The Regional Municipality of York

TREASURER'S REPORT

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Commissioner of Finance
and Regional Treasurer

Reflecting The Regional Municipality of York's strong commitment to fiscal prudence, results for the year ended December 31, 2022, show continued strengthening of the Region's balance sheet despite the impacts of the COVID-19 pandemic and other global events.

The Region's spending in 2022 supported important priorities that advance the Region's vision of strong, caring, safe communities, including the reopening and resumption of activities curtailed by the pandemic starting in early 2020. It also took the first steps in funding the Region's $1.12 billion share of the costs of the Yonge North Subway Extension, a longstanding Regional priority.

The 2022 Regional budget as approved by Council was presented in a way that showed how cash inflows, including the property tax levy, were balanced against all expected cash outflows. On this basis, the Region recorded an operating surplus of $77.9 million in 2022.

The financial results in this report are presented on the full accrual basis of accounting, which differs from the budget presentation. For comparability with this report, the 2022 budget book provided expected revenues, spending and annual surplus on a full accrual basis. This report compares 2022 results to the budget as presented on the full accrual basis.

On the full accrual basis of accounting, the Region's revenues exceeded expenses, resulting in an annual surplus of $687.7 million from operations over the year. This was $51.0 million lower than expected in the 2022 budget on the full accrual basis, owing mainly to lower-than-expected revenue.

With the addition of the 2022 annual surplus, the Region's accumulated surplus reached $10.0 billion at the end of 2022, up from $9.3 billion at the end of 2021. The Region's financial assets, including investments, rose by $689.2 million.

The discussion and analysis that follow, as well as the financial statements themselves, represent key parts of our accountability to residents and businesses.

OVERVIEW OF TREASURER'S REPORT, FINANCIAL STATEMENTS AND STATISTICAL REVIEW

TREASURER'S REPORT

The Treasurer's report expands on the information provided in the Region's financial statements by:

- Outlining the strategic framework guiding the Region's financial management
- Giving highlights of the Region's financial performance in 2022
- Discussing financial results for 2022 compared to 2021 and the 2022 budget, focusing on the Consolidated Statement of Financial Position and the Consolidated Statement of Operations
- Explaining the framework for planning and reporting on financial activities and the Region's responsibilities for managing its finances and safeguarding assets
- Looking at possible risks to the Region's long-term financial sustainability and how they are managed

YORK REGION FINANCIAL STATEMENTS

The Region's financial statements follow this Treasurer's report. The financial statements describe the Region's financial position at the end of the year and show how it changed from the previous year and, where relevant, from the budget. The notes that follow the financial statement are an integral part of the Region's financial reporting.

Consolidated Statement of Financial Position

This statement is the Region's balance sheet, listing its assets, liabilities and accumulated surplus as of December 31, 2022.

Consolidated Statement of Operations

This statement reports the Region's revenues and expenses for the year. The net difference is either an annual surplus or annual deficit. Revenues exceeded expenses in the year ended December 31, 2022, resulting in an annual surplus.

Consolidated Statement of Change in Net Financial Assets/Net Debt

This statement reconciles the change in net financial assets/debt for the current and prior year. Under public sector financial reporting in Canada, "net debt" is defined as the difference between a reporting entity's financial assets and its liabilities. (This differs from how the Region uses the term "net debt" in other documents to mean its issued debt, excluding borrowings on behalf of local municipalities and net of sinking fund assets.) By year-end 2022, the Region's financial assets were greater than its liabilities.

Consolidated Statement of Cash Flows

This statement outlines the Region's sources of cash, shows how they were applied to meet cash needs and gives the resulting change in cash and cash equivalents by year-end.

STATISTICAL REVIEW

The financial statements and notes are followed by a statistical review of key financial and non-financial figures over the past five years.

ADDITIONAL FINANCIAL STATEMENTS

This document includes additional sets of financial statements for:

- The sinking fund, which is segregated and audited annually, as required by the *Municipal Act, 2001.* The fund's purpose is to allow the Region to meet the repayment requirements of its sinking fund debt. Sinking-fund debt requires that funds equivalent to a share of the debt be set aside on a prearranged schedule before the maturity date.
- Funds held in trust by the Region for residents of Newmarket Health Centre and Maple Health Centre, the Region's two long-term care homes, and donations to those facilities. The Region invests these funds on behalf of the residents and interest earned is credited to the funds.

STRATEGIC FRAMEWORK

For the 2022 fiscal year, the main elements guiding the Region's financial management were:

- *Vision* and the 2019-2023 Strategic Plan
- The 2022 Budget
- The Regional Fiscal Strategy

Vision and the 2019-2023 Strategic Plan

The 2022 budget was developed with long-term direction set out in *Vision*, the Region's long-term blueprint.

Every four years, to coincide with the new term of Council, the Region develops a four-year Strategic Plan with the purpose of turning *Vision* and related goals into day-to-day activities. The priorities of the 2019-2023 Strategic Plan are economic vitality, a sustainable environment, healthy communities and good government.

2022 Budget

The Regional budget provides the financial framework to accomplish the Strategic Plan and achieve the long-term *Vision*.

Multi-year budgeting is a vital aspect of the financial framework. At the start of the 2018-2022 term of Council, Regional Council reviewed a four-year plan consisting of the proposed budget for the first year and an outlook for the remaining three years. In each of the following three years, the outlook was reduced by one year. The 2022 budget represented the final year of that multi-year budget.

While a four-year framework gives overall direction, Council has the flexibility to make changes each year as conditions warrant.

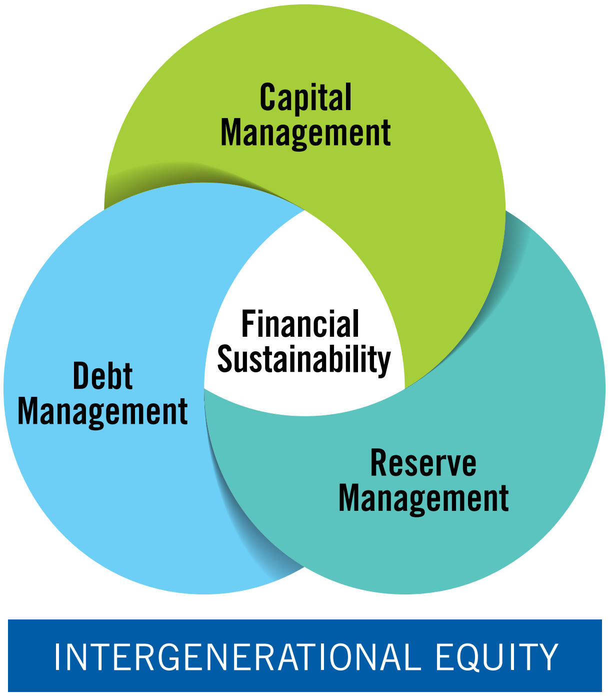
The Region's budget shows major cash inflows and outflows and determines the tax levy needed to achieve the balance between these. It gives decision-makers and other readers a clear picture of where cash resources are expected to come from and how they will be applied to all activities, including capital and operating, to meet current and future needs.

This annual report provides a set of statements on the full accrual basis that together give a full picture of financial activities and results for the year. This aligns with the recommendations of the Public Sector Accounting Board, which develops accounting standards for governments in Canada.

For consistency with financial reporting, the annual budget book includes a section entitled "Accrual Budget Presentation" in which figures for expected revenue, expense and annual surplus are provided on the same basis as in the annual report. This report compares results for 2022 to the accrual-based budget.

Regional Fiscal Strategy

The purpose of the Regional Fiscal Strategy, adopted in 2013 and updated annually, is to help the Region achieve long-term financial sustainability in an equitable way over time. It brings together three related elements, as shown in the diagram below.



The strategy recognizes the importance of fairness over time (intergenerational equity): no generation is left worse off through the actions of another. This works in both directions — today's residents should not be unduly burdened to pay for projects that will largely benefit later residents and future residents should not be unduly burdened with the costs of projects that largely benefited past residents.

Capital management is important because the Region must often build major infrastructure like roads, transit and water and wastewater systems in advance of the expected population and employment growth they will serve. While development charges are the main source of funding for growth-related projects, debt is used to bridge the timing between spending on infrastructure and collecting development charge revenue. Aligning and phasing delivery of projects is key to mitigating the financial risks associated with planning for growth and paying for the required infrastructure.

Reserves are funds that are built up and accessed over time for specific purposes, including paying capital-related costs to avoid issuing debt. Under the strategy, the Region has significantly increased the level of reserves dedicated to asset renewal and replacement. A corporate-wide asset management plan, endorsed by Regional Council in 2018, provides guidance on the size and timing of the needed investments. The strategy also saw the creation of a debt reduction reserve. Funded from the tax levy, it is mainly used to cover growth-related capital costs that are not eligible for development charge funding.

The Region's long-term **debt management plan** considers borrowing needs over the following 10 years, complies with Regional and provincial policies and considers risks to the plan and ways of mitigating them.

2022 HIGHLIGHTS

In 2022, pandemic-related pressures on the Region's budget eased significantly, although some revenues remained lower and some expenses higher. At the same time, the highest rates of inflation in four decades and continuing supply chain disruptions presented challenges to the ongoing recovery. Leveraging senior government support and carefully managing its own activities allowed the Region to remain in a strong financial position despite these factors.

