The Regional Municipality of York

Committee of the Whole
Finance and Administration
December 9, 2021

Report of the Commissioner of Finance

2022 Regional Fiscal Strategy

1. Recommendations

1. Council adopt the updated fiscal strategy outlined in this report

2. Council affirm the 2022 Long-Term Debt Management Plan, shown as Attachment 1

3. Council approve the amendment of the Capital Financing and Debt Policy to limit the access to the growth-related cost supplement to the Annual Repayment Limit only to the Yonge North Subway Extension (YNSE), as shown in Attachment 2

4. Council approve the reinstatement of the Surplus Management Policy that was temporarily suspended last year due to COVID-19

5. Council approve an amendment to the Rapid Transit Reserve Fund to include contributions from the Rapid Transit Infrastructure Levy as a funding source

6. Council approve the renaming of the Federal Gas Tax Reserve Fund to Canada Community-Building Fund Reserve Fund to align with the federal renaming of this program, as shown in Attachments 2

7. Council authorize the transfers of funds between the following reserves:

    a. $31.5 million from the Debt Reduction Reserve to the Rapid Transit Reserve Fund

    b. Up to $508,724 of contributions that will be made by YorkNet to the Region's General Capital Reserve in 2022, to YorkNet's Capital Asset Replacement Reserve

    c. Up to $113,105 of contributions that will be made by YorkNet to the Region's Tax Stabilization Reserve in 2022, to YorkNet's Stabilization Reserve

8. Council approve a technical amendment to Appendix 3 of the Investment Policy to designate the short-term interest earning rate for the Pandemic Management Reserve Fund, as shown in Attachment 2

9. Council authorize the Regional Solicitor to prepare and amend the necessary bylaws

2. Summary

This report seeks Council's adoption of the updated fiscal strategy, whose principles were used to guide the preparation of the 2022 Regional Budget.

It also seeks the affirmation of the 2022 Long-Term Debt Management Plan to allow the Region to access a growth-related cost supplement for its Annual Repayment Limit (ARL).

Finally, this report recommends the amendment of several Council policies and reserve bylaws, as well as seeks approval to transfer funds between reserves.

Key Points:

- The 2022 fiscal strategy builds on past achievements from successive fiscal strategies and continues to target long-term financial sustainability through the careful management of the capital plan, reserves and debt
- In 2021, S&P Global Rating upgraded the Region's credit rating from AA+ to AAA and Moody's Investors Service affirmed its Aaa rating, owing to Council's commitment to prudent financial management
- The Region's financial contribution to the YNSE will need to be carefully managed to avoid negatively impacting its long-term financial sustainability

3. Background

Council has adopted an updated fiscal strategy each year since 2014

As part of the 2014 Budget, Council adopted its first fiscal strategy, which has been updated annually as part of the budget process. The last fiscal strategy was adopted by Council on March 25, 2021 which can be found as item I.1 on the Committee of the Whole Agenda.

The fiscal strategy strives to achieve long-term financial sustainability while maintaining a balance between the current and future needs of the Region. This has been done through the prudent management of its capital plan, reserves and debt. These elements are shown as Figure 1.

Figure 1

Elements of the Fiscal Strategy

Successive fiscal strategies have strengthened the Region's financial position

Past fiscal strategies have helped strengthen the Region's financial position.

Prior to the 2014 fiscal strategy, the Region's outstanding debt was expected to exceed $5.0 billion by 2020. However, because of the actions taken by Council through past fiscal strategies, total outstanding debt peaked at $2.9 billion in 2017 and is estimated to drop to $2.6 billion by the end of 2021.

Also, by the end of 2021, the Region is expected to have over $3.8 billion in 60 reserves and has held more in reserves than it has outstanding net debt since 2019.

The higher reserve balances and lower debt levels have been key contributors to its superior credit rating.

YNSE Funding considerations were presented to Council in November 2021

The Yonge North Subway Extension (YNSE) represents a major financial commitment for the Region. On November 11, 2021, staff reported to Council on some of the financial considerations of this project. These include:

- The Region's share of the project is expected to be funded through development charges and property taxes
- The financial contribution to the YNSE will need to be managed carefully to ensure the Region's long-term financial sustainability

- York Region Rapid Transit Board has recommended that Council establish a 1 per cent annual tax levy surcharge commencing in 2022 for the next three years to help fund rapid transit priorities aligned with the Region's growth plan

4. Analysis

Achieving long-term financial sustainability and intergenerational equity are the two guiding principles when developing the fiscal strategy

The first principle is to ensure that decisions result in the long-term financial sustainability of York Region. Being financially sustainable means that the Region can keep the cost of growth affordable while maintaining its existing infrastructure in a state of good repair. It also means preserving fiscal flexibility in the face of changing needs and being able to effectively respond to unforeseeable events, such as the COVID-19 pandemic. The Region's credit ratings are also key independent indicators of financial sustainability, and both S&P Global and Moody's Investors Service rate the Region's debt Triple A, the highest grade possible.

The second principle, intergenerational equity, is achieved when current and future tax and ratepayers are treated fairly, which means that no generation is left worse off through the actions of another. This is particularly important when planning for the replacement and rehabilitation of capital assets, some of which could have a very long useful life and their cost could be significant.

Applying the principles of long-term financial sustainability and intergenerational equity to the Region's operating and capital programs require the careful balancing of three separate streams of activities: managing the timing and magnitude of capital programs, using debt judicially to ensure the delivery of projects at appropriate time and at lowest cost, and saving up adequate reserves.

The next section of the report discusses the elements of the fiscal strategy in more detail.

FIRST ELEMENT OF THE FISCAL STRATEGY - MANAGING THE CAPITAL PLAN

The Region continues to make significant investments in growth-related capital

The Region continues to make significant investments in growth-related capital to accommodate what is envisioned in the Growth Plan.

