ATTACHMENT 1

The Regional Municipality of York

2022 Long-Term Debt Management Plan

York Region

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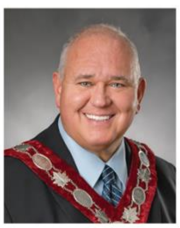

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2022 Long-Term Debt Management Plan

Executive Summary

Council's annual affirmation of the Long-Term Debt Management Plan (the 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. In April 2021, the Province renewed the growth-related cost supplement for another ten years, which will now expire on December 31, 2031.

The second condition under the regulation requires that the Region maintains at least AA- credit rating. York Region exceeds this condition as it currently holds the highest ratings available with both Moody's Investors Service (Aaa) and S&P Global Ratings (AAA).

Since 2011, Council has annually affirmed the Long-Term Debt Management Plan (the Plan). The Region has remained well within its ARL with the growth-related cost supplement during this period and continues to improve its overall financial position. Through the annual implementation of the Plan and the Fiscal Strategy, the Region's net debt level has been reduced from its 2017 peak of $2.9 billion. Net outstanding debt is expected to be $2.6 billion at the end of 2021.

Based on the proposed 10-year capital plan, the growth-related cost supplement will only need to be used from 2022 to 2024 inclusive.

An amendment to the Capital Financing and Debt Policy has been proposed in the 2022 Regional Fiscal Strategy that will limit access to the growth-related cost supplement to only the debt associated with the Yonge North Subway Extension.

Background

Municipalities in Ontario can only issue long-term debt for capital purposes. The Province regulates the amount of municipal debt and other financial obligations through the annual repayment limit regulation[1] (ARL) under the *Municipal Act, 2001*.

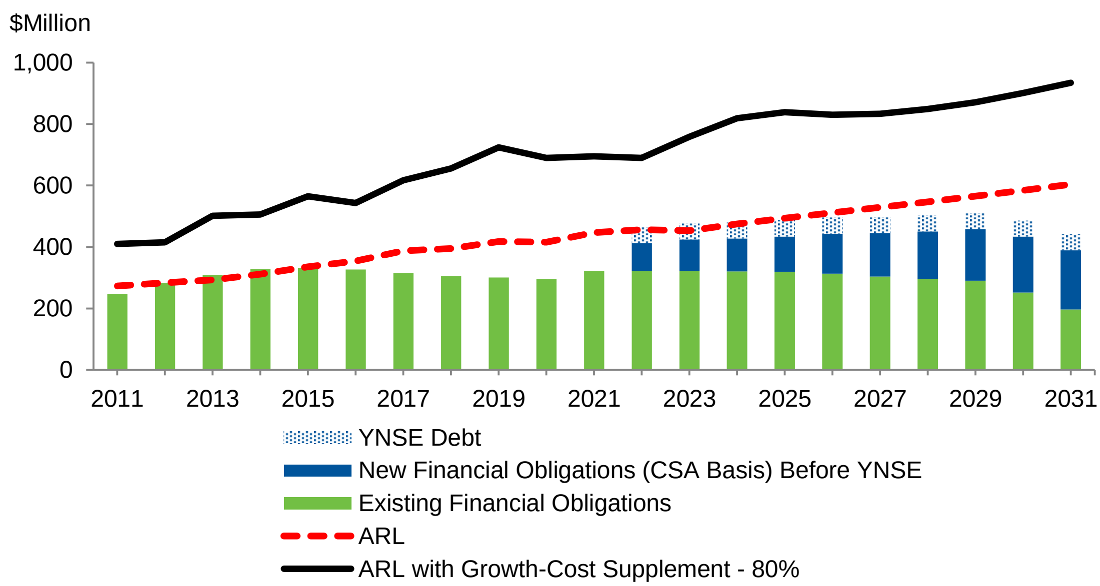
In 2011, the Province recognized York Region as a high growth municipality with unique debt requirements and passed a York-specific regulation[2] that allowed it to borrow a higher amount based on the amount of its development charge collections. The regulation was renewed by the Province in 2021 for another ten years and will now expire on December 31, 2031.

The annual repayment limit restricts the aggregate annual cost of servicing the anticipated long-term debt and other 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 by the red dotted line in Figure 1, the Region would have breached the annual repayment limit in 2013 and 2014 and would exceed the limit over 2022 to 2024.

Figure 1

Annual Repayment Limit Actual and Forecast



Source: York Region Finance Department. Actual amounts between 2011 and 2021. Forecast amounts between 2022 and 2031.