By year-end York Region had on the full accrual basis of accounting:

- Increased its net financial assets by $507.1 million to reach a balance of $808.5 million
- Recorded an annual surplus of $687.7 million, increasing its accumulated surplus to $10.0 billion
- Continued to save for future needs including debt servicing costs and asset replacement needs by adding $552.5 million to reserves, increasing the balance to $4.8 billion
- Increased tangible capital assets by $176.0 million, recording a total of $9.1 billion

CHANGES IN FINANCIAL POSITION

The Consolidated Statement of Financial Position gives a picture of the Region's balance sheet on December 31, 2022. The table below provides a summary.

Consolidated Statement of Financial Position

($ Millions)	2022 Actual	2021 Actual	Variance	% Change
Financial Assets	6,417.5	5,728.4	689.2	12.0%
Liabilities	5,609.0	5,427.0	182.1	3.4%
Net Financial Assets	808.5	301.4	507.1	168.2%
Tangible Capital Assets	9,148.5	8,972.4	176.0	2.0%
Other Non-Financial Assets	30.4	25.8	4.6	17.9%
Accumulated Surplus	9,987.4	9,299.6	687.7	7.4%

Note: numbers may not add due to rounding

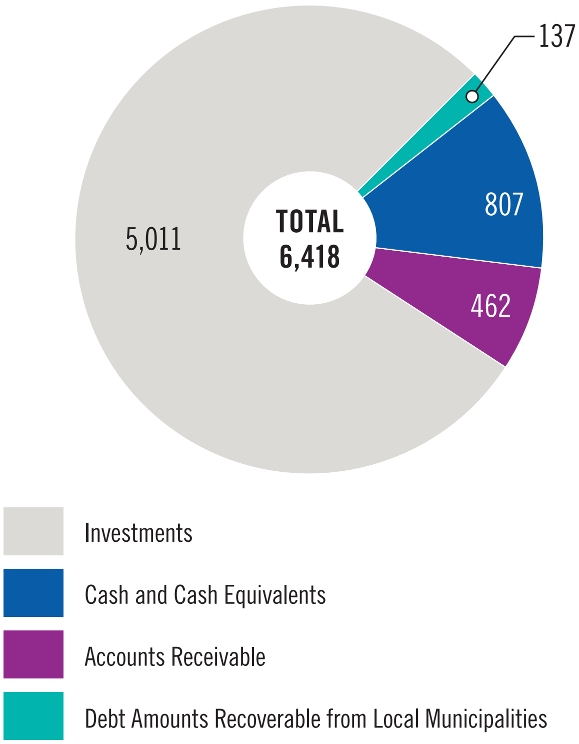
The Statement of Financial Position reports the financial and non-financial assets, including tangible capital assets, available to the Region. It also lists obligations in the form of liabilities, including debt. Because the Region's total assets are greater than its liabilities, the statement shows an accumulated surplus.

FINANCIAL ASSETS RISE BY 12.0%

The Region's financial assets include cash and cash equivalents, investments and amounts owed to the Region by third parties, including debt issued by the Region on behalf of local municipalities. The pie chart below shows the breakdown:

FINANCIAL ASSETS

$(MILLIONS)



Note: numbers may not add due to rounding

These assets totalled $6.4 billion at the end of 2022, up by $689.2 million or 12.0% from the previous year, largely reflecting the Region's operating surplus for the year and its commitment to building reserves through the Regional Fiscal Strategy. Within this category, the major change was an increase of $1.7 billion in longer-term investments, partially offset by a decrease of $993.7 million in cash and cash equivalents. The discussion of major sources and uses of cash that follows provides further details.

TANGIBLE CAPITAL ASSETS

The 2022 budget included a capital plan of $980.0 million for the year. Under Public Sector Accounting Standards, which are used to prepare the financial statements and accrual-based budget, $839.6 million of the capital plan was classified as planned spending on tangible capital assets for financial reporting purposes, with the balance allocated to capital-related operating expense.

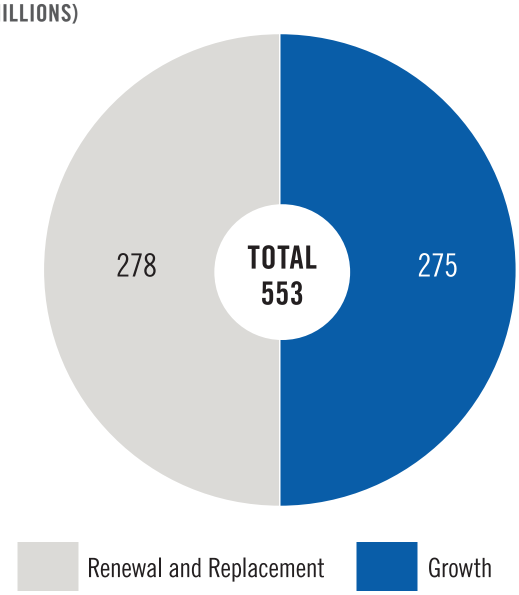
By year-end, $553.2 million or 65.9% of the accrual-based capital plan, as calculated for year-end reporting, was spent. This share was slightly lower than in recent years. Underspending was largely due to:

- Labour disruptions, shortage of materials due to supply-chain issues and delays in transportation projects caused by third parties
- Housing services projects not moving forward as planned senior government funding was not secured
- Ongoing consultations for the Yonge North Subway Extension

As the graph below shows, nearly 50% of the spending was for growth-related projects, while the balance went to renewing and/or replacing existing assets. The growth-related portion was largely funded by development charges. The cost of renewals and replacements was largely covered from asset replacement reserves.

TANGIBLE CAPITAL ASSETS: CAPITAL SPEND

$(MILLIONS)



Financial reporting makes a distinction between assets under construction and assets in use. As an asset is completed and goes into service, the cost to build or acquire it moves from assets under construction into the appropriate category of assets in use. Note 14 to the consolidated financial statements shows these categories and their value at year-end.

Assets under construction totalled $1.3 billion at year-end. The table below lists the five largest additions to the assets under construction account, with a comparison to the capital budget.

2022 Top 5 Capital Spend $(Millions)

Project	Service Area	Additions	Capital Budget [1]
Conventional Bus Replacement	Transportation Services	47.7	48.4
Road Asset Renewal and Replacement	Transportation Services	38.2	51.7
55 Orlando Garage Expansion	Transportation Services	26.6	32.4
Aurora Henderson Pumping Station	Transportation Services	17.8 [2]	15.4
Rutherford Road - Jane Street to Westburne Drive	Transportation Services	16.9	19.5

(1) Capital budget is based on the 2022 budget approved by Council on December 16, 2021.

(2) Additional spending was within overall Capital Spending Authority.

Several projects were completed and put into use in 2022. The table below lists the five largest completions and the year that work first began on the project.

2022 Top 5 Additions to Assets in Use $(Millions)

Project	Service Area	Additions	Project Start Date
York Durham Sewage System Forcemain Twinning	Environmental Services	126.4	2014
Major Mackenzie Drive - Canadian Pacific Railway to Pine Valley Drive	Transportation Services	122.2	2009
Cornell Terminal	Transportation Services	49.2	2014
Conventional Bus Replacement	Transportation Services	48.8	2022
Road Asset Renewal and Replacement	Transportation Services	44.9	2022

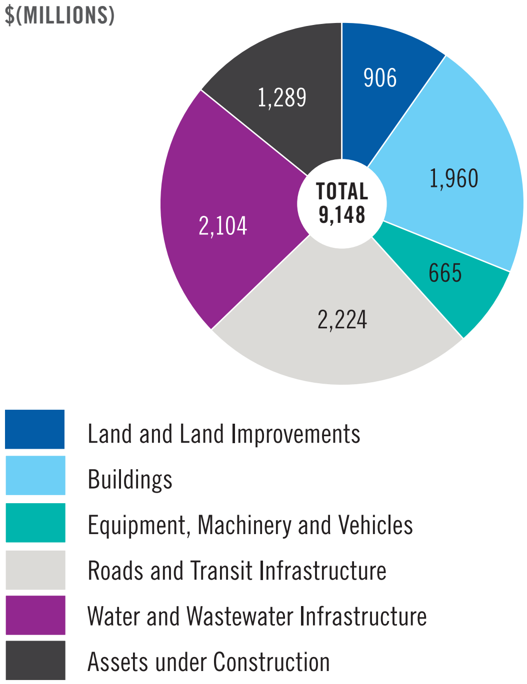
In addition to projects in the Region's 10-year capital plan, the Region also delivers construction of bus rapidways and associated infrastructure that make up the Viva bus rapid transit network. These projects are fully funded by the provincial Metrolinx agency.

Net book value (NVB) as reported on the Consolidated Statement of Financial Position is the historical cost of an asset less its accumulated amortization. After taking into account additions of capital assets, amortization expense of $337.0 million and the disposal of assets during the year, the net book value of the Region's assets rose by $176.0 million, taking the total to $9.1 billion at the end of 2022.

