The Regional Municipality of York

Committee of the Whole
Finance and Administration
February 21, 2019

Report of the Commissioner of Finance

2019 Regional Fiscal Strategy

1. Recommendations

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

2. Council affirm the 2019 Long-Term Debt Management Plan shown as Attachment 1 to this report.

3. Council authorize payments from the following reserves to repay tax levy and rate-supported debt originally intended to be refinanced in 2019:

Reserve	Amount
a. Debt Reduction Reserve	$5,870,069.50
b. Capital Asset Replacement – Water	$1,785,712.38
c. Capital Asset Replacement – Wastewater	$25,660,706.58

4. Council rename the University Campus Reserve as the Innovation Investment Reserve and broaden its purpose to include funding to external parties for Council approved initiatives. Tax levy appropriations made through the annual budget process would fund this reserve.

5. Council establish the following new reserve funds:

    a. Cannabis Contingency Reserve – to fund unanticipated operating and capital costs related to the legalization of recreational cannabis. Tax levy appropriations made through the annual budget process would fund this reserve.

    b. Waste Management Stabilization Reserve – to fund fluctuations in recycling material market prices and other costs identified as part of the budget process. A $30 million transfer from the Solid Waste Management Reserve and surplus revenues resulting from higher than budgeted commodity prices for blue box materials would fund this reserve.

    c. Rapid Transit Reserve – to fund rapid transit projects to be identified in a future Council report. Tax levy savings as a result of funding from the Integrated Bilateral Agreement - Public Transit Stream, would be contributed to this reserve. The funding of the Rapid Transit Reserve would be contingent upon York Region's successful negotiation of an agreement with the provincial and federal governments.

6. Council approve technical amendments to the following policies:

   a. The Capital Financing and Debt Policy to permit greater flexibility with respect to the minimum amount that the Region keeps in its development charges reserves by reducing the requirement from one year to a range of between 75 to 100% of one year's principal and interest, as detailed in this report.

   b. The Surplus Management Policy to add the Group Benefits as part of the contingent liability reserves that are funded through the surplus allocation process, as detailed in this report.

7. The Regional Solicitor be authorized to prepare, amend and/or repeal the necessary bylaws.

2. Summary

This report seeks Council approval of the annual update to the Region's fiscal strategy, whose principles guided staff in the preparation of the 2019 - 2022 Budget.

This report also seeks the adoption of the 2019 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 seeks approval to amend several Council policies and reserve bylaws as detailed in this report.

3. Background and Previous Council Direction

Council has had a formal fiscal strategy since 2014

In 2014, Council adopted its first fiscal strategy, which has been updated annually as part of the annual budget process. The current fiscal strategy was adopted by Council on December 14, 2017. The extract of this report can be found in Clause 7 in Report No. 18 of the Committee of the Whole.

The fiscal strategy uses four pillars to achieve financial sustainability and to strike the appropriate balance between the current and the long-term financial needs of the Region. The four pillars are described in this report and are shown in Figure 1.

Figure 1

Pillars of the Fiscal Strategy

4. Analysis and Implications

FIRST PILLAR OF THE FISCAL STRATEGY – INTERGENERATIONAL EQUITY

At its core, the fiscal strategy is based upon its first pillar, which is the principle of achieving intergenerational equity - no generation is left worse off by the actions of another. This is a principle rather than an action item. However, it guides the other pillars of the fiscal strategy, which influences decisions about when infrastructure is built, how it is funded and how, or if, it is financed.

The Region makes two different kinds of infrastructure investments, those needed for asset repair and replacement, and assets needed for growth-capital. There are a number of implications to applying intergenerational equity to decisions of when it gets built and how it is paid for. For example, although asset replacement is expensive, individual projects may be many years into the future. To ensure each generation pays its fair share, an annual contribution to reserves is calculated using a very long-term horizon, 100 years.

Another implication of intergenerational equity for financing decisions is that the use of debt, while appropriate under certain conditions, must be focused and its level managed. In the fiscal strategy, debt is used to bridge the timing difference between when a growth-related asset is built, and when it is paid for by development charge collections, which can be years later. To keep debt at an appropriate level, growth infrastructure needs to be built at a pace that closely matches the natural rate of growth. Spending too far ahead of growth would leave the Region with too much debt and too large an asset base that needs to be maintained, while too little spending could slow growth.

Applying the principle of intergenerational equity to the Region's infrastructure program requires the careful balancing of three separate streams of activities: managing the capital plan, using reserves to fund infrastructure investment and using debt, when appropriate. Achieving this balance without taking on excessive financial risk requires continuous monitoring. The remainder of this report discusses the other three pillars of the fiscal strategy: managing the capital plan, using reserves, and managing debt.

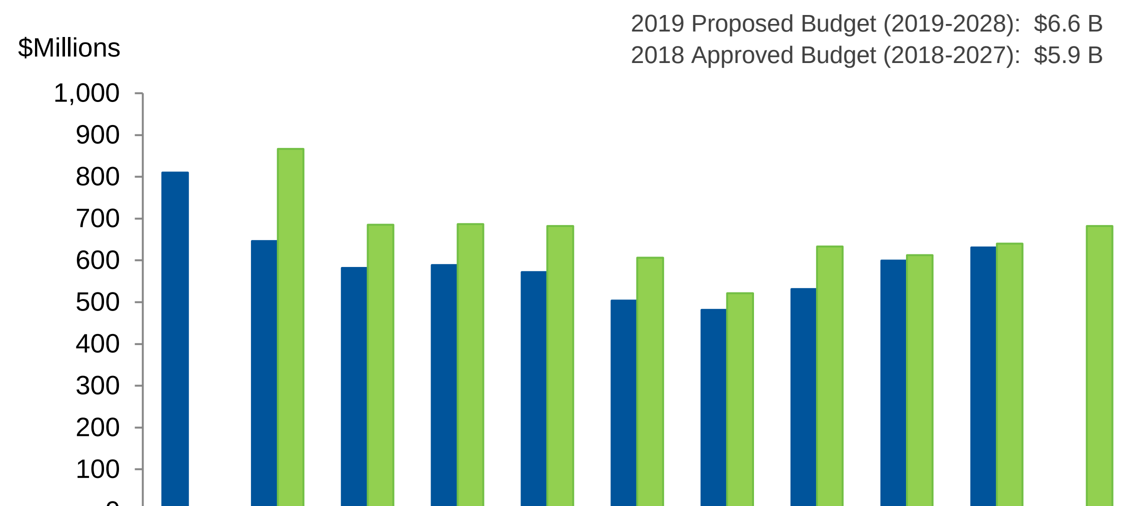
SECOND PILLAR OF THE FISCAL STRATEGY - MANAGING THE CAPITAL PLAN

The 10-Year Capital Plan includes an increased investment in asset management

At $6.6 billion, the proposed 10-year capital plan is $671 million higher than last year, as shown on Figure 2. The proposed capital plan includes approximately $2.9 billion for asset management costs and approximately $3.8 billion for new growth-related infrastructure as shown in Figure 3.

