ATTACHMENT 1

The Regional Municipality of York

2021 Long-Term Debt Management Plan

York Region

REGIONAL COUNCIL


Chairman & CEO
Wayne Emmerson


Mayor
Tom Mrakas
Town of Aurora


Mayor
Virginia Hackson
Town of East Gwillimbury


Mayor
Margaret Quirk
Town of Georgina


Regional Councillor
Robert Grossi
Town of Georgina


Mayor
Steve Pellegrini
Township of King


Mayor
Frank Scarpitti
City of Markham


Regional Councillor
Don Hamilton
City of Markham


Regional Councillor
Jack Heath
City of Markham


Regional Councillor
Joe Li
City of Markham


Regional Councillor
Jim Jones
City of Markham


Mayor
John Taylor
Town of Newmarket


Regional Councillor
Tom Vegh
Town of Newmarket


Mayor
David Barrow
City of Richmond Hill


Regional Councillor
Joe DiPaola
City of Richmond Hill


Regional Councillor
Carmine Perrelli
City of Richmond Hill


Mayor
Maurizio Bevilacqua
City of Vaughan


Regional Councillor
Mario Ferri
City of Vaughan


Regional Councillor
Gino Rosati
City of Vaughan


Regional Councillor
Linda Jackson
City of Vaughan


Mayor
Iain Lovatt
Town of Whitchurch-Stouffville

TABLE OF CONTENTS

2021 Long-Term Debt Management Plan

Executive Summary

Council's annual affirmation of the Long-Term Debt Management Plan (Plan) is one of the two conditions required for York Region to access the growth-related cost supplement component of its Annual Repayment Limit (ARL). This supplement allows the Region, if required, to borrow more than it would otherwise be permitted under provincial regulations. The regulation that provides York Region access to the growth-related cost supplement will expire on December 31, 2021.

The second condition required under the regulation has been satisfied as a result of York maintaining its Aaa credit rating with Moody's Investor Service and its AA+ credit rating from S&P Global Ratings in 2020.

An updated Plan has been reviewed and affirmed annually by Council since 2011. The Region has remained well within its ARL with the growth-related cost supplement during this period and continues to improve its overall fiscal situation. Working in conjunction with the Fiscal Strategy that was introduced in 2014, the Region's peak net debt has been reduced from a forecasted $5.0 billion to an actual outstanding net debt of $2.7 billion at the end of 2020.

While the proposed 10-year Capital Plan does not currently envision the need for using the growth-related cost supplement, it may be essential to finance additional major projects such as the Yonge Subway Extension (YSE). Scenarios included as part of the 2021 Regional Fiscal Strategy estimate that between $793 million and over $1 billion of additional debt issuance could be required to finance this project. Under these scenarios, the Region could breach its ARL limit as early as 2022, unless the supplement is renewed.

Background

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 regulation[1] (ARL) under the *Municipal Act, 2001*.

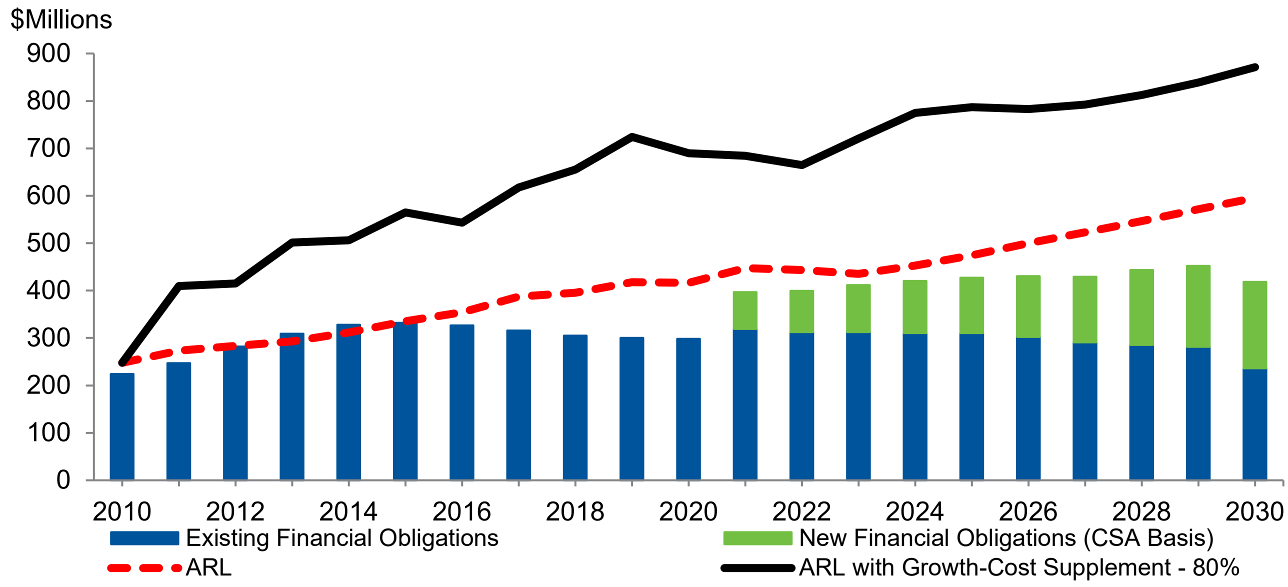
In 2011, the Province recognized York Region as a high growth municipality with unique debt requirements and passed a York-specific regulation[2] that would allow it to borrow a higher amount based on its development charge collections. The regulation expires on December 31, 2021.

The annual repayment limit restricts the aggregate annual cost of servicing the anticipated long-term debt and financial obligations of a municipality to 25 per cent of its own source revenue, plus, in the case of York Region alone, a growth cost supplement equal to 80 per cent of the average of the last three fiscal years of development charge collections. The combination of the annual repayment limit and the growth cost supplement is called the growth-related annual repayment limit but is referred to as the annual repayment limit in this Plan.

In the absence of the growth-related cost supplement, as illustrated on the red dotted line in Figure 1, the Region could have breached the annual repayment limit in 2013 and 2014.

Figure 1

Annual Repayment Limit Actual and Forecast



Source: York Region Finance Department. Actual amounts between 2010 and 2020. Forecast amounts between 2021 and 2030.

---

[1] Ontario Regulation 403/02 for Debt and Financial Obligation Limits.
[2] Regulation 289/11 amended Ontario Regulation 403/02 to add Section 4.1.

The Region meets both conditions to qualify for the growth-related cost supplement

To qualify for the growth-related cost supplement, the Region is required to meet two conditions on an annual basis:

1. Maintain at least an Aa3 from Moody's Investor Service or AA– from S&P Global Ratings (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 September 2020, the Region had met the first condition by maintaining an Aaa credit rating with Moody's Investor Service and receiving an AA+ credit rating from S&P Global Ratings.

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 long-term debt and financial obligations needs over a multi-year period;
2. Projections of the annual repayment limit 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 long-term debt strategy;
4. A 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 2021; and
7. Evaluation and comparison of 2020 projections and outcomes.