The 2022 ten-year capital plan is $9.5 billion. This includes approximately $6 billion in new growth-related investment, including the YNSE, as well as a further $3.5 billion of asset rehabilitation and replacement spending.

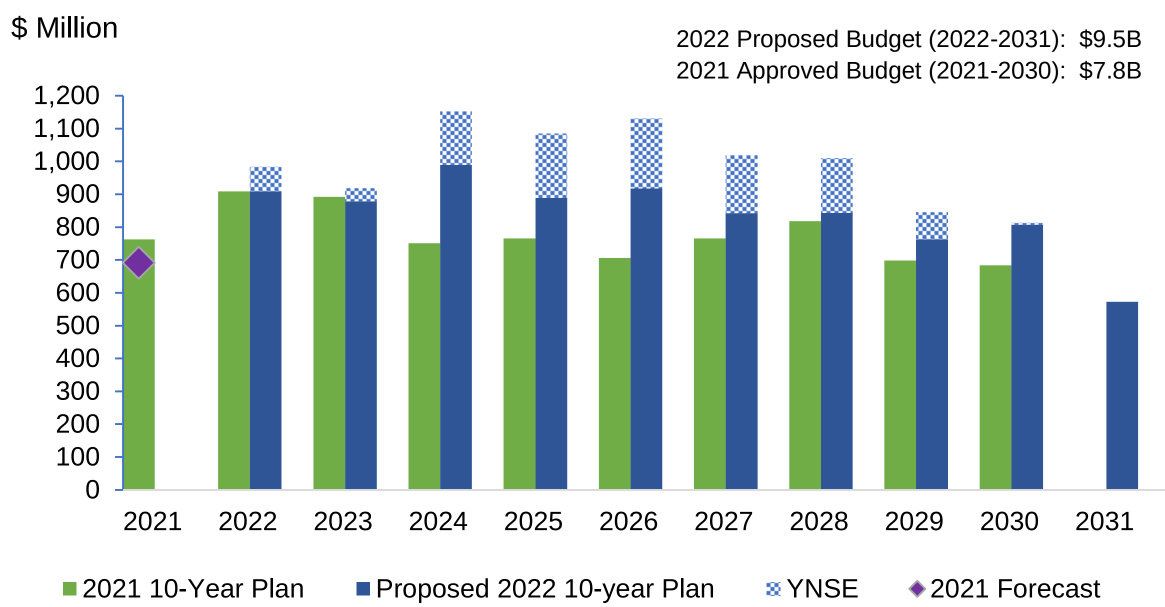
The proposed 10-year capital plan is $1.7 billion higher than last year, as shown in Figure 2. This increase includes the addition of the YNSE as well as an additional $345 million in other growth projects and an increase of $311 million in asset management spending.

As shown in Figure 3, the 10-year capital plan includes $6 billion of growth-related infrastructure, which is an increase of over $345 million compared with last years' plan excluding the subway addition. Growth accounts for approximately 63 per cent of total planned expenditure.

Development charges are the main sources of funding for growth-related projects. However, the portion of projects that benefits existing residents cannot be paid for by development charges. Approximately $3.8 billion of the $6 billion of growth-related spending is expected to be funded from development charges while the remaining $2.2 billion is expected to be funded from the tax levy and other sources.

Figure 2

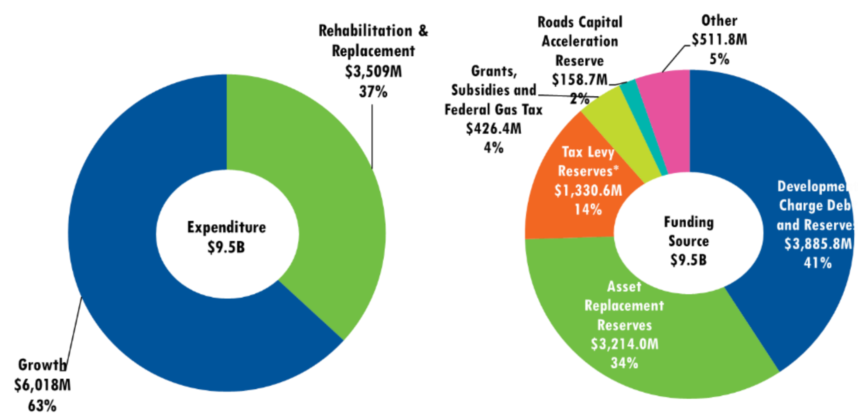
10-Year Capital Plan Comparison



Source: York Region Finance Department

Figure 3

10-Year Capital Plan Expenditure and Funding Sources



Source: York Region Finance Department

The Region is mandated to plan for the level of growth envisaged by the Province's Growth Plan