Figure 2

10-Year Capital Plan Comparison



	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
2018 Budget	809,809	646,265	582,172	589,162	572,240	503,512	482,051	531,063	599,712	631,200	
2019 Budget	0	866,692	685,026	687,166	682,463	606,586	521,666	633,004	612,607	640,218	682,516

Source: York Region Finance Department

The Region's approved asset management plan has now been incorporated into the fiscal strategy

Since 2015, a major initiative has been underway to forecast the Region's expected long-term asset management needs. This initiative is now complete as all departments have completed asset management plans. These plans are fully reflected in the current capital plan.

Over the next 10 years asset management spending is planned to be $576 million higher than shown in last year's budget. The need for this increase was highlighted in prior budgets.

As shown in Figure 3, most of the asset management spending, or $2.6 billion, will be funded from asset replacement reserves, with other tax levy reserves and grants funding the difference.

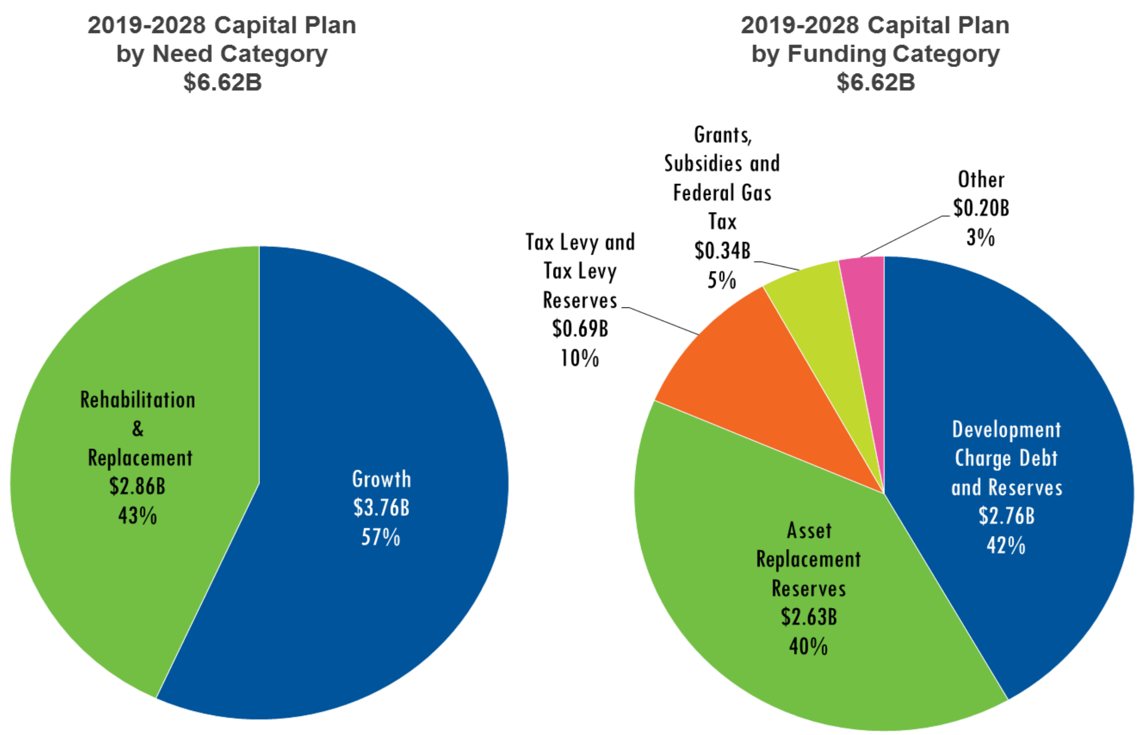
The Region continues to make significant investments in growth-related capital

The $3.8 billion of growth-related infrastructure accounts for 57 per cent of the 10-year capital plan, as shown in Figure 3.

Nearly three quarters of this spending is expected to be funded from development charge debt and reserves. The remaining portion will be funded from tax levy reserves and through the use of the Federal Gas Tax and provincial grants.