The following graphs show the breakdown in the net book value of assets by category and service area:

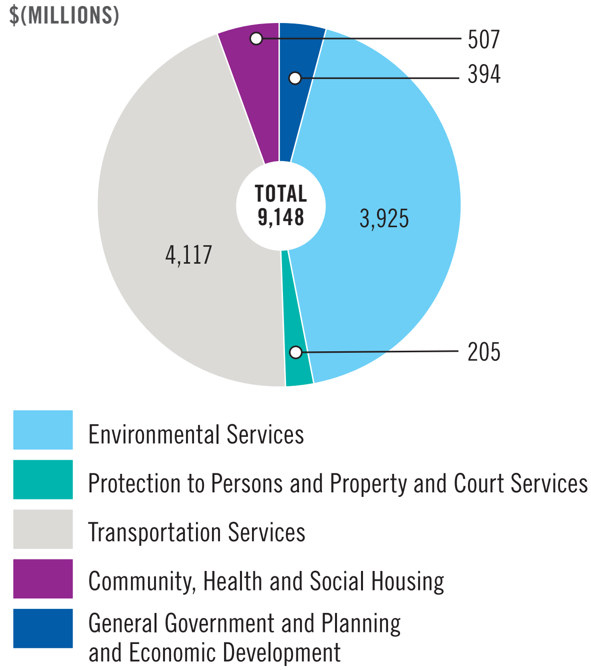
NBV OF TANGIBLE CAPITAL ASSETS BY CATEGORY

$(MILLIONS)



NBV OF TANGIBLE CAPITAL ASSETS BY SERVICE AREA

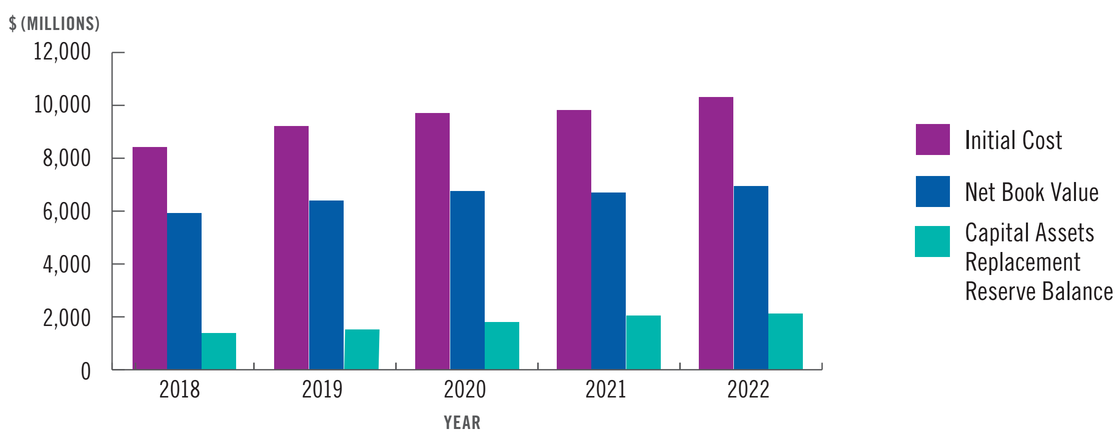
$(MILLIONS)



Five-year trend in net book value and asset condition

The net book value of the Region's assets as measured in the graph below steadily increased from 2018 to 2022. The asset base has grown largely as a result of major investments in roads, transit and water and wastewater infrastructure.

TANGIBLE CAPITAL ASSETS: INITIAL COST, NET BOOK VALUE AND REPLACEMENT RESERVES



Note: The Region's asset replacement reserves exclude land, land improvements, and assets under construction. For comparability, these items have also been excluded from capital assets in the graph above.

One measure of the Region's potential financial vulnerability is the ratio of the net book value of assets to their initial cost. This ratio provides an estimate of the time remaining in which assets are available to provide services, with a low ratio suggesting that assets are being used up and not replaced. Service areas use this measure as well as regular reviews of asset condition and servicing needs to assess overall spending needs. The ratio for the Region has held fairly steady over the past five years at between 67.4% and 70.4%.

This means the Region is consistently adding or replacing assets, which helps to offset the decline in the net book value of existing assets. Net book value as presented in the financial statements, which includes assets under construction, grew because of a larger growth-related capital program.

Another measure of whether a government is prepared for asset-related needs is the amount of dedicated reserves available for asset management and whether the level of reserves reflects the expected need.

The Region's asset management planning has progressed significantly in recent years, and provincial requirements have become more specific. The Region's first Corporate Asset Management Plan, formalizing asset management planning practices across all departments, was approved by Regional Council in June 2018. Estimates of asset replacement values in the plan were based to the extent possible on actual asset condition, which is considered a more accurate measure of investment need than age, as used in the financial statements.

Replacement value estimates are updated annually for the Region's State of Infrastructure Report, the latest of which shows a current replacement value of $19 billion.

The 2018 plan represented a major step in developing a long-term financial plan to maintain, rehabilitate and eventually replace assets so that the Region can continue providing quality programs and services now and into the future. An updated Corporate Asset Management Plan is expected to be presented to Regional Council in early 2024.

Current asset replacement reserves balances are lower than the accumulated amortization associated with the existing asset base. Accumulated amortization is one way to assess the amount of the Region's asset value that has been consumed to date. With reserve balances below this measure, it is necessary to continue focusing on contributions to asset replacement reserves.

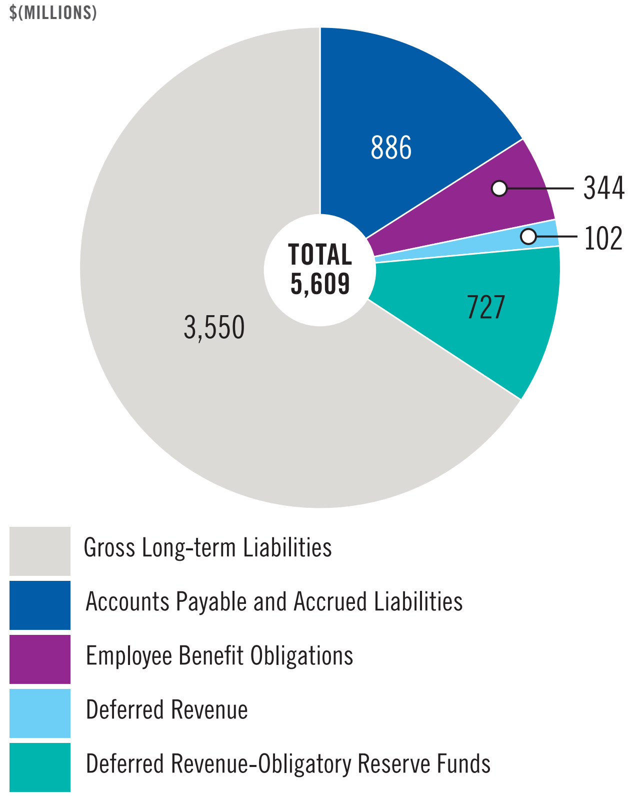
Planned contributions to capital reserves, including those outlined in the 2023 to 2026 Budget, provide the funding needed to fully deliver the Region's 10-year capital plan. Additional contributions would be needed to reach the Fiscal Strategy objective of intergenerational equity, which means the future costs of asset management are shared equally by current and future residents.

LIABILITIES INCREASED BY 3.4%

The Region's liabilities include accounts payable and accrued liabilities, employee benefit obligations, deferred revenue and gross long-term liabilities or debt. The pie chart below shows the breakdown:

LIABILITIES

$(MILLIONS)



Total liabilities increased by $182.1 million, ending the year at $5.6 billion.

Liabilities other than debt

Liabilities other than debt increased by $200.6 million, ending the year at $2.1 billion. This was largely as a result of increases in deferred revenue-obligatory reserve funds and employee benefits obligations.

Employee benefit obligations include the expected costs of extended health and dental coverage for retirees, vested sick leave benefits, long-term disability claims, vacation payable and workers' compensation obligations. Estimates are based on long-term actuarial expectations and updated at three-year intervals. These obligations increased by $30.4 million or 9.7% from 2021, reflecting increases in estimates of future costs and expectation of higher health care costs. The Region maintains reserves to help address these liabilities as they become due.

Deferred revenue represents funds received from third parties and set aside for specific purposes at a later date. For accounting purposes, the funds are recorded on the asset side of the Consolidated Statement of Financial Position in financial assets, balanced by the deferred revenue. They are excluded from the list of reserves that the Region maintains for its own use because their use is restricted by third-party agreements.

There are two components of deferred revenue on the Region's Consolidated Statement of Financial Position: general deferred revenue and deferred revenue-obligatory reserve funds.

General deferred revenue includes funds received in advance to conduct certain work in accordance with legislation or agreements. It also includes user charges and fees collected for services not yet rendered. The general deferred revenue account increased by $5.7 million or 5.9% from 2021.

Deferred revenue-obligatory reserve funds include development charges that are collected to pay for future growth-related projects and Gas Tax/Canada Community-Building Fund revenues to be used for transit and other specified purposes. These amounts increased by a net $146.7 million or 25.3% by year-end 2022. This was due to an increase of $145.0 million in the development charges balance, representing new collections and accrued receivables for deferred development charges of $578.8 million less the $433.9 million taken into revenue to help pay for new infrastructure to support growth and a net $1.7 million increase in the Gas Tax/Canada Community-Building Fund balance.

Debt

Total debt, which is reported in the Consolidated Statement of Financial Position as gross long-term liabilities, decreased by $18.5 million to total $3.6 billion by the end of 2022. No new Regional debt was issued in 2022.

Total debt includes funds borrowed by the Region on behalf of local municipalities. The local municipal borrowings, which totalled $137.2 million at the end of 2022, are matched by an asset in the same amount that represents their future debt repayments.

Most of the Region's own borrowings are in the form of sinking fund debentures, which require the borrower to set aside funds over time to be used for repayment when the debt matures. The reserve representing these dedicated funds grew by $218.1 million in 2022.

