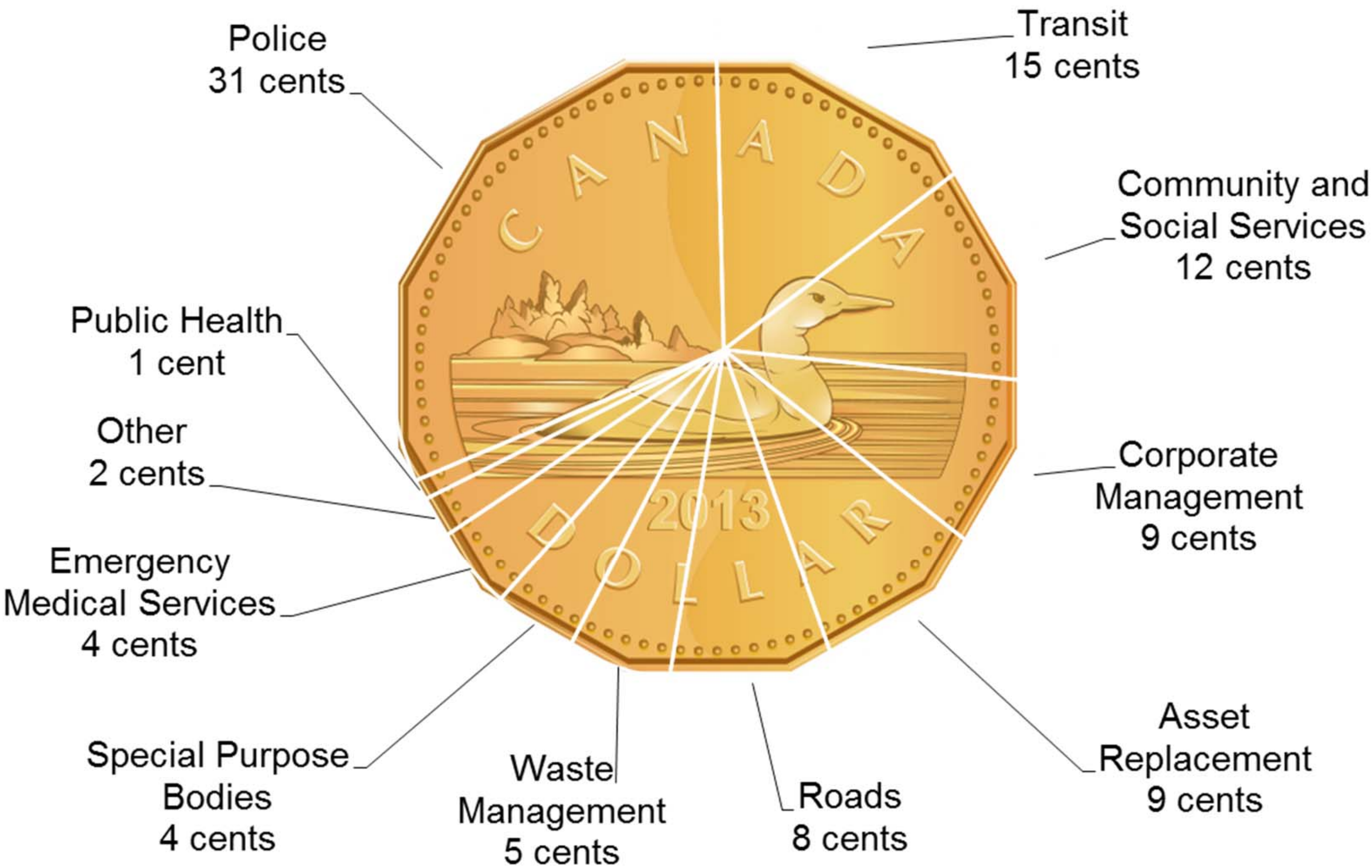
Non-Tax Revenue Has a Big Impact on the Bottom Line

2014 Total Revenue $1.8 Billion



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

Share of Net Regional Tax Dollar



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

Operating Budget Framework

Step 5 - ENHANCEMENTS
New services or enhanced service levels

Step 4 - GROWTH
Costs required to maintain existing levels of service for the Region's increased population

Step 3 - ANNUALIZATION
Additional cost of full-year implementation of prior year commitments

Step 2 - MANDATORY / LEGISLATIVE
Non-discretionary costs imposed by others

Step 1 - BASE
Costs required to maintain existing service levels (salaries & benefits, inflation, utilities and contracted services) for the existing population
Less: Reduction/ Efficiencies / Other Savings

Applying the Framework

	2014 Proposed	
	$ Millions	% Net Levy Impact
Base (incl. Reductions/Efficiencies/Savings)	13.5	1.6
Mandatory	(3.9)	(0.5)
Annualization (incl. Contribution to Capital)	13.2	1.5
Growth	6.0	0.7
Enhancements	2.2	0.3
Total Budget Pressures	**31.0**	**3.6**
Less Assessment Growth	(17.7)	(2.06)
Net Tax Levy Increase	**13.3**	**1.54**

New Initiatives Included in the Budget

- 16 new police officers and 30 civilian staff
- 18 new paramedics to service high-call-volume areas
- Investment in Community and Health Services Multi-Year Plan initiatives
- Investment in housing programs, including increased contribution to non-profit housing capital repair reserve

Capital Budget

Proposed Capital Budget

2014 Capital Budget	
Total Capital	$1,171M
Ten-Year Capital Plan	$6,634M
2014 Capital Spending Authority	$2,634M

Managing Debt Requires Realigning the Capital Plan

- This year's Ten-Year Capital Plan is $1.2 billion lower than the 2013 Ten-Year Plan

- This realignment of capital is a key element of the Region's proposed fiscal strategy

- The changes to the Plan involve building infrastructure closer to the time when it is needed, removal of costs for projects that have already been built, and cost reductions for some projects

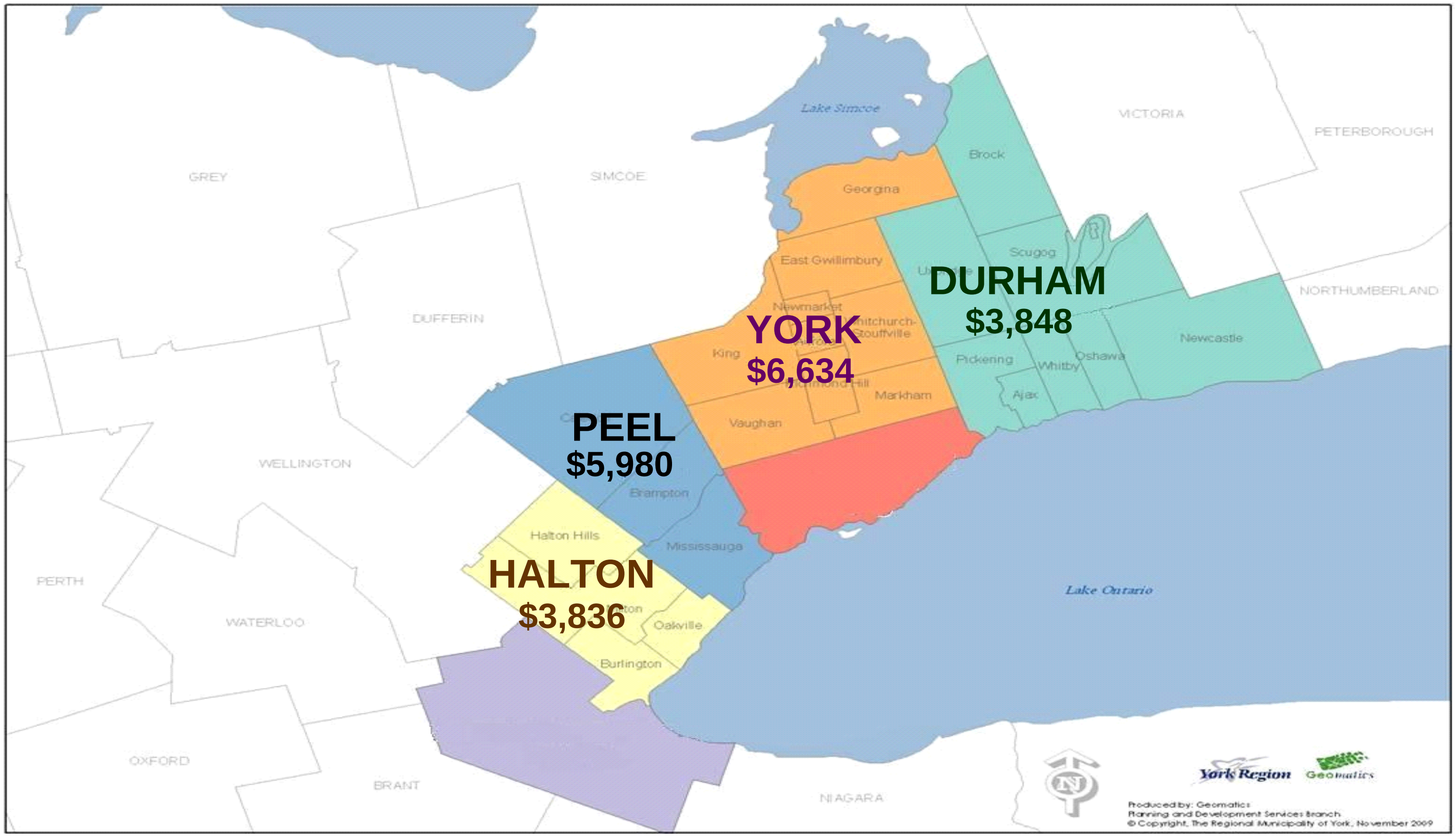
- The realigned plan is still focused on delivering the capacity needed to service growth