[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 met 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 credit rating from Moody's Investors Service or AA– from S&P Global Ratings (or equivalent)
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

In 2021, the Region met the first condition by maintaining its Aaa credit rating with Moody's Investors Service and having its credit rating upgraded to AAA by 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 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 and financial obligations 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 2022
7. Evaluation and comparison of 2021 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 2022 Budget

When preparing the 2022 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 balanced approach when funding long-term capital expenditures. To accomplish this, there is a detailed annual review of both the forecasted capital expenditures 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 2022 Budget is $1.7 billion higher than last year's 10-year capital plan (Figure 2). The key reason for the increase is the addition of the YNSE, resulting in increased new debt issuance and Rapid Transit Reserve draws. Furthermore, increased asset rehabilitation and replacement spending results in incremental asset replacement reserve draws of $307 million.

Figure 2

Fiscal Impacts at a Glance

	2021 Budget ($Billion)	2022 Budget ($Billion)	Change ($Billion)
10-year capital plan	7.8	9.5	1.7
New DC debt in the next 10 years	2.3	3.2	0.9
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	2.5	2.7	0.2
Increase in reserves in next 10 years	2.0	1.8	(0.2)
DC collection in the next 10 years	3.6	4.2	0.6

Source: York Region Finance Department
Numbers may not add due to rounding

Adding YNSE to the 10-year capital plan brings the Region's projected new debt issuance over 2022-2031 to $3.2 billion, which is $0.9 billion higher than last year's 10-year capital plan. The Region is expected to collect $4.2 billion in development charges over the next ten years for projects including YNSE which helps service the incremental debt along with funding some of the capital projects directly. The 2022 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 $398 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. With the new rate increase adopted by Council, the user rate reserves are expected to be sufficient to pay for water and wastewater related infrastructure projects without the need to issue any new user rate debt over the next 10 years.

YNSE will increase the new debt requirement to $3.2 billion

Capital spending authority is 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.

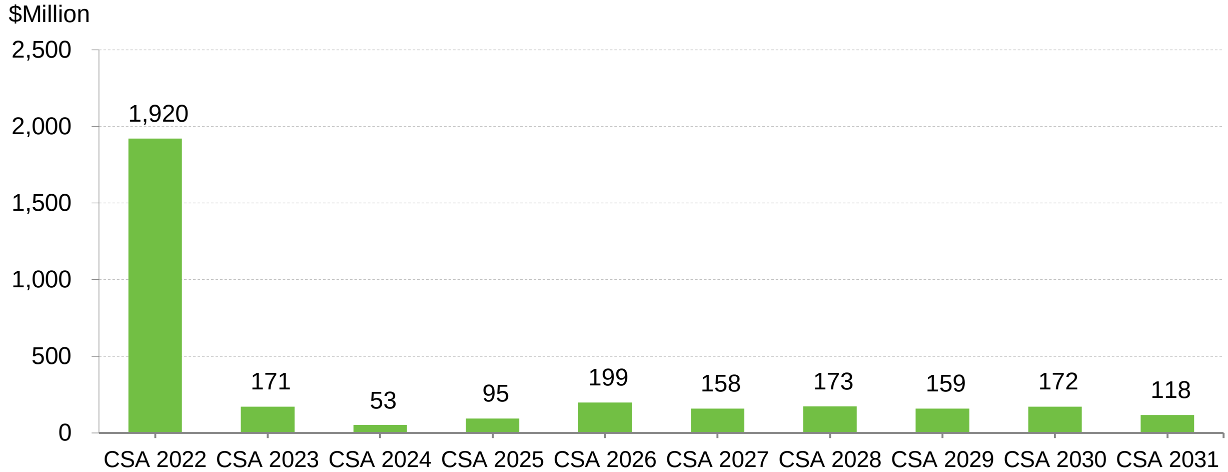
Approximately $1.9 billion (or 60 per cent) of the $3.2 billion in projected debenture requirements has been included within the capital spending authority for 2022, as illustrated in Figure 3. This is higher than the capital spending authority for 2021 of approximately $1.0 billion (or 43 per cent) of the $2.3 billion in the projected debenture requirements within the 2021 budget.

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 staff 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 $1.9 billion of new debt to commit to capital projects within the capital spending authority for 2022, including $703 million for the YNSE.

Capital spending authority in the first budget year is required for the full amount of debt expected to be issued over the term of the project. This authority is needed for departments to be able to commit to capital projects and helps the Region manage debt projections on the long-term basis. As an example, $703 million is the total amount of debt currently projected to be issued for the YNSE over 10 years and is included in 2022 CSA. Actual debt issuance will be spread between 2023-2030.

[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 2022 Budget will approve one year of multi-year capital spending authority for 2022.