Figure 3

Growth and Rehabilitation Expenditures and Funding Sources



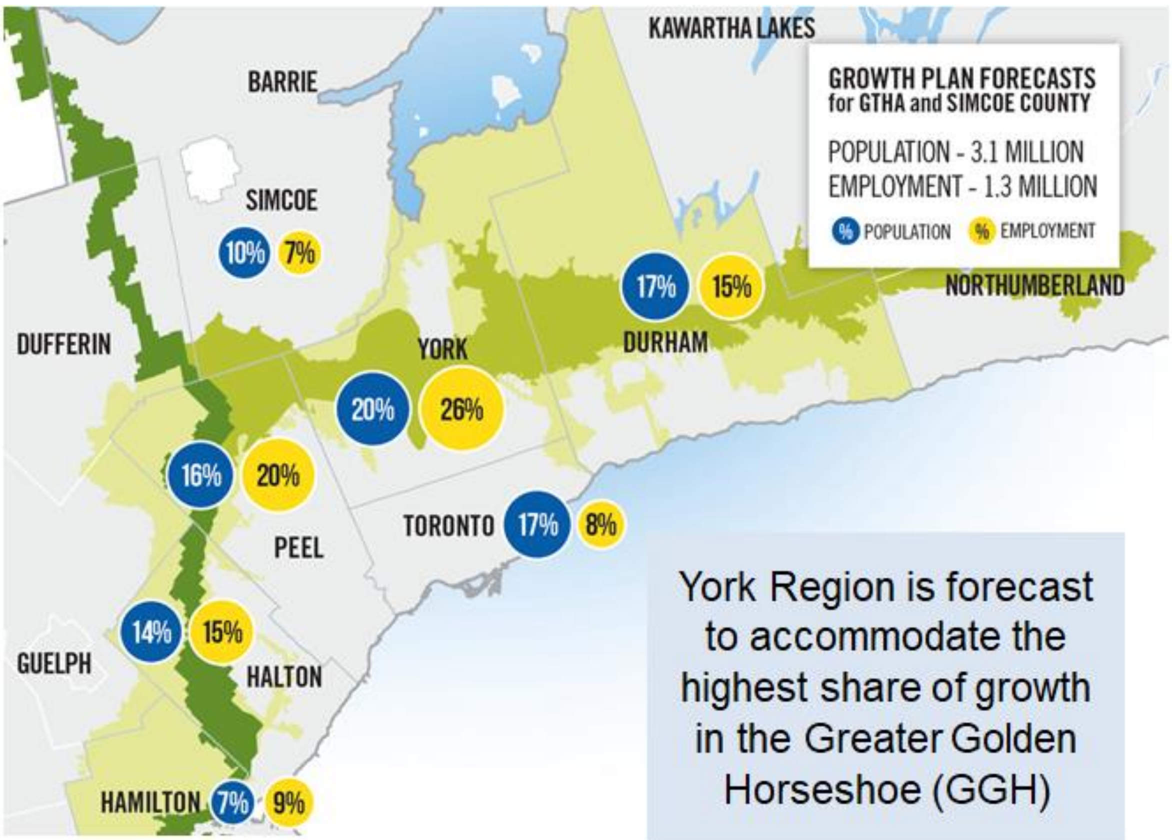
Source: York Region Finance Department

Infrastructure investment needs to match the pace of growth

The Provincial Growth Plan for the Greater Golden Horseshoe Area and Simcoe County (see Figure 4) sets out the 2041 population and employment targets for municipalities within this area. These targets are incorporated into the Region's planning process, starting with the Official Plan, and guide development in the Transportation and Environmental Services' Master Plans. Master Plans help guide the Region's capital plans.

Figure 4

York Region's share of growth to 2041



Source: The Growth Plan for the Greater Golden Horseshoe, Amendment II (2013)

Notwithstanding, as shown in Figure 5, since 2010 the Region has not been growing as fast as predicted by the Growth Plan. Growth, particularly high density growth, has been gravitating more towards Toronto than originally envisaged, perhaps due to the proximity to jobs, public transit and other amenities.

The divergence between the two population forecasts is quite marked - the Ministry of Finance's (MOF) annual population projection for York Region to 2041 is currently more than 100,000 people lower than the Growth Plan Amendment II target for the same period.

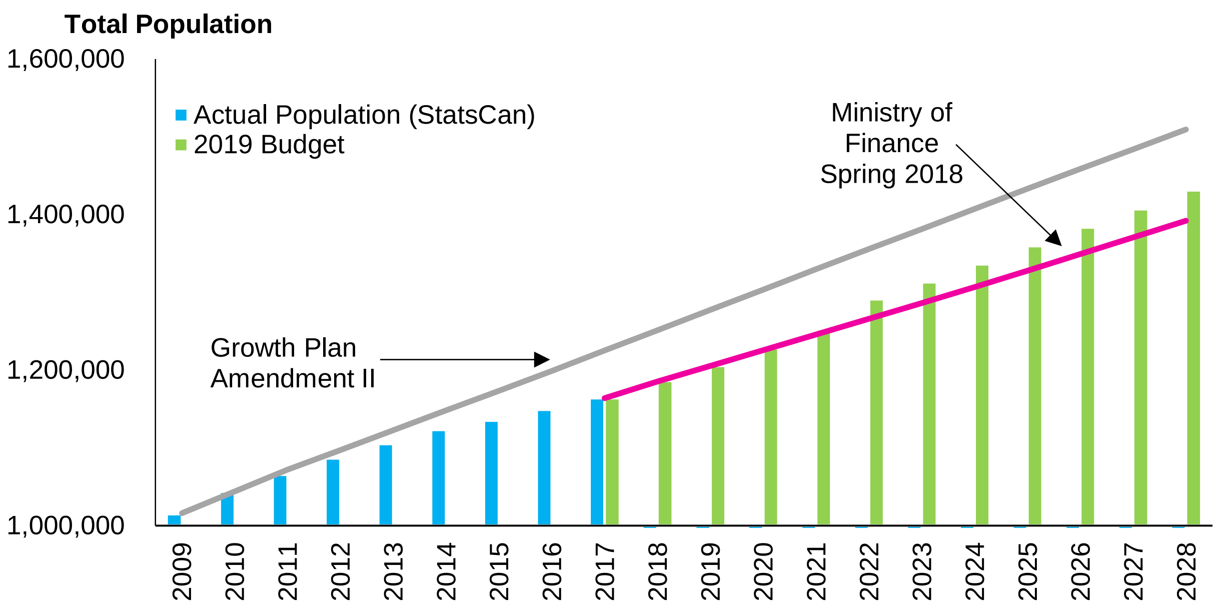
As a result, an evidence based development charge collection forecast is a key input to the capital plan. Timing of growth matters a great deal, because growth pays for the cost of most of the infrastructure through collection of development charges, thus the capital plan is scalable to the level of expected development charge collections.

If growth (and as a result collections) are lower than expected, either more debt will need to be issued or projects outlined in the Region's Master Plans will need to be deferred. If the Region's growth accelerates to meet the Growth Plan target, development charge collections would be higher than currently forecast. This would allow more projects in the Master Plans to be incorporated into future capital plans.

The population forecast used to develop the 2019 Fiscal Strategy is shown by the green bars on Figure 5.

Figure 5

Comparison of Total Population Forecasts



Sources: Actual Population Growth- StatsCan (Table: 17-10-0084-01 (formerly CANSIM 051-0062))

THIRD PILLAR OF THE FISCAL STRATEGY – RESERVE MANAGEMENT

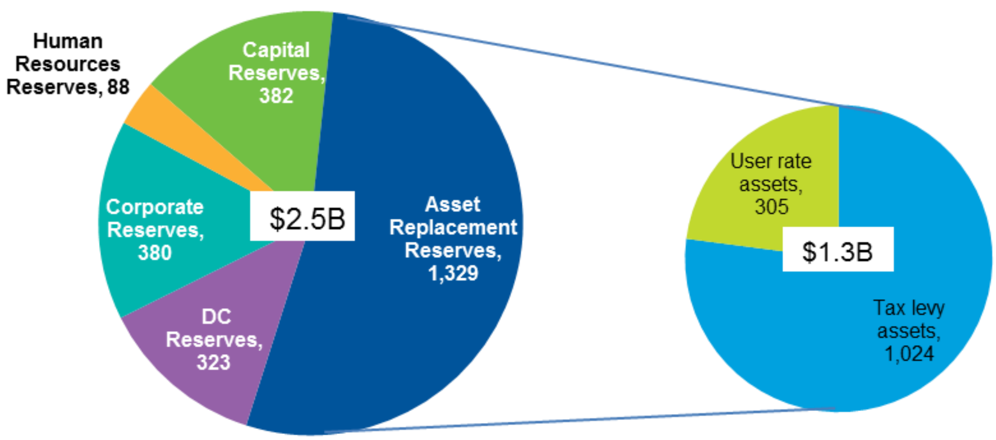
Reserves are a very important element of the Region's fiscal strategy. They fund capital asset spending, help to smooth fluctuation in the tax levy, and provide flexibility in the event of unanticipated expenditures. In addition, because reserves consist of both cash and cash-equivalent assets, they promote investor confidence and help to preserve the Region's credit ratings.