The 2014 Capital Plan balances infrastructure needs and financial sustainability

Highlights of Changes from the 2013 Ten-Year Plan

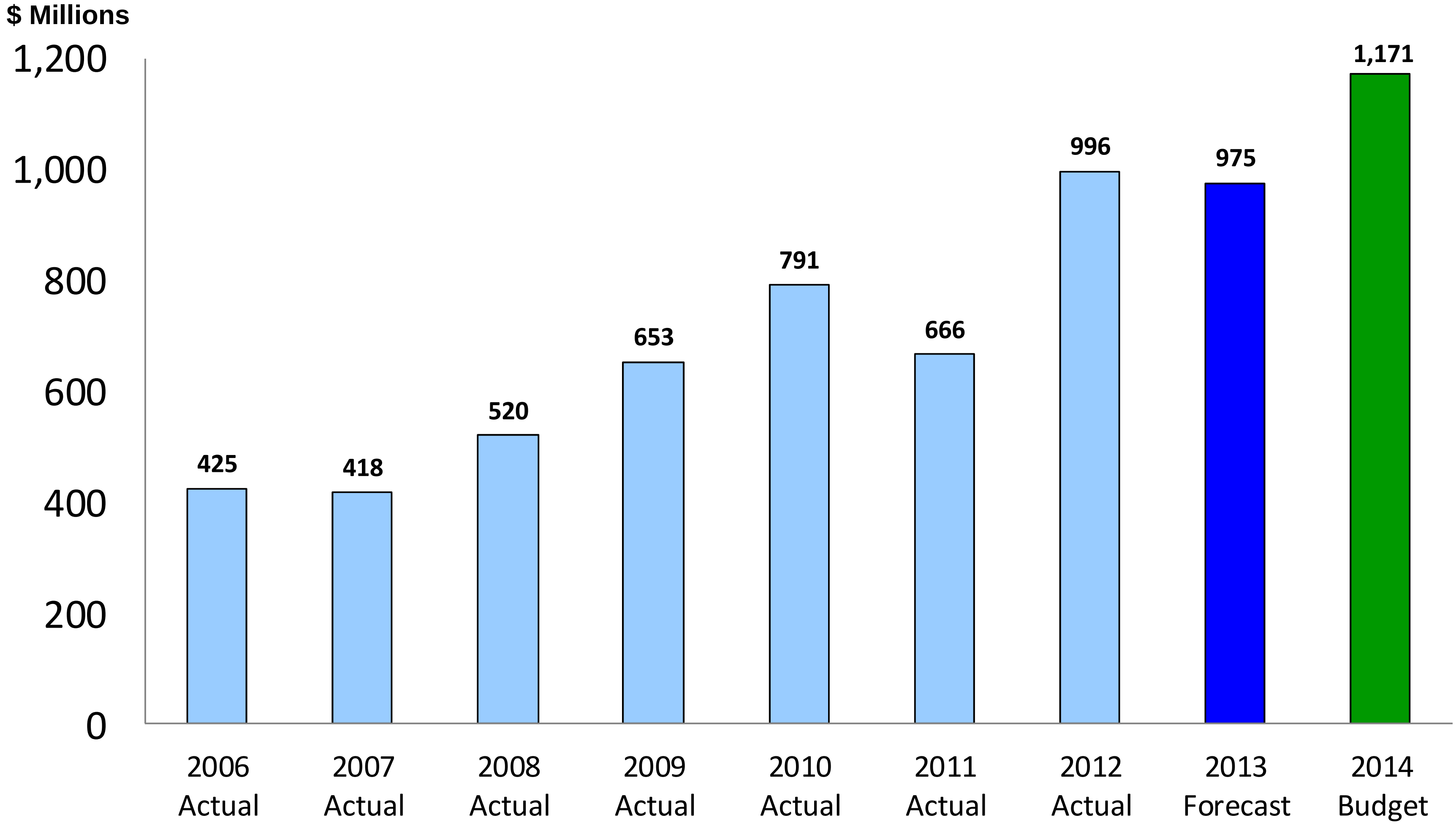
Department / Program	Ten-Year Plan Change ($M)	Description
Environmental Services	**(805)**	The decrease is primarily due to the deferral of Toronto water projects that will not be needed until later, a reduction in costs for Peel water and the Duffin Creek Outfall, a change in timing for the Primary Trunk Sewer and a deferral in the cost of the source separated organics facility
York Region Rapid Transit Corporation	**(281)**	The decrease is mainly due to progress on the Spadina Subway extension, as well as the deferral of projects that require contributions from yet-to-be-identified funding sources
Transportation and Community Planning	**(129)**	The decrease is mainly due to changing timelines for projects, based on departmental priorities. Projects with existing commitments, or with ties to third party funding, or considered to be "missing links", such as mid-block crossings, were not changed
Community and Health Services	**(37)**	The decrease is mainly due to the removal of two long-term care homes projects due to lack of provincial funding commitment, and the completion of the MacKenzie Green housing project
York Regional Police	**(5)**	The decrease is due primarily to the progress of major projects, including the Radio System and the 3rd floor of the Central Services Building
Property Services	**12**	The increase is primarily due to the addition of the Harry Walker Parkway leasehold improvements
TOTAL	**(1,245)**	

York's Ten-Year Capital Plan is the Largest Among the 905 Regions

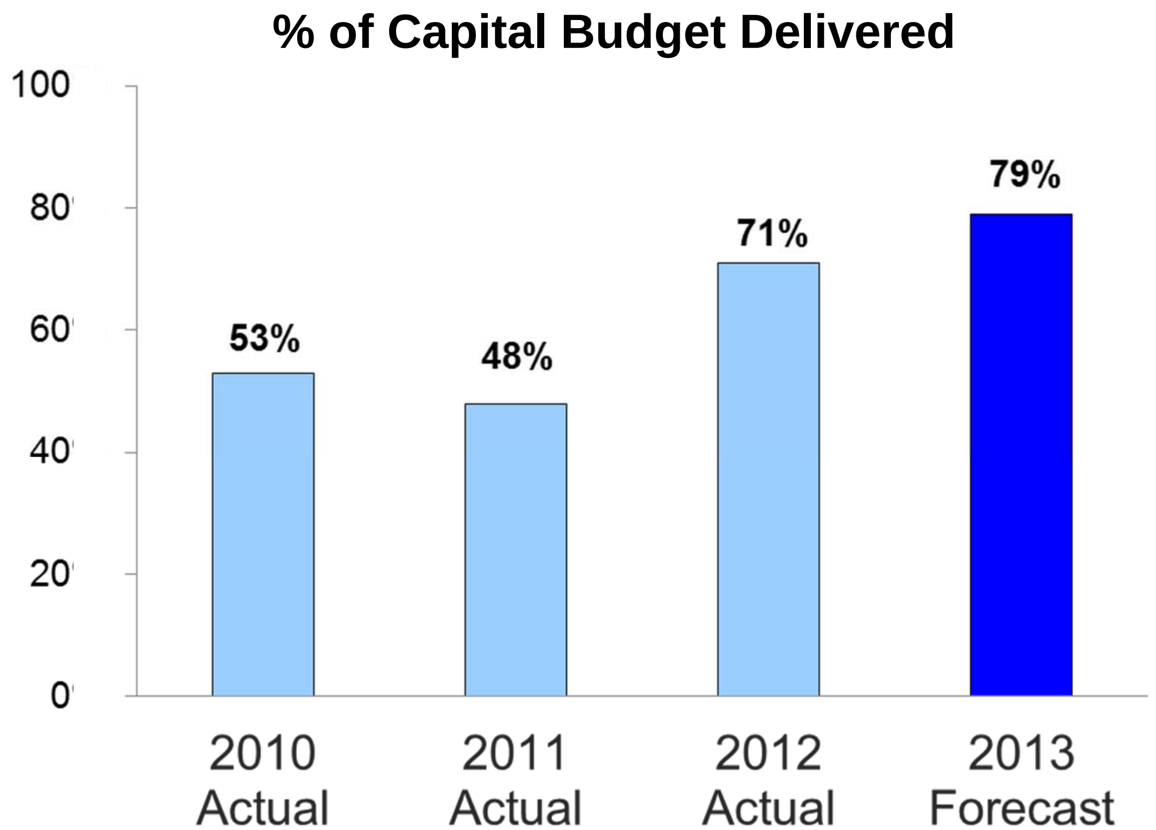


* All figures are in millions
Figures reflect Ten-Year Capital Plans starting in 2013, except Durham, which is a doubling of its 2013 Five-Year Capital Plan, and York, which is the 2014 proposed Ten-Year Capital Plan

