

The Regional Municipality of York

Regional Council
December 19, 2019

Report of the Commissioner of Finance

2020 to 2022 Regional Budget

1. Recommendations

1. Council approve the operating and capital budgets as follows:
 - a. The 2020 operating budget tabled on November 21, 2019 detailed in the 2020 to 2022 Budget book, as amended and summarized in Attachment 1.
 - b. The 2020 capital expenditures and Capital Spending Authority by project and by program group and associated funding sources detailed in the 2020 to 2022 Budget book, as summarized in Attachment 2, and the authority to reallocate funding between projects in a program group as detailed in this report.
2. Council endorse the 2021 to 2022 operating outlook tabled on November 21, 2019 detailed in the 2020 to 2022 Budget book, as summarized in Attachment 1.
3. Council approve debt authority and reserve items as follows:
 - a. Incremental debt authority of \$466.3 million required for 2020 Capital Spending Authority by project as specified in Column (B) of Attachment 3.
 - b. Total debt authority for capital projects up to the amounts specified in Column (C) of Attachment 3 in accordance with the Capital Financing and Debt Policy.
 - c. Approve a contribution of \$152.5 million to the Sinking Fund Reserve for the purpose of meeting the Region's 2020 sinking fund obligations.
 - d. Authorize the funding of capital projects that have been previously approved for debt financing from reserves where there are sufficient funds available and at the discretion of the Commissioner of Finance and Regional Treasurer.
4. Council endorse the reconciliation of the 2020 Budget to the full accrual basis of accounting, as required under Ontario Regulation 284/09, as summarized in the Budget book.

5. Council authorize the Commissioner of Finance and Regional Treasurer to:
 - a. Make any necessary adjustments within the total approved Budget to reflect organizational changes and any other reallocation of costs.
 - b. Apply for, accept and adjust the Budget for any additional provincial and/or federal funding provided there is no tax levy impact.
 - c. Report back to Council in-year, as required, to provide flexibility in capital project implementation to adapt to changing and unforeseen circumstances and to maximize delivery of capital projects.

2. Summary

This report seeks Council's approval of the 2020 to 2022 Regional Budget, which was tabled on November 21, 2019.

Key Points:

- Council's approval of the 2020 operating budget is requested, along with endorsement of the 2021 to 2022 outlook
- Capital budget approval is sought for 2020 and for multi-year Capital Spending Authority to commit to longer term contracts and establish debenture needs
- Council's approval of the full accrual reconciliation is requested to respond to Ontario Regulation 284/09
- Authority is sought to provide the Commissioner of Finance and Regional Treasurer with flexibility to restate the budget and make adjustments for any provincial and/or federal funding, provided there is no tax levy impact

3. Background

The 2020 to 2022 Budget was developed over the past several months

The Region's Budget was developed over the past several months, with the timeline for budget development and approval as follows:

- Departmental submissions – end of July / August 2019
- Treasurer and CAO reviews – September / October 2019
- Draft 2020 to 2022 Budget tabled at Council – November 21, 2019
- Committee of the Whole reviews – December 2019.

On February 28, 2019 Council endorsed an operating outlook for 2020-2022

As part of the 2019-2022 Budget, Council endorsed an outlook for the operating budget for 2020 to 2022.

As part of the budget approval, Council established the Roads Capital Acceleration Reserve. Council also requested that planned additional contributions to this reserve of 1% of the tax levy in each year from 2020 to 2022 be accommodated within the endorsed tax levy increase outlook of 2.96% for those years. On April 25, 2019 Council received the presentation, Funding the Roads Capital Acceleration Reserve and considered a non-tax levy option to fund the reserve. On June 20, 2019, Council received the Transportation Capital Acceleration Reserve Fund report and approved the non-tax levy funding option.

On June 27, 2019 Council referred savings initiatives for consideration in the 2020 budget process

The savings initiatives were developed to provide the necessary tax levy room for Roads Capital Acceleration in the event the non-tax levy option was not approved by Council, and to provide flexibility to address emerging pressures. The 2020-2022 Budget reflects the savings initiatives presented for Council consideration in June, including any updates made as part of the budget process. Savings included in the budget help offset various pressures identified as part of the budget process, including the impact of the provincial funding reductions.

The proposed 2020-2022 tax levy increases are the same as the endorsed outlook

The 2020-2022 Budget recommends tax levy increases of 2.96% in each of the three years. These increases are the same as those endorsed as the outlook in the 2019-2022 Budget.