There are 55 reserves that held a combined total of approximately $2.5 billion as of December 31, 2018. Most of these reserves will be used to fund future capital needs and have been grouped into the five categories shown on Figure 6. The largest category, approximately $1.3 billion, will be for asset replacement. At approximately $382 million, capital reserves are the second largest component and include funding for capital programs such as social housing development, solid waste management and hospitals. The third largest component is the corporate reserves, which includes the tax levy Debt Reduction Reserve and the stabilization reserves. Development charges, which are considered to be deferred revenue rather than a reserve are held separately, as required by law, are managed along with development charge debt to fund growth-related capital projects.

The figures and discussion above do not include the Region's sinking fund reserve, which is a segregated fund that can only be used to repay existing debt. The amount in this reserve has been netted against the total outstanding debt to arrive at the "net" outstanding debt shown elsewhere in this report. The reserve consists solely of the cumulative amount of principal repayments that the Region made each year for existing debt as well as any interest earned on the balance. As of December 31, 2018, the balance in the sinking fund was approximately $708 million.

Figure 6

Composition of Reserves as at December 31, 2018 ($Millions)



Source: York Region Finance Department

Asset replacement reserves continue to grow

For 2019, it is proposed that contributions of $163 million from the tax levy and $177 million from the user rates be made to the asset replacement reserves.

For prior budgets, the tax levy contribution to the replacement reserves was based on broad estimates of needs available at the time. Starting with the 2019 budget, the annual contribution is calculated using detailed data from the departmental asset management planning process which is a more accurate reflection of the corporation's long term needs.

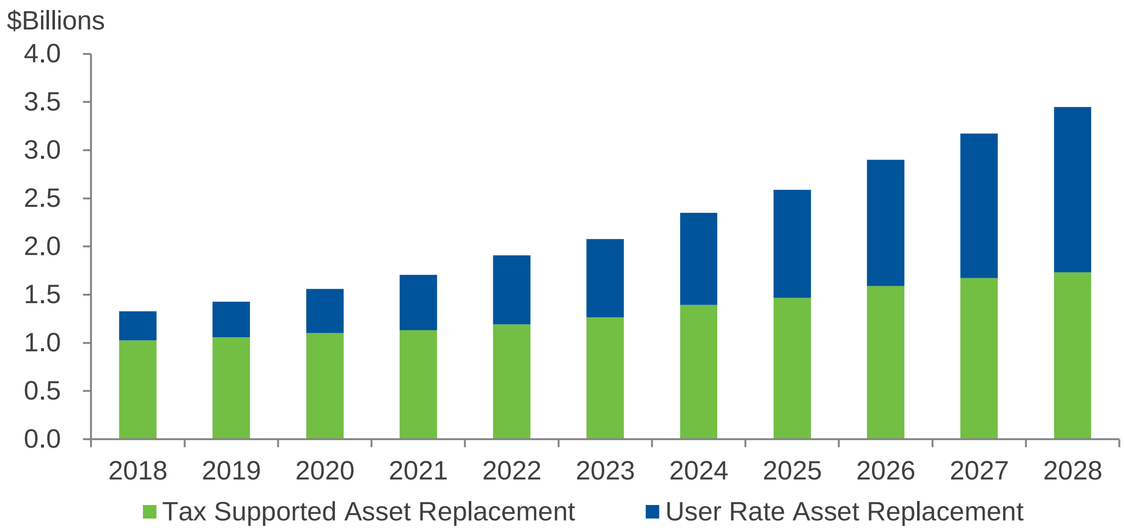
Water and wastewater contributions were determined based on the 2015 User Rate Study and are updated annually. The contributions were reflected in the rates for the past several years.

Asset management plans require that these reserves will need to grow significantly to meet future needs. The majority of the Region's capital assets were built within the last 20 years. Their replacement value currently stands at over $13 billion, and the 10-year capital plan includes approximately $3.8 billion of additional growth-related projects. Spending on asset replacement is forecasted to accelerate starting in the 2030's, as more of the assets in use today begin their cycle of rehabilitation and/or replacement.

Figure 7 shows the overall balance is expected to increase from $1.3 billion in 2018, to nearly $3.5 billion by 2028 to prepare for the wave of replacement noted above.

Figure 7

Growth in Capital Asset Replacement Reserve Balances



Source: York Region Finance Department

The Debt Reduction Reserve eliminates the need for future tax levy debt

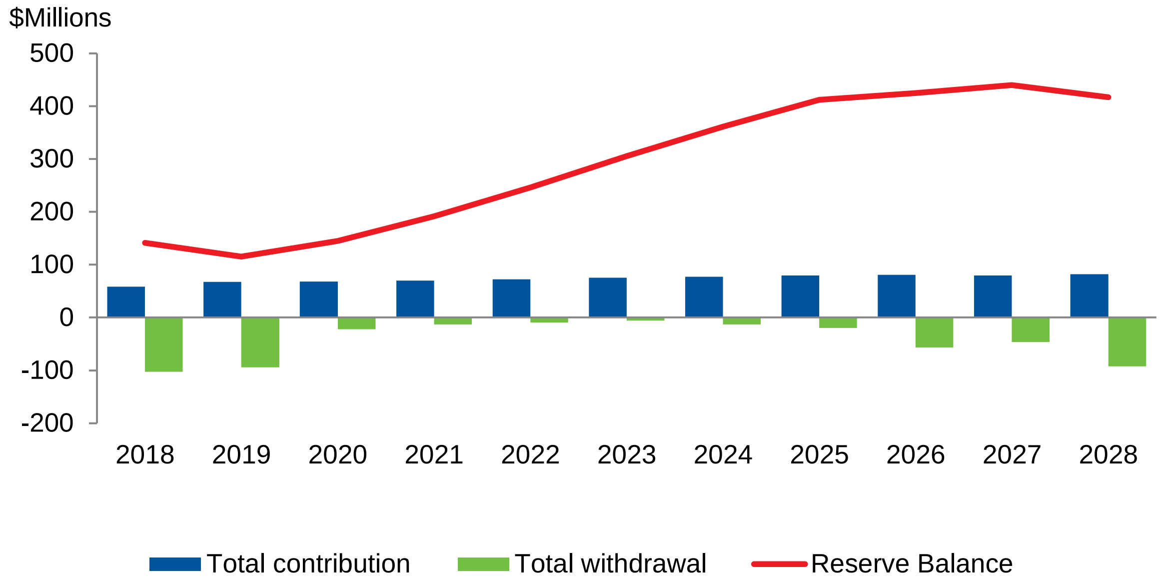
The Region is required to use tax levy funding for non-eligible capital and/or asset enhancement of growth-related infrastructure. Funding for this comes from different reserves, the most important of which is the tax levy funded Debt Reduction Reserve.