Netting off the sinking fund asset and excluding local municipal borrowing, the Region's net outstanding debt ended the year at $2.3 billion, a decrease of $229.2 million from the previous year.

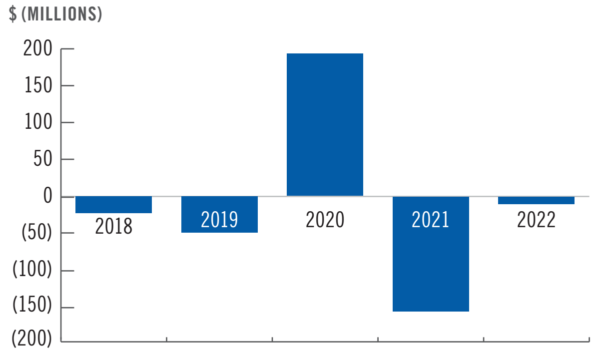
The Region met its commitment to keep its own debt, net of sinking fund assets and local municipal debt, below the peak of $2.9 billion that was reached in 2017.

Five-year trend in debt

Reduced reliance on debt is one element of the Regional Fiscal Strategy because it supports long-term fiscal sustainability.

The graph below, which reflects debt issuance/repayment according to the Consolidated Statement of Cash Flows, demonstrates the Region's success at reducing debt. In 2020, with interest rates at historic low levels, the Region increased its overall debt to finance new growth capital projects, but debt reduction resumed in 2021 and continued further in 2022 as interest rates rose.

NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITY



Five-year trend in interest expense to own-source revenues

The ratio of interest expense to own-source revenues (such as property taxes, water and wastewater user charges, transit fares, investment income, other user fees and provincial fines) is a marker of financial vulnerability. When interest expense grows faster than a government's own-source revenues, it may have to divert too much of its revenues to paying interest costs, limiting its ability to fund other priorities.

The Region's ratio was 5.3% in 2022, continuing a steady decline from 7.5% in 2018. Although borrowers faced the highest lending rates in decades in 2022, the Region's ratio fell for two reasons:

- Interest expense declined to $104.4 million in 2022 from $109.6 million the previous year, as reported in Note 8 to the consolidated financial statements. This is because most of the Region's existing debt is at fixed rates, it issued no new long-term debt in 2022 and it continued to repay its own outstanding borrowings during the year. Interest expense has fallen in each of the past five years.
- Its own-source revenues increased by $74.6 million in 2022.

This ratio is calculated without including development charge revenue, which is a key source of funding for debt servicing. Including these revenues would reduce the ratio to 4.3%, down from 5.9% in 2018.

NET FINANCIAL ASSETS / NET DEBT

Under public sector financial reporting in Canada, the difference between a reporting entity's financial assets and its liabilities is its "net financial assets" if positive and "net debt" if negative. (In some contexts, the Region uses the term "net debt" to mean its issued debt, excluding borrowings on behalf of local municipalities and net of sinking fund assets.)

The Region's net financial assets were $808.5 million at the end of 2022, representing the difference between its $6.4 billion in financial assets and $5.6 billion in debt and other liabilities.

Net financial assets increased by $507.1 million from the previous year-end level of $301.4 million because financial assets, particularly investments, grew at a faster rate than total liabilities.

ACCUMULATED SURPLUS

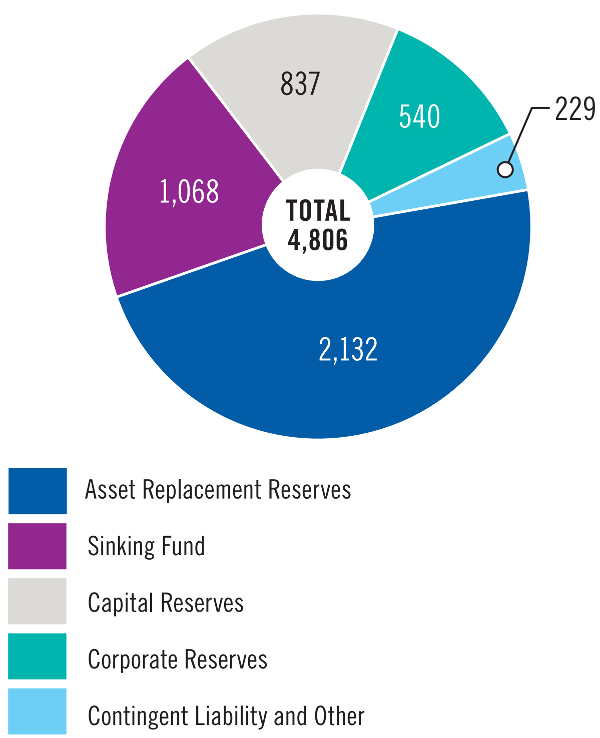
The Region's accumulated surplus increased by $687.7 million or 7.4% from 2021 to reach $10.0 billion at the end of 2022. The increase is equal to the annual surplus and is calculated based on Public Sector Accounting Standards. (It differs from the operating surplus, which represents any excess in revenue or underspending in relation to the operating budget. The 2022 operating surplus is discussed in later pages.

The accumulated surplus is the total of past annual surpluses. It represents the difference between the Region's assets, including tangible capital assets, and its obligations, including debt. As such, it represents the net resources the Region has to provide future services.

The Region has identified a number of specific future needs and earmarked a portion of the total accumulated surplus for them. These amounts are called reserves and reserve funds, and at 2022 year-end they totalled $4.8 billion, up from $4.3 billion a year earlier. The pie chart below provides a breakdown by reserve type.

RESERVE BREAKDOWN

$(MILLIONS)



Note: numbers may not add due to rounding

Asset replacement reserves are funded from two main sources: a portion of user rates goes into reserves for water and wastewater renewal and replacement, while a share of the tax levy is contributed to reserves for replacing other assets, such as roads. Total asset replacement reserves stood at $2.1 billion by year-end, having increased by $115.3 million or 5.7% during the year. This increase was made up of contributions and interest earned totalling $433.7 million, less $318.4 million used for asset management purposes during the year.

The Region's sinking fund reserve, which is a segregated fund that can only be used to repay existing debt, is the next largest balance. It grew by $218.1 million or 25.7% in 2022 to reach $1.1 billion by year-end.

Capital reserves that help to fund construction and other capital projects increased by $135.4 million or 19.3% in 2022. The debt reduction, rapid transit and solid waste management reserves all saw growth, while the social housing development and information technology development reserves were drawn down.

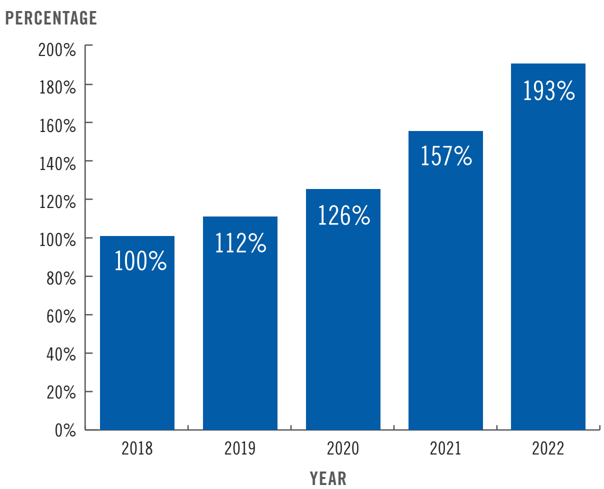
The balance reflects additional reserves that the Region maintains to smooth fluctuations in operating revenue and expense items and to build funding over time for special projects. These additional reserves rose by a total of $83.7 million, or 12.2%, over the year.

Reserves to debt

The ratio of reserves to debt is an important marker of fiscal sustainability. Because Ontario municipalities can borrow only for capital projects, generally a high ratio shows that a municipality's reserves hold sufficient funds for most future capital needs, helping to reduce reliance on debt. It also ensures that if revenues were to decline, other resources would be available to meet a municipality's obligations. Conversely, a municipality with a low ratio is more vulnerable to a revenue decline and/or high borrowing needs.

The Regional Fiscal Strategy has steadily improved the reserves-to-debt ratio for the Region, as the graph below shows.

RESERVES-TO-DEBT RATIO



Note: The debt figure represents Region-only debt, excluding local municipality debt and housing-related debt, and is net of sinking fund assets.

The Region's strong ratio at the end of 2022 shows that it remained in a net investor position and has resources to manage short-term fluctuations in revenue and help cover future capital needs.

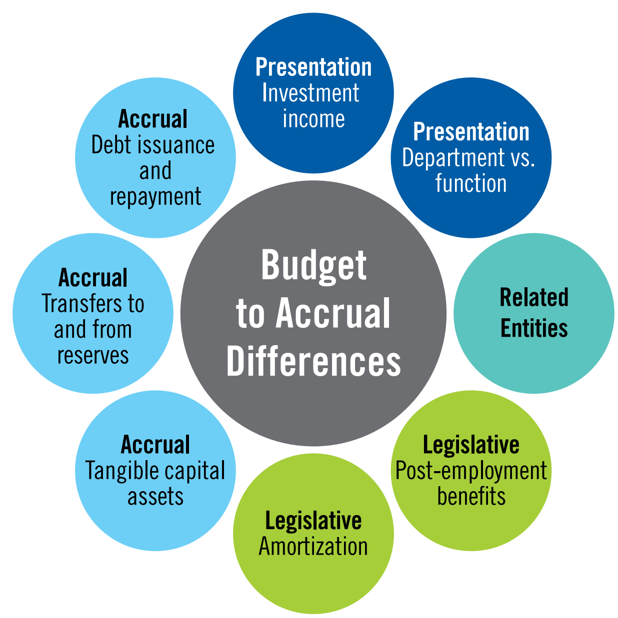
CONSOLIDATED STATEMENT OF OPERATIONS

The sections below explain the differences between revenues and spending in the budget and this report and provide a comparison of operating results to both the budget plan and the previous year.