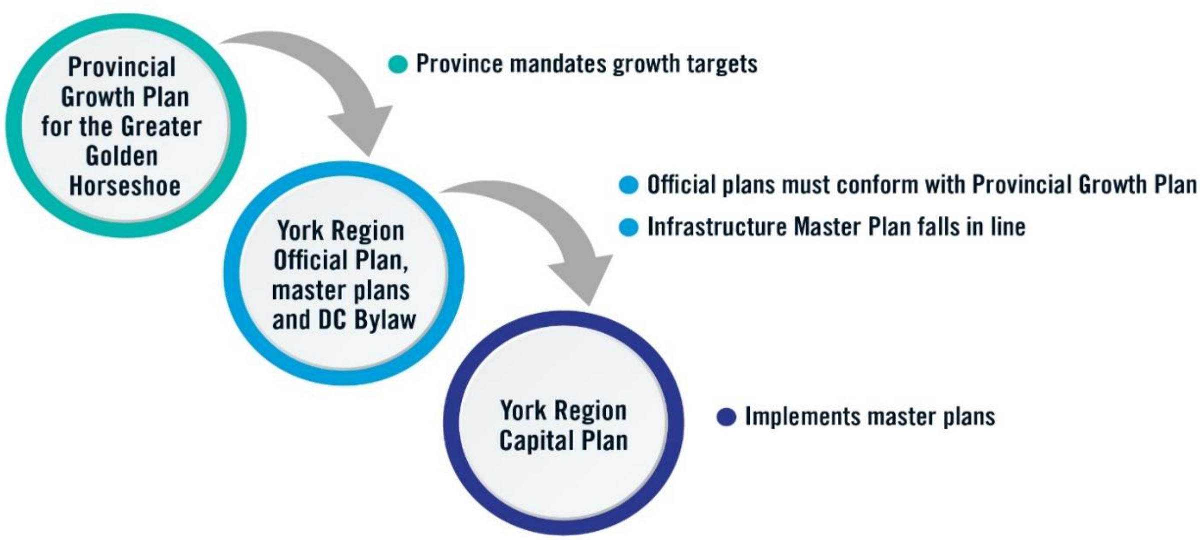
Municipalities within the Greater Golden Horseshoe are required to conform to the targets set out by the provincial Growth Plan. In August 2020, the Province amended its Growth Plan to extend its planning horizon from 2041 to 2051. Due to this legislative regime, there is a cascading effect that has financial implications for the Region (Figure 4). Under the amended Growth Plan, the Region is mandated to plan to accommodate 2.02 million residents and 990 thousand jobs by 2051.

York Region's Official Plan must conform to the provincial Growth Plan, while its infrastructure master plans must also include what is needed to create complete communities that will meet the expectations of residents and Council. Master Plans are implemented through successive 10-year capital plans. If the population contemplated by the Growth Plan varies significantly from what is experienced in the near term, the timing of spending in the capital plan may need to be adjusted to reflect the expected rate of population growth or the municipality could face the risk of having an unmanageable level of debt as well as excess infrastructure capacity which could create operating budget pressures.

Through the Municipal Comprehensive Review process, staff are working to ensure that infrastructure capacity and timing to meet the growth targets are fully considered and aligned.

Figure 4

How the Growth Plan informs the 10-year Capital Plan



Source: York Region Finance Department

The Region's estimated contribution to YNSE has been included in the capital plan

Although project details will be refined over the next few years, the YNSE represents a major financial commitment and is the Region's largest project in its capital plan. Based on currently available information, it is estimated that the YNSE will have a construction cost of approximately $5.6 billion, of which the Region's share of $1.12 billion has been included in the 2022 Budget. This allows staff to better integrate the impact of this project with the Region's other capital priorities.

Asset management spending is informed by departmental approved asset management plans

All departments have completed asset management plans that informed their long-term capital plans. Over the next 10 years, asset management spending is $311 million higher than last year's budget, mostly due to updated asset condition information provided as part of ongoing asset management assessments.

As was shown in Figure 3, most of the asset management spending, or $3.2 billion, will be funded from asset replacement reserves, while the remaining $300 million will be funded from recoveries, grants and other reserves.

SECOND ELEMENT OF THE FISCAL STRATEGY – RESERVE MANAGEMENT

Reserve management is an important element of the fiscal strategy and a key component to achieve financial sustainability and intergenerational equity.

Reserves help fund capital investments, smooth tax levy and user rate contribution requirements, and promote financial stability and flexibility.

Before the implementation of the fiscal strategy, the Region borrowed to initially pay for some asset management requirements. This debt was later repaid by residents through the tax levy or user rates. However, as financing debt is ultimately more expensive to residents than the use of reserves, the Region's Reserve and Reserve Fund policy sets out the principle to contribute enough to reserves so that no new tax levy or user rate debt will be needed.

Also underpinning the reserve contribution is planning for long-term asset replacement. To ensure there is enough in the reserves, a long-term horizon is used to calculate the annual contributions required. When the assets are relatively young, as is the case today, reserve contributions may exceed draws and reserve balances will grow. Over time, reserve balances will decline as they are drawn down to rehabilitate and replace assets. To ensure that an appropriate amount is contributed, asset management needs are reviewed and updated annually to incorporate the latest information on asset condition.

Reserves also provide financial flexibility in the event of unanticipated expenditures or drops in revenue. Several stabilization reserves, such as the Tax Stabilization and Fiscal Stabilization reserves, as well as the Pandemic Management Reserve, are maintained for this purpose.

In addition, because reserves include both cash and cash equivalent assets, they also promote investor confidence and help to preserve the Region's credit ratings.

The Region's reserves are forecast to be almost $3.8 billion by the end of 2021 and contributions are largely on target

By the end of 2021 the Region is expected to have accumulated approximately $3.8 billion in reserves, which are grouped into the five categories as shown in Figure 5. These reserve contributions are on target, except for a small gap for the asset replacement reserves.

Figure 5
Estimated Reserves at December 31, 2021

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**	

Asset replacement represents the largest category of reserves

At approximately $2.0 billion, asset replacement reserves represent the largest category of reserves by the end of 2021. Approximately $1.3 billion of these reserves are for tax levy-supported assets while the remaining $0.7 billion is set aside for user-rate supported assets. Contribution targets have been set to ensure that new tax or rate supported debt will not need to be issued. The contribution targets use the estimated replacement value of the Region's assets, which now stands at over $16 billion. In addition, there is a further $4.9 billion of assets that is forecasted to be added over the next ten years. Eventually, nearly $21 billion of assets will need to be rehabilitated or replaced and the $2.0 billion in the asset replacement reserves will need to grow to fund this.

In 2021, Council approved updated User Rates that will achieve full-cost recovery in the water and wastewater sector and provides for full asset management contributions into the future.