Since its 2014 inception this reserve has funded over $300 million in capital investments. Over the next ten years it is expected to fund another $370 million in investments as well as ensure there is money on hand for unanticipated projects not currently reflected in the capital budget.

Figure 8 shows the forecasted transactions and the overall reserve balance in the tax levy funded Debt Reduction Reserve.

Figure 8

Growth in the Debt Reduction Reserve



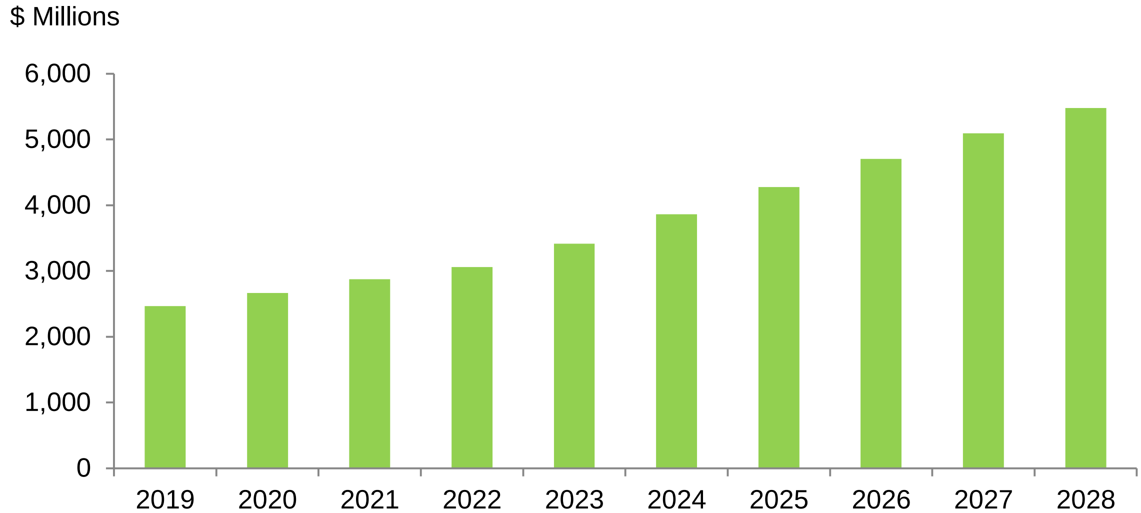
Source: York Region Finance Department

Total reserves are expected to grow moderately and reach $5.5 billion by 2028

Figure 9 shows that total reserves could grow to approximately $5.5 billion by 2028.

Figure 9

Total Reserve forecast



Source: York Region Finance Department

PROPOSED CHANGES TO THE REGION'S RESERVE FUNDS

Repurpose and rename the University Campus Reserve to include funding to support innovation

The Innovation Investment Fund would be used to support major innovation projects in the Region. It is recommended that the University Campus Reserve be renamed to the Innovation Investment Fund. The reserve fund would continue to set aside approximately $1 million from the tax levy annually towards the Region's commitment to the proposed York University Markham Campus. In addition, contributions of $1 million annually as proposed in the 2019-2022 Budget would support new innovation initiatives. In total, the reserve would be funded through tax levy contributions of $2 million per year.

Details on the process of selecting new innovation initiatives would be the subject of a report to Council by Economic Development, Corporate Services in the spring of 2019.

A new Cannabis Contingency Reserve be established to fund unanticipated costs related to the legalization of recreational cannabis

A Cannabis Contingency Reserve is recommended to fund unanticipated costs related to the legalization of recreational cannabis in October 2018. The reserve would be available to address unanticipated cannabis-related costs within any Regional department.

The reserve would be funded through tax levy contributions included as part of York Regional Police Services' operating budget, with planned contributions totalling $5.5 million over the next three years: $3.3 million in 2019, $1.6 million in 2020 and $0.6 million in 2021.

Any favourable spending or revenue variances related to implementing the Cannabis Act would be addressed as part of the Region's overall Surplus Management Policy and would not be directed to the Cannabis Contingency reserve.

The reserve would be reviewed as part of the development of the next multi-year budget. In addition, as more information regarding the impact of the cannabis legislation becomes known, continued contributions, potential draws, or rebalancing may be considered as options through future budget processes.

A new Waste Management Stabilization Reserve be established to fund fluctuations in recycling material market price and costs identified as part of the 2019 budget process

A Waste Management Stabilization Reserve is recommended to fund unfavourable fluctuations in recycling material market price and costs identified as part of the 2019 budget process.

The reserve would fund revenue shortfalls arising from lower-than-budgeted recycling material price per tonne. In the event recycling material revenues exceed the budgeted price per tonne, the excess revenue would be contributed to the reserve. The reserve is also expected to be used to fund a reduction in the budgeted recycling material price to align with market trends and costs identified as part of the 2019 budget process.

It is recommended that $30 million be transferred from the Solid Waste Management Reserve Fund to the Waste Management Stabilization Reserve as a one-time source of funding for this reserve.

Use of the reserve would be reviewed as part of the development of the next multi-year budget. As more information regarding regulatory changes becomes available, including the shift to full producer responsibility for the blue box program, potential contributions, draws or rebalancing may be considered.

A new Rapid Transit Reserve be established to fund potential rapid transit projects as identified in future capital budgets

As part of the Integrated Bilateral Agreement – Public Transit Stream funding (also referred to as PTIF II) announced in March 2018, the Region may receive up to $372 million of federal-provincial funding towards the construction of up to $507 million of rapid transit projects. While the Province has not yet launched the funding program, the March 2018 announcement indicated the Region would be required to contribute up to $137 million toward the cost of these projects from its own sources. It is staff's understanding that eligible capital projects can be within the Region's existing 10-year Capital Plan, however to meet the incrementality requirement of this program, it would be obligated to add equivalent funding for other new public transit infrastructure not in the current plan.

Due to federal program eligibility restrictions, either some or all of the Region's highest transit priorities cannot be directly funded by this program. For instance, land acquisition and staff costs, which are major costs for subway and bus rapid transit projects, are ineligible.

In June 2018, Council directed that selected "in plan" transit projects be considered for funding under the Public Transit Stream, and that the savings realized be reallocated to high priority rapid transit projects that are not currently in the approved 10-year Capital Plan.

The Rapid Transit Reserve would only be funded if it receives grants from the Public Transit Stream that result in tax-levy savings.