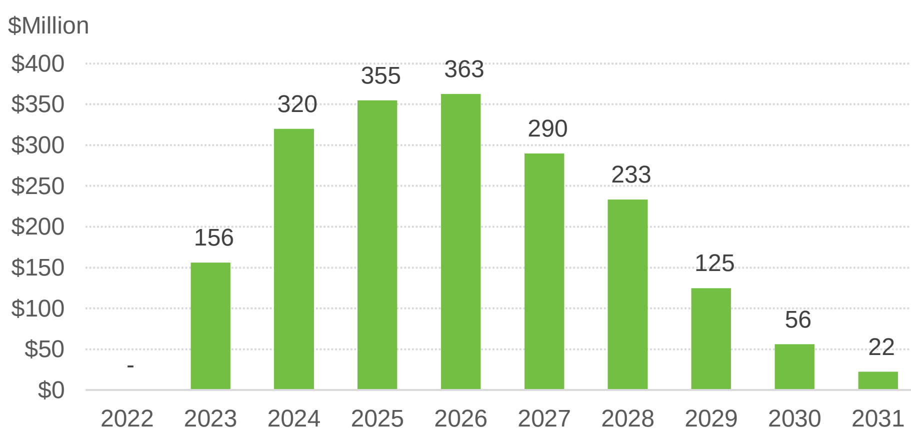
Figure 3
Multi-Year Forecast of New Debt on a CSA Basis



Source: York Region Finance Department

Actual capital expenditures associated with the $1.9 billion 2022 CSA debt are expected to be incurred over 10 years as shown in Figure 4.

Figure 4
Actual capital expenditures associated with 2022 CSA debt

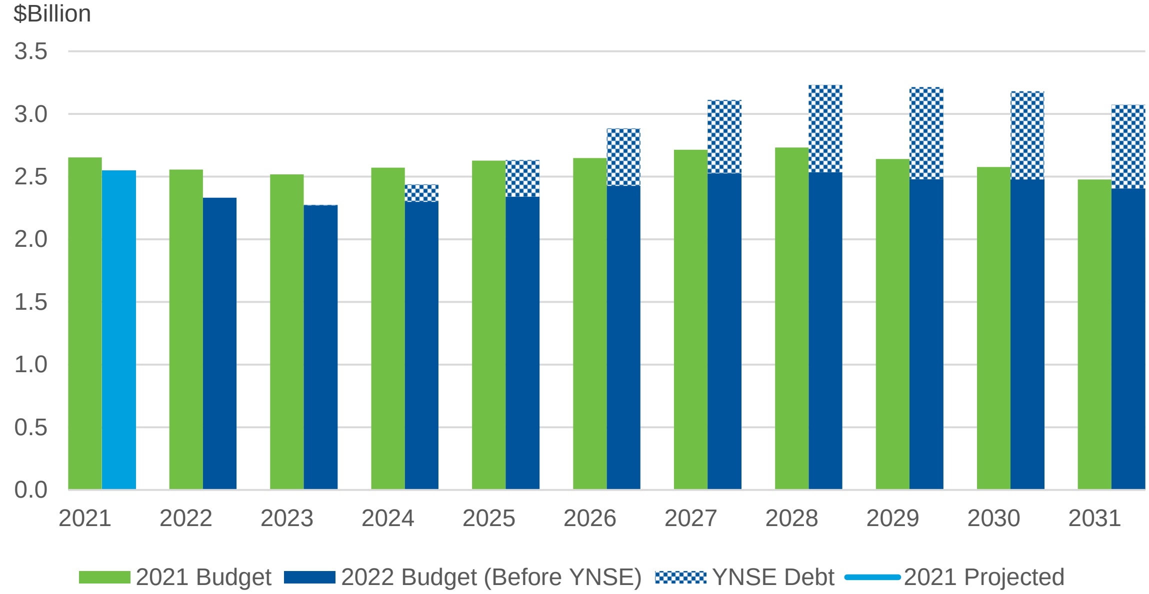


Source: York Region Finance Department

If 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 net outstanding debt will gradually increase and reach $3.2 billion in 2028 as illustrated in Figure 5.

Figure 5

Net Outstanding Debt Projection



Source: York Region Finance Department

The debt profile has improved a little from the 2021 budget in the early forecast years, before the inclusion of the YNSE. This is owing to a general shift in DC projects out into later years and an increase in DC collections forecast. Additionally, $19 million of user rate and tax levy net outstanding debt was paid out from reserves instead of refinancing in 2021. The level of net debt outstanding on projects other than YNSE reaches approximately the same level as in 2021 budget by 2031.

After factoring in the subway, the projected peak net debt rises to $3.2 billion in 2028 and stays above $3 billion through to 2031.

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 rolling average of the preceding three years' development charge collections (derived from actual development charge collections for the past years and from the development charge collection forecast for the current and future years). 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 $690 million in 2022 to $934 million by 2031, as illustrated on the solid black line in Figure 1.