Tax levy asset replacement reserve contributions are currently slightly below their target in 2022, and several pressures may challenge the ability to achieve targeted reserve balances in future years, including rising spending needs for asset management, growth capital, and the YNSE.

The growth capital reserve contributions are on target

The growth capital reserves, which are used to fund the tax levy portion of growth not covered by development charges, are estimated to have a combined balance of $758 million by the end of 2021.

The proposed 1% Rapid Transit Infrastructure Levy would generate approximately $12.2 million in 2022, and be contributed to a growth capital reserve . This proposed levy is included in 2022 Budget and if passed, would fall into the annual tax base in subsequent years to be used to fund the YNSE cost and possibly other rapid transit priorities in time.

A further Rapid Transit Infrastructure levy of 1% in 2023 and 2024 could help fund the YNSE

In addition to the 2022 levy, a further incremental levy of 1% in 2023 and in 2024 would generate, in total, approximately $350 million in tax levy revenue over 10 years. This is the estimated amount that will be needed to help pay for the tax levy portion of the expected YNSE costs without having to issue any tax levy supported debt.

Corporate reserves are in place to promote financial stability and flexibility

In addition to the capital reserves discussed above, the Region also contributes to corporate reserves, such as stabilization reserves and Human Resources reserves that helps ensure sufficient financial stability and flexibility.

The stabilization reserves include the Tax Stabilization, Fiscal Stabilization, User Rate Stabilization, Fuel Cost Stabilization and Waste Management Stabilization reserves. They provide funding for unexpected expenditure or revenue shortfalls. The Pandemic Management Reserve is also included in this category. This reserve was created in 2020 to help fund COVID-19 related emergency costs. All the stabilization reserves are currently on target.

Other corporate reserves include operating and human resource reserves to provide funding for their respective operating programs, and their targets are reviewed annually.

With expected future contributions, total reserves are expected to grow

Total reserves are expected to grow by $1.8 billion to approximately $5.6 billion by 2031 when factoring in the level of contribution increases, consistent with recent experience, over the next 10 years.

The fastest growing category is the user rate asset management reserves, which are expected to grow from about $675 million in 2021, to approximately $2.0 billion in 2031. Council's commitment to full cost recovery of water and wastewater costs guides the user rate reserves forecast. The current approved water rate includes 3.3% annual user-rate increases for 2022 to 2027. Annual rate increases of 2.9% were assumed after 2027.

The tax levy asset replacement reserves are expected to grow by about $870 million. The forecasted reserve balances assume annual tax-levy increases of approximately 3 per cent plus assessment growth, which is in line with recent experience.

The tax levy growth reserves will be drawn down to fund the tax levy portion of the YNSE. After including the 1% surcharge for 3 years, the growth capital reserve balances will shrink from $758 million to approximately $480 million by 2031.

All reserves assumptions are reviewed annually and are based on Council decisions.

THIRD ELEMENT OF FISCAL STRATEGY – DEBT MANAGEMENT

The Region uses debt to finance capital infrastructure investment when the revenues to pay for the investment come later. It allows growth-related infrastructure, such as water facilities, to be built before growth and the development charges that pay for this growth are collected.

The principle of financial sustainability requires that debt be maintained at an affordable level. Debt is a financing tool which is repaid over time by an identified source, which, for the Region is primarily development charges. It also carries risk; shortfalls in development charges need to be covered by other funding sources. To reduce the financial risk, growth infrastructure may need to be phased at a pace that more closely matches the observed rate of growth. Spending too far ahead of growth could leave the Region with too much debt and an asset base that needs to be maintained, while too little spending could slow the rate of growth. Carefully managing new debt requirements is the best way to mitigate the risk that growth could be slower than needed to service outstanding debt.

94% of the Region’s outstanding debt is for growth-related infrastructure

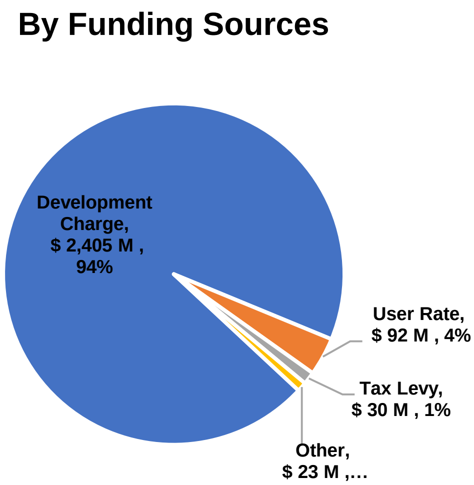
Approximately 94% of the outstanding debt at the end of 2021 is growth-related and will be funded through future development charge collections, as shown in Figure 6 below.

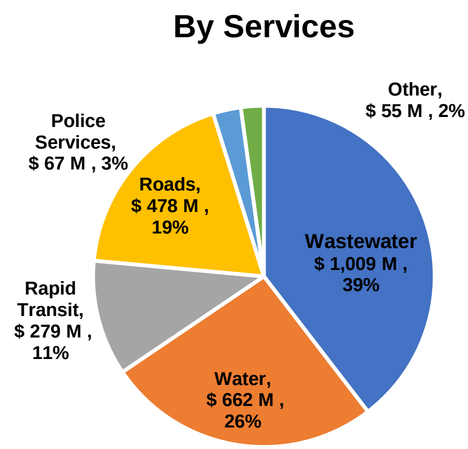
As a result of using the Debt Reduction Reserve in lieu of issuing tax levy debt, as well as the funding of asset management investments from the asset replacement reserves, no new tax levy or user-rate supported debt is planned over the next 10 years.

Figure 6

Outstanding Net Debt as at December 31, 2021

$2.6 Billion





87% of the Region's projected Development Charge collections over the next 10 years would be required to service debt

Development charges are the main source of funding for growth-related infrastructure, and they are the sole source of funding for the repayment of principal and interest on existing and new debt issued for that purpose.