1. The Long-Term Debt and Financial Obligations Needs Over a Multi-Year Period

The fiscal strategy guided the preparation of the 2021 Budget

When preparing the 2021 Budget, staff followed the principles of an updated fiscal strategy to help better manage the Region's financial resources. A major tenet of this strategy is to use a more balanced approach when funding long-term capital expenditure. To accomplish this, there is a detailed annual review of both the forecasted capital expenditure and the funding sources. Where necessary, the level of expenditures may be adjusted to better match available funding, while maintaining overall capital priorities.

The 10-year Capital Plan submitted to Council for the 2021 Budget is $642 million higher than last year’s 10-year Capital Plan (Figure 2). The increase in the 2021 Budget incorporates roughly $241 million of additional cost recoveries, $274 million of additional draws from development charges reserves to fund growth capital needs, additional $138 million of additional draws for asset renewal and partly offset by a decrease in anticipated debt requirements of $164 million during this period.

Figure 2

Fiscal Impacts at a Glance

	2020 Budget ($Billions)	2021 Budget ($Billions)	Change ($Billions)
10-year Capital Plan	7.1	7.8	0.7
New DC debt in the next 10 years	2.5	2.3	(0.2)
New housing related debt in the next 10 years	<0.1	<0.1	0.0
New tax-levy debt in the next 10 years	0.0	0.0	0.0
New rate-supported debt in the next 10 years	0.0	0.0	0.0
Debt repaid over next 10 years	2.3	2.5	0.2
Increase in reserves in next 10 years	2.4	2.0	(0.4)
DC collection in the next 10 years	3.3	3.6	0.3

Source: York Region Finance Department

The Region’s need for new long-term debt during the 2021-2030 period is expected to be $2.3 billion, which is similar to last year’s 10-year Capital Plan. The increase of $319 million development charge collection forecasted over the next ten years compared to last year’s 10-year Capital Plan, allows the Region to increase its 10-year Capital Plan without the need to issue additional debt. The 2021 development charge collection forecast is discussed in more detail in section 3 of this plan.

The use of the tax levy-supported Debt Reduction Reserve will avoid approximately $436 million of new tax levy debt over the next 10 years.

The phase-in of full cost recovery for water and wastewater services began in 2016. Although contribution increases have been paused for 2020 and 2021, the user rate reserves will be sufficient for the Region to continue avoiding the issuance of new user rate debt over the next 10 years.

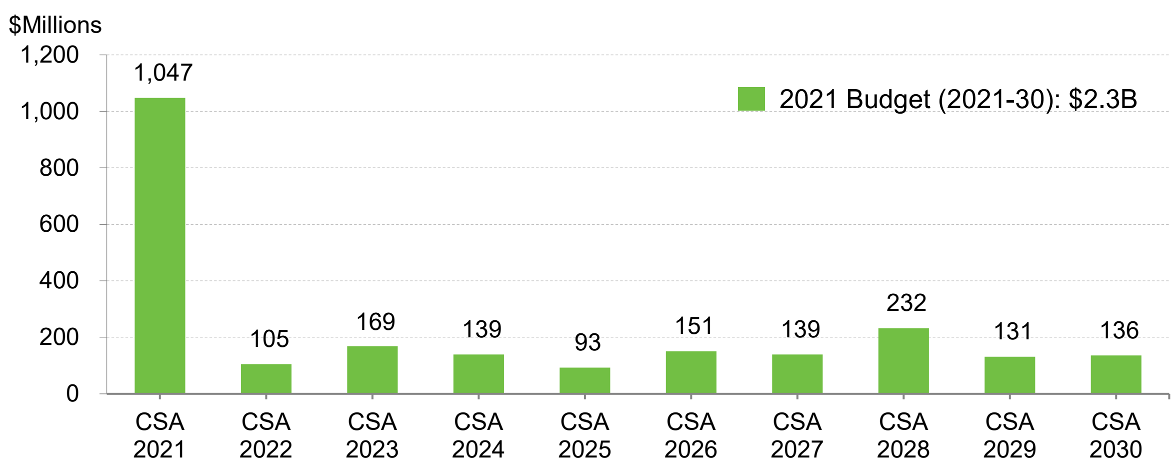
Debt requirement over the next 10 years is similar to the previous budget

Approximately $1.0 billion (or 43 per cent) of the $2.3 billion in projected debenture requirements has been included within the capital spending authority for 2021, as illustrated on Figure 3. This amount includes the carry forward of unused capital spending authority from 2020. This is similar to the capital spending budget authority for 2020 of approximately $1.1 billion (or 45 per cent) of the $2.5 billion in the projected debenture requirements.

Capital spending authority is based on existing and future project commitments. 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 capital plan also contains projects with an estimated debt of about $1.3 billion that are planned, but do not yet have capital spending authority. For the purposes of this Plan, Finance has estimated the future debt requirements for each year of the plan on a capital spending authority basis[3]. Figure 3 illustrates the amount of new debt to be issued on a capital spending authority (CSA) basis. For example, the Region will seek Council authorization to issue $1.0 billion of new debt to commit to capital projects within the capital spending authority for 2021. However, the actual capital expenditure associated with this debt is expected to flow over 10 years: $116 million in 2021, $79 million in 2022, $83 million in 2023, $131 million in 2024, $159 million in 2025, $165 million in 2026, $155 million in 2027, $87 million in 2028, $55 million in 2029 and $17 million in 2030.