Annual Capital Plan Has Grown Significantly

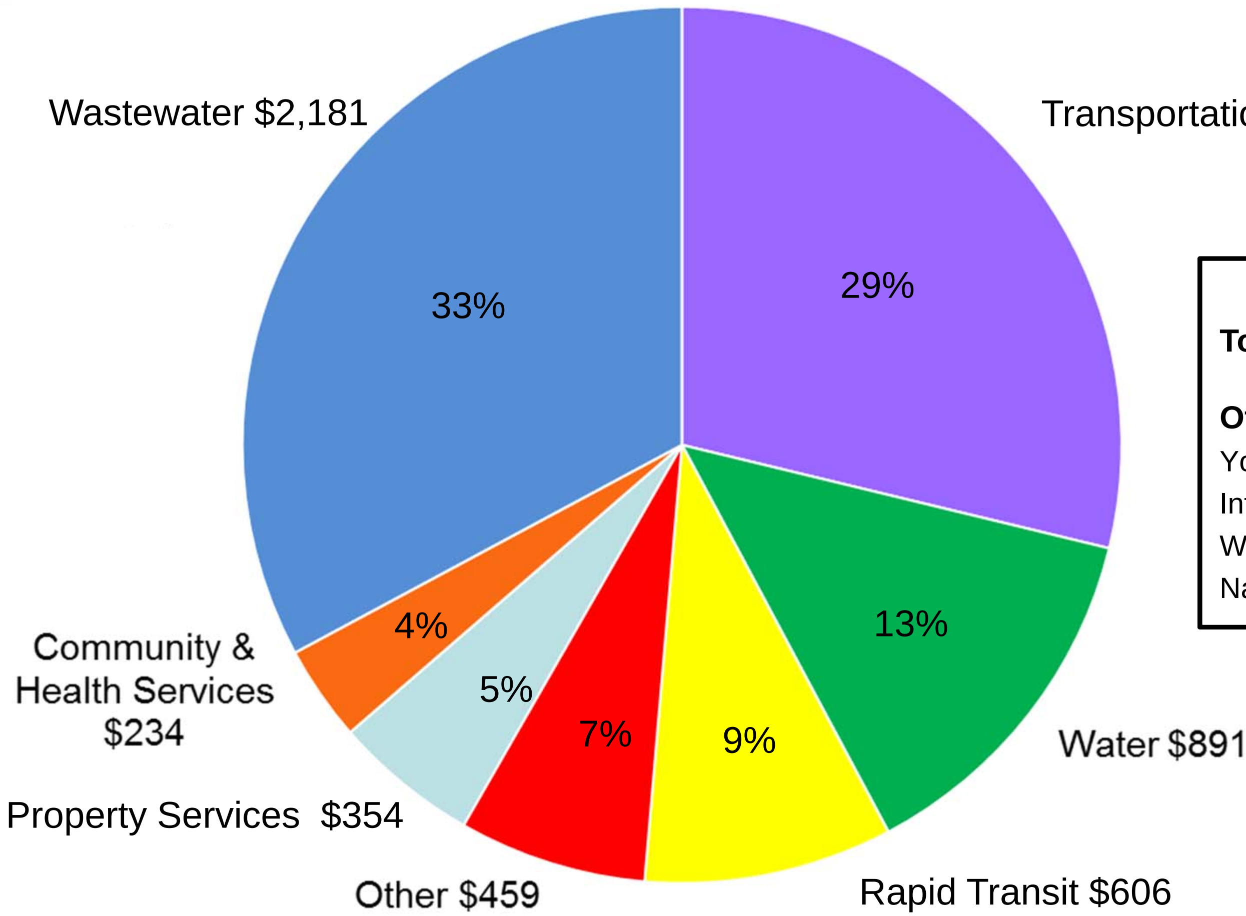


Capacity to Deliver Capital Plan is Improving



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

Ten-Year Capital Plan Focused on Growth



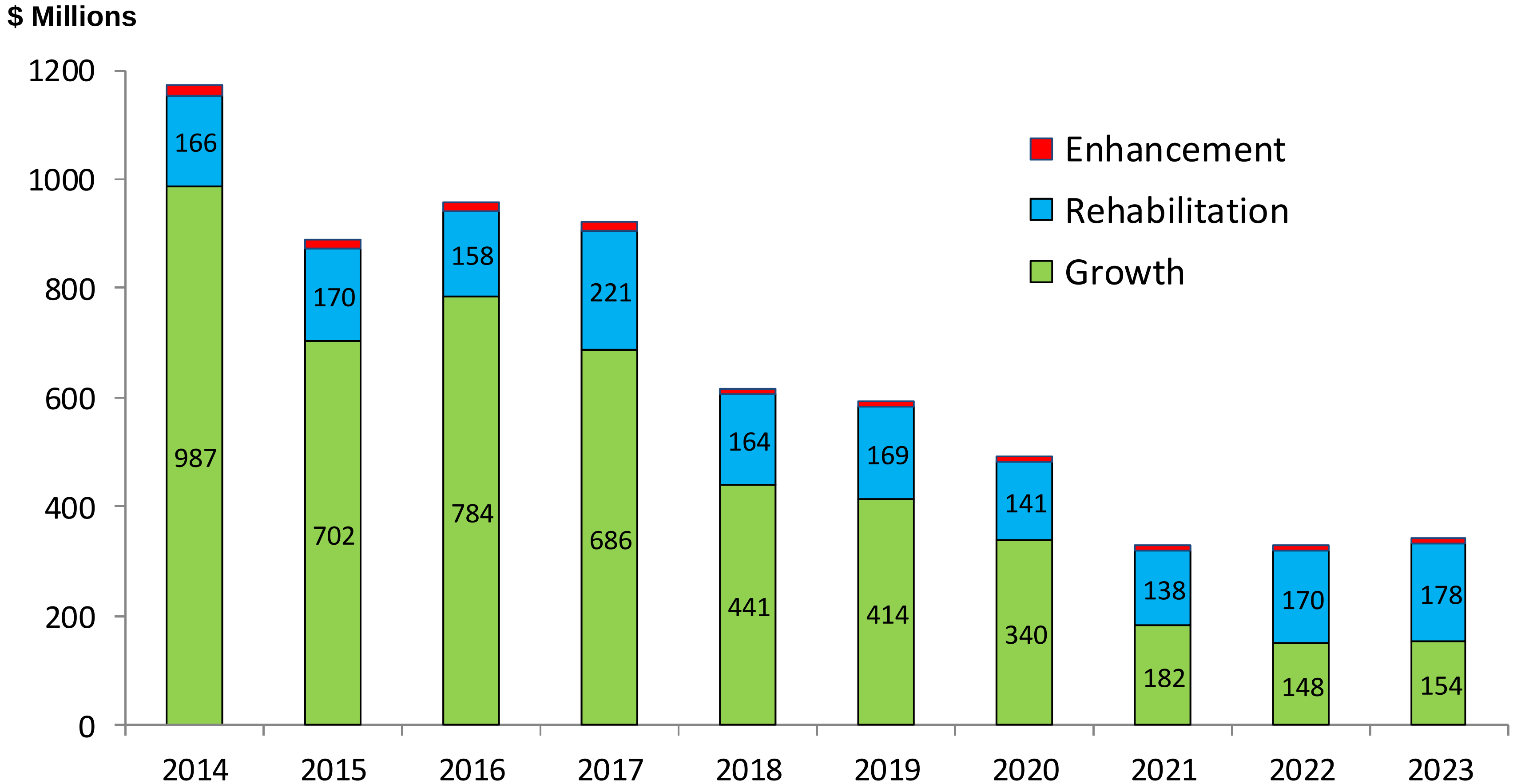
$ in Millions

Total Ten-Year Capital Plan: $6,634

Other	**$459**
York Regional Police	$194
Information Technology	$170
Waste Management	$74
Natural Heritage & Forestry	$21

Approximately 84% of the Capital Plan is for Transportation Services, Water, Wastewater and Rapid Transit

High Growth-Related Investment in the Next Few Years

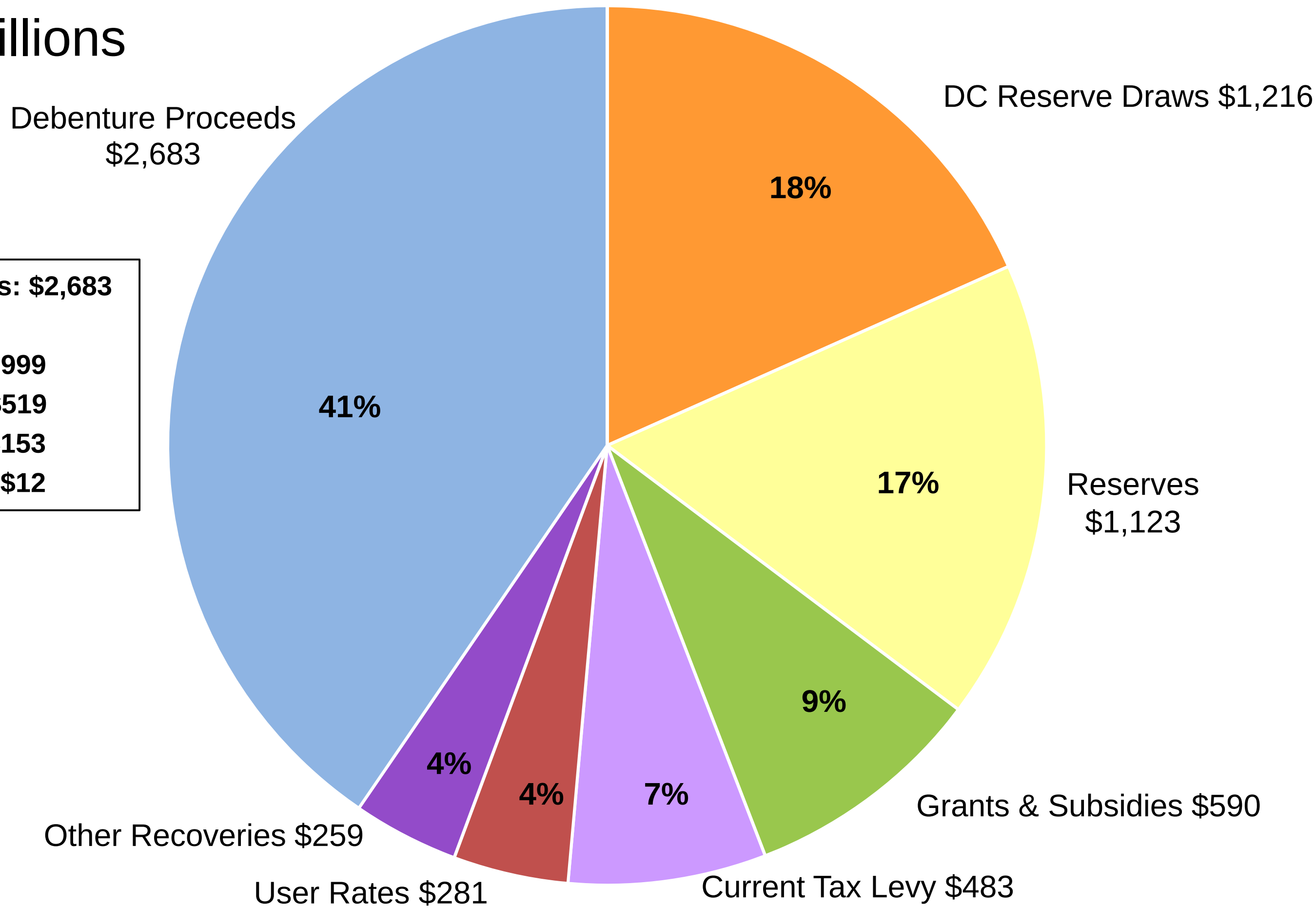


73% of capital investment in the next ten years is to support growth

Debt Financing of Infrastructure is Necessary

$ Millions

Debenture Proceeds: $2,683	
DC	$1,999
User Rate	$519
Tax Levy	$153
York Housing	$12

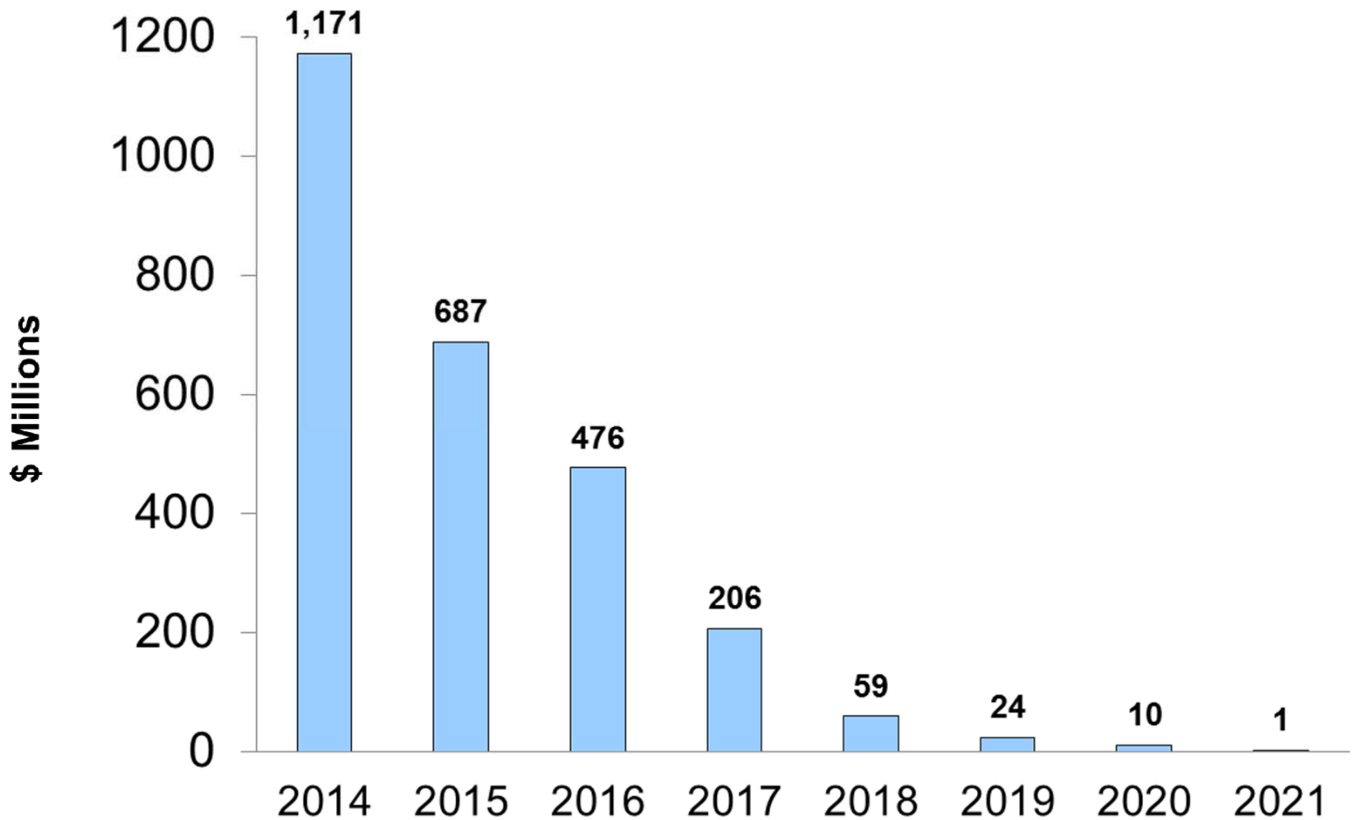


41% of the capital plan will be debt financed

Capital Spending Authority and Planned Investment

- 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

Capital Spending Authority Requested for 2014



The proposed Capital Spending Authority for 2014 is $2.6 billion

Top 10 Capital Projects by CSA

Projects	Proposed 2014 CSA ($ millions)
Spadina Subway Extension	471
Duffin Creek Stage 1 & 2 Upgrades	221
York Durham Sewage System (YDSS) Southeast Collector	175
Peel Water Supply Cost-Shared Work	135
Bus Rapid Transit (BRT) Facilities and Terminals	133
Queensville/ Holland Landing/ Sharon York Durham Sewage System (YDSS) Connection	116
Upper York Sewage Solutions	84
Toronto Water Supply Cost-Shared Work	78
Richmond Hill Housing and Community Hub	51
South Corp Development Plan Implementation (9060 Jane)	48

Fiscal Planning

The Fiscal Environment

Fiscal Realities

- Healthy and prosperous economy
- Assessment growth strong, but expected to moderate
- Relatively low cost of government
- Large and growing capital asset base
- Rising debt levels
- Reliance on development charge revenues
- GTA pooling upload has ended
- Significant medium-term operating pressures

Implications for Fiscal Planning

- A long-term perspective is needed
- A high savings rate is required for long-term fiscal sustainability
- Sound and prudent multi-year budgeting, debt management and reserve management are all necessary elements of an integrated fiscal strategy

From the Credit Rating Agencies

"The Regional Municipality of York's Aaa debt rating reflects a high level of cash and investments, prudent and far-sighted fiscal management and consistent reporting of positive operating outcomes."