COMPARING ACTUAL RESULTS TO THE BUDGET

The budget is prepared on what is called the "modified accrual basis" of accounting. This approach looks mainly at expected cash inflows and outflows and uses the property tax levy to achieve a balance between them. This is different from the accrual treatment for the consolidated financial statements, which are prepared in accordance with the standards set by the Public Sector Accounting Board.

As a result of the different approaches used to prepare the budget and report on results, comparing actual operating results to the budget plan requires a reconciliation. This reconciliation also captures other differences between the budget and financial statements, as the graphic below shows:



The major differences between the full accrual financial statements and the modified accrual budget as approved by Regional Council include:

Presentation

- Under full accrual accounting, investment income is a revenue item and is treated as such in the financial statements. In the approved budget, a portion of this is an offset to General Government expense.
- The approved budget presents planned spending by department. The financial statements and full accrual budget set out expense by function instead, which in some cases involves breaking out a department's activities as separate items. For better comparability to the budget, the discussion of expense below combines the functions of Community and Health Services into one service area. As in previous years, Transportation Services and Environmental Services are also presented as service areas. This generally follows the presentation in the budget for 2022. During 2022, Transportation Services and Environmental Services were brought together as the Public Works department.

Related entities

- Under full accrual accounting, the financial activities of three Region-owned entities, York Region Rapid Transit Corporation, Housing York Inc. and YTN Telecom Network Inc., known as YorkNet, are fully consolidated with the results of the department to which they are related. The treatment of the first two of these entities was different in the 2022 approved budget.

Legislative

- Under the *Municipal Act*, two items may be excluded from a municipal budget because they require no cash outlay, as long as Council is informed: post-employment benefits, which are employee benefits that have been earned but will be paid in the future as employees retire; and amortization, which is a fraction of the cost of a tangible capital asset and is recorded as an expense each year the asset is expected to be in service. While the Regional budget includes an expense for post-employment benefits, the basis on which it is calculated differs from the treatment outlined in Note 6 to the financial statements. The accrual-based budget is consistent with the Note. Treatment of amortization follows the approach allowed by provincial law.

Accrual

- Under full accrual accounting, assets that are expected to last for more than one year are capitalized. This means the upfront cost of building and acquiring tangible capital assets is shown not as an expense, but instead on the Consolidated Statement of Cash Flows in the year the spending occurs, and amortization is recorded as an expense over the life of the asset. The budget as approved by Council treats capital spending as an expense in the year it occurs. This facilitates approval of a capital budget that authorizes the expected cash outflows on capital projects over time.
- Transfers from reserves and the proceeds of borrowings are sources of cash, not revenues under full accrual accounting. Similarly, transfers and contributions into reserves and repayments of debt are uses of cash, not expenses, under full accrual accounting. In the budget approved by Council, these inflows and outflows are taken into account in balancing the budget as required by provincial statute.

In the "Accrual Budget Presentation" chapter, the 2022 budget book included a detailed reconciliation between the budget prepared for Council approval and the same budget presented on a full accrual basis. The table below summarizes key figures:

$(Millions)	Approved budget	Adjustments	Full accrual budget
Revenues	3,661.5	(479.3)	3,182.2
Expenses	3,661.5	(1,218.0)	2,443.5
Surplus	–	738.7	738.7

The full accrual budget presented in the budget book generally used the same presentation and accounting approaches as the financial statements in this annual report. In the Consolidated Statement of Operations, some accrual budget numbers have been updated to reflect internal reorganizations and align with provincial Financial Information Return requirements. The total budgeted figures for revenues, expenses and annual surplus remain the same.

RESULTS FOR 2022 AND FIVE-YEAR TRENDS

This section compares operating results for 2022 to the full accrual budget and to results for 2021. It also discusses five-year trends in key figures and ratios, as recommended by the Public Sector Accounting Board.

The table below summarizes results from the 2022 Consolidated Statement of Operations:

Consolidated Statement of Operations

$(Millions)	2022 Budget	2022 Actuals	2021 Actuals	Budget to Actual Variance	Year over Year Variance
Revenues	3,182.2	3,135.5	2,970.5	(46.7)	165.0
Expenses	2,443.4	2,447.7	2,299.7	4.3	148.0
Annual Surplus, Accrual Basis	738.7	687.7	670.8	(51.0)	17.0

Note: numbers may not add due to rounding

At $687.7 million, the surplus for 2022 was $51.0 million lower than expected in the accrual-based budget. It was $17.0 million higher than the previous year's $670.8 million surplus.

REVENUES

The table below provides a summary of the revenues from the 2022 Consolidated Statement of Operations with comparisons to the accrual-based budget and the previous year:

$(Millions)	2022 Budget	2022 Actuals	2021 Actuals	Budget to Actual Variance	Year over Year Variance
Revenues					
Net Taxation	1,284.2	1,281.7	1,232.7	(2.5)	49.0
User Charges	376.0	387.8	378.0	11.7	9.8
Government Transfers	649.7	721.4	694.2	71.7	27.2
Development Charges	593.6	433.9	370.8	(159.8)	63.1
Fees and Services	126.4	150.6	117.2	24.2	33.3
Investment Income	93.0	125.0	115.1	31.9	9.8
Other	59.2	35.2	62.4	(24.0)	(27.2)
	3,182.2	3,135.5	2,970.5	(46.7)	165.0

Note: numbers may not add due to rounding

At $3.1 billion, actual 2022 revenues were $46.7 million lower than expected in the 2022 budget and $165.0 million higher than actual 2021 revenues.

- Net taxation revenues were consistent with plan, at $1.3 billion.

  The increase over 2021 was $49.0 million, or 4.0%, which was in line with the approved tax levy increase of 2.96%, assessment growth of 1.46% and offset by a year-over-year decrease in supplementary taxes of 0.43%, due to a greater impact of assessment adjustments.

- The budgeted projection for water and wastewater user charges was based on user rates approved by Regional Council in September 2021 for the period April 1, 2022, to March 31, 2028 with the goal of ensuring rates cover all costs of providing the services. Actual 2022 results were above forecast, as consumption remained higher than expected owing to a hot, dry summer.

The year-over-year increase was $9.8 million, or 2.6%, reflecting higher consumption.

- At $721.4 million, revenue from provincial and federal transfers was $71.7 million higher than planned. Most of the variance comes from higher-than-budgeted revenues in senior government funding for childcare programming, including the Canada-Wide Early Learning and Child Care grant. Further, the Region received some unbudgeted funding from the province in 2022 for pandemic-related expenses and lost revenues. This funding is related to expenditures in 2020 through 2022. These increases were partially offset by declines in other areas: revenue from Metrolinx was lower than expected as fewer land settlements relating to bus rapidways were completed and the Rapid Housing Initiative did not secure senior government funding as planned.

  There was an increase of $27.2 million, or 3.9%. in transfer payments from 2021 to 2022 due to the reasons above, with a partial offset from lower COVID-19 transfer payments compared to 2021.

- Development charge collections are recorded as deferred revenue on the Consolidated Statement of Financial Position. Development charge revenue in the Consolidated Statement of Operations reflects the drawing down of deferred revenue to fund new growth-related projects or to service debt that funded previous projects. This source of revenue was $159.8 million below budget mainly because projects and related spending were delayed owing to the pandemic and refinements to project schedules.

  Although lower than forecast, development charge revenue was $63.1 million or 17.0% higher than in 2021.

- Fee and services revenue was $24.2 million higher than budgeted. The most significant variance relates mainly to higher transit fare revenue than budgeted as ridership returned to 70% of pre-pandemic levels. Higher blue box revenue in waste management also contributed as prices for recyclables were higher than expected. These increases were partially offset by lower-than-expected revenue in Court Services, due mainly to delays in provincial re-opening of Provincial Offences Act trial courts in York Region as well as limited Justice of the Peace resources, both of which significantly reduced available court time.

  Fee and services revenue rose by $33.3 million, or 28.4%, year-over-year mainly due to higher transit fare revenue.

- At $125.0 million, interest income and other earnings on investments were above the budget forecast of $93.0 million.