Details of how this program will work in Ontario have not yet been finalized. Therefore, the funding and use of this reserve are contingent upon the successful negotiation of an agreement on this matter between York Region, the Province and the Government of Canada.

FOURTH PILLAR OF FISCAL STRATEGY - REDUCE RELIANCE ON DEBT

The fourth pillar of the fiscal strategy focuses on reducing the reliance on debt. Debt is a financing tool that permits the Region to provide necessary infrastructure to accomplish its goals. Debt is not a funding tool; rather it is repaid over time by an identified source, which is primarily development charges. While debt is an important tool, it also carries risk. If the funding source is insufficient, there is a shortfall that needs to be covered. There is a fine balance between financing the necessary capital for growth, and building infrastructure too far ahead of when growth occurs.

Keeping borrowing needs as low as possible is a way to manage the risk that growth may be slower than expected, since the Region is committed to servicing its debt whether or not development charges are collected. It also preserves fiscal flexibility by ensuring the Region has good access to the financial capital markets and is able to keep interest costs down relative to own-source revenue.

90% of the Region's outstanding debt is for growth-related infrastructure and will be funded through future development charge collections

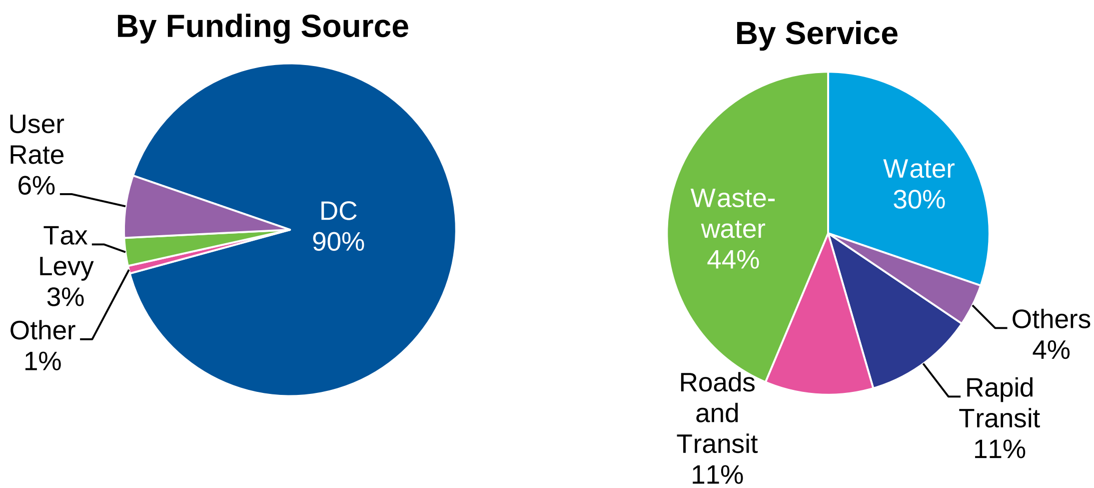
Most of the Region's infrastructure investment has been driven by the need to service growth. Building new infrastructure, such as water and wastewater assets, normally requires investments in advance of future needs. In these instances, the Region must rely on debt financing, which would be repaid from development charge collections as growth takes place. As shown in Figure 10, approximately 90 per cent of the outstanding debt at the end of 2018 is growth related and will be funded through future development charge collections.

As a result of the establishment of the Debt Reduction Reserve noted previously, no additional tax levy supported debt is planned over the next 10 years. In addition, Council approved six years of rate increases in order to achieve full cost recovery for water and waste water rehabilitation by 2021. This enabled the reserves to fund all future rehabilitation and replacement requirement without the need to issue any new user rate debt,

Figure 10

Outstanding Net Debt – York Region as at December 31, 2018

$2.7 Billion



Note: Outstanding debt is an estimate and subject to change as part of year-end adjustments.
Source: York Region Finance Department

The development charge collections forecast is highly dependent on growth assumptions

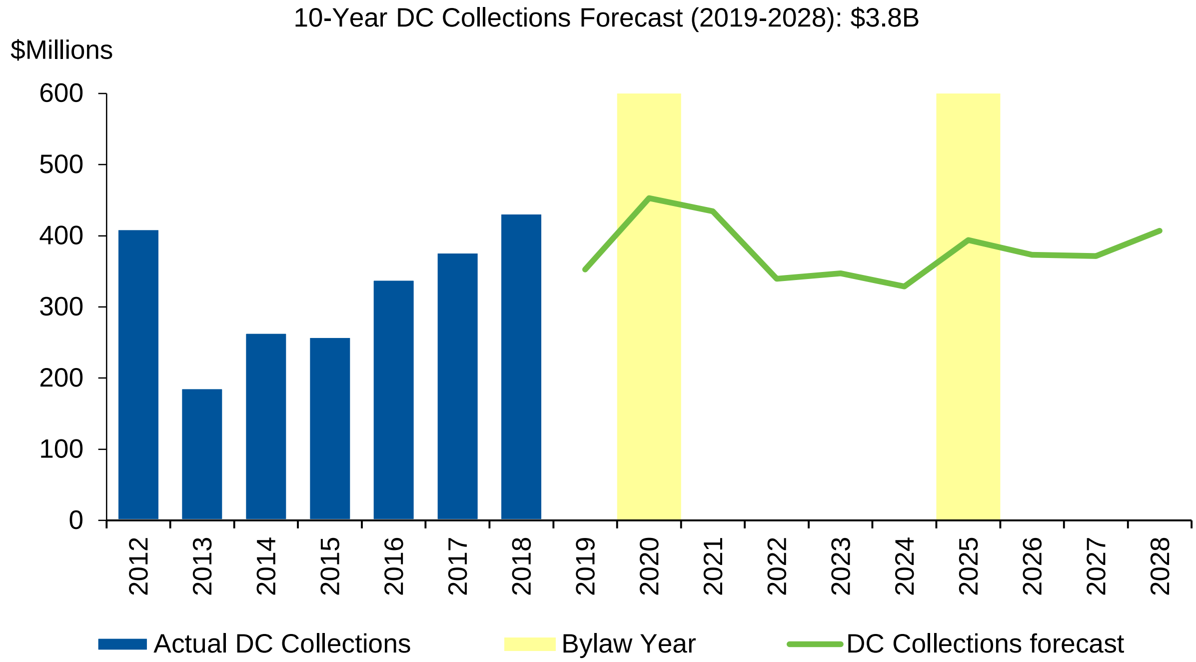
As discussed previously, the Provincial Growth Plan establishes both the population and employment growth targets for York Region's Official Plan and guide the development of Master Plans.