Some unexpected pressures arose in the 2020 budget process, including provincial funding changes, some specific program pressures, as well as lower than anticipated revenue from assessment growth. These pressures were accommodated within the budget to keep the tax levy increases unchanged from the endorsed outlook.

The 2020 operating budget includes an outlook for 2021 to 2022 which will be reviewed annually

The 2020 to 2022 Budget includes a three-year operating budget. Council's approval is sought for the 2020 Budget along with endorsement of the outlook for 2021 to 2022. The 2021 to 2022 endorsed outlook will form the basis of the 2021 budget process. If revisions to the outlook are required, they will be presented as part of the 2021 budget process.

As shown in Table 1, a two year outlook is being presented, as 2020 is the second year in the current term of Council. Each year, Council will consider the proposed budget for the upcoming year and the outlook for the remaining years of Council's term.

Table 1
Annual Operating Budget Approval

Budget Year to be Approved	Outlook Years Presented
2020	2 (2021 to 2022)
2021	1 (2022)
2022	0

Committee of the Whole reviewed the proposed Budget

After the tabling of the Budget on November 21, 2019, Committee of the Whole reviewed the Budget for each business area. During the review process, the Committee recommended the Budget as tabled be consolidated by the Commissioner of Finance and Regional Treasurer for consideration by Council on December 19, 2019 in this report.

4. Analysis

OPERATING AND CAPITAL BUDGET

The Budget responds to service needs in all of the Region’s communities

The Budget supports a wide range of services for York Region residents and businesses. The Budget also provides funding for growth needs as well as some new initiatives and aligns resources to deliver on priorities outlined in the 2019 to 2023 Strategic Plan.

The list below highlights select initiatives included in the budget to support the priorities in the 2019 to 2023 Strategic Plan:

Increase economic prosperity

- Supporting the review of over 1,000 development applications submissions annually to ensure that they align with Growth Plan mandates and infrastructure investments
- Investing \$10.2 million to build 140 kilometres of fibre network and connect facilities to the Region’s network, including 137 regional and 44 municipal facilities
- Fostering an environment that attracts businesses and grows employment by continuing to implement the Region’s Economic Development Action Plan
- Investing \$3.1 billion into transportation infrastructure for road network expansion, robust asset management and the transit network
- Advancing construction readiness of the Yonge Subway Extension
- Managing and maintaining the transportation network for 635,000 average daily travellers and 22 million transit rides a year

Support community health, safety and well-being

- Delivering 118 billion litres of clean and safe drinking water annually to protect public health
- Adding 102 staff over three years to York Regional Police to address population growth, workload pressures and maintain quality police administrative services
- Building/redeveloping 6 paramedic stations, adding 47 staff over three years to Paramedic Services to maintain response times
- Supporting 6,700 social housing units and adding approximately 500 units to Housing York Inc. by 2023
- Increasing tax levy funding for Public Health by \$4.2 million in 2021 and \$4.7 million in 2022 to maintain services and address reductions in provincial funding

Build sustainable communities and protect the environment

- Investing \$2.5 billion to grow and maintain the water and wastewater network to meet the needs of a growing population
- Maintaining high rates of waste diversion, currently at 94%, to manage waste as a resource
- Planting 300,000 trees and shrubs between 2020-2022 to maintain natural resources and preserve green space
- Creating a welcoming pedestrian realm through streetscaping and greening of centres and corridors

Deliver trusted and efficient services

- Responding to technological changes, protecting resident information and improving customer experience
- Providing consolidated access to York Region services at 17150 Yonge Street that will result in long-term lease savings
- Maintaining the Region's growing asset base, and contributing to reserves for future rehabilitation and replacement of capital assets
- Ensuring fiscal sustainability through prudent debt and reserve management

The Capital Plan continues to include investments in growth and rehabilitation and replacement initiatives

The Budget also includes capital investments in the ten-year plan to support growth in York Region and infrastructure asset management, including:

- Road Network Improvements (e.g., road widenings)
- Upper York Water Reclamation Centre
- West Vaughan Sewage Servicing
- Development of New Regional Facilities

- Northeast Vaughan Wastewater Servicing
- York Durham Sewage Servicing Forcemain Twinning
- Northeast Vaughan Water Servicing
- Source Separated Organics Facility
- Roads Infrastructure Assets Renewal and Replacement (e.g., pavement renewal, bridges, culverts and storm sewers)
- York Durham Sewage System Rehabilitation Program
- Bus Replacement (e.g., Conventional, Viva and Mobility buses)
- Duffin Creek Incinerators Replacement

The timelines for these initiatives are unchanged from the 2019 Budget except for the Upper York Water Reclamation Centre. This project is expected to be completed in 2027 instead of 2026. The Environmental Assessment for this project has not yet been approved and further delays could arise depending on the timing of that approval.