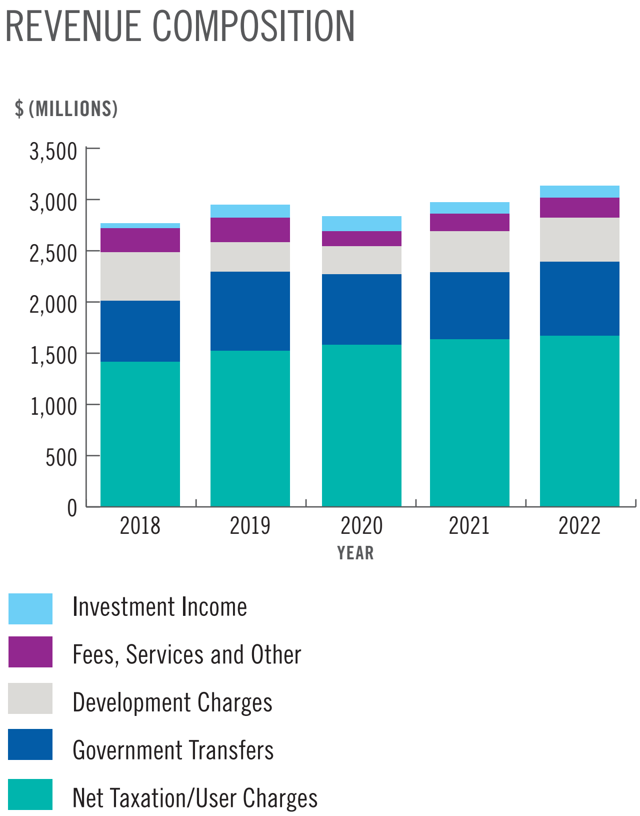
  Revenue from this source increased by $9.8 million or 8.5 % from the previous year, reflecting better-than-expected performance in a highly uncertain market environment. The investment portfolio continued to outperform its benchmarks.

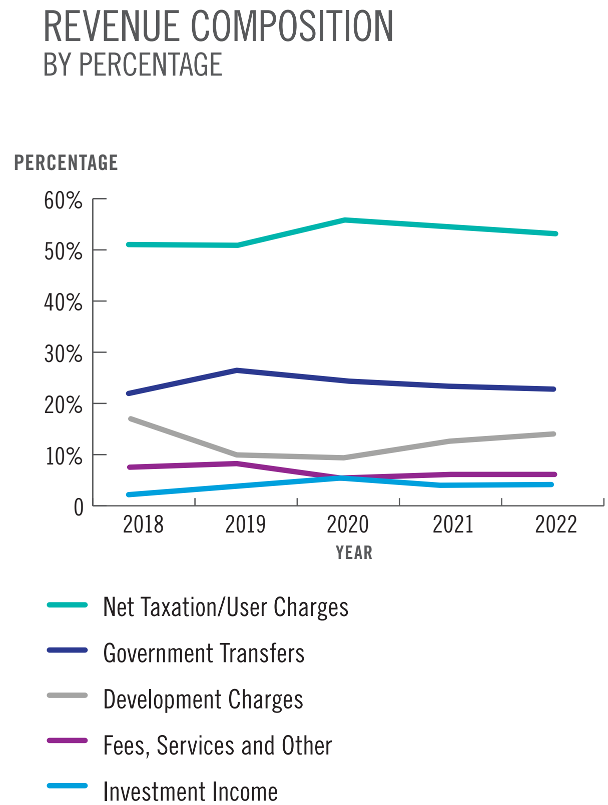
- Other revenue was $24.0 million lower than budgeted. Much of this revenue reflects lower recoveries from local municipalities for fewer capital projects the Region carried out on their behalf. The budget forecast is based on recoveries from construction activity. Most of this variance relates to an accounting adjustment that did not affect cash. Apart from that, actual other revenue was close to budget.

  The year-over-year decrease was $27.2 million, or 43.6%, for the reason provided above.

Five-year trend

The graphs below illustrate annual changes in sources of revenue over the past five years:





High dependence on sources of revenue over which a government has little or no control can make it more vulnerable to the decisions of other entities.

In total, revenues over which the Region has control, comprising taxation and user charges, fees, services and interest earnings, amounted to about 63.2% of revenue in 2022. Over the past five years, these revenue sources have provided 63.6% of total revenues on average.

Among revenue sources over which the Region has limited control, transfer payments from senior governments have provided an average of 23.8% of revenues over the past five years.

In the first phase of bus rapidway construction, funding from Metrolinx was recorded as revenue (and the related spending treated as expense to the Region). In 2019, the province donated some Metrolinx-related assets to the Region. This increased government transfers to 26.5% that year. A similar transfer in 2020 was considerably smaller. With the substantial completion of the first phase of bus rapidways late in 2020, this component of transfer payment revenue will continue to decline in significance. The decrease in Metrolinx transfers was partially offset by pandemic-related funding in 2020, 2021 and 2022.

In general, government transfer fluctuations reflect either specific, time-limited funding (such as for bus rapidway projects) or decisions by other levels of government. The Region is accustomed to managing the impact of changes in the level of these payments as long as sufficient time to adjust is provided.

Drawdowns of development charges are used to pay for growth-related capital projects and can change sharply from year to year in line with the capital investments they fund. Over the past five years, this source of revenue has averaged 12.6% of the Region's total. In 2018 the level was 17.1% of total revenue, followed by declines in 2019 and 2020 as the Region relied on debt to fund a portion of the growth-related infrastructure and some construction activity was deferred. In 2021 and 2022, development charge drawdowns increased to 12.5% and 13.8% of total revenue, respectively.

EXPENSES

The table below provides a summary of the expenses from the 2022 Consolidated Statement of Operations with comparisons to the accrual-based budget and the previous year:

$(Millions)	2022 Budget	2022 Actuals	2021 Actuals	Budget to Actual Variance	Year over Year Variance
Expenses					
Transportation Services (2)	537.7	510.6	477.3	(27.0)	33.3
Environmental Services	532.1	486.8	485.1	(45.3)	1.7
Community and Health Services (3)	748.6	845.3	740.3	96.7	105.0
Protection to Persons and Property (4)	455.2	451.2	436.5	(4.1)	14.7
Other (5)	169.8	153.8	160.5	(16.0)	(6.7)
	2,443.4	2,447.7	2,299.7	4.3	148.0

Notes:

1. Numbers may not add due to rounding
2. Transportation Services including York Region Rapid Transit Corporation
3. Community and Health Services comprises Health and Emergency Services, Community Services and Social Housing (including Housing York Inc.) from the Consolidated Statement of Operations
4. Protection to Persons and Property comprises York Regional Police, the Police Services Board, Court Services and conservation authorities
5. Other comprises General Government and Planning and Economic Development (including YorkNet) from the Consolidated Statement of Operations

Total expenses were $2.4 billion. This was an increase of $4.3 million from the full accrual budget plan and a $148.0 million increase from 2021.

The variances by service area and largest contributing factors are outlined below.

- Overall spending by Transportation Services was $27.0 million less than expected. The decrease reflects a number of costs that came in lower than budgeted, including operating costs for maintenance, spending on capital projects due to delays mainly caused by supply chain issues, amortization and salaries and benefits, owing to hiring delays.

  The year-over-year increase was $33.3 million, or 7.0%, owing mainly to higher amortization expense, higher operating costs related to ridership returning to 70% of pre-COVID levels and higher fuel prices. High fuel prices were mitigated through the Fuel Stabilization Reserve. As well, there were reclassifications of some capital spending to operating costs because these amounts were recovered from third parties.

- Spending by Environmental Services was $45.3 million below budget. A portion of this variance relates to underspending on certain rehabilitation capital programs. Further, hirings were delayed, reducing salary and benefit costs more than expected.

  On a year-over-year basis there was a slight increase of $1.7 million.

- In Community and Health Services, spending was $96.7 million above budget. After the 2022 Budget was approved, Community and Health Services received $116.0 million in senior government funding. Public Sector Accounting Standards require comparison against the original budget, which did not include this funding and related expenditure. In April 2022, the Ministry of Education confirmed funding totalling $103.2 million to the Region to implement the Canada-Wide Early Learning and Child Care system. The remainder of funding and associated expenditure is related to other streams of childcare funding and Public Health programming related to dental care and nursing retention. The increase was balanced by funding from senior governments discussed above.

  On a year-over-year basis, spending in Community and Health Services rose by $105.0 million, due mainly to the increased childcare spending.
- Spending on Protection to Persons and Property, which largely reflects York Regional Police, was close to budget at $451.2 million.

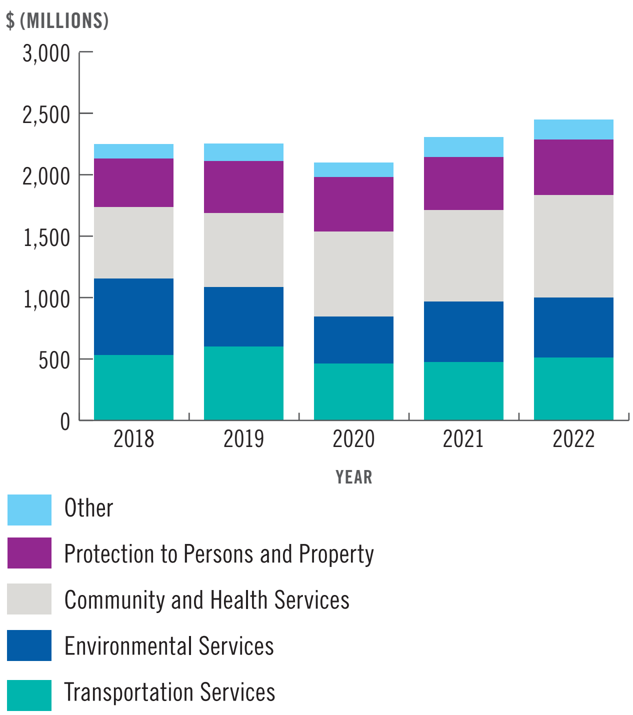
  Spending was up $14.7 million year-over-year as a result of expanded service needs for a growing population.
- Spending in the "Other" category (which comprises General Government and Planning and Economic Development) was $16.0 million less than budgeted, owing partially to delays hiring staff and lower repairs and maintenance costs to Regional facilities.