- Moody's Investor Service, November 2013

"The ratings on the Regional Municipality of York, in the Province of Ontario, reflect Standard & Poor's Ratings Services' view of the region's record of very strong sustained economic growth, very positive liquidity levels, and strong budgetary flexibility."

- Standard and Poor's, August 2013

The Region has received an AAA/Aaa credit rating for 13 years in a row. Triple A is the highest credit rating and allows the Region to borrow at the lowest possible cost

S&P's Revised Outlook

- S&P recently reaffirmed the Region's AAA credit rating but revised its outlook from "stable" to "negative". This signals the possibility of a rating downgrade within the next two years

- S&P applies a standard worldwide methodology that does not consider the Region's circumstances (two-tier structure, high level of DC revenue)

- S&P's concerns include:
  - High absolute levels of debt forecast (peak of $5B from the current $2B)
  - Economic risk associated with building growth-related infrastructure well in advance of collecting the DC revenues needed to pay for it

- On the other hand, Moody's is less concerned about absolute debt levels so long as there is sufficiently high cash and reserve levels available to support the debt

- Moody's recently reaffirmed the Region's credit rating as Aaa stable

Proposed Adjustments to Fiscal Strategy

- Take a more integrated approach to debt and reserve management, leading to a lower peak for debt and a faster decline from the peak
- Reduce the Ten-Year Capital Plan by approximately $1.2B
- Increase focus on debt reduction in a new reserve management strategy
- Set a medium-term goal of eliminating tax-levy-supported debt for all but the largest projects
- Continue to aggressively save for asset renewal and replacement

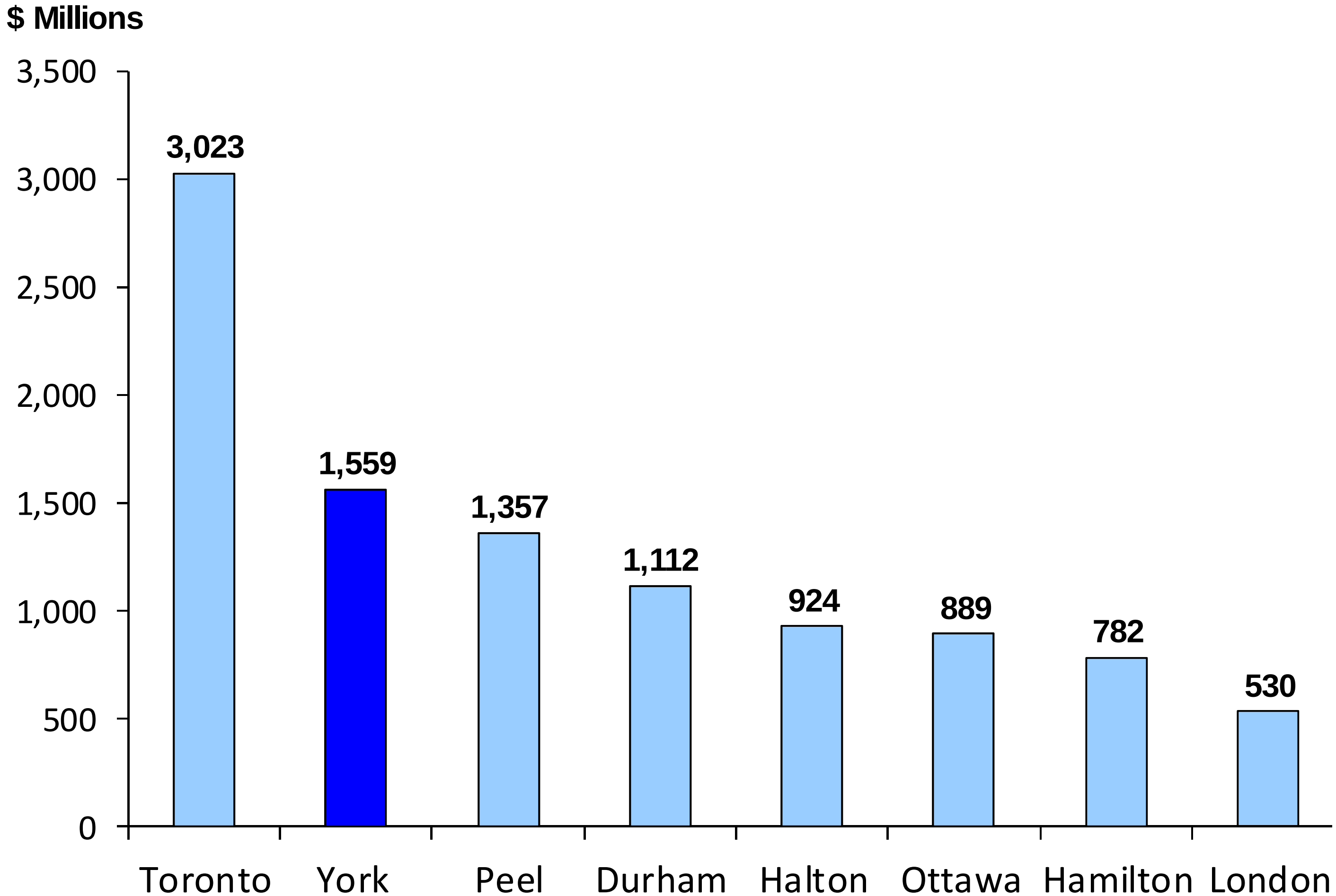
Reserves

Purpose of Reserves

- 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

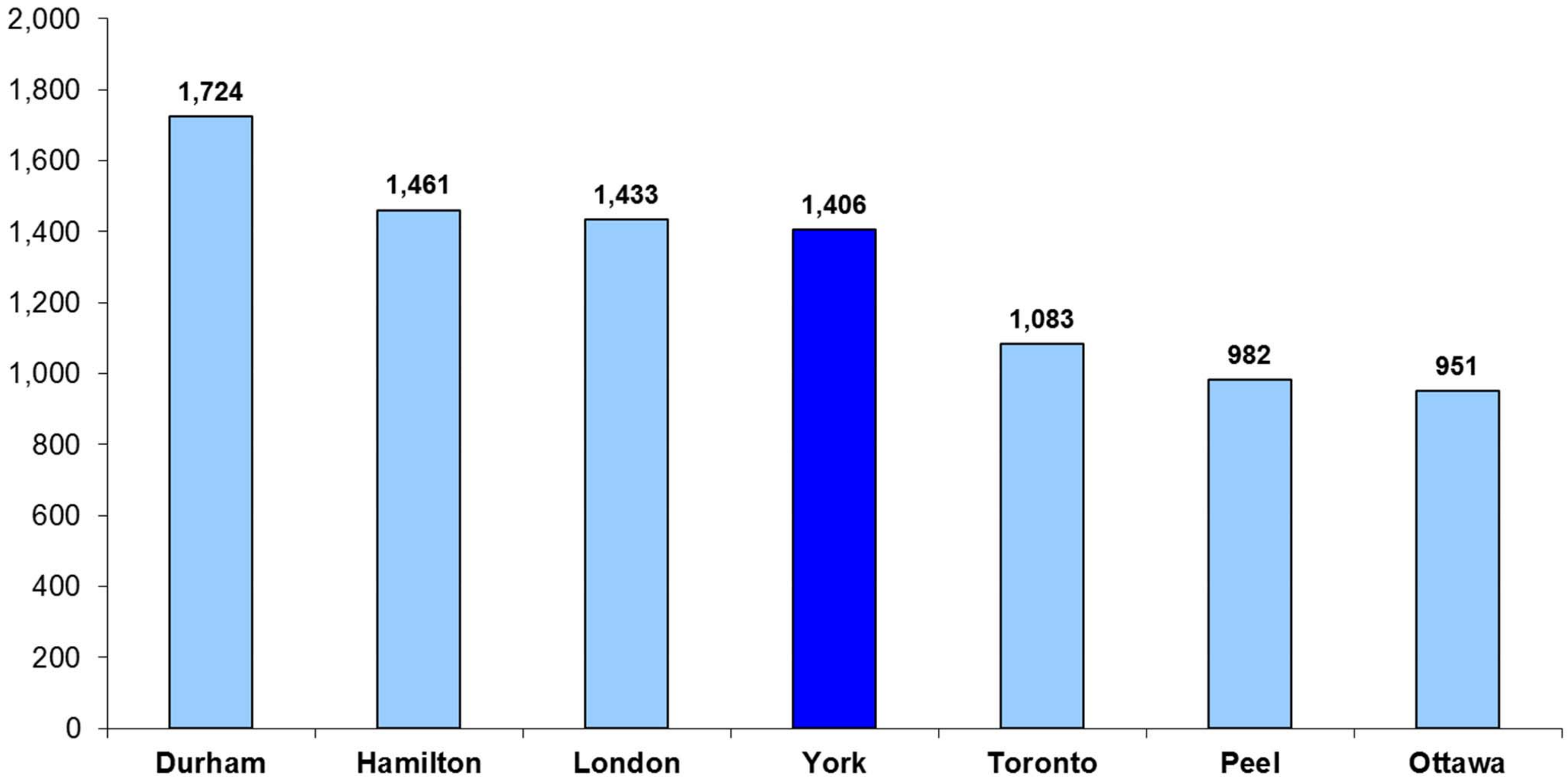
- Reserves also protect the Region against non-capital long-term liabilities and external shocks