The capital appendix of the 2020 to 2022 Budget provides a comprehensive list of the capital projects in the capital plan.

The use of program groups supports improved capital delivery

The Budget seeks approval of 2020 single-year capital expenditures and 2020 Capital Spending Authority. Capital Spending Authority (CSA) is the authority from Council to commit funding to a capital project. The authority may span several years for large projects, with the length of commitment varying by project.

In addition to individual capital projects, program groups that combine individual projects with similar business needs have been identified.

As in previous years, approval is sought to provide the ability to reallocate expenditures between projects in a program group, subject to the following conditions:

- No increase in the 2020 and ten-year capital plan total cost of the program group
- No increase in the 2020 Capital Spending Authority for the program group
- The reallocation is between projects with similar funding sources

The flexibility provided by program groups enables departments to better manage variations in project timing and deliver a higher proportion of the capital plan.

Attachment 2 summarizes 2020 Capital Spending Authority by program group and 2020 single-year capital expenditures. Details on individual projects that make up the program groups are included in the 2020 Budget book tabled with Council (appendix pages 191 to 288).

DEBT AUTHORITY AND RESERVES

Incremental debt authority of \$466.3 million is required for capital projects with 2020 Capital Spending Authority

Each year Capital Spending Authority is requested for the projects in the capital plan. Values in Column C of Attachment 3 show the year to year changes in debt authority by project. Debt authority may change because project costs have increased or decreased, or because the split between debt and other funding sources has changed.

The incremental debt authority of \$466.3 million, shown in column B of Attachment 3, represents the change from the remaining debt authority in the 2019 budget of approximately \$845 million, to \$1.31 billion that is needed to support 2020 Capital Spending Authority.

Actual debt ultimately required may be less than the total debt authority being sought

The total amount of debt Council is being asked to approve includes an increment over and above the debt projected in the 2020 budget, as a risk mitigating feature. This is done principally to provide debt flexibility so approved capital projects can continue if anticipated funding is not available as soon as expected.

This practice also allows staff to optimize the use of development charge reserves by shifting available reserve funding to those projects ready to proceed rather than committing reserves to a specific project that may be delayed or not as active in a particular year. Any excess debt authority will be cancelled once it is no longer needed as part of the following year's budget.

\$152.5 million has been included in the 2020 budget to meet the Region's Sinking Fund contribution requirements

Section 424(4) of the Municipal Act requires that the Treasurer advise Council each year of the amount that must be raised for sinking fund purposes.

The Region finances with term debentures that have sinking fund features, as this type of debt is generally required to attract large investors. For each new term debenture issue, a sinking fund is established, with a fixed amount contributed each year until the maturity date of the debenture. The sum of the annual contributions, together with interest earned on those contributions, is used to repay the debenture at maturity.

The 2020 sinking fund contributions required for debt issued by York Region are shown in Table 2. Of the total amount shown, the Region must contribute \$149.9 million for debt issued for its own capital projects. The balance will be for debt issued on behalf of local municipalities, which they will raise through their own budgets.

Regional sinking fund contributions are part of the debt repayment expenditures included in the 2020 Budget.

Table 2
2020 Sinking Fund Contribution Requirements

Municipality	\$
Township of King	\$2,046,809.38
Town of Georgina	560,605.07
Subtotal	\$2,607,414.45
York Region	149,854,740.74
Total Contribution Requirements	\$152,462,155.18

REPORTING REQUIREMENTS

The Budget is also presented in the same format as the financial statements in the Community Report

There are important differences between how municipalities, including York Region, set out their spending plans at the beginning of the year in their budgets and then report on the results in their financial statements at year-end.

Ontario Regulation 284/09 allows municipalities to exclude amortization expenses, post-employment benefit expenses and solid waste landfill closure and post-closure expenses from the budget. The regulation requires the Region to prepare a reconciliation on the excluded expenses.

York Region's Budget is prepared on a modified accrual basis of accounting, where the financial statements are presented in accordance with Public Sector Accounting Standards using the full accrual method. The main adjustment relates to the treatment of capital spending. The modified budget treats capital spending as an expense in the year it occurs. Conversely, the full accrual method capitalizes qualified capital spending and amortizes the tangible capital assets over their useful lives.