However, since 2012, York Region's actual residential and non-residential development has been consistently lower than what was envisaged by the Growth Plan, especially for non-residential development. Also, as noted earlier, the Ministry of Finance's annual population projection for York Region to 2041 is significantly below the Growth Plan Amendment II population targets for the same period.

As a result, staff have prepared the development charge forecast used for the 2019-2022 Budget shown on Figure 11 based on the more evidence-based estimates shown on Figure 5 on page 7.

Figure 11

Actual and Forecast Development Charge Collections



Source: York Region Finance Department

Growth is expected to remain slower in the short-term but move towards the Growth Plan by 2041

Between 2019 and 2028, development charge collections are forecasted to be $3.8 billion, which is approximately $470 million less than the 2018 budget.

Between 2018 and 2021, housing starts in the Region are expected to average approximately 8,300 units per year. This level of housing starts is approximately in line with what the Region experienced from 2013 to 2017, when housing starts averaged 8,600 annually. Thus, the forecast for 2018 to 2021 was revised down from last year's average annual forecast of 8,900 for the same period.

This trend of lower starts is expected to persist to 2031. This is due in part to the Ministry of Finance's demographic forecast, released in Spring 2018, which took into consideration the latest demographic trends. It envisaged a lower level of overall population growth to 2031 for York Region compared to the Provincial Growth Plan forecast. Although not shown on the graph, staff have assumed that from 2031 to 2041 population growth would eventually converge to the 2041 Provincial Growth Plan target.

The non-residential development charges forecast remains about the same compared to the 2018 Budget forecast.

Projected debt levels are related to future growth

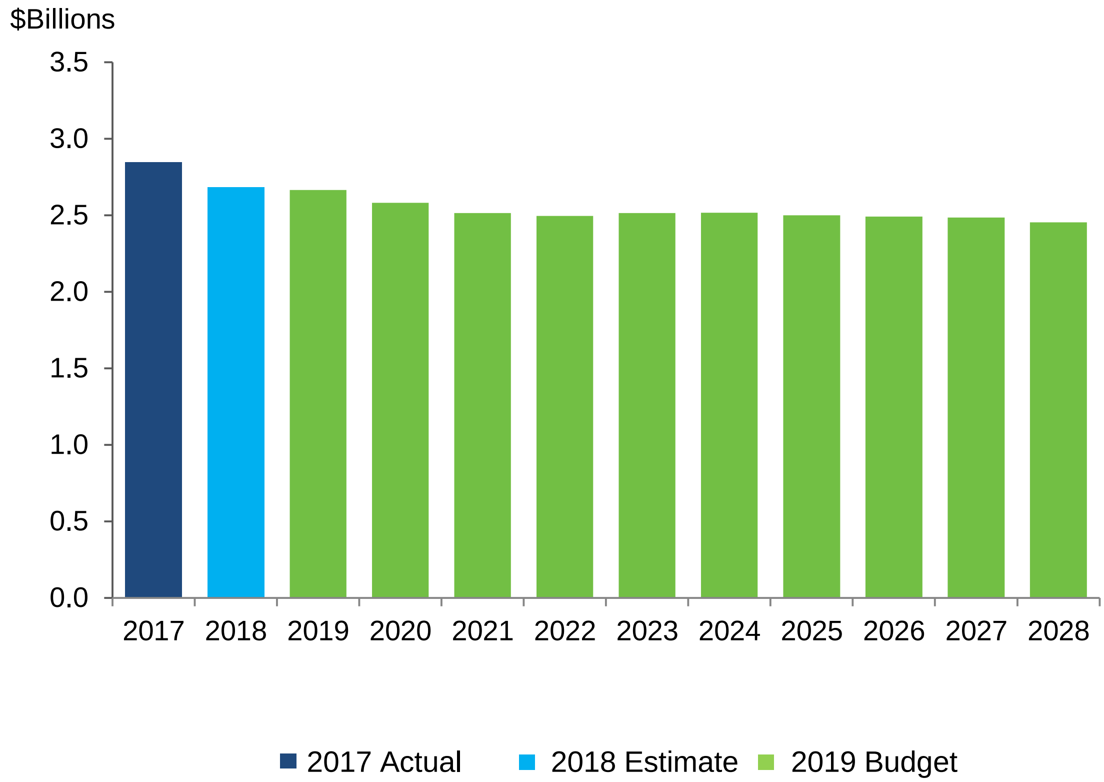
Over the next ten years the Region is required to pay approximately $3.3 billion in principal and interest for its existing debt. In addition, the Capital Plan projects further spending of approximately $3.7 billion on growth related infrastructure, for which the Region would need to issue approximately $1.9 billion in new debt over the same period.

The outflows of principal, interest and funding for new capital produces the debt profile shown in Figure 12.

Prior to the 2014 fiscal strategy, the Region's peak outstanding debt was forecasted to reach over $5.0 billion by 2020. However, as a result of the measures taken over the last four budget cycles, the total net outstanding debt peaked at $2.9 billion in 2017, and no new debt was issued in 2018.

Figure 12

Outstanding Net Debt Projection by Year



Source: York Region Finance Department

The Region will need to refinance a portion of its debt in 2019

In 2009, York Region issued $400 million of 10-year debentures at a cost of 4.69% per cent per year. However, some of the projects had a debt amortization period of twenty years. Similar to a mortgage, the remaining amount owing for these projects is $239 million and has to either be refinanced or fully repaid in 2019. Figure 13 below details the funding breakdown of the remaining amounts that need to be refinanced or repaid.

Figure 13

2019 Refinancing Requirements

Funding Source	Refinancing Required ($Millions)
Development Charge	191.8
Tax Levy	5.9
User Rate	
Water	1.8
Wastewater	25.6
	27.4
Total Region	225.1
Local Municipalities	
King	6.1
Newmarket	7.8
Total Debenture Issue	239.0

Source: York Region Finance Department

The 2019 Budget proposes to refinance only the development charge funded portion of the Region’s debt in 2019, and repay the remaining tax levy and user rate portions from the tax levy funded Debt Reduction Reserve ($5,870,070), the Capital Asset Replacement Reserve - Water ($1,785,712) and the Capital Asset Replacement Reserve - Wastewater ($25,660,707).

This strategy would allow the Region to reduce its outstanding net debt by $33,316,488. This repayment is currently reflected in the debt forecasts presented in this report. It would also result in an annual reduction in principal and interest payments of $4,572,039. The annual savings could be used to replenish the three reserves that would be used to fund this debt repayment as follows:

	Reserve	Amount
a.	Debt Reduction Reserve	$805,553
b.	Capital Asset Replacement – Water	$245,054
c.	Capital Asset Replacement – Wastewater	$3,521,432

These three contributions would be made annually for 10 years, which matches the principal and interest saved through paying down debt.