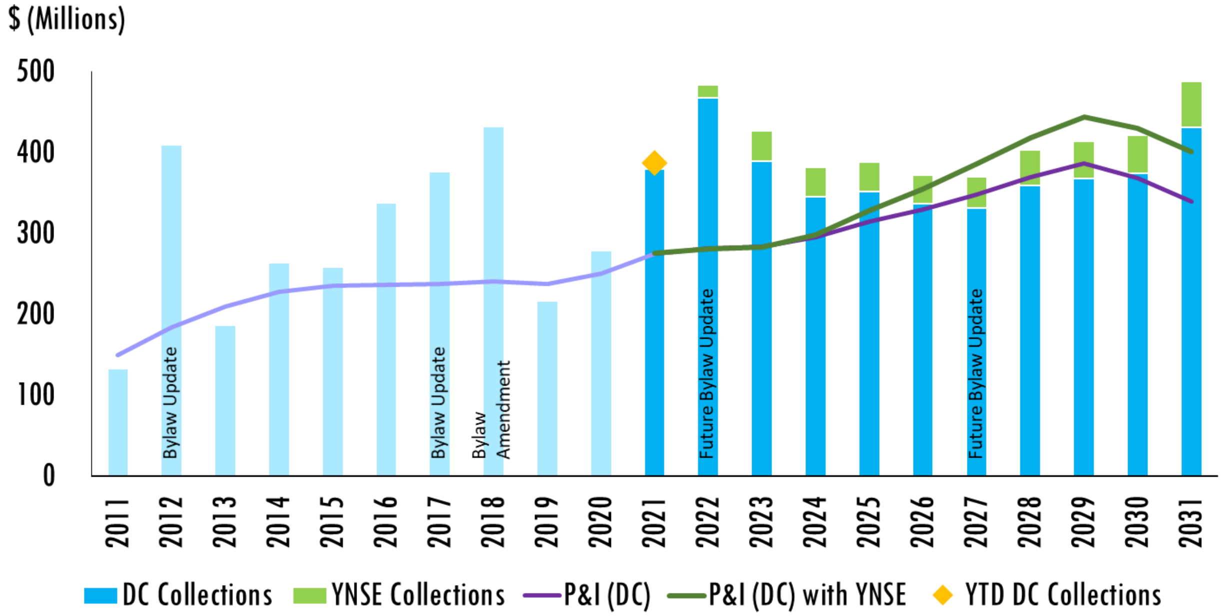
Figure 7 shows the comparison of forecasted development charges collections against the anticipated principal and interest payments for the proposed 10-year capital plan.

Over the next ten years, annual average development charge collections are forecasted to be approximately $415 million. This forecast is predicated on continued robust levels of housing construction similar to the levels achieved over the past 10 years. The average annual principal and interest payments are expected to be approximately $360 million per year.

This means that approximately 87% of forecasted collections are needed to service debt. It is anticipated that there will continue to be significant year-over-year fluctuation with collections, due to fluctuation in construction activities, changes in the economic cycle, and changes in DC rates. In years where collections are expected to fall short of the principal and interest payments needed, development charge reserves would need to be drawn down in those year to bridge the gap. If prolonged and consistent lower-than-expected collections occur, capital deferral may be required while DC collections "catch up" to annual principal and interest payments.

Figure 7

Historic and Forecasted Development Charge Collections and P&I



Note: YTD DC cash collections as of October 31st, 2021

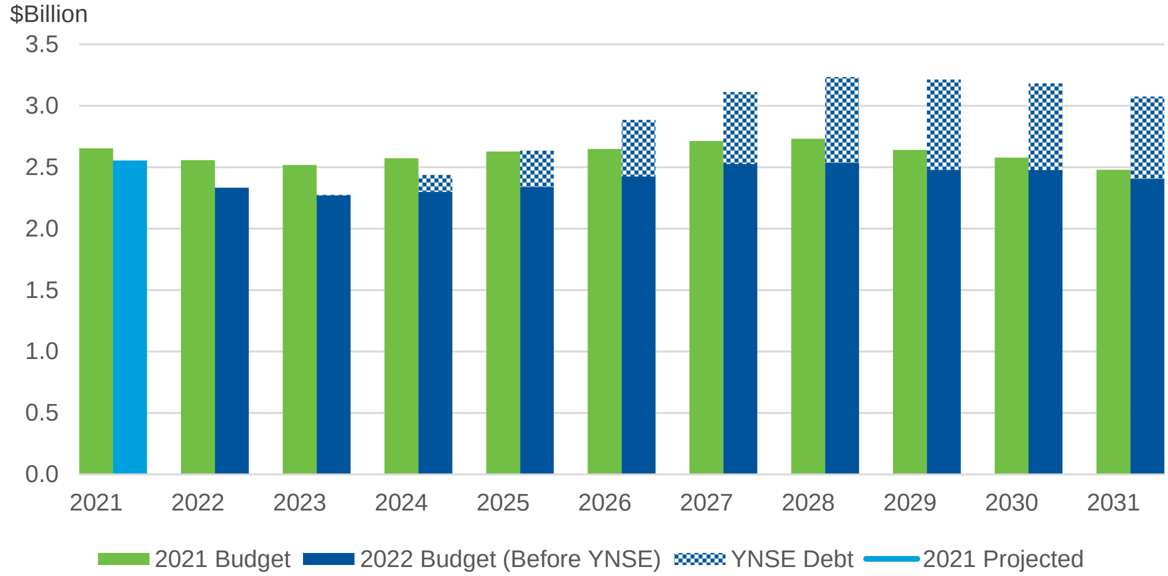
The YNSE cost could add debt pressure and increase financial risk

The 10-year capital plan includes approximately $4.9 billion for new growth-related infrastructure, and $1.12 billion for YNSE construction. Excluding the YNSE impact, the Region could maintain a debt profile similar to last year's forecast with the debt level declining to $2.5 billion in 2031 (Figure 8). While the growth components of the 10-year capital plan (before YNSE) increased slightly, the improvements in projected development charges collections help to offset the debt impact.