  On a year-over-year basis, spending was down $6.7 million, partially reflecting lower hospital grant payments due to timing of requests and other lower operating costs.

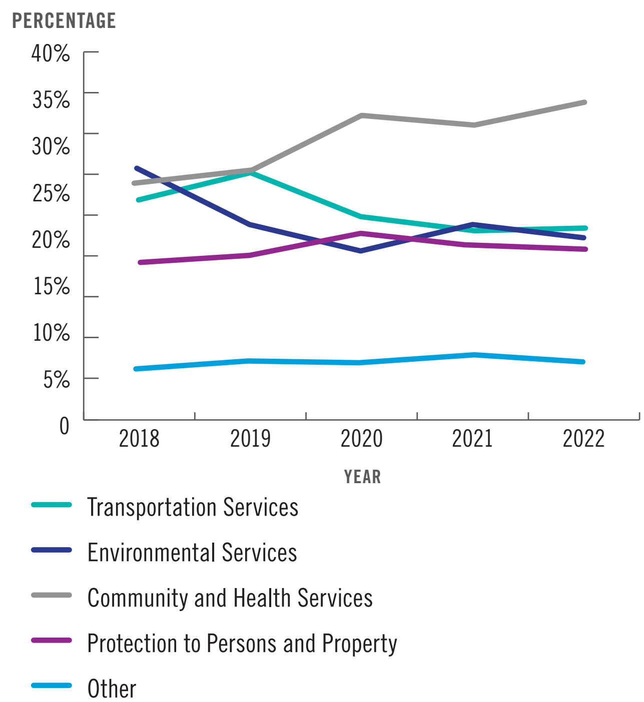
Five-year trend

The graphs below illustrate the five-year trend in expenses by service area:

EXPENSE COMPOSITION
BY SERVICE



EXPENSE COMPOSITION
BY SERVICE AND PERCENTAGE



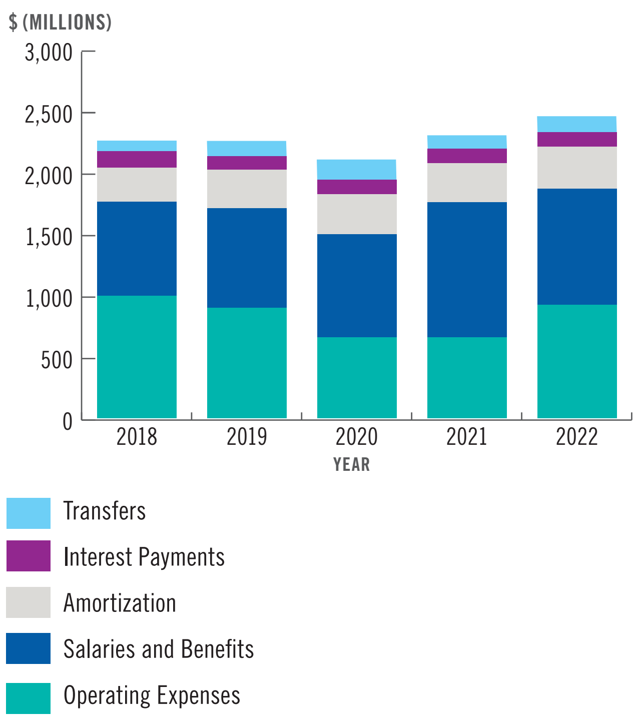
By service area:

- Fluctuations in Transportation Services expense largely reflect the Region's role in delivering bus rapidway projects on behalf of Metrolinx. The spending, which was fully funded by Metrolinx, also resulted in the betterment of assets owned by other parties, including the Region. Annual changes reflect the portion of funding that was expensed each year as opposed to increasing the Region's asset portfolio. Transportation Services has also seen amortization expense increase steadily as a result of significant investments in tangible capital assets. In 2020 and 2021, expense fell in part because of reduced transit service in response to the pandemic. Results from 2022 show an uptick over 2021 levels reflecting ridership returning to 70% of pre-COVID levels.
- Day-to-day Environmental Services expenses reflect the costs to operate and maintain a large and technically complex portfolio of assets, higher amortization expense and more stringent regulation, offset by the department's ongoing efforts to find savings. The department's share of total expense fell from 27.3% in 2018 to 19.9% in 2022. Fluctuations in Environmental Services expense before 2022 reflect accounting adjustments that had the effect of increasing operating spending in 2018 and decreasing it in 2020.
- Community and Health Services expense rose from $579.7 million or 25.8% of total spending in 2018 to $845.3 million or 34.5% in 2022. A significant amount of the department's expense reflects the flow-through of provincial transfer payments for social programs to third parties, which fluctuates with provincial policy direction. From 2020 through 2022 most of the Region's pandemic-related costs were recorded in Community and Health Services. New childcare spending, funded by senior governments, contributed to the 2022 increase.
- Protection to Persons and Property largely reflects York Regional Police, whose budget is strongly tied to staffing costs. Expense has increased from $385.7 million in 2018 to $451.2 million in 2022. The share of total spending has remained fairly stable, as spending in this area has paralleled the Region's overall growth in salaries and benefits.

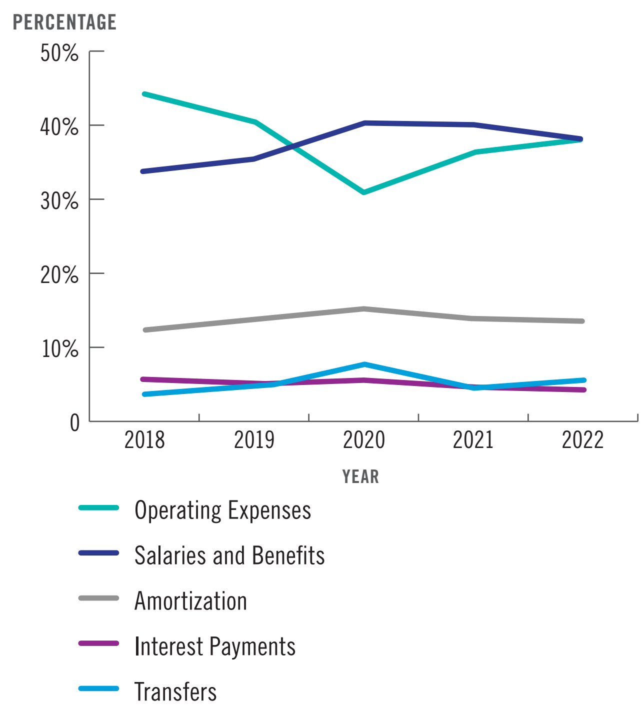
Five-year trend

The graphs below show the five-year trend in expenses by type:

EXPENSE COMPOSITION
BY TYPE



EXPENSE COMPOSITION
BY TYPE AND PERCENTAGE



Up to 2020, amortization was consistently the fastest-growing expense item, paralleling significant growth in the Region's portfolio of assets. From a starting point of $275.0 million or 12.2% of total expense in 2018, it reached 15.2% of total expense in 2020. Although its share declined to 14.1% in 2021 and 13.8% in 2022, reflecting stronger year-over-year growth in other expenses, amortization continued to increase in absolute terms, reaching $337.0 million. The impacts of this growth are greatest on Transportation Services and Environmental Services departments, which are responsible for the bulk of the Region's assets.

Transfers made by the Region grew from $90.6 million or 4.0% of total expense in 2018 to $137.6 million or 5.6% in 2022. The peak in 2020 reflects a capital grant to the Cortellucci Vaughan Hospital, which was largely completed that year.

Operating expense fell between 2018 and 2020 for a number of reasons. Bus rapidway construction that was fully funded and carried out on behalf of Metrolinx was largely finished by 2020. This work had caused the Region's revenues and expenses to fluctuate over several years. In addition, the 2018 figure included accounting adjustments that increased operating expenses related to transportation and environmental infrastructure. Finally, pandemic-related workplace closures starting early in 2020 reduced operating spending on items like transit contracts as ridership fell. In 2021, operating expense rose as some activities curtailed by the pandemic resumed. The rise in 2022 largely reflects increased spending on childcare, which as discussed above is offset by additional senior government funding. Overall, operating expense fell in absolute terms from $991.2 million in 2018 to $932.1 million in 2022, and from 44.1% to 38.1% as a share of all expenses over the same period.

Salaries and benefits grew from $762.8 million in 2018 to $936.7 million in 2022. The underlying trend generally reflects the hiring of additional police officers, paramedics, public health nurses and others to serve a larger population, as well as a rise in salaries and the cost of benefits. This item's share of total expense grew to roughly 40.1% in 2020 and remained at that level in 2021, reflecting the need to hire temporary staff, mainly in Community and Health Services, in response to the pandemic. The lower 38.3% share in 2022 reflects stronger year-over-year growth in other expenses.

Interest expense was at its highest in the last five years in 2018 at $127.0 million and has declined in each subsequent year as the Region reduced its reliance on debt. It totalled $104.4 million in 2022, falling from 5.7% in 2018 to 4.3% of total expense.

MAJOR SOURCES AND USES OF CASH

Examining the sources and uses of cash is helpful in understanding where resources came from and how they were used.

Cash inflows from operations, which is the annual surplus adjusted for amortization, the drawdown of deferred revenues, contributed assets and other non-cash items, amounted to $1.2 billion in 2022.