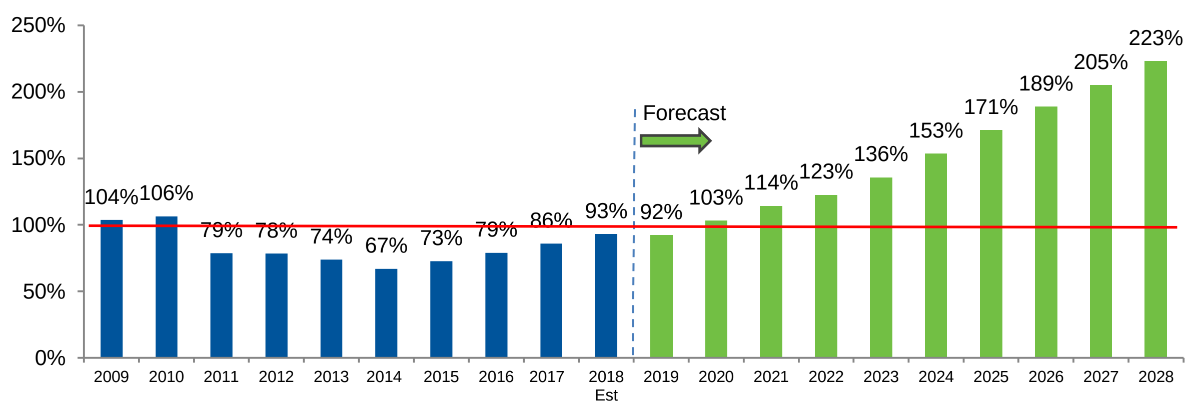
Under this proposal, the Region would only need to refinance the development charge related debt of $191,787,577 in 2019; plus any of the remaining local municipal debt that the Region is asked to refinance on their behalf.

York Region is on track to become a net investor by 2020

In the 2018 fiscal strategy, the Region was expected to be a net investor by 2021; however the current forecast now indicates that the target could be achieved one year earlier, in 2020. The current forecast is shown on Figure 14.

Figure 14

Reserves to Debt Ratios



Source: York Region Finance Department

YORK REGION CREDIT RATING

The Region’s credit ratings (Moody’s Aaa/Stable and S&P AA+/Stable) remain strong

In 2018, both Moody's Investors Service (Moody’s) and S&P Global Ratings (S&P) reaffirmed their credit rating for York Region supported by:

- A high level of cash and investments
- Prudent and far-sighted fiscal management
- A track record of positive operating outcomes
- Its diversified and expanding economy
- Considerable budgetary flexibility

Moody’s and S&P highlighted York’s exceptional liquidity profile but remain concerned with the Region’s high level of debt

Both rating agencies have expressed concern about the Region’s high 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
- if York Region generated lower-than-expected revenue resulting in much weaker operating balances

The Region continues on the path to a Triple A credit rating

To regain a triple A rating with S&P, the Region must closely monitor its capital plan and keep to its current debt plan, which forecasts an overall decrease in net debt. The 2019 fiscal strategy would demonstrate to the credit rating agencies the Region’s continued commitment to improve budgetary performance and to reduce its reliance on debt.

2019 LONG-TERM DEBT MANAGEMENT PLAN

The 2019 Long-Term Debt Management Plan needs to be adopted to access the growth-related borrowing capacity

The Annual Repayment Limit (ARL) regulation under the Municipal Act, 2001, limits the amount of municipal debt and other financial obligations that a municipality can assume.

In 2011, the Province recognized that York Region is a high growth municipality with unique debt requirements and provided a York-specific regulation that allows it to borrow a higher amount based on its development charge collections. In 2013 and 2014, the Region would have breached the annual repayment limit in the absence of the growth-related cost supplement.

The York-specific regulation expire**s** on December 31, 2021. Staff expect to recommend renewal of this York-specific regulation in order to provide it with the flexibility to finance major growth-related infrastructure projects, such as the Yonge Subway Extension, should it ever be needed.

To qualify for this additional growth-related borrowing capacity, Council is required to adopt or affirm 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.

PROPOSED FINANCIAL POLICY UPDATES

A technical amendment to the Capital Financing and Debt Policy is recommended to revise the minimum amount the Region keeps in its development charges reserves

The Capital Financing and Debt policy states that it is the Region's practice to keep approximately one years' worth of principal and interest in the development charge reserves as a risk mitigation tool for unexpected shortfalls in development charge collections.

Keeping the minimum reserve balances was modeled over the whole forecast period and having flexibility allows us to manage uncertainty the further out we go. It is proposed to amend the policy to permit greater flexibility by managing the amounts kept in the development charge reserves to between three quarters to a full year's worth of principal and interest. This flexibility would be used primarily to manage the debt level.

The proposed amendment to the Capital Financing and Debt Policy is set out in Attachment 2: it would be the Corporation's practice to maintain a cash balance in its Development Charge Reserves equal to a range of 75 to 100 per cent of the projected annual principal and interest payments during the fiscal year for growth-related debt.

Amending the Region's Surplus Management Policy is recommended to add the Group Benefit Reserve as part of the contingent liability reserves

The health benefits cost for Regional staff is reflected within departmental budgets and has historically covered the cost associated with post-employment benefits. While the number of retirees at the Region is expected to rise and the impact of this growth on post-employment benefits is difficult to predict, it is prudent to identify appropriate funding to help mitigate the contingent liability requirements.

It is proposed that the Region allocate its annual operating surpluses as follows (see Attachment 3):

The allocation of the annual operating surpluses would be made to reserves and reserve funds that are below their funding targets 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 Benefit Reserve 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

It is recommend that Group Benefit reserve being included as part of the contingent liability reserve which receives surplus allocation if inadequately funded.

5. Financial

Since the implementation of the fiscal strategy in 2014, Council has taken significant steps towards achieving financial sustainability. Based on a continued commitment to the approved budget outlook and the fiscal strategy, the Region would be able to maintain high levels of liquidity, save adequate reserves for future asset management needs, and reduce outstanding debt.

6. Local Municipal Impact

Local municipalities will benefit from the fiscal strategy as it supports the Region's credit rating. Since local municipalities must issue all debenture debt and repay debt financing costs 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 fiscal strategy has resulted in careful management of the capital plan, an increase in reserves and reduced reliance on debt, all intended to help the Region achieve financial sustainability.

The fiscal strategy is updated annually and evolves as economic circumstances change and as more rigorous analysis is developed.

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

Recommended by:

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Approved for Submission:

Bruce Macgregor
Chief Administrative Officer

February 8, 2019
Attachment (3)
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