Financing the growth-related contribution to the YNSE would require additional debt issuance to bridge the gap between when the contributions are needed, and the associated revenues received. Peak net debt is now expected to be approximately $3.2 billion in 2028, $300 million higher than the previous peak net debt level of $2.9 billion in 2017.

With the cost and timing of the YNSE becoming more certain in the next few years, a refined funding strategy, which involves a careful balancing of available revenues and timing of spending on the YNSE and other Regional capital priorities, could help fund the Region's capital in a more financially sustainable manner.

Figure 8
Outstanding Net Debt projection



A further analysis of the risks associated with debt, as well as the mitigation strategies used by the Region, are discussed in Section 3 of the 2022 Long-Term Debt Management Plan that is attached to this report.

York Region continues to be a net investor

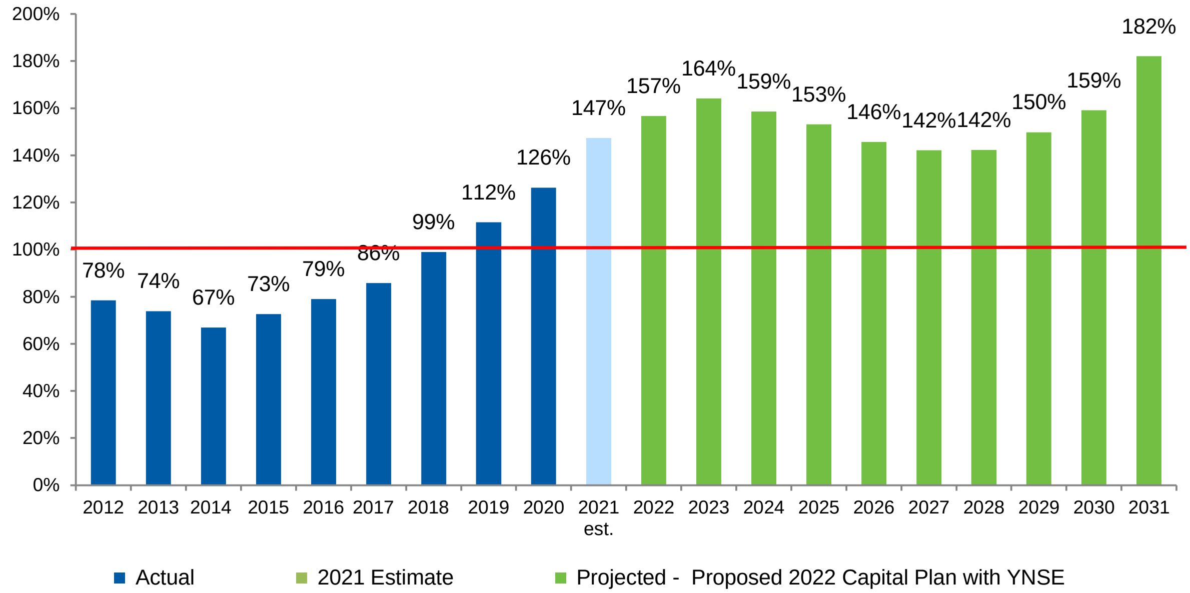
Since 2019, the Region held more in reserves than it has in outstanding net debt. A reserves to net debt ratio greater than 100% indicates that the Region is a net investor. High reserve balances and low debt levels are key considerations for rating agencies when evaluating the Region's credit worthiness.

Figure 9 shows the reserves to debt ratio. After the impacts of the YNSE are included, the reserves to debt ratio falls. The Region is still expected to be a net investor, but to a lesser extent.

Figure 9

Reserves-to-Debt Ratios

(including contributions towards YNSE)



CREDIT RATINGS

S&P upgraded York Region's credit rating from AA+ to AAA, with a stable outlook

On July 29, 2021, S&P Global Ratings (S&P) upgraded their credit rating for the Region from AA+ to AAA, with a stable outlook. S&P cited the Region's exceptionally strong finances, steady debt levels, and falling interest burden.

This achievement was made possible through Council decisions to limit capital spending, reduce the reliance on debt and increase reserve balances. Prior to 2014, the Region's peak outstanding debt was forecasted to reach over $5 billion by 2020. However, because of the measures taken as part of the Regional Fiscal Strategy, the total net outstanding debt peaked at $2.9 billion in 2017 and is forecasted to continue to decline in the coming years.

Moody's re-affirmed its Aaa rating for York Region

In September 2021, Moody's Investors Service (Moody's) re-affirmed its Aaa credit rating for the debt issued by the Region. This was supported by York's:

- Excellent liquidity profile with growing levels of cash and reserves
- Prudent and far-sighted fiscal management
- Continued strong fiscal outcomes
- Diversified and expanding economy

Moody's has issued its highest credit rating for the Region for the 21st consecutive year.

Both Moody's and S&P remain concerned about the Region's high level of debt

Both rating agencies have expressed concern about the Region's elevated debt burden, especially relative to other rated Canadian municipalities.

In particular, Moody's and S&P identified three factors that could lead to a future downgrade:

- a sustained increase in the debt burden
- a material decline in liquidity
- weak operating results

Financing YNSE contributions may put the Region's AAA rating at risk

Credit rating agencies base their opinions on known strengths and risks over the near to mid term. As the YNSE has not been a part of the Region's capital plan at the time of credit rating assessment, they have not factored in the financial impact of this into their analysis.