Figure 3
Multi-Year Forecast of New Debt on a CSA Basis



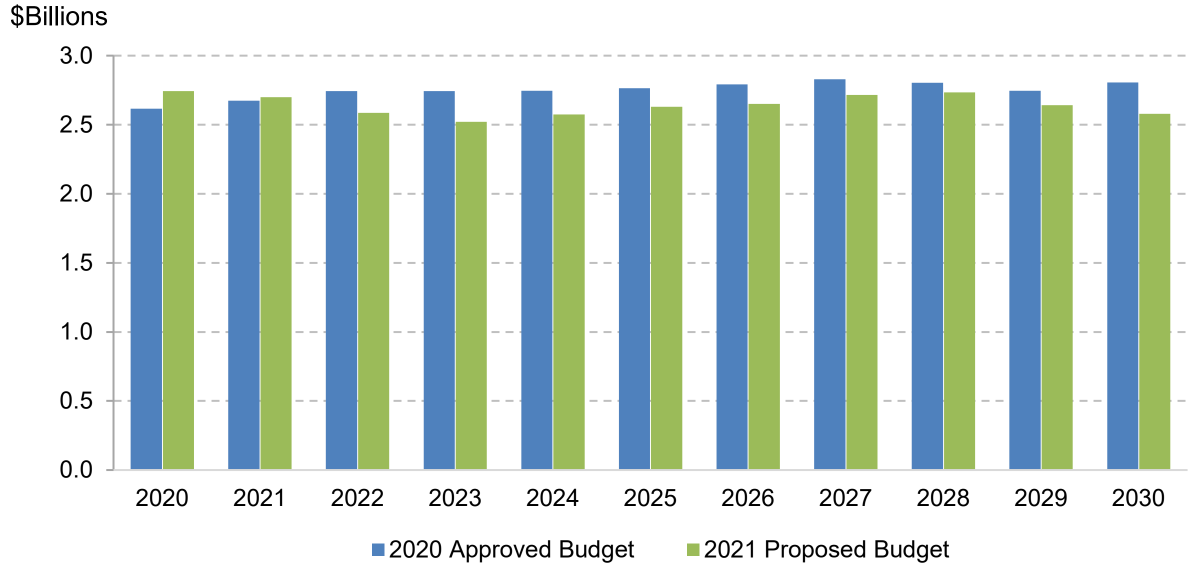
Source: York Region Finance Department

[3] Capital Spending Authority (CSA) is the authority from Council to commit funding to a capital project. The authority may span several years for multi-year projects and is based on departmental spending estimates. The 2021 Budget will approve one year of multi-year capital spending authority for 2021.

Assuming that the debt needs remain as shown in the 10-year capital budget and all future capital spending authority debt occurs as planned, the Region's outstanding net debt will stabilize over the next ten years as illustrated on Figure 4.

Figure 4

Outstanding Net Debt Projection



Source: York Region Finance Department

2. Projections of the Annual Repayment Limit for Each Year of the Multi-Year Period Compared to its Existing and Proposed Long-Term Debt-Related Payments

How much debt room will we have?

The annual repayment limit is calculated by determining and projecting 25 per cent of own-source revenues and adding 80 per cent of the three-year rolling average of historic development charge collections (derived from the development charge collection forecast). The 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 annual repayment limit will increase from $684 million in 2021 to $871 million by 2030, as illustrated on the solid black line in Figure 1. This limit assumes the Province grants renewal of the York-specific growth-related cost supplement.

What are our estimated debt and other financial obligation payments?

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

- Principal obligations
- Interest obligations
- Hospital funding
- Social housing mortgages
- Long-term leases
- University funding

The annual payments for existing debt and other financial obligations will total approximately $319 million in 2021 but are estimated to decline to approximately $236 million by 2030. This estimate is for existing debt only and excludes any principal and interest costs associated with new debt that will be needed in the future. The annual payments on existing debt only are expected to decrease from $296 million in 2021 to $227 million by 2030 as the debt is repaid. The hospital financing reserve contributions reflect committed projects and assume the Region's annual assessment growth rate of approximately 1.5 per cent per year, rising from $7 million per year in 2020 to $8 million per year by 2029. The Region is also expected to contribute approximately $1 million annually to the Innovation Investment Reserve towards a commitment of $25 million for a new York University campus located in the City of Markham.

As noted earlier, the capital spending authority budgeting concept employed by the Region requires that there be enough debt room under the annual repayment limit at the time of project authorization. For example, to assign capital spending authority to projects as part of the 2021 budget process, the Region must have sufficient room under its 2021 annual repayment limit to recognize the full financial cost of the projects "as if" they were going to be incurred entirely in 2021, even if the actual costs are spread out over multiple years. This is the case for each year of the capital plan.

The 10-year Capital Plan in the proposed 2021 Budget is $7.8 billion, of which $2.3 billion will be debt financed. Assuming a weighted average annual interest rate of 3.41 per cent and a term of 20 years, the annual obligation arising from the $1.0 billion debt capital spending authority required in 2021 will be approximately $78 million.[4]

The annual debt payments related to each year's increment have been calculated on the same basis as the 2021 capital spending authority, except that the assumed weighted

---

[4] The 2021 repayment obligation of $78 million is based on the weighted average interest rate based on a review of current and historic rates as well as planned capital spending authority 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.

average interest rate for new debt being issued is projected to increase slightly to 3.50 per cent by 2030. As a result, the financial obligations associated with new debt-related capital spending authority will increase to $182 million by 2030.

Will the Region be within its annual repayment limit?

As previously shown on Figure 1, the Region's financial obligations will remain within its annual repayment limit for each of the next ten years. An illustration of the calculation of the 2021 annual repayment limit is shown in Figure 5 below.

Figure 5

Region's 2021 Annual Repayment Limit Calculation ($Millions)

Component Description	Forecast 2021
25% of Own Source Revenues	447
Plus: Growth Cost Supplement[5]	237
Total Annual Repayment Limit	684
Less: Existing Debt Payment and Financial Obligations	319
Less: Anticipated New Debt Payment	78
Remaining Annual Repayment Limit	287

Source: York Region Finance Department

After taking into account the new debt requirements, the Region's remaining annual repayment limit room lowers to $287 million in 2021 and $452 million in 2030. Excluding the growth-related cost supplement, the Region's remaining annual repayment limit lowers to $50 million in 2021 and $177 million in 2030.

3. Risk and Mitigation Strategies Associated with the Long-Term Debt Strategy, including Interest Rate Risk and Foreign Currency Exposure

Anticipated development charge collections represent one of the most significant risks to debt management

The annual repayment limit is calculated by determining and projecting 25 per cent of own-source revenues and adding 80 per cent of the three-year rolling average of historic development charge collections (derived from the development charge collection forecast).

[5] Growth Cost Supplement in 2021 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2018-2020 inclusive).