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 $322 million in 2022 and are estimated to decrease to approximately $197 million by 2031. 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 reduce from $299 million in 2022 to $187 million by 2031 as 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 2022 to approximately $8 million per year by 2031. 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 2022 budget process, the Region must have sufficient room under its 2022 annual repayment limit to recognize the full financial cost of the projects "as if" they were going to be incurred entirely in 2022, 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 2022 Budget is $9.5 billion, of which $3.2 billion will be debt financed. Assuming a weighted average annual interest rate of 3.3 per cent and a term of 20 years, the annual obligation arising from the $1.9 billion capital spending authority debt required in 2022 will be approximately $143 million.[4]

The annual debt payments related to each year's increment have been calculated on the same basis as the 2022 capital spending authority, except that the assumed weighted

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[4] The 2022 repayment obligation of $143 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 3.60 per cent by 2031 factored in the financial obligations associated with new debt-related capital spending authority increasing to $245 million by 2031.

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 with the growth cost supplement for each of the next ten years. An illustration of the calculation of the 2022 annual repayment limit is shown in Figure 6 below.

Figure 6

Region's 2022 Annual Repayment Limit Calculation ($Millions)

Component Description	Forecast 2022
25% of Own Source Revenues	456
Plus: Growth Cost Supplement[5]	234
Total Annual Repayment Limit	690
Less: Existing Debt Payment and Financial Obligations	322
Less: Anticipated New Debt Payment	143
Remaining Annual Repayment Limit	225

Source: York Region Finance Department

After taking into account the new debt requirements, the Region's remaining annual repayment limit room lowers to $225 million in 2022 and $493 million in 2031. Excluding the growth-related cost supplement, the Region's remaining annual repayment limit lowers to negative $9 million in 2022 and $162 million in 2031.

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 2022 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2019-2021 inclusive).

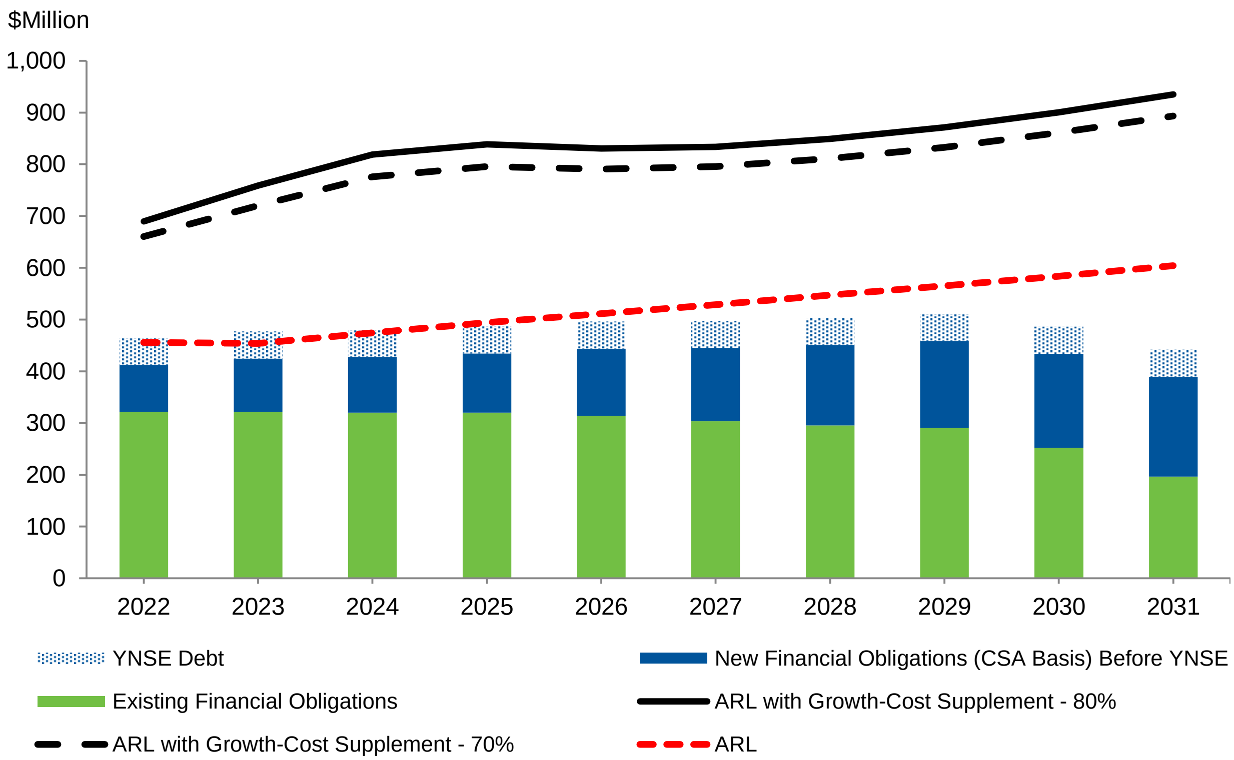
Development charge collections are difficult to predict and can vary significantly from one year to the next as economic conditions and legislations change. Lower than expected collections could limit the Region's debt borrowing ability to levels below what has been indicated in this plan and require 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 7, 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 7