As shown in Figure 10 above, when considering the contributions expected for the YNSE, the Region's peak debt would reach approximately $3.2 billion in 2028, which exceeds the debt limit of $2.9 billion expected by S&P to maintain a triple A rating. This could adversely impact the Region's credit rating. Careful management of the YNSE contributions and other Regional capital priorities could be considered in future fiscal strategies to avoid the negative rating impact.

PROPOSED AMENDMENT TO CAPITAL FINANCING AND DEBT POLICY

Staff recommend amending the Capital Financing and Debt Policy to limit the access to the growth-related cost supplement to only the YNSE

On April 15, 2021, the Province filed an amendment to renew York Region's growth-related cost supplement component of the Annual Repayment Limit (ARL) to another 10 years to December 31, 2031. This renewal is critical to enable the Region to contribute to the YNSE.

On March 11, 2021, Council directed staff to develop a policy limiting access to the growth-related cost supplement to the ARL for purposes related only to the YNSE and staff evaluate the potential implications of this policy in relation to the Region's overall fiscal strategy and other objectives.

An analysis was performed as shown in the next section and staff recommend inserting clause 1.e to the Capital Financing and Debt Policy, as shown in Attachment 2:

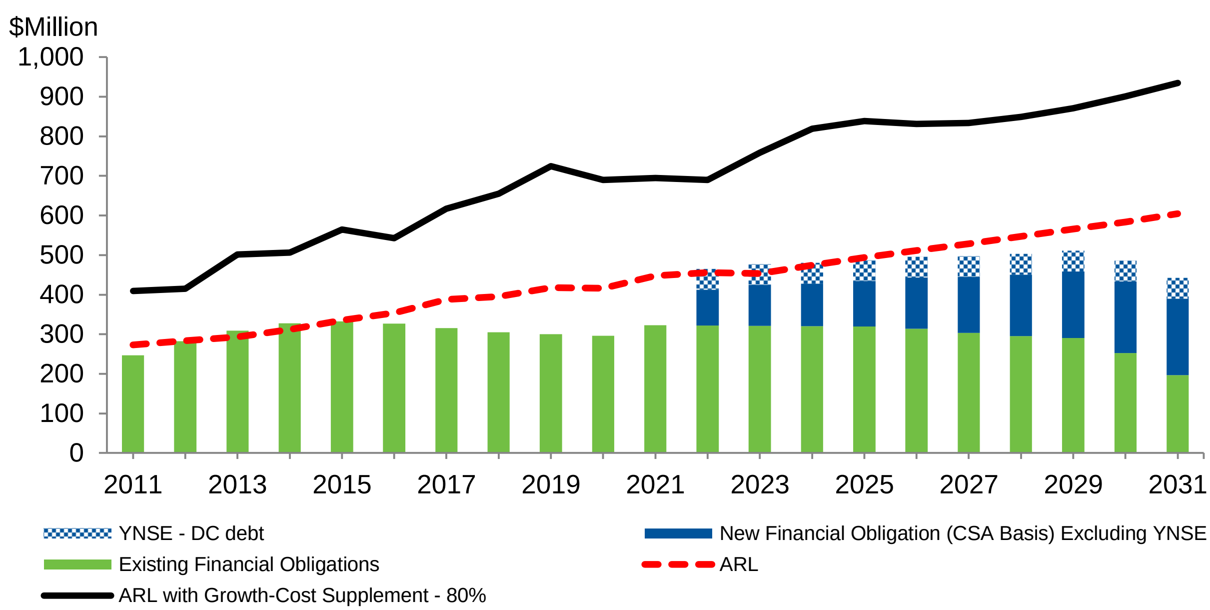
1.e. Access to the growth-related Cost Supplement to the Annual Repayment Limit is restricted for purposes related only to the Yonge North Subway Extension.

Debt Charges related to non-YNSE projects are projected to be within the Annual Repayment Limit without the Growth Cost Supplement

As shown in Figure 10, total financing costs for new growth-related investment (excluding the YNSE) and existing outstanding debt are expected to be accommodated by the regular Annual Repayment Limit without the need to access to the Growth Cost supplement. The implication of this proposed policy may limit the addition of new growth projects above what is currently in the capital plan.

Figure 10

Estimate Debt Charges vs. Annual Repayment Limit



Financing the YNSE contribution would require access to the Growth Cost Supplement

With an $1.12 billion contribution to YNSE, the debt charges are expected to exceed the regular Annual Repayment Limit and the Growth Cost Supplement will need to be accessed, possibly as early as 2022. Notwithstanding, the overall financial obligations are expected to be within the Annual Repayment Limit across the planning horizon.

2022 LONG-TERM DEBT MANAGEMENT PLAN

Council affirmation of the 2021 Long-Term Debt Management Plan is required to access the growth-related borrowing capacity

Starting from 2011, the Province has provided a York-specific growth cost supplement that allows it to borrow a higher amount based on its development charges collections. In 2013 and 2014, the Region could have breached the annual repayment limit in the absence of the growth-related cost supplement. In 2021, the Province renewed the growth cost supplement that provides the Region the additional borrowing room needed to finance its contribution to YNSE.

To qualify for this additional growth-related borrowing capacity, Council is required to adopt a plan for the management of its long-term debt and financial obligations on an annual basis. This plan is provided as Attachment 1 to this report.

THE SURPLUS MANAGEMENT POLICY

It is recommended that the Surplus Management Policy be reinstated

In December 2020, Council established a Pandemic Management Reserve Fund to help fund any future tax-supported expenditure or revenue shortfall that may arise due to COVID-19. Council also approved the temporary suspension of the Region's Surplus Management Policy and authorized that any potential surplus be contributed to the Pandemic Management Reserve Fund.

The Pandemic Management Reserve is forecasted to have a balance of $89 million at the end of 2021. With COVID-related costs better known, it is expected that the Pandemic Management Reserve, together with potential funding from senior governments, should be sufficient to address pandemic-related costs over the next few years. In addition, there are also the Tax and Fiscal Stabilization reserves that could be used, if needed, to fund further unexpected COVID-19-related pressures.