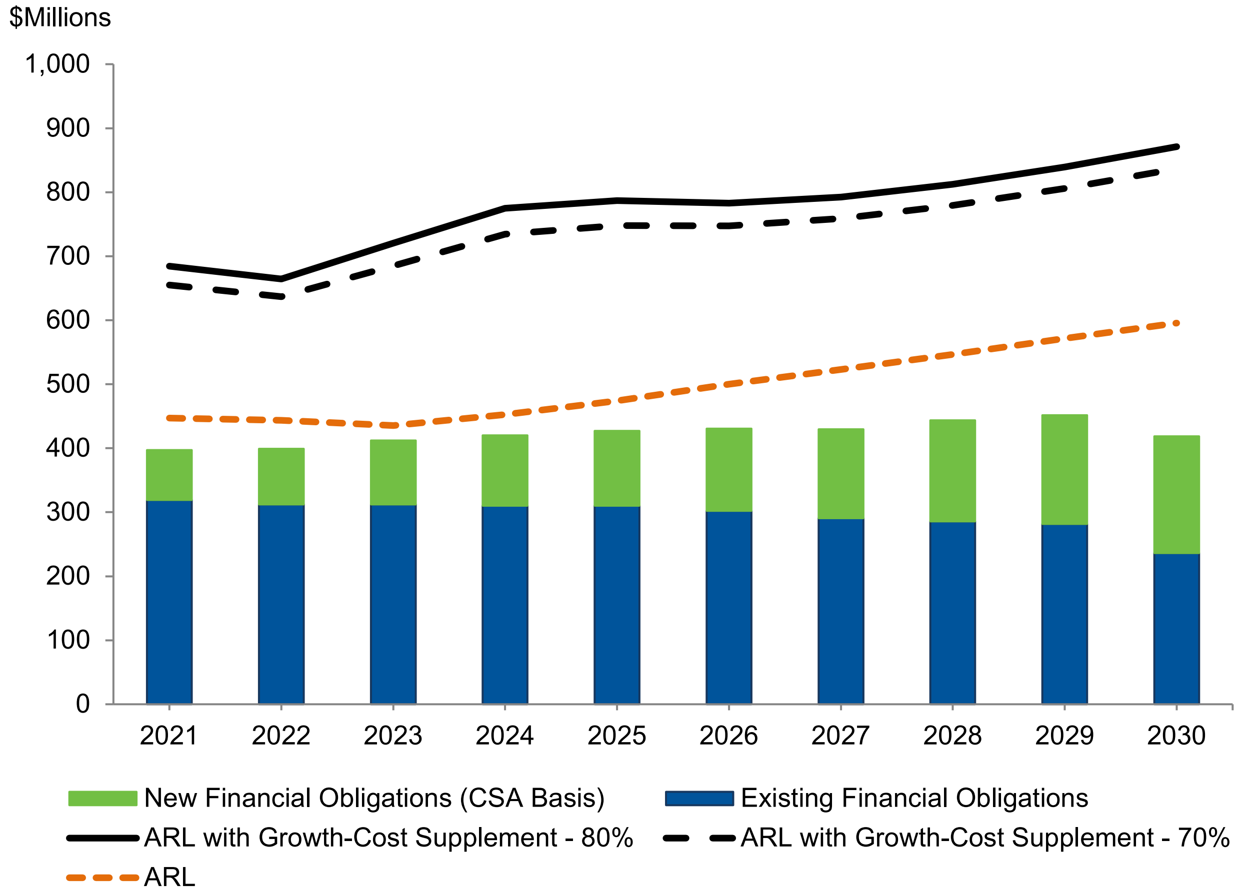
Development charge collections are difficult to predict and can vary significantly from one year to the next as economic conditions change, and legislations change. Lower than expected collections could limit the Region’s debt borrowing ability to levels below what have been indicated in this plan and require changes in the phasing of the capital plan if the overall debt level is to be maintained as planned. Staff review development charge collection trends continually and update forecasts to incorporate necessary changes before finalization of the capital plan during the budget process.

The capital plan is measured against an adjusted annual repayment limit

As a matter of normal practice, the capital plan is measured against an adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of historic development charge collections as a cost supplement, versus the 80 per cent permitted, unless specific Council approval is obtained to do otherwise. This would have the effect of partially mitigating the impact of lower than expected development charge collections. The impact on the annual repayment limit calculations of the adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of historic development charge collections as a cost supplement is illustrated on Figure 6, which shows that the Region’s obligations would still be well within its annual repayment limit even if only 70 per cent of forecast development charge collections are considered as a cost supplement.

Figure 6

Adjusted Annual Repayment Limit



Source: York Region Finance Department

The Region's development charge collection forecast assumes that the residential development activity will recover to pre-pandemic levels by 2022

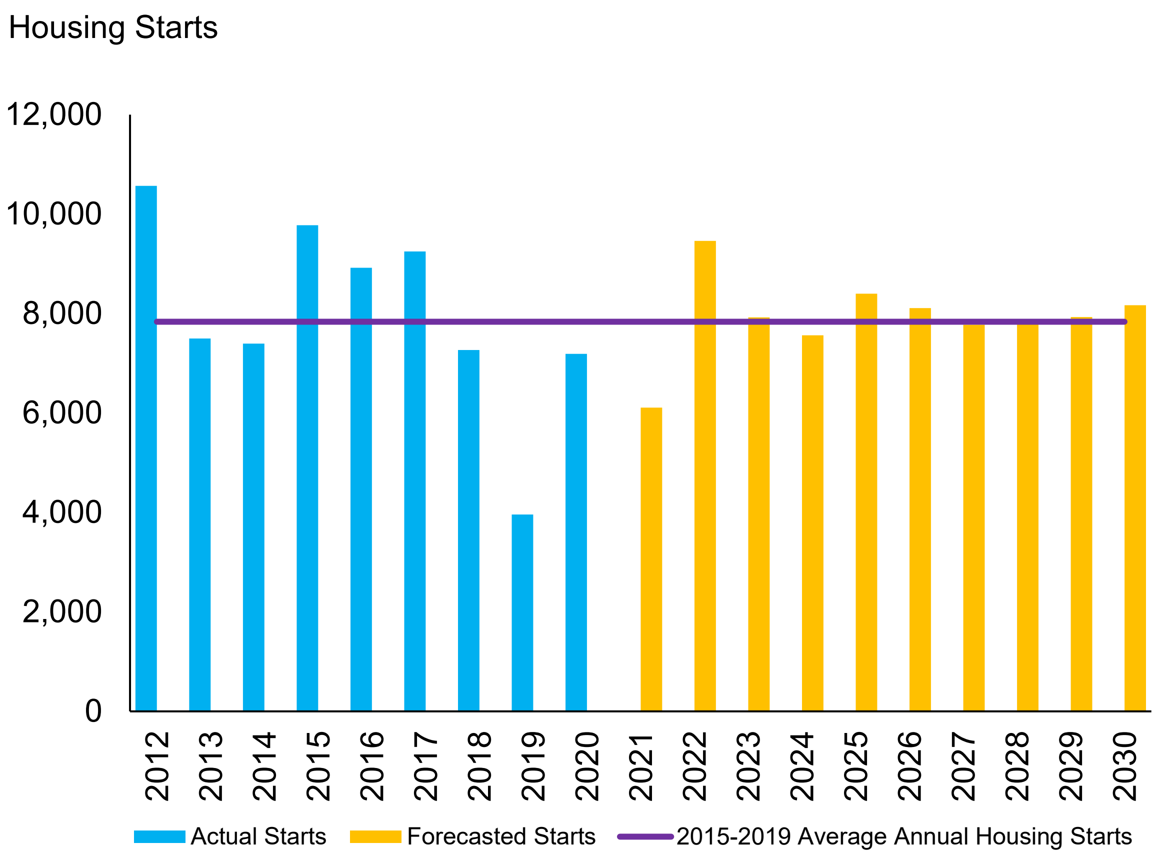
Development charge collections are highly dependent on the pace of growth and development. The development charges collections forecast supporting this Plan is predicated on the assumption that residential development activity will return to pre-pandemic levels by 2022, and that overall growth is robust beyond 2022.

As with previous forecasts, the Region's financial models are built on the assumption of a conservative level of development activity. This trajectory of projected development is informed by recent market data as well as longer term population and housing activity trends. The models assume that from 2021 to 2030, there will be 7,900 new housing units (Figure 7). This level of development is in line with the Region's average annual residential starts from 2015-2019.