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

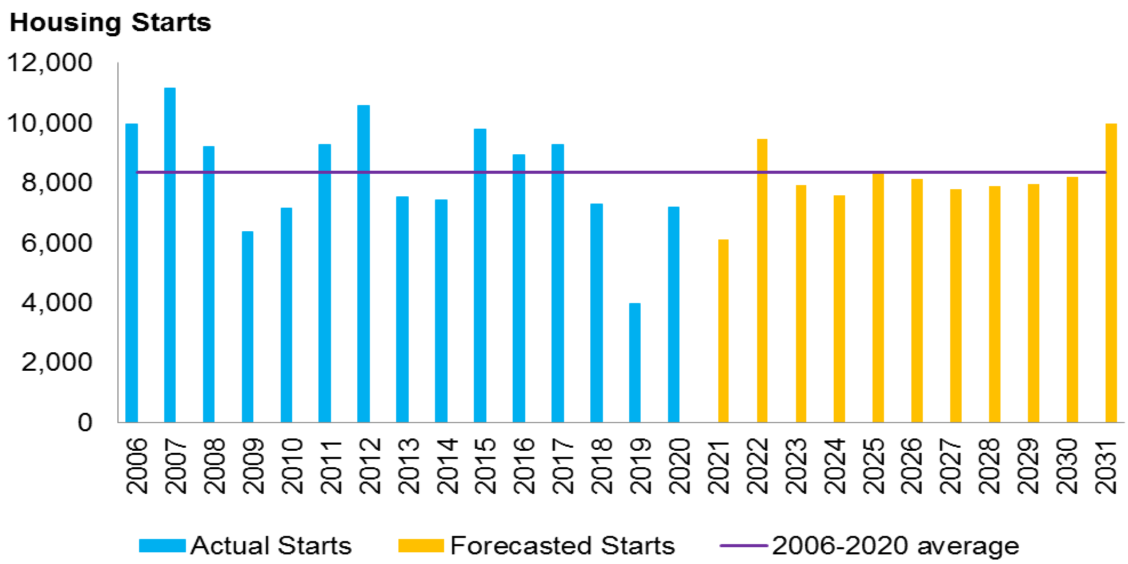
Development charge collections are highly dependent on the pace of growth and development. The development charges collections forecast supporting this Plan is predicated on the assumption that residential development activity will return to pre-pandemic levels by 2022, and that overall growth is robust 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 2022 to 2031, the average annual level of development will be approximately 8,300 residential units per year (Figure 8). That level of development activity is similar to the average annual number of units developed in the Region for the last 10 years.

Staff assumed that COVID-19 would slow new non-residential development, in particular for office and retail space. 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 2022 to 2031, there will be 2.7 million square feet of non-residential development annually. This is below historic averages.

Figure 8

Actual and Forecasted Starts



Source: CMHC, York Region Finance Department

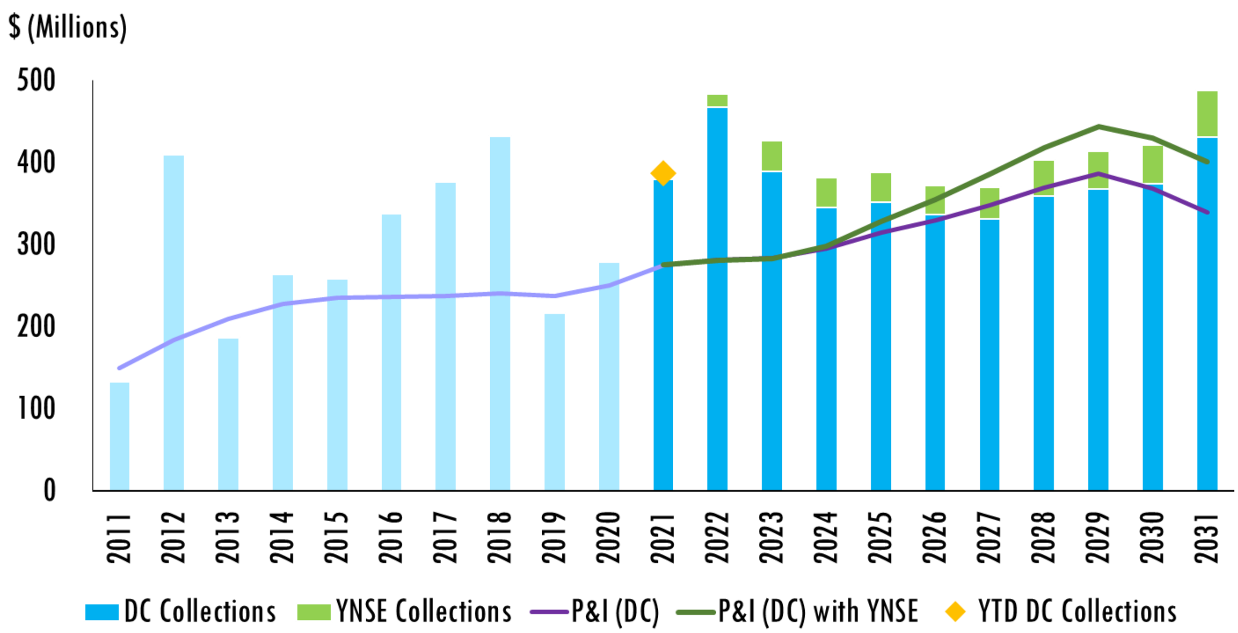
On average, development charge collections are expected to exceed principal and interest payments over the next ten years