High Levels of Reserves



In 2012, York Region's reserves were second only to Toronto

Healthy Reserves Per Capita in 2012

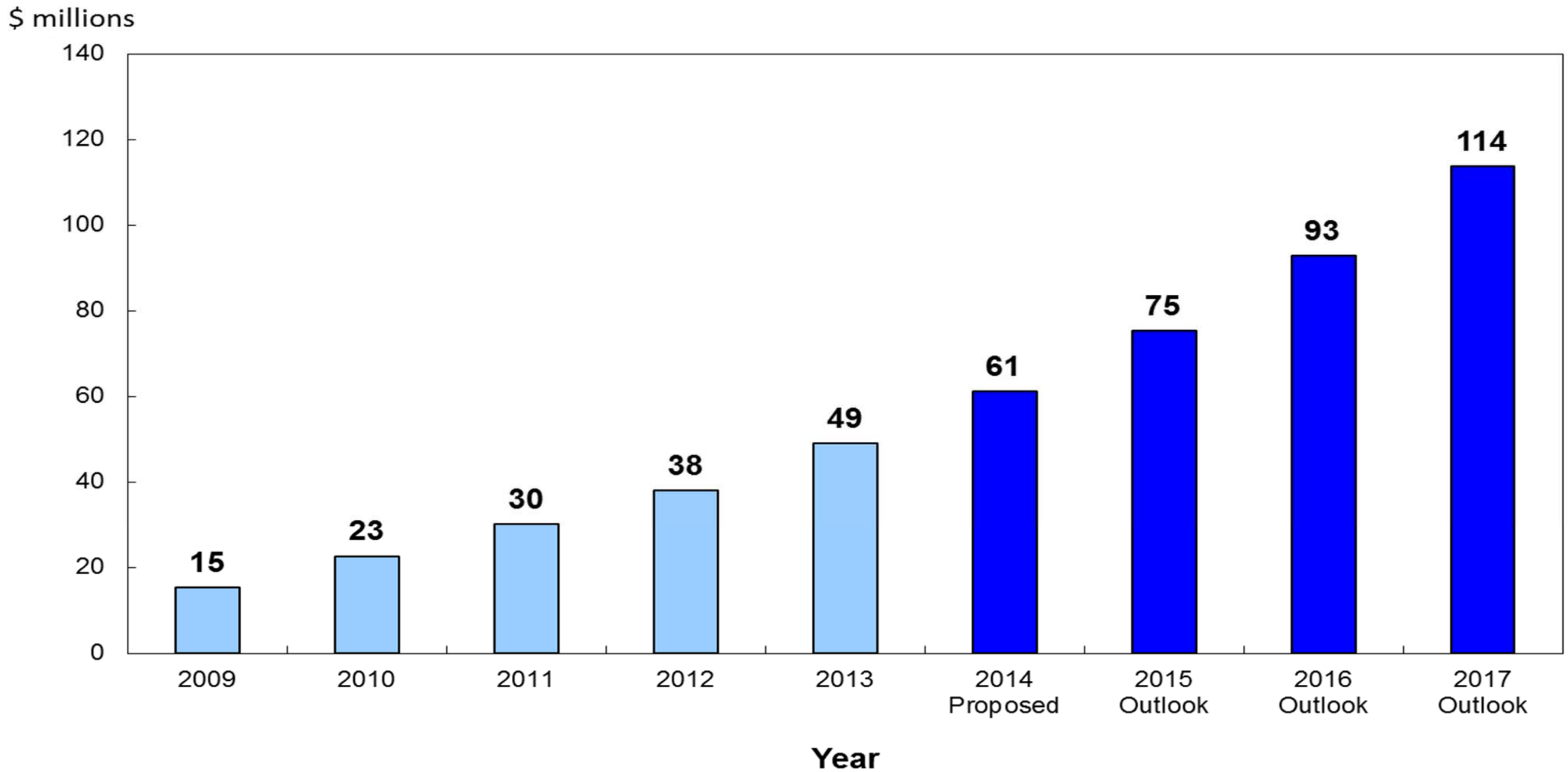


York Region's reserve levels per capita compare well to other municipalities

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

Growth in Capital Asset Replacement Reserve Contributions



Contributions to capital asset replacement reserves are continuing to grow

Proposed New Debt Reduction Reserve

- A proposed new Debt Reduction Reserve will be used to minimize tax levy debt for capital projects
- Initial estimates indicate that the Debt Reduction Reserve will eliminate over $400 million of tax levy debt over the next 10 years
- This will save the Region approximately $175 million in interest and principal payments

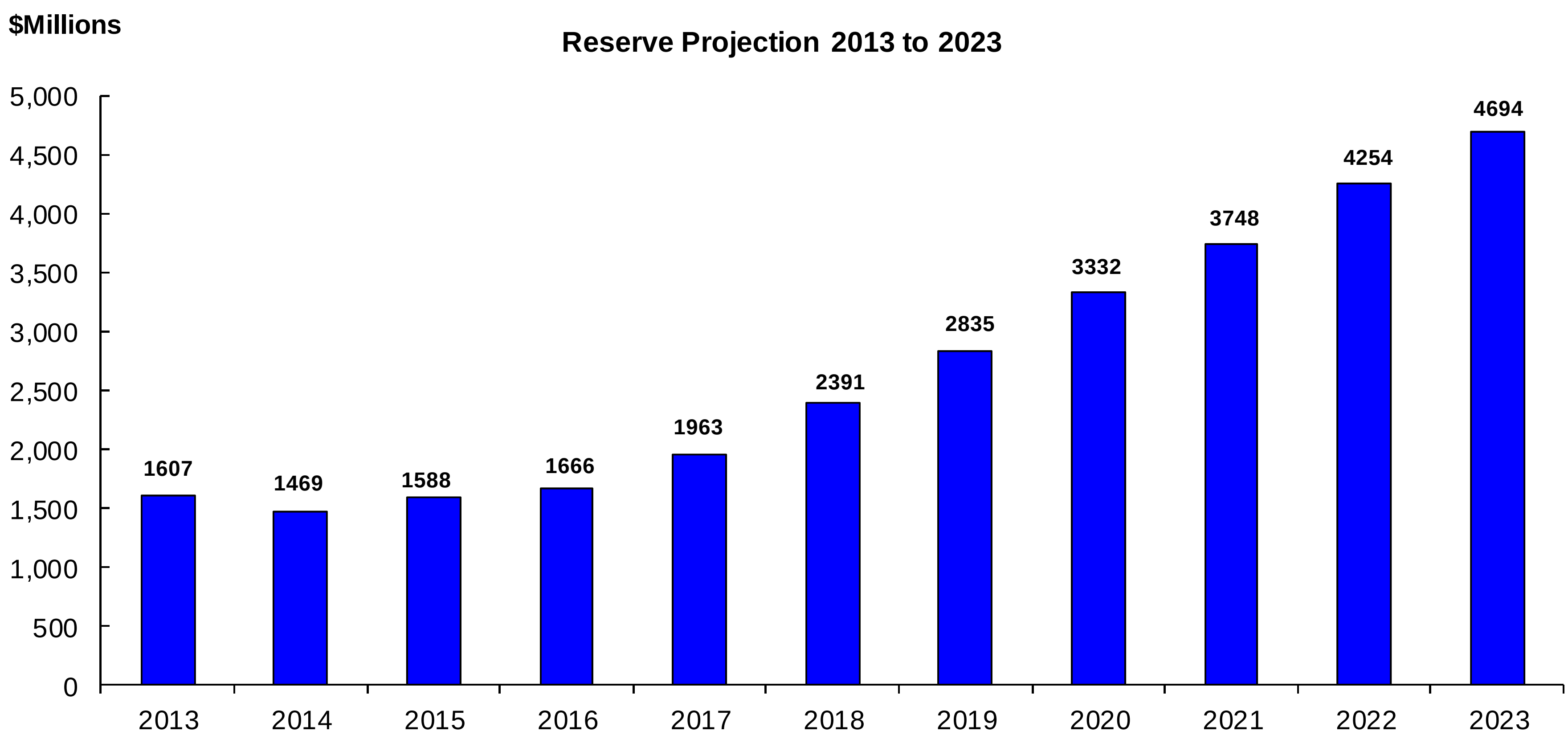
Setting Up the Debt Reduction Reserve

Seeding the Debt Reduction Reserve	**$ Millions**
Unspent debt reduction funding (from prior years)	16
Transfer from General Capital Reserve	120
Transfer from Other Reserves	65
2014 Contribution	17
Total	218

Building the Debt Reduction Fund Reserve

Policy	Current Policy	Proposed New Policy
Surplus Policy	Housing Operating Surplus: • 80% Social Housing Development • 20% Working Capital Reserve Regional Operating Surplus: (order of priority) 1. Cover contingent liability reserves (Working Capital, LTD, WSIB, Insurance) 2. Fuel Stabilization Reserve, if needed 3. Remainder to General Capital Reserve	No Change to Housing Operating Surplus Regional Operating Surplus: (order of priority) 1. Cover contingent liability reserves (Working Capital, LTD, WSIB, Insurance) 2. General Capital Reserve, if needed 3. Fuel Stabilization Reserve, if needed 4. Remainder to Debt Reduction Reserve
Supplementary Tax Policy	50% General Capital 50% Capital Asset Replacement	50% Capital Asset Replacement 50% Debt Reduction Fund
Operating Budget Contribution	$11.8 million annually	Minimum of $11.8 million annually plus 50–100% of avoided financing costs in future years