Staff assume that the recovery in non-residential development activities would lag that of the residential sector. In addition, there may be reoccupation of existing vacant non-residential spaces where businesses have permanently closed as a result of COVID-19. To reflect these considerations, staff revised the office and retail development forecast downward in the medium term. Over the longer term, the retail development forecast has been revised downward to reflect persistent trends of lower retail development and a move to e-commerce. The office development forecast has also been revised downward to reflect lower floor space per worker (FSW) trends. Overall, the model assumes that from 2021 to 2030, there will be 2.7 million square feet of non-residential development annually. This is below historic averages.

Figure 7

Actual and Forecasted Starts



Source: CHMC, York Region Finance Department

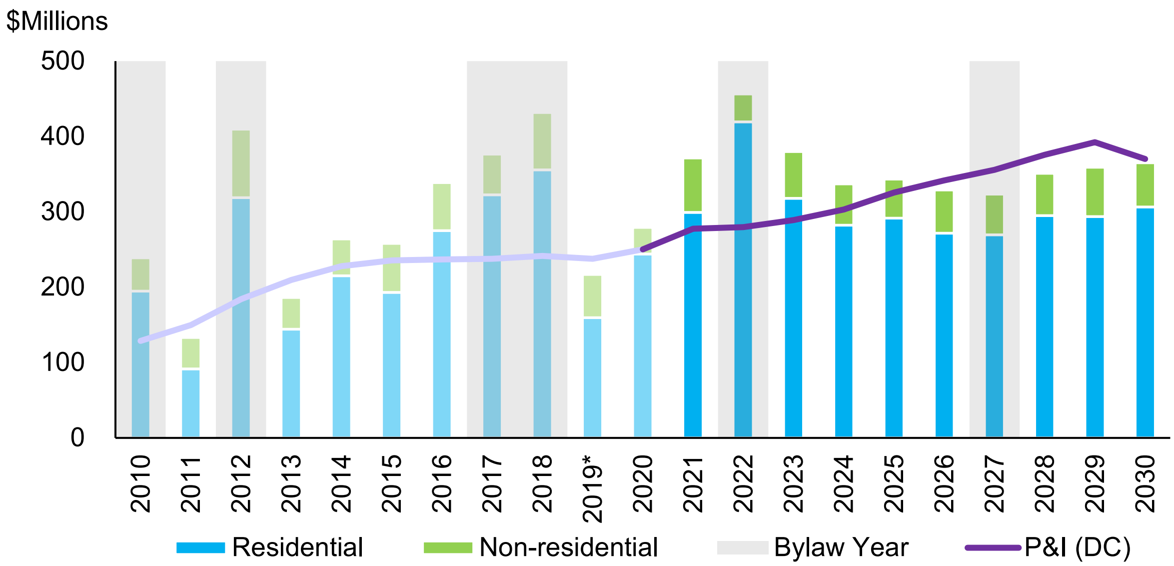
Despite the impact of COVID-19, the new forecast of collection is $319 million higher over the next 10 years compared to the 2020 budget forecast over the same timeframe. Since the 2020 budget, the Province finalized its amendments to the *Development Charges Act, 1997.* The Province's initial changes would have allowed commercial and industrial developers to defer and phase development charge payment, and this was reflected in the Region's 2020 budget. Subsequently, the Province excluded commercial and industrial development from the defer and phase-in provision. Staff revised the development charge collection upwards as a result. However, it is anticipated that there will continue to be significant year-over-year fluctuations in collections with collections in some years falling short of the principal and interest payment on development charge related debt.

On average, development charge collections are expected to exceed principal and interest payments over the next ten years

In 2020, the Region collected $279 million in development charges. This is almost $30 million more than the principal and interest payment on development charge related debt for the year. This lower than expected collection in 2020 is due in part to the impact of COVID-19. As the economy gradually recovers and immigration resumes, annual development charge collections in 2021 to 2030 are expected to average $362 million (Figure 8), which is above the average annual principal and interest payments for the same period.

Figure 8

Historic and Forecasted Development Charge Collections and P&I



*Bill 108, More Homes, More Choice Act, 2019 was introduced

Source: York Region Finance Department

Lower than expected development charge collections in any given year may result in a decrease in liquidity and debt servicing ability. The Region maintains significant non-development charge reserves (Figure 10) that could be used to fund development charge-related debt servicing costs on an interim basis, should the need arise.

Capital planning will continue to focus on aligning growth with infrastructure and avoiding undertaking capital projects prematurely. This will include taking into account the need to phase projects carefully to better match expected funding and avoid over-burdening the Region with debt.

Changes to the *Development Charges Act* will be required to pay for York Region's share of the YSE in a financially sustainable manner.

Development charges are expected to fund up to 80% of the cost of York's contribution to the YSE. The Region will need to issue debt to bridge from the time that it pays its share of the project to the time it receives the development charges needed to fund it.

The speed that the Region can recover the costs of the YSE depends on how it is treated under the *Development Charges Act* and impacts the amount of debt required.

Currently, the Yonge Subway Extension would be considered under the "transit" category, meaning its planning horizon for each bylaw is limited to 10 years. Legislative changes are required to treat the subway as a discrete service not subject to a 10-year horizon limit – something done previously for the Toronto-York Spadina Subway Extension. Treating the Yonge Subway Extension as a discrete service, with no specific limit on the planning horizon, could improve cost recovery and lower debt pressures.