As of October 31st, the Region has collected $388 million in development charge collections (cash basis) exceeding the forecast of $380 million for the year. Looking ahead, with the subway, the Region anticipates to collect, on average, $415 million in development charges annually (Figure 9) to pay for growth infrastructure and servicing development charges supported debt.

Over the same period, the principal and interest debt payments are expected to average $363 million. This includes subway related debt.

Figure 9

Historic and Forecasted Development Charge Collections and P&I



Source: York Region Finance Department
Note: YTD DC cash collections as of October 31st, 2021

It is anticipated that there will continue to be significant year-over-year fluctuation with collections, due to fluctuation on construction activities, changes in the economic cycle, and changes in DC rates. Some years collections are expected to fall short of the principal and interest payments needed, and development charges reserves would need to be drawn down in those year to bridge the gap. In the event that prolonged and consistent lower-than-expected collections occur, capital deferral may be required while DC collections "catch up" to annual principal and interest payments.

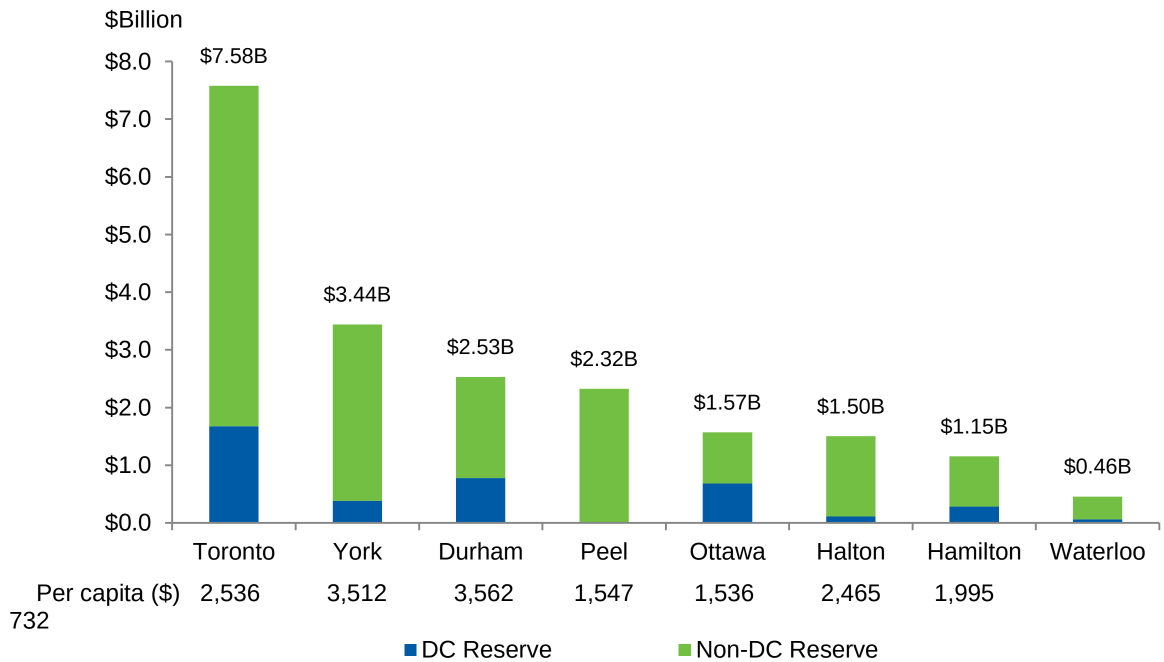
Capital planning will continue to focus on aligning growth with infrastructure and avoiding undertaking capital projects prematurely. This will include taking into account the need to phase projects carefully to better match expected funding and avoid over-burdening the Region with debt.