Surpluses from operating have provided funding for some of the Region's reserves such as the Working Capital Reserve, the Human Resources Reserves and the Debt Reduction Reserve.

Staff recommend that the Surplus Management Policy be reinstated to allocate any annual operating surpluses to the Region's reserve funds that are below target in the following order:

- First to the Working Capital Reserve
- Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve, Group Benefits and the Insurance Reserve
- Then to the General Capital Reserve

- Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions
- Then any remaining funds to the Debt Reduction Reserve.

PROPOSED CHANGES TO REGIONAL RESERVE FUNDS

It is recommended that the proposed Rapid Transit Infrastructure Levy contribute to the Rapid Transit Reserve Fund

The Rapid Transit Reserve Fund was established in 2019 to fund rapid transit projects.

It is recommended that the Rapid Transit Infrastructure Levy, if approved by Council as part of the 2022 budget, be contributed to the Rapid Transit Reserve Fund. The Rapid Transit reserve could then be used to help fund the tax levy portion of the Region's contribution to the YNSE.

It is recommended that the Federal Gas Tax reserve be renamed the Canada Community-Building Fund Reserve

On June 29, 2021, the Federal government renamed the Gas Tax Fund to the Canada Community-Building Fund (CCBF) to better reflect the program's evolution over time but will not alter or modify the objectives or requirements of the program.

The request for Council approval to rename of the Federal Gas Tax Reserve Fund to the Canada Community-Building Fund Reserve Fund would align the reserve name with the federal renaming of its program. It will require amendment to Appendix B of the Region's Reserve and Reserve Fund Policy (Attachment 2) and Appendix 3 of the Investment Policy (Attachment 2).

PROPOSED TRANSFER OF FUNDS BETWEEN RESERVES

It is recommended that $31.5 million be transferred from the Debt Reduction Reserve to the Rapid Transit Reserve Fund

Through the 2020 and 2021 budgets, Council approved contributions of $14.1 million and $17.4 million, respectively, toward the Debt Reduction Reserve to address future infrastructure projects. It is recommended that the combined $31.5 million be allocated towards the funding of the Region's share of the YNSE project.

Staff recommend that Council authorize the transfer of $31.5 million from the Debt Reduction Reserve to the Rapid Transit Reserve for this purpose.

There is an additional $17.6 million contribution to the Debt Reduction Reserve that could also be transferred to the Rapid Transit Reserve next year, should the 2022 proposed budget be approved by Council.

It is recommended that YorkNet's contributions to the Region's reserves be transferred to YorkNet's own reserves

In May 2020, YorkNet's board approved its own reserve policy to set-up separate reserve accounts in the financial reporting system. In March 2021, Council approved the transfers of up to $1,203,570 of contributions that were previously made by YorkNet to the General Capital Reserve, to its Capital Asset Replacement Reserve and up to $459,976 of contributions that were previously made by YorkNet to the Tax Stabilization Reserve, to its Stabilization Reserve. These amounts were transferred to YorkNet's reserves in Q4 2021.

The 2022 Budget includes a proposed contribution of $508,724 to the General Capital Reserve and $113,105 to the Tax Stabilization Reserve for 2022, which was prior to the completion of the set-up of separate reserve accounts for YorkNet.

Council authority is required to transfer the 2022 reserve contributions that will be temporarily held in the Region's reserves to YorkNet's own reserves. It is proposed that up to an additional $508,724 of contributions from the General Capital Reserve and $113,105 contributions from the Tax Stabilization Reserve will be transferred to YorkNet's Capital Asset Replacement Reserve and Stabilization Reserve respectively.

PROPOSED TECHNICAL AMENDMENT TO THE INVESTMENT POLICY

A technical amendment to Appendix 3 of the Investment Policy is recommended

Appendix 3 of the Investment Policy provides details on the method of allocating investment income to the Region's reserves. It is proposed that a technical amendment be made to Appendix 3 to add the Pandemic Management Reserve Fund to the list of accounts that would earn a short-term rate, defined as the rate of return realized from the short-term money market portion of the General Fund portfolio. The Pandemic Management Reserve Fund was established in 2020 to fund any future tax-supported expenditure or revenue shortfall that may arise due to COVID-19. The changes to the Investment Policy can be found in Attachment 2 of this report.

5. Financial

Under the fiscal strategy framework, the Region manages its capital plan, reserves and debt towards the goal of achieving long-term financial sustainability. The proposed 2022 Budget plans to make a $1.12 billion contribution towards the YNSE. The 2022 Fiscal Strategy sees 10-year capital investments amount to $9.5 billion, net outstanding debt peak at $3.2 billion in 2028 and expected reserve balances increase by $1.8 billion over 10 years.

6. Local Impact

Local municipalities will benefit from the fiscal strategy as it manages the Region's debt level and supports a superior credit rating. The debt issued by the Region is direct, joint and several obligations of both the Region and local municipalities. As well, since local municipalities must issue all debenture through the Region, a good credit rating helps to ensure that both the Region and local municipalities obtain the lowest possible cost of financing.

7. Conclusion

The 2022 Fiscal Strategy updates Council on the capital plan, reserves, and debt, and make a number of recommendations, all intended to help the Region achieve financial sustainability.

The fiscal strategy is updated annually and evolves as circumstances change and as further analysis is incorporated.

For more information on this report, please contact Edward Hankins, Director, Treasury Office and Deputy Treasurer at 1-877-464-9675 ext. 71644. Accessible formats or communication supports are available upon request.

Recommended by: **Jason Li, CPA, CA**
Acting Commissioner of Finance and Regional Treasurer

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

November 17, 2021
Attachments (2)
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