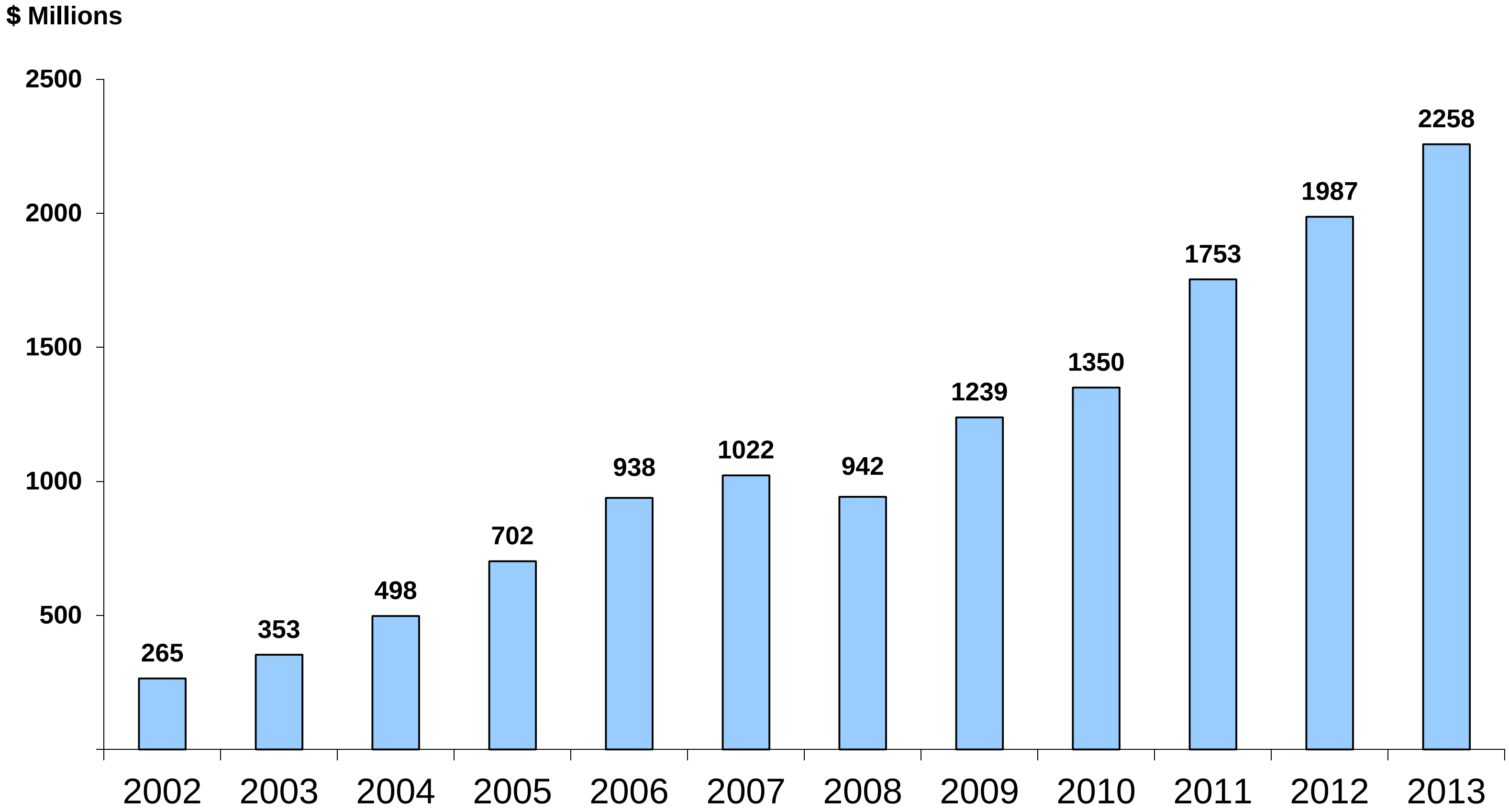
Growing Reserves



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

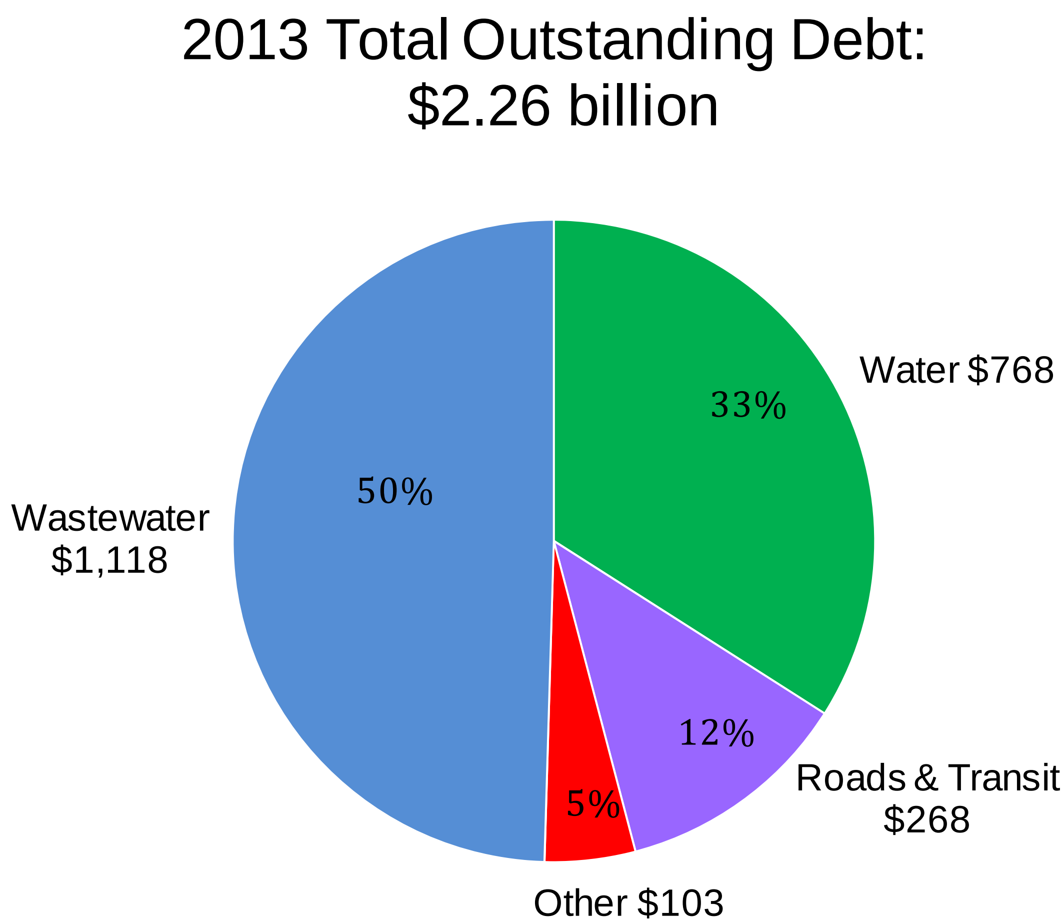
Debt Management

Historical Debt Levels



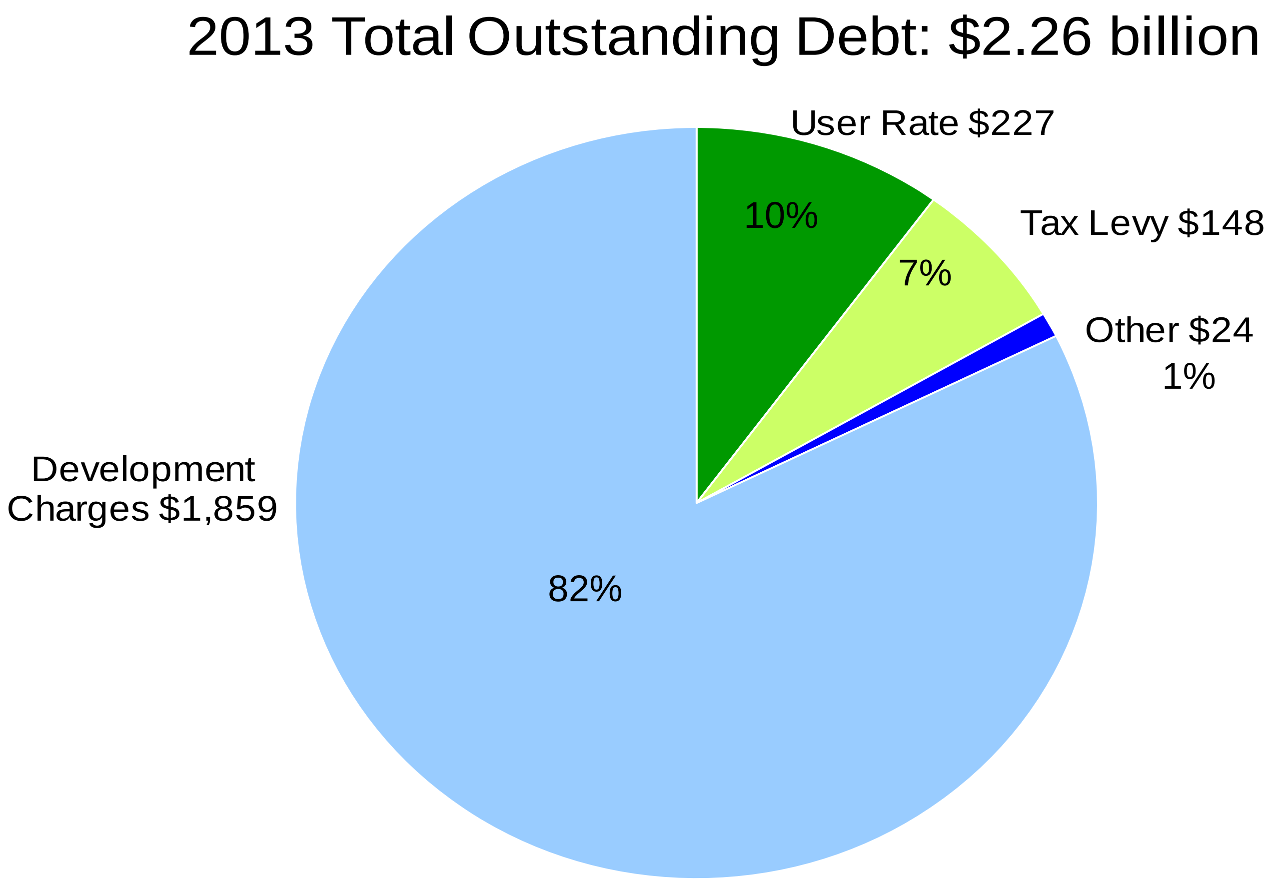
The Region's current debt is $2.26 billion

Purpose of Debt is to Finance Infrastructure



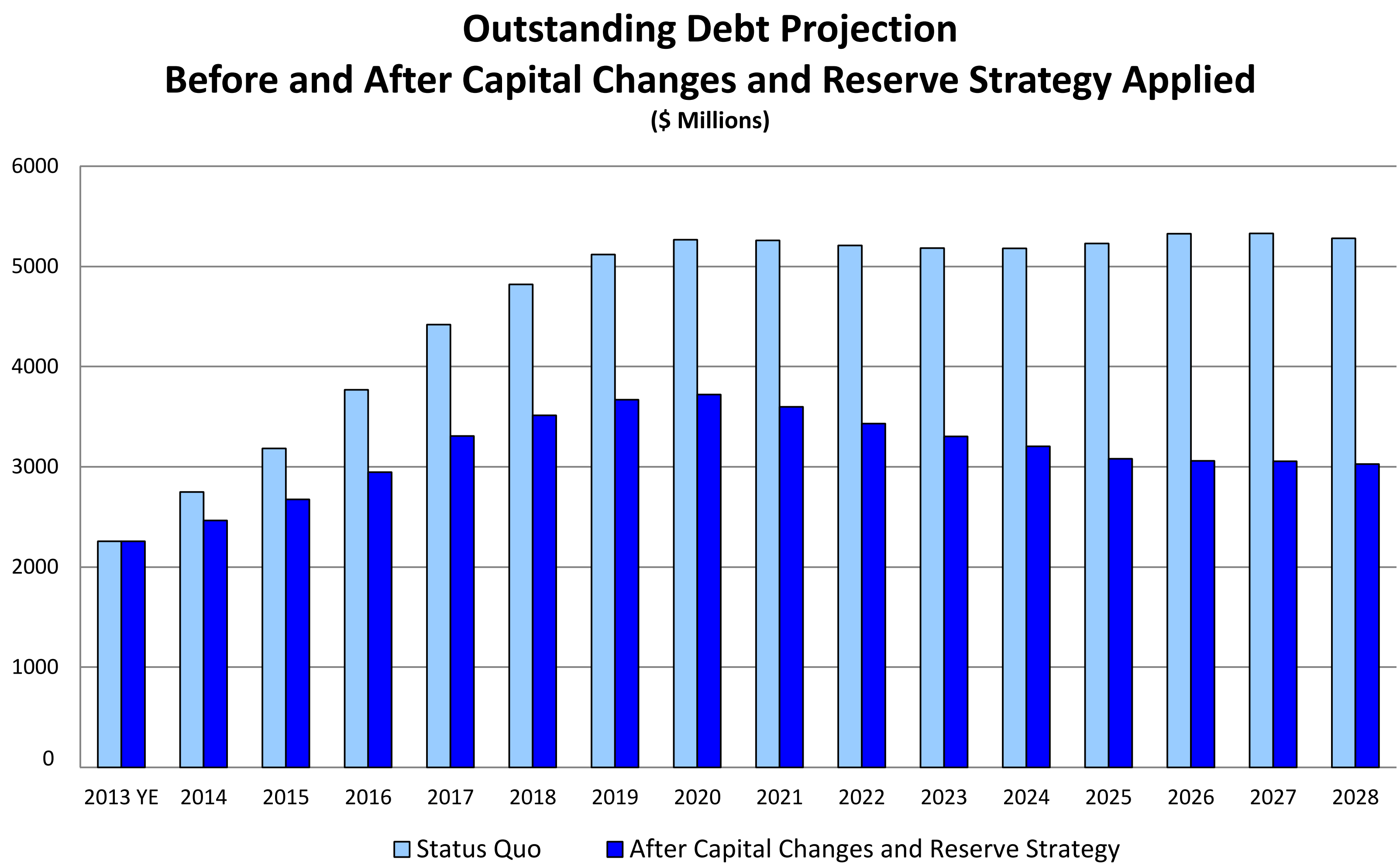
84% of the current debt is related to water and wastewater projects