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 provide funding for infrastructure investments, help fulfill non-capital long-term liabilities and protect against external shocks. The Region has been successful in building up a level of reserves that is above the weighted per capita average of comparable municipalities, as shown on Figure 10.

Figure 10

Comparison of 2020 Reserves and Reserves per Capita



Source: 2020 Financial Information Returns (FIR)

The Region has 60 reserves, which have been broadly categorized into six categories as shown in Figure 11. These reserves are estimated to be approximately $3.8 billion by the end of 2021.

Figure 11

Estimated Reserves at December 31, 2021 ($Million)

Reserve Balance ($Millions)	2021 Forecasted Balance	2022 Contribution Target
Asset Replacement Tax Levy	1,321	Under Target
Asset Replacement User Rate	675	On Target
Growth Capital	758	On Target
Development Charges	471	On Target
Corporate Reserves	533	On Target
Total	**3,758**	

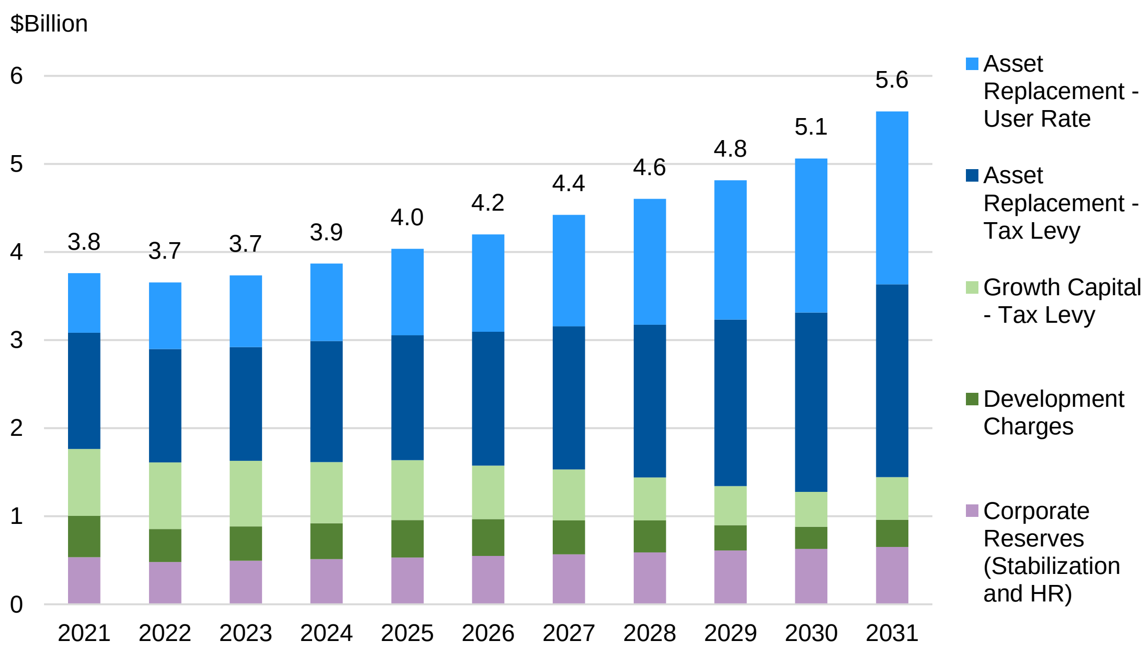
Source: York Region Finance Department

Total reserves could reach $5.6 billion by 2031

As part of its fiscal strategy, York Region continues to maintain and build reserves. Figure 12 shows the reserve projection in which total reserves could grow to approximately $5.6 billion by 2031 based on current and planned contributions increases occurring during this period.

Figure 12

Total Reserves (2021 – 2031)



Source: York Region Finance Department

York Region remains a "net investor"

Since 2019, York Region holds more in reserves than it has in outstanding net debt. A ratio greater than 100 per cent indicates the Region is a net "investor" while a ratio of less than 100 indicates a net "borrower." The respective levels of debt and reserves are among the 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 reserves balances, the ratio could increase from 147% in 2021 to 182% by 2031.

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 13.

Figure 13
Interest Rate Forecast

Interest Rate	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Annual Estimate (%)	3.30	3.40	3.45	3.45	3.45	3.50	3.50	3.50	3.60	3.60
Weighted Average (%)*	3.47	3.47	3.45	3.47	3.48	3.51	3.52	3.52	3.60	3.60

* The weighted average interest rates apply to new debenture requirements in the 2022 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 like 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 13 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 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 2022

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 the Committee of the Whole on Nov 11, 2021. In 2022, it is estimated that approximately $545 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 2022, 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

[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.