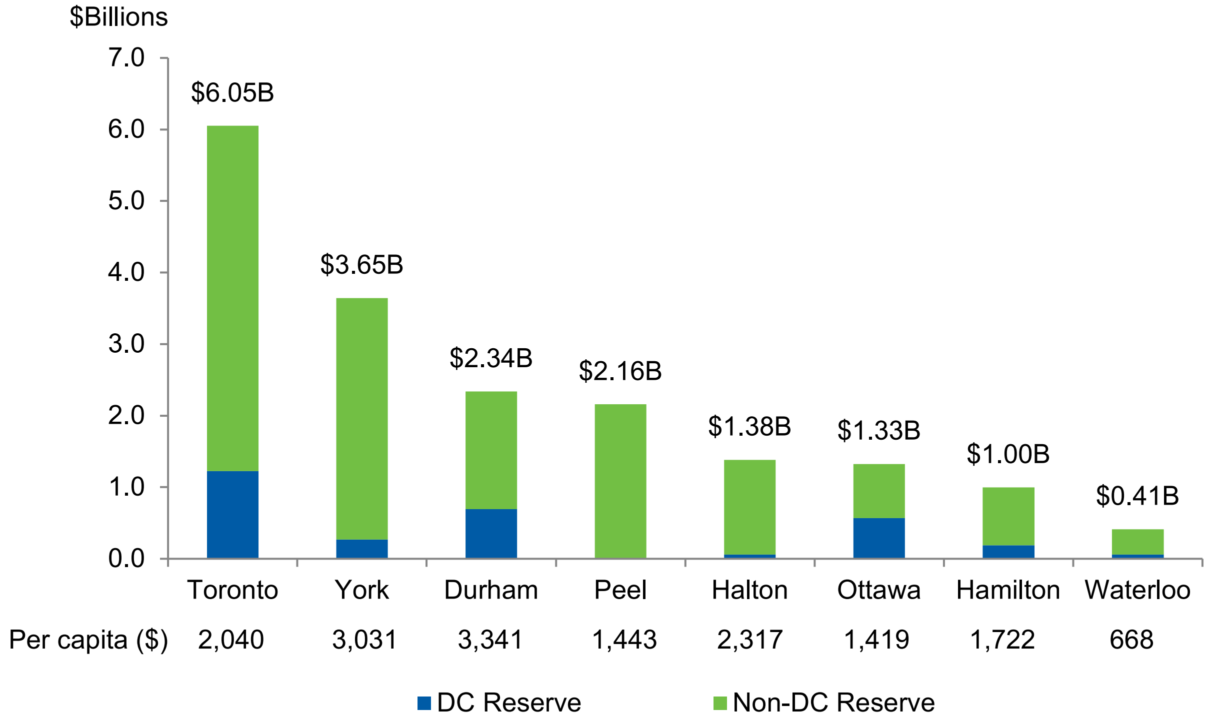
Recent changes to the *Development Charges Act* mean that developers can now lock in their development charge rates prior to the subway being added to the Region's bylaw. This change creates a significant disconnect between those who benefit from the subway and those who pay for it. Development charge eligible costs not recovered from developments that have locked in the pre-subway rates would be pushed onto and paid for by future developments in the form of higher development charge rates. Either repealing the freezing provisions in the *Development Charges Act*, or exempting the Yonge Subway Extension from them, could help correct this disconnect.

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 against non-capital long-term liabilities and external shocks. The Region has been successful in building up a high level of reserves that are above the weighted average per capita of comparable municipalities, as shown on Figure 9.

Figure 9

Comparison of 2019 Reserves and Reserves per Capita



Source: 2019 Financial Information Returns (FIR)

The Region has 60 reserves, which have been broadly categorized into asset replacement, capital, corporate, development charge and human resource reserves. These reserves are estimated to be approximately $3.2 billion by the end of 2020; they are described In Figure 10.

Figure 10

Estimated Reserves at December 31, 2020 ($Millions)

Reserve Balance	Tax Levy	User Rates	Development Charges	Other	Total	2020 Target*
Asset Replacement Reserves	1,203	528			**1,732**	1,800
Growth Capital Reserves	371		276	86	**733**	710
Debt Reduction Reserve	242				**242**	At Target
Stabilization Reserves**	109	59		116	**283**	At Target
Other Corporate Reserves	95			1	**96**	At Target
Human Resources Reserves***	116				**116**	250
Total	**2,135**	**587**	**276**	**203**	**3,201**	
Share in Total	**67%**	**18%**	**9%**	**6%**	**100%**	

*These targets currently exclude subway cashflow needs ($1.3 billion)

**Other includes the Pandemic Management Reserve, which is expected to have a balance of $63 million

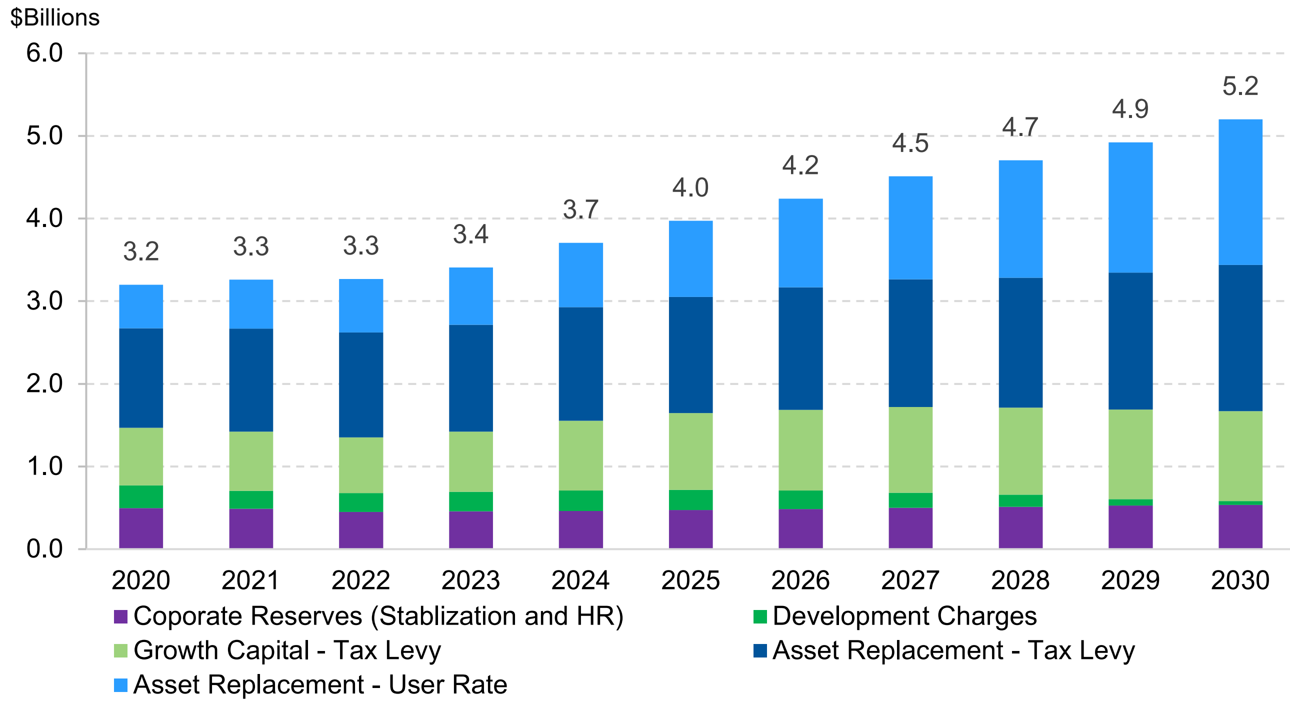
***Target represents contingent liability. Expected annual costs are included in approved budget figures (e.g., WSIB, LTD, health & dental)

Source: York Region Finance Department

Total reserves are expected to grow moderately and reach $5.2 billion by 2030

As part of its fiscal strategy, York Region continues to maintain and build reserves. Figure 11 shows the expected reserve projection in which total reserves could grow to approximately $5.2 billion by 2030.

Figure 11
Total Reserves (2020 – 2030)



Source: York Region Finance Department

York Region has become a "net investor"

Since 2019, York Region held more in reserves than it has in outstanding net debt. A ratio greater than 100 per cent indicates the Region would be a net "investor" while a ratio of less than 100 indicates a net "borrower." The respective levels of debt and reserves are key considerations for rating agencies when evaluating the Region's credit worthiness. York's net investor status is favourably looked upon by both rating agencies.