Funding Sources for Debt Servicing

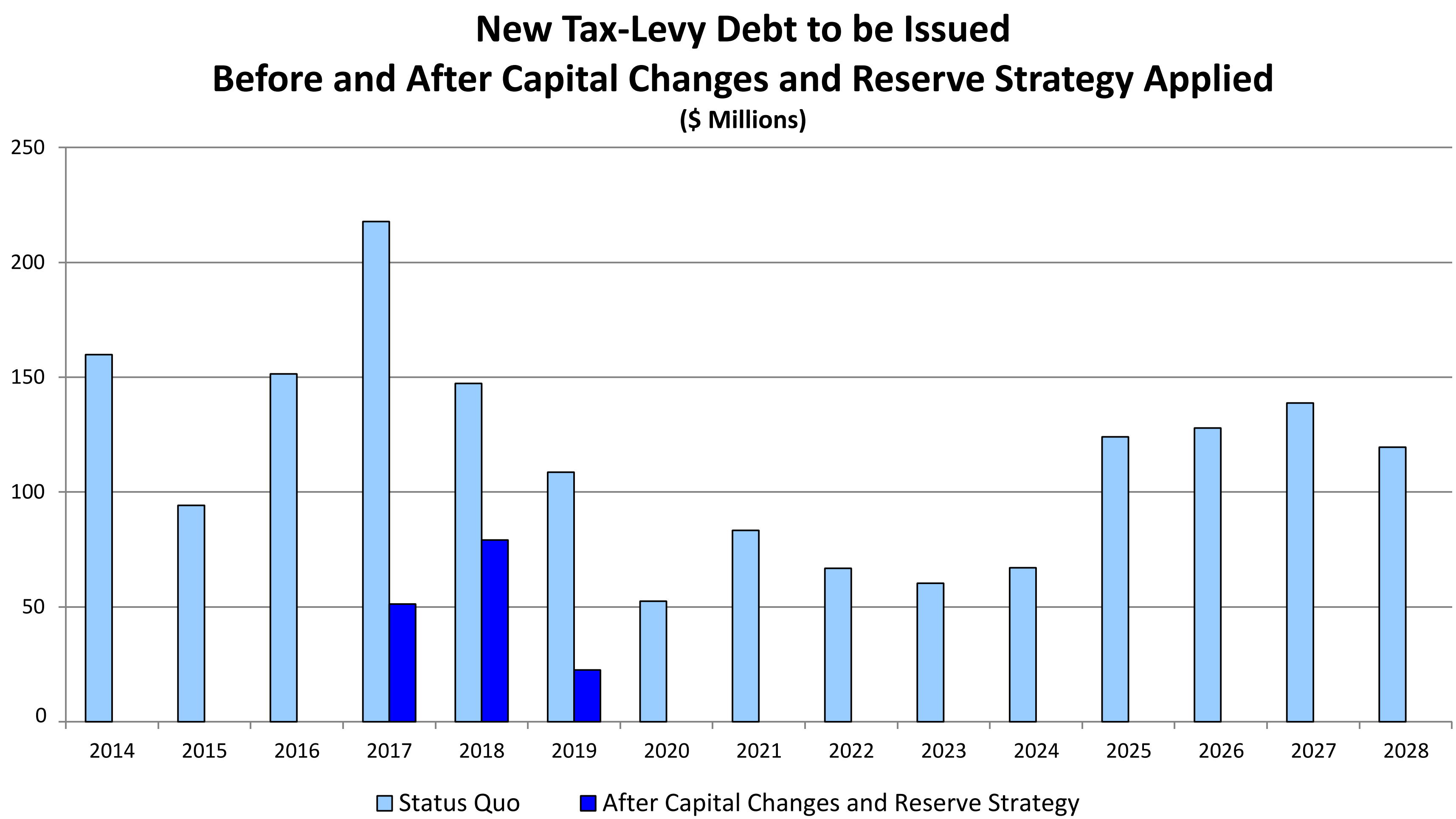


82% of the existing debt will be repaid through development charges

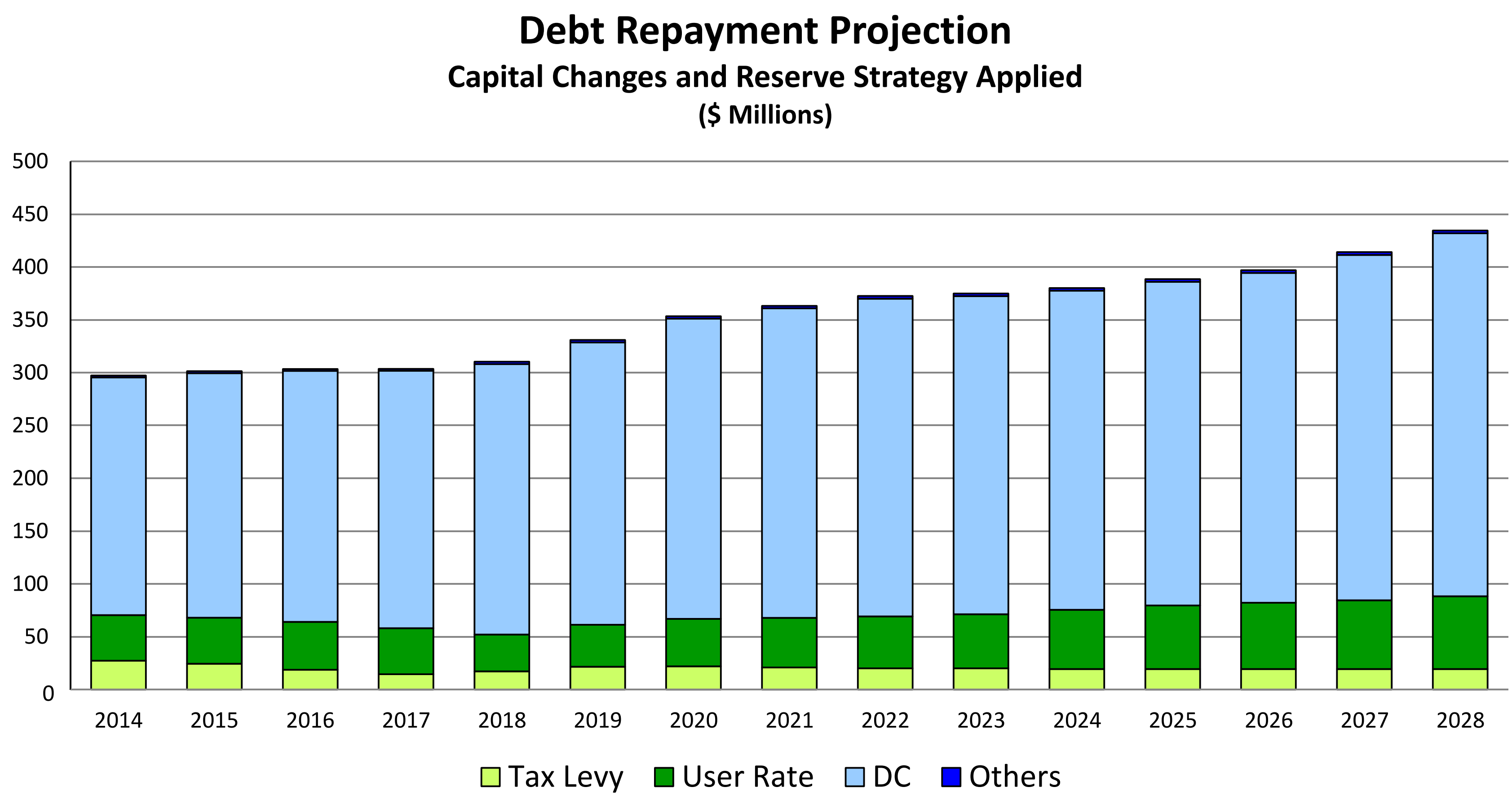
Capital Changes and Reserve Strategy Substantially Reduce Debt