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 2021 Projections and Outcomes

As Figure 14 shows, the Region was in compliance with its annual repayment limit for 2021.

Figure 14

Region's 2021 Annual Repayment Limit ($Million)

Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	447	447	0
Plus: Growth Cost Supplement[7]	237	247	10
Total Annual Repayment Limit	**684**	**694**	**10**
Less: Existing Debt Payment and Financial Obligations	319	323	4
Less: Anticipated New Debt Payment	78	76	(2)
Remaining Annual Repayment Limit	**287**	**295**	**8**

Source: York Region Finance Department

The favourable difference of $10 million in growth cost supplement shown in Figure 14 above was due to higher than expected development charge collections in 2020. This was the main reason actual 2021 remaining ARL was $8 million higher than projected.

8. Conclusion

The Plan addresses the matters that Council is required to consider for the Region to qualify for the growth-related cost supplement. Financing what the Region requires to fund and manage its current capital plan including the YNSE is within its annual repayment limit with the growth-related cost supplement.

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

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

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 2022-2031 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 2022 is based on actual results of the 2020 Financial Information Return. The limit for 2023 is based on 2021 Operating Budget for 2021. The limit for 2024 is based on the 2022 Operating Budget for 2022.

Figure A1

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

Annual Repayment Limit determination	2022	2023	2024	2025	2026
Property taxes/Payments in lieu[2]	1,197	1,223	1,274	1,312	1,351
User rates - sewage/water/solid waste[3]	390	376	392	411	429
Transportation user fees	35	42	52	65	71
Other user fees and charges[4]	47	67	69	70	71
Provincial fines	9	16	16	17	17
Other revenue[5]	145	91	95	101	105
Total - Net revenues	1,824	1,815	1,899	1,975	2,046
25% of Net revenues	456	454	475	494	511

Numbers may not add due to rounding

Annual Repayment Limit determination[1]	2027	2028	2029	2030	2031
Property taxes/Payments in lieu[2]	1,391	1,432	1,474	1,518	1,563
User rates - sewage/water/solid waste[3]	449	468	487	506	526
Transportation user fees	74	77	80	84	87
Other user fees and charges[4]	73	74	76	77	79
Provincial fines	17	18	18	18	19
Other revenue[5]	111	119	126	132	143
Total - Net revenues	2,115	2,189	2,261	2,335	2,417
25% of Net revenues	529	547	565	584	604

Numbers may not add due to rounding

Notes:

1. Property taxes for the 2024 annual repayment limit calculation is based on expected results for 2022 and assume 1.5 per cent assessment growth plus 1.46 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 3.3 percent increase from April 1, 2022 to March 31, 2027 and assumes an increase of 2.9 per cent annually from thereafter.

3. Other user fees and charges include revenues generated by: Environmental Services, Transportation, Social Housing, Police Services, Public Health, Paramedic Services and Planning. Based on the 2022 Operating Budget other user fees are assumed to increase by 5.1 percent in 2022. Thereafter, fees are assumed to increase by the 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 2.48 per cent for 2022. Thereafter, rates of return range from 2.54 per cent to 2.83 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 2022 to 2031. The 2022 to 2031 collections forecast is generated using econometric and financial models that differentiate between the short, medium and long terms. The development charge collection estimate for 2021 was based on the actual year-to-date collections as well as recent housing activity. Please see Figure 9 in the Plan.

The Region anticipates the collection of $4.2 billion in development charges from 2022 to 2031. This is $0.6 billion higher than what was forecast in the 2021 budget. Approximately $0.4 billion of the increase in the forecast is due to development charges collection associated with the Yonge North Subway Extension. The annual average collection is approximately $415 million for these 10 years, which exceeds the forecast of average annual principal and interest payment on development charge related debt.

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	2022	2023	2024	2025	2026
Total own source revenues	1,824	1,815	1,899	1,975	2,046
25% of Own source revenues (A)	456	454	475	494	511
Development charge collections (3-year rolling average)	292	381	430	431	399
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	204	267	301	302	279
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	660	721	776	796	791

Component Description	2027	2028	2029	2030	2031
Total own source revenues	2,115	2,189	2,261	2,335	2,417
25% of Own source revenues (A)	529	547	565	584	604
Development charge collections (3-year rolling average)	381	377	382	396	413
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	267	264	267	277	289
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	796	811	832	861	893

Numbers may not add due to rounding

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 2022 to 2031 annual repayment limit is calculated based on a more conservative assumption of 70 per cent.

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