With projected debt forecast in the 10-year Capital Plan and the forecasted contributions to reserves, the ratio could increase from 117% for 2020 to 202% by 2030.

The forecast includes an increase in expected costs of debt financing over time

Average interest rates are weighted to incorporate the actual cash flow timing of a given year's capital spending authority commitment given there are multi-year projects. Interest rate assumptions are summarized in Figure 12.

Figure 12

Interest Rate Forecast

Interest Rate	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Annual Estimate (%)	3.10	3.30	3.40	3.45	3.45	3.45	3.50	3.50	3.50	3.50
Weighted Average (%)*	3.41	3.41	3.43	3.45	3.46	3.47	3.50	3.50	3.50	3.50

* The weighted average interest rates apply to new debenture requirements in the 2021 Capital Plan.

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. The concept is similar to a mortgage whereby the mortgage amortization period (e.g., 20 years) is longer than the mortgage contractual term (e.g., 5 years), requiring the borrower to refinance the mortgage upon expiration of the contractual term (e.g., obtain another mortgage contract after 5 years). For existing debt, this risk has been accounted for by calculating the annual repayment on the amount outstanding after the contract term expires using an additional 10-year term with a re-forecasted future interest rate. For new debt, forecast annual repayments have been calculated at the rates noted in Figure 12 using a twenty-year term.

The Region has 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 borrowing costs will be higher than expected and/or 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 are being employed to deal with this possibility include:

- Conservative interest rate forecasts
- Use of bond forward agreements to hedge interest costs on new debt issues when appropriate
- Pre-financing of capital projects where it is financially beneficial to do so
- Borrowing applications to government agencies such as Infrastructure Ontario
- Use of variable rate debt/lines of credit or short-term borrowing from reserves in the event of market disruption or in anticipation of significantly lower interest rates
- Use of underwriting syndicates
- An active Investor Relations program
- Structuring new debt to better meet the needs of potential investors.

The renewal of the growth-related cost supplement will be critical to finance York Region's contribution to the YSE and other major projects

The project has been estimated to cost approximately $5.6 billion and the staff anticipate that the Region could be asked to contribute over $1 billion towards it. As YSE discussions are ongoing with other levels of government, the Region's capital contribution is not yet reflected in it's proposed 10-year Capital Plan.

Staff have estimated the possible financial impact of the subway on the Region based on early-stage information. Revised forecasts for development charge collections that incorporate the subway, tax levy contributions for the non-growth portion, and construction timing that assumes completion in 2030, have been used for the projections shown below.

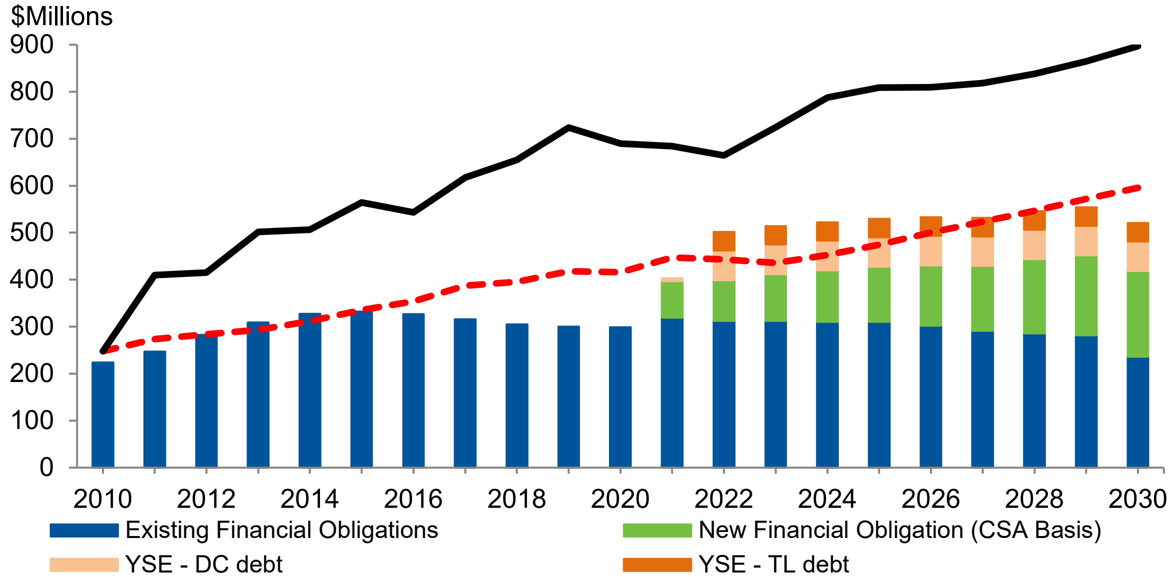
The first scenario assumes that debt would only be issued for the growth-related portion of the Region's contribution and the remainder would be funded from tax levy reserves. Under this scenario, the Region would need to issue approximately $793 million of additional development charge related debt between 2022 and 2030. The peak net debt would be approximately $3.4 billion and occur in 2028, which is about $500 million higher than the previous peak net debt level of $2.9 billion in 2017.

The second scenario assumes that the Region would debt finance its full contribution of over $1 billion to the subway. The peak debt under this scenario would be about $3.9 billion and would also occur in 2028.

Under both scenarios, the Region could breach its ARL limit as early as 2022, unless the growth-related cost supplement is renewed. Staff have been in discussions with the Province regarding the need to renew the growth-related cost supplement component of its ARL to allow York Region the ability to finance the YSE (Figure 13). This regulation will expire on December 31, 2021 and greater certainty in this matter is needed for staff to conduct long-term financial planning.

Figure 13

Annual Repayment Limit with YSE



Source: York Region Finance Department

Renewal of the ARL growth-related cost regulation would ensure that the Region would be able to finance its 10-year Capital Plan as well as the YSE. In the event the regulation is not renewed, the Region may need to defer some of the capital projects required to strive toward the provincial Growth Plan target.

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. To address this risk, phase-in strategies for large capital projects will 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 February 2019, is reviewed annually 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 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 versus 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 to increase market awareness and boost demand for Regional debentures
- Maintaining at least an 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 Temporary Borrowing Needs for 2021

Temporary borrowing needs arise from the need to finance operational expenditures pending receipt of taxes and other revenues and the need to finance capital expenditures until long-term financing is in place.

The Region's temporary borrowing requirements are addressed in detail under a separate report to Council on November 5, 2020. In 2021, it is estimated that approximately $548 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 2021, it is estimated that approximately $300 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 per cent of budgeted total revenue from January to September of the previous year and 25 per cent from October to December.[6] 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 promissory notes when it is economically advantageous to do so in the event borrowing rate is lower than what the Region earns on its investment portfolio. Any funds borrowed from reserves are always paid back during the year of borrowing with interest at the same rate that would have been earned on the corresponding reserves.