New Reserve Strategy Will Reduce New Debt Funded From Tax Levy

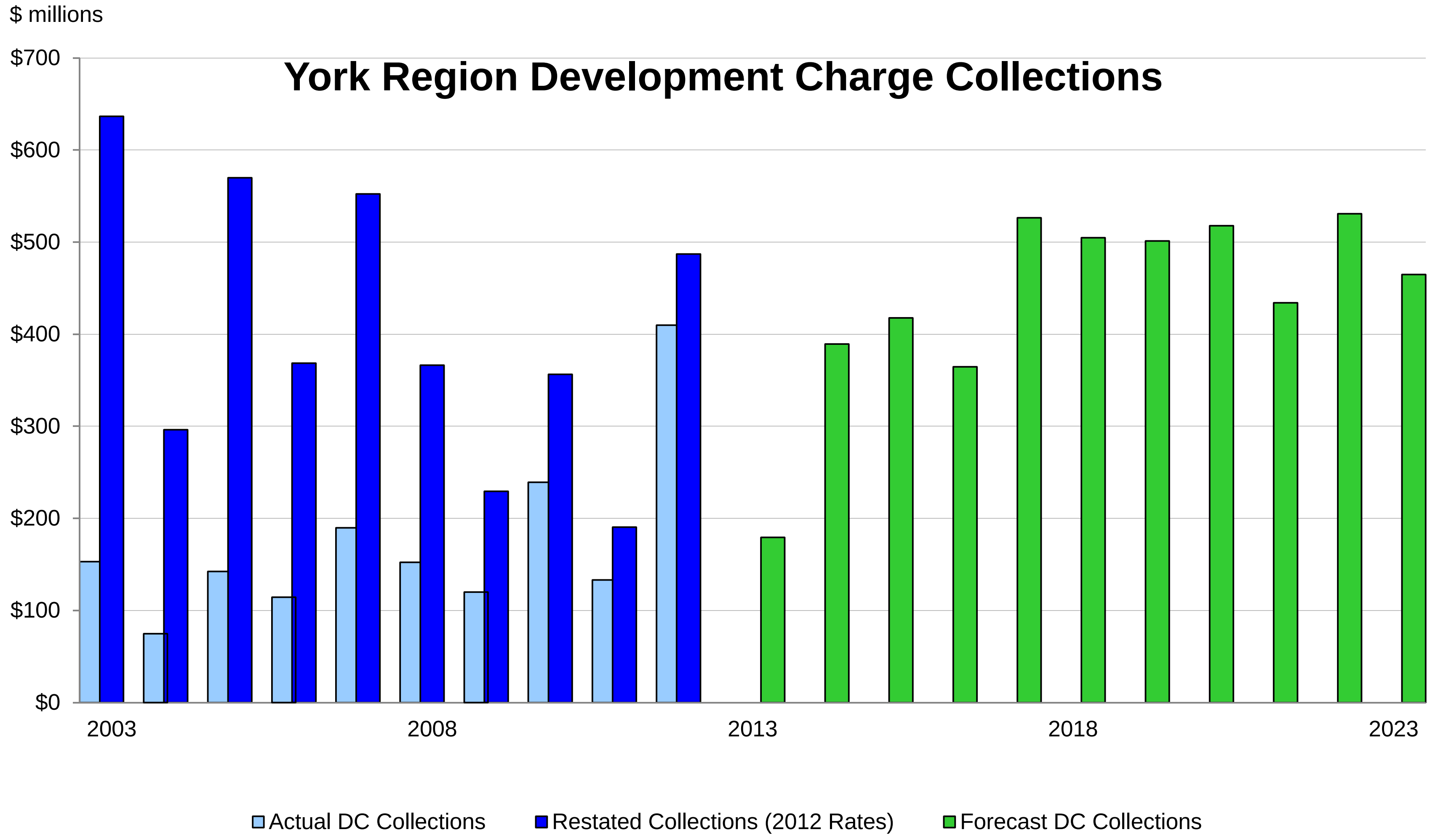


The Region Will Repay Most Debt Through Development Charges



Land-use planning and capacity allocation decisions can support the timely collection of development charges

DC Collections Support Debt Repayment



Annual Repayment Limit (ARL) Regulation

- The Province's ARL regulation limits a municipality's debt servicing and other financial obligations to a maximum of **25%** of its own-source revenue

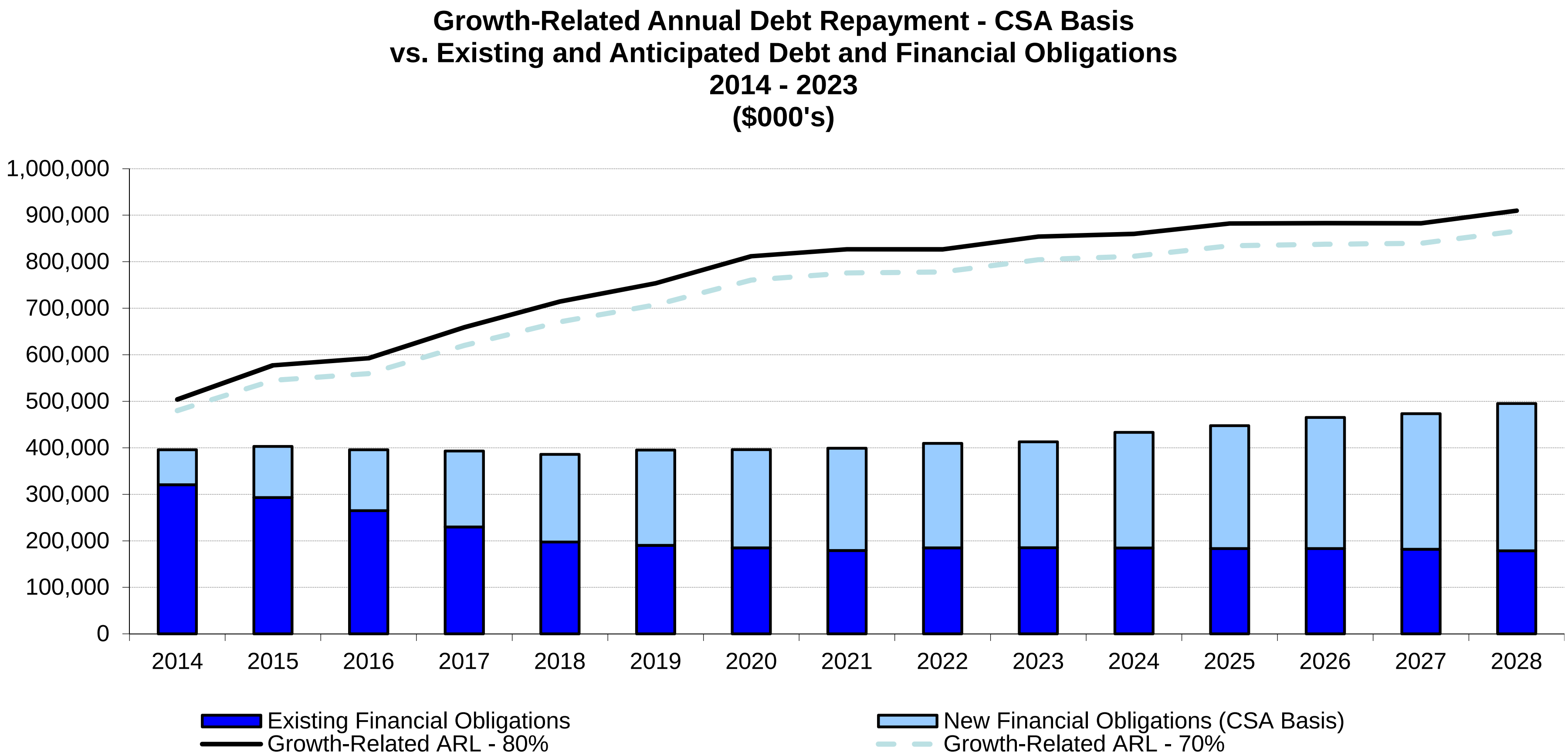
- In June 2011 the province amended the ARL regulation under the *Municipal Act* to allow York Region to include **80%** of its average development charge collections over the last three years in its ARL calculation

- The regulation has two requirements of the Region:
  - A Long-Term Debt & Financial Obligations Management Plan must be adopted or affirmed by Council as part of each annual budget
  - The Region must maintain a high credit rating

ARL Implications for Capital Budgeting

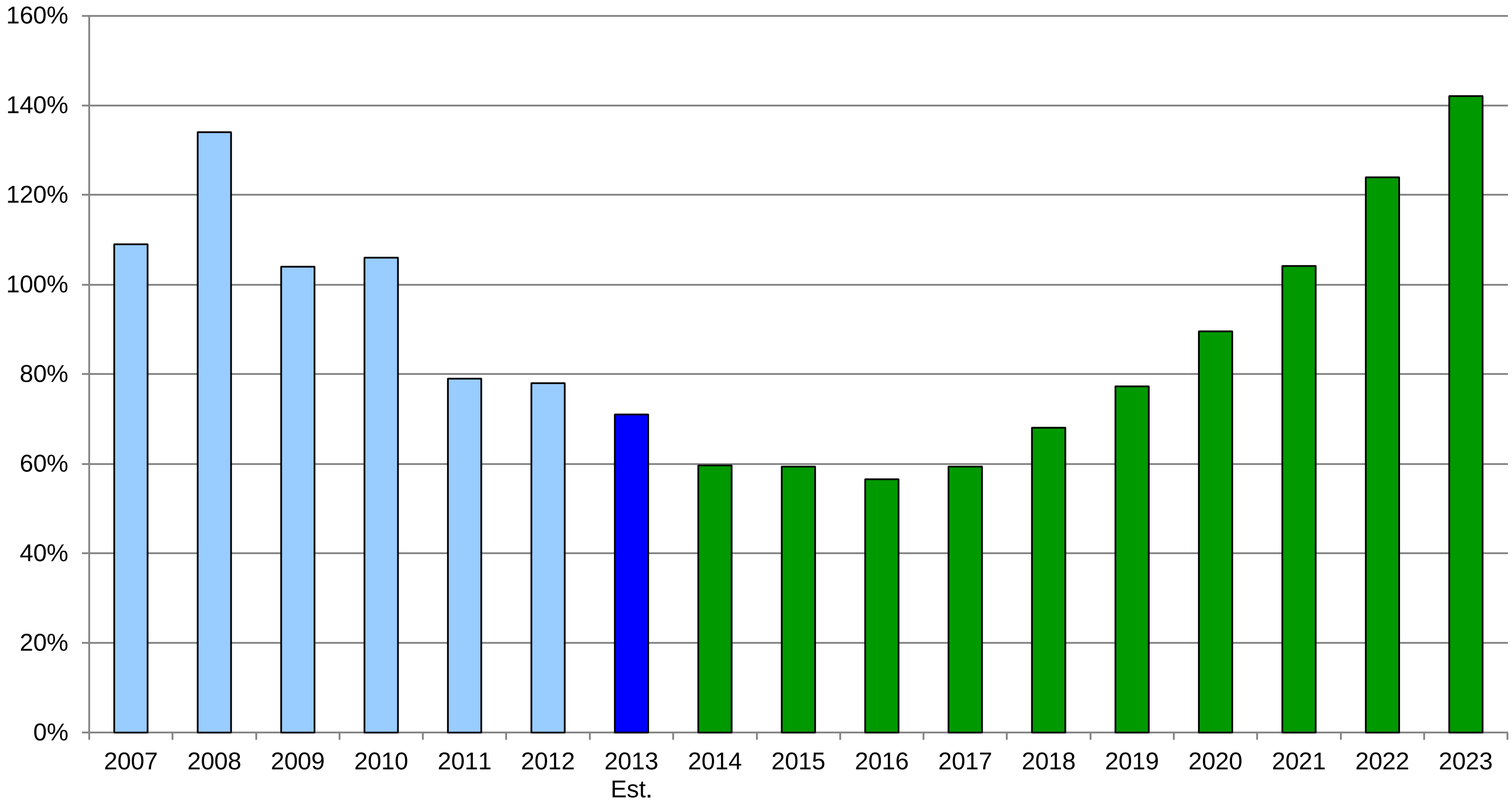
- Capital Spending Authority is granted based on contractual and other clear commitments to capital projects
- The debt-financed portion of Capital Spending Authority is considered a debt commitment for the purposes of the Annual Repayment Limit (ARL)
- The debt servicing costs associated with the Region's robust capital program need to be kept within the Annual Repayment Limit

ARL and Debt Servicing Obligations



The Region will remain within its Annual Repayment Limit

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

Budget Review Process and Conclusion

Council/Committee Review Process

Council
November 21, 2013

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Committee of the Whole (1)
December 5, 2013

- York Regional Police
- YRRTC
- Transportation & Community Planning
- Community & Health Services

Committee of the Whole (2)
December 12, 2013

- Conservation Authorities
- Environmental Services
- Fiscal Strategy (reserves and debt management)
- Corporate Management

→

Council
December 19, 2013

Summary of the Budget

- Budget responds to the continued growth of the Region
- Low tax increase
- Robust capital program
- Increased contribution to capital asset replacement reserves
- Creation of a Debt Reduction reserve
- Compliant with the Provincial Annual Repayment Limit

Impact on the Homeowner

For an average York Region residential property assessed at $472,000, a 1.54% tax levy increase in 2014 is equivalent to $32