The Accrual Budget Presentation chapter, starting on page 45 of the 2020 to 2022 Budget Book, fulfills the regulation's requirements and presents budget information in the same format as the financial statements in the annual Community Report. This is intended to provide increased clarity, consistency and comparability between the Budget and financial statements. The Region is expected to achieve a 2020 annual surplus of \$499 million using the full accrual basis of accounting, mainly because the Region's acquisition of tangible capital assets of \$677.8 million is greater than the \$299.2 million of amortization expense budgeted for the year.

IN-YEAR BUDGET ADJUSTMENTS

Flexibility is requested to make any necessary administrative budget adjustments to reflect organizational changes and other reallocation of costs

During the year there may be changes required for the Budget that do not impact on gross operating spending, tax levy, or permanent staffing. These adjustments to the Budget can arise from changes to organizational structure, the flexibility needed to adapt to new technology solutions, and operational needs. Delegated authority for the Commissioner of Finance and Regional Treasurer to make any such changes is requested in this report.

Flexibility is requested to apply for, accept and adjust the Budget for any additional provincial and federal funding

Opportunities to apply for new provincial and/or federal funding could arise throughout the year. Delegated authority is requested to enable the Commissioner of Finance and Regional Treasurer to apply for grants during 2020. This could enable the Region to respond to grant application opportunities on a more timely basis. This authority would be limited to grant applications where there is no tax levy impact. These grant applications would be reported to Council at the earliest opportunity.

Delegated authority to the Commissioner of Finance and Regional Treasurer is also sought to accept and adjust the Budget for any provincial and/or federal funding. The proposed authority would allow the Region to quickly implement any funding increases announced by senior governments for regionally delivered programs or capital projects. The ability to accept and implement new funding is helpful if the funding commitment from senior governments is time-limited and there is a risk that the full amount may not be available if it is not disbursed by a certain date.

The authority would be used in situations where accepting the funding would require no increase to the tax levy. For example, an increase in funding for a program in the operating budget would result in an increase in gross spending and a corresponding increase in revenue, with no impact on the net tax levy. This approach is recommended to help ensure the timely implementation of potential new initiatives with offsetting funding from senior levels of government.

Flexibility is requested in capital project implementation to maximize delivery of capital projects in light of changing and unforeseen circumstances

This report recommends that Council authorize the Commissioner of Finance and Regional Treasurer to prepare an in-year report, as required, seeking Council approval of reallocations between capital projects, changes in debt requirements, as well as capital expenditure and Capital Spending Authority requests that are beyond the scope of program group authority. This will provide flexibility in capital project implementation to adapt to changing and unforeseen circumstances and to maximize delivery of capital projects.

The 2020 to 2022 Budget supports the Strategic Plan

The Budget allocates resources to allow the organization to achieve the strategic objectives outlined in the 2019 to 2023 Strategic Plan. Its aim is to ensure that the resources needed to achieve the goals of the Strategic Plan are available when needed. In developing the budget, departments and other service providers assess their existing and planned activities in light of the Strategic Plan priorities, which helps to determine the best use of available resources.

5. Financial

Committee of the Whole has recommended the 2020 to 2022 Budget

The 2020 to 2022 operating budget was recommended as tabled. The operating budget results in a 2020 tax levy increase of 2.96%, as summarized in Attachment 1. The operating budget also includes an outlook which includes tax levy increases of 2.96% in 2021 and 2022. The outlook will form the basis of the following year's budget and will be reviewed annually.

The 2020 capital budget was recommended as tabled. It includes \$826 million in 2020 spending and multi-year Capital Spending Authority of \$2.7 billion, as summarized in Attachment 2 and detailed in the 2020 to 2022 Budget book tabled on November 21, 2019.

The Budget also recommends incremental debt authority of \$466.3 million for the 2020 Capital Spending Authority.

6. Local Impact

The Region provides essential services and capital infrastructure for residents and businesses in all local municipalities within York Region. The 2020 to 2022 Budget endeavours to meet growing demands for service while ensuring reasonable tax levy requirements and sustainable multi-year capital investment.

7. Conclusion

This report provides the results of budget review by Committee of the Whole and related recommendations regarding the 2020 to 2022 Budget. The Budget is summarized in this report and Council's approval is recommended.

For more information on this report, please contact Kelly Strueby, Director, Office of the Budget at 1-877-464-9675 ext. 71611. Accessible formats or communication supports are available upon request.

Recommended by: **Laura Mirabella, FCPA, FCA**
Commissioner of Finance and Regional Treasurer

Approved for Submission: **Bruce Macgregor**
Chief Administrative Officer

November 25, 2019
Attachments (3)
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