7. Evaluation and Comparison of 2020 Projections and Outcomes

As Figure 14 shows, the Region was in compliance with its annual repayment limit for 2020.

Figure 14

Region's 2020 Annual Repayment Limit ($Millions)

Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	423	416	(7)
Plus: Growth Cost Supplement[7]	256	273	17
Total Annual Repayment Limit	**679**	**689**	**10**
Less: Existing Debt Payment and Financial Obligations	299	299	–
Less: Anticipated New Debt Payment	88	81	(7)
Remaining Annual Repayment Limit	**292**	**309**	**17**

Source: York Region Finance Department

The favourable difference of $17 million in growth cost supplement shown in Figure 14 above was due to higher than expected development charge collections in 2019. The favourable difference of $7 million to service new debt was attributable to lower interest rates than anticipated in 2020.

8. Conclusion

The long-term debt management plan addresses the matters that Council is required to consider before affirming the Long-Term Debt Management Plan. The financing that the Region requires to fund and manage its current capital plan is within its annual repayment

[6] Temporary borrowing provisions are set out in Sections 405 and 407 of the Municipal Act, 2001. Temporary borrowings are not part of the annual repayment limit calculations.

[7] Growth Cost Supplement in 2020 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2017-2019 inclusive).

limit, however, it does not reflect any additional financing required for additional major projects such as the YSE. In the 2021 Regional Fiscal Strategy report, staff recommend that Council adopt the resolution shown in Attachment 2, of which one of the requests of the Province is the renewal of the regulation in order to provide continued access to the growth-related cost supplement component of the Region’s ARL.

Staff will continue to assess the long-term implications of the annual repayment limit methodology as outlined in the regulation.

APPENDIX 1

Determination of Annual Repayment Limit (ARL)

1. Step 1: Calculate 25 per cent 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.

Figure A1 provides the 2021-2030 forecast of the Region's own source revenues. The calculation uses own source revenues from two years prior to the current year, corresponding to the Financial Information Return year as it is the most recent information submitted to the Ministry of Municipal Affairs at the time of the calculation. The annual repayment limit for 2021 is based on actual results of the 2019 Financial Information Return. The limit for 2022 is based on 2020 Operating Budget for 2020. The limit for 2023 to 2024 is based on the 2021 Operating Budget for 2021 to 2022.

Figure A1

Calculate 25 per cent of Own Source Revenues ($Millions)

Annual Repayment Limit determination	2021	2022	2023	2024	2025
Property taxes/Payments in lieu[2]	1,152	1,189	1,240	1,287	1,337
User rates - sewage/water/solid waste[3]	368	385	361	373	390
Transportation user fees	80	79	32	41	54
Other user fees and charges[4]	52	48	21	13	13
Provincial fines	19	16	16	16	16
Other revenue[5]	119	57	72	80	87
Total - Net revenues	1,790	1,774	1,742	1,810	1,897
25% of Net revenues	447	444	436	453	474

Annual Repayment Limit determination[1]	2026	2027	2028	2029	2030
Property taxes/Payments in lieu[2]	1,399	1,463	1,527	1,594	1,661
User rates - sewage/water/solid waste[3]	407	424	442	459	478
Transportation user fees	69	71	74	77	80
Other user fees and charges[4]	14	15	15	16	17
Provincial fines	16	17	17	18	18
Other revenue[5]	95	103	112	122	129
Total - Net revenues	2,000	2,093	2,187	2,286	2,383
25% of Net revenues	500	523	547	572	596

Notes:

1. Property taxes for the 2023 annual repayment limit calculation is based on expected results for 2021 and assume 1.37 per cent assessment growth plus 1.59 per cent net tax levy growth for a total of 2.96 per cent. Thereafter, property taxes are assumed to continue to increase 2.96 per cent annually.

2. Water and wastewater rates include a zero percent increase for 2021 and assumes an increase of 2.9 per cent annually from 2022 and thereafter.

3. Other user fees and charges include revenues generated by: Social Housing, Police Services, Public Health, Paramedic Services and Planning. The 2021 Operating Budget assumes other user fees decrease 2021 to 2022. Thereafter, fees are assumed to increase by an annual average of 2.00 per cent.

4. Other revenue includes: Investment Income, Sale of Publications and recoveries. Investment income is based on reserve balance forecasts assuming a rate of return of approximately 2.19 per cent for 2021. Thereafter, rates of return range from 2.46 per cent to 2.75 per cent.

2. 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 development charge collections for the previous three fiscal years. A forecast of development charge collections is also required as part of this plan.

A 10-year development charge collections forecast was prepared for the period 2021 to 2030. The 2021 to 2030 collections forecast is generated using econometric and financial models that differentiate between the short, medium and long terms. The development charge collection estimate for 2020 was based on the actual year-to-date collections as well as recent housing activity. Please see Figure 8 in the Plan.

This year's forecast projects that development charge collections will total $3.6 billion from 2021 to 2030, which is $0.3 billion more than what was projected for the 2020 budget. The annual average collection is approximately $362 million for these 10 years, which exceeds the forecast of average annual principal and interest payment on development charge related debt.

The development charge collections forecast also reflects the impact of recent legislative changes and Regional policies. Since the 2020 budget, the Provincial Government has completed its amendment of the *Development Charges Act, 1997* (the Act) as a part of the Housing Supply Action Plan. While the amended Act maintained many aspects of the changes proposed through Bill 108, the Province reversed its proposal to allow commercial and industrial development to defer and phase-in development charge payments.

In addition, as permitted under the Act, Regional Council adopted a policy in February 2020 to charge 5 per cent interest compounded annually on frozen development charges from the date developers lock in development charge rates to the date of payment. As a result of these developments, the negative impact of the amended Act on development charge collections was less sever than what was previously anticipated.

Step 3: Calculate Total Annual Repayment Limit

The final step is to calculate the total annual repayment limit by adding the revenues and collections calculated in Steps 1 and 2 above, as summarized in Figure A2.

Figure A2

Total Annual Repayment Limit ($Millions)

Component Description	2021	2022	2023	2024	2025
Total own source revenues	1,790	1,774	1,742	1,810	1,897
25% of Own source revenues (A)	447	444	436	453	474
Development charge collections (3-year rolling average)	296	276	356	403	391
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	207	193	249	282	274
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	654	637	685	735	748

Component Description	2026	2027	2028	2029	2030
Total own source revenues	2,000	2,093	2,187	2,286	2,383
25% of Own source revenues (A)	500	523	547	572	596
Development charge collections (3-year rolling average)	354	337	332	335	345
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	248	236	232	235	242
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	748	759	779	807	838

Note:

1. While the Regulation allows the Region to include an amount equivalent to 80 per cent of the average development charge collections for the previous three fiscal years as a growth cost supplement, the 2021 to 2030 annual repayment limit is calculated based on a more conservative assumption of 70 per cent.

17250 Yonge Street,
Newmarket, ON Canada
L3Y 6Z1

York Region