The Region invested $518.4 million in tangible capital assets, offset by $4.0 million in asset sale proceeds. Funds were also used to repay $11.1 million in existing debt. No new debt was issued in the year.

The Region also used funds to increase its investment portfolio by $1.7 billion. Cash had risen to $1.8 billion at the end of 2021 to take advantage of high rates available on savings accounts, which is an element of cash and cash equivalents. The shift to longer-term investments in 2022 was made to allow for greater returns over time.

After these inflows and outflows, cash and cash equivalents stood at $807.4 million by year-end, a decrease of $993.7 million from the previous year.

OPERATING SURPLUS

This section looks at revenues and spending compared to the approved operating budget, which is prepared on a modified accrual basis.

On that basis, the Region experienced an operating surplus of $77.9 million in 2022.

Revenues were $6.6 million above budget and spending was $71.4 million lower than expected in the budget. The main contributors to the surplus were Community and Health Services and Environmental Services. The outcomes differ from the full accrual results because of differences in how certain items are treated under modified accrual.

Regional Council directed $13.8 million of the 2022 operating surplus to support critical social infrastructure, made up of $1.0 million to the Social Housing Development Reserve and $12.8 million to the Pandemic Management and Recovery Reserve for use by the Community and Health Services department. The remaining surplus was distributed in accordance with the Region's Surplus Management Policy.

FINANCIAL MANAGEMENT FRAMEWORK

YORK REGION BYLAWS, POLICIES AND CONTROLS

In addition to the Regional Fiscal Strategy, the Region has put in place various bylaws, policies and controls to reduce risk and support better financial management and stewardship of the Region's assets.

These cover activities such as borrowing, managing reserves, investing Regional funds, procuring goods and services, determining insurance coverage and levying development charges. As well, the audit function is a key element of financial management.

MANAGEMENT RESPONSIBILITY

The Controllership Office within the Finance Department is responsible for organization-wide controls, policies and procedures to safeguard the Region's financial resources. It also keeps financial records, prepares the annual consolidated financial statements and reports on results.

The Controllership Office prepares the consolidated financial statements in accordance with Canadian Public Sector Accounting Standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. In addition, Note 1 to the consolidated financial statements provides a summary of the significant accounting policies, including the recent changes.

ACCOUNTING STANDARDS

No new accounting standards were issued by the Public Sector Accounting Board for the year ended December 31, 2022.

AUDIT FUNCTION

Council's Audit Committee helps ensure the Region's administration properly carries out its responsibilities for financial reporting, internal control, auditing and monitoring compliance with laws, regulations and the Region's Code of Conduct.

The current Audit Committee members are:

- York Region Chairman and CEO Wayne Emmerson (ex-officio)
- Mayor Virginia Hackson (chair)
- Regional Councillor Michael Chan (vice chair)
- Mayor Steve Pellegrini
- Regional Councillor Godwin Chan
- Regional Councillor Naomi Davison
- Regional Councillor Alan Ho
- Regional Councillor Mario G. Racco

The Audit Services branch in the Office of the Chief Administrative Officer advises on managing and controlling risk, performs independent appraisals of control systems and helps identify efficiencies and improvements in new and existing processes, programs and services.

The Region's external auditors conduct an audit of the consolidated financial statements using Canadian generally accepted auditing standards. Their unqualified opinion of the financial statements appears before the financial statements.

PROVINCIAL LEGISLATION

Provincial direction determines many aspects of municipal financial management, including the setting of development charges, debt issuance, budgeting and accounting and reporting requirements. As the Outlook and Risk Management section below notes, changes in direction can create fiscal uncertainty.

DEVELOPMENT CHARGES

Development charge rates are regulated by the provincial *Development Charges Act, 1997* and are levied on new residential and non-residential development. They are the main source of funding for the growth-related projects under the Region's capital plan.

The Region's development charge rates and policies are set out in Regional bylaw 2022-31, which was approved by Council on May 26, 2022, and came into effect on June 17, 2022. The updated bylaw addresses the 2019 amendment to the *Development Charges Act* that allowed the freezing of development charges at the date of site plan or zoning bylaw amendment application, as well as the option for installment payments for for-profit rental and institutional development charges. To mitigate the financial impacts of these changes, and as permitted under *Development Charges Act,* Regional Council adopted a policy to charge interest on frozen development charges and installment payments.

The setting of development charge rates starts with forecasting expected growth and estimating the Region's infrastructure need to service and accommodate the growth. These estimates are then adjusted in line with the *Development Charges Act* guidance to reflect amounts eligible for recovery through development charges. This work culminates in the development charge bylaw and associated rates.

On November 28, 2022, the provincial government's *More Homes Built Faster Act, 2022* (Bill 23), which is intended to accelerate housing supply growth in Ontario, received Royal Assent. Bill 23 amended the *Development Charges Act,* introducing new mandatory phase-ins, residential exemptions, discounts and capped the interest rate that municipalities can charge on frozen development charges and installment payments. Bill 23 also made some costs ineligible for development charges funding, for example Housing Services.

DEBT ISSUANCE

Under the *Municipal Act,* municipalities in Ontario may incur debt mostly for capital projects. A regulation under the *Act* restricts the annual cost of servicing long-term debt and other financial obligations to 25% of a municipality's own-source revenue.

In addition, the Region qualifies for a "growth cost supplement" that is equal to 80% of the average of the Region's last three fiscal years of development charge collections, which provides it with more debt room to meet the capital-related needs of growth. The Region's practice, however, is to add only 70% of the three-year average, not the full permitted 80%. The Region met these limits in 2022.

OUTLOOK AND RISK MANAGEMENT

As recommended by the Public Sector Accounting Board, this section includes information on significant risks and uncertainties and briefly outlines how the Region works to manage them.

PROVINCIAL DIRECTION

Following a provincial election in June 2022, the government made significant changes to municipal roles, powers and funding sources. Many of these changes were put in place through Bill 23. In addition to the *Development Charges Act*, Bill 23 amended several existing statutes and introduced a new one specific to York Region. Key implications of the bill are:

- The changes to the *Development Charges Act* outlined above, will reduce the Region's development charge collections. As of early 2023, the province had not announced the regulations/bulletins needed to evaluate the full financial impacts. As a result, the Region faces considerable uncertainty around how it will fund new infrastructure needed to enable growth.
- The new *Supporting Growth and Housing in York and Durham Regions Act, 2022,* requires the Region to meet growth needs in its northern communities by expanding the York-Durham Sewage System, which carries wastewater to a facility on Lake Ontario. This could cost more than the Regional solution based in the Lake Simcoe watershed that was included in previous capital plans.
- The *Planning Act, 1990* now allows for higher housing density, including adding new units to an existing dwelling "as of right" (which means without needing municipal permission beyond a building permit).

As part of the 2023-2024 provincial budget consultation, the Region requested the province to consider contributing to the cost of Regional growth-related infrastructure as it works to achieve new housing targets. The Region also continues to advocate for additional funding from senior levels of government and new revenue tools to help ensure it can deliver infrastructure and services needed to support growth.

In addition, two new regulations passed in December 2022 removed environmental protection from close to

330 hectares of previously protected Greenbelt and Oak Ridges Moraine lands in York Region to allow development applications. These measures and the "as of right" changes to the *Planning Act* could require changes to infrastructure master plans, which in turn would affect the size, timing and/or prioritization of projects in the Region's capital plans.

FUNDING THE SUBWAY EXTENSION

Extending the Line 1 subway northward along Yonge Street to the Richmond Hill / Langstaff Urban Growth Centre at Highway 7 is a Regional priority but will require an investment of $1.12 billion from the Region to fund its share. This will be a challenge, especially in light of Bill 23 measures that will reduce development charge collections.

The Region's 2023-26 budget is based on 75% of the Region's $1.12 billion share of the subway project being funded by development charges. The remaining portion of funding represents a tax levy pressure. Regional Council approved a special Rapid Transit / Infrastructure Levy of 1% in 2022 and added a further 1% in 2023 to help fund the tax levy portion of the project. Continuation of the incremental levy beyond 2023 is subject to future Council approval.

ECONOMIC GROWTH

With high levels of vaccination and easing of pandemic-related restrictions, the Ontario and York Region economies continued to recover in 2022. New external factors, however, dampened earlier forecasts. In its fall 2022 economic update, the provincial government projected that Ontario's real gross domestic product would rise 2.6% in 2022, 0.5% in 2023, 1.6% in 2024 and 2.1% in 2025. These figures were slightly below the average of private-sector forecasts, and for 2022 and 2023 were much lower than projections made in the spring budget.

The forecast reflected ongoing uncertainty and inflationary cost increases related to the Russia-Ukraine conflict and other global events, and higher interest rates as central banks tightened monetary policy. As a result, some sectors of the provincial and Regional economy saw lower-than-forecast growth.

Overall, however, the Region continued adding jobs in 2022. Job postings, which rose sharply in 2021, remained strong in 2022. This reflected economic recovery as well as challenges in filling jobs as an increasing number of people left the labour force, reducing the potential pool of employees. Widespread demand for labour as the economy recovered put Canada's unemployment rate at a near-record low of 5.0% in December 2022.

In the longer term, several important sectors in the Region, including manufacturing, financial services and construction, are expected to remain robust as the economy continues its recovery and inflation moderates. Improvement is expected to be bolstered by the increasing shift toward electric vehicles, as Ontario has invested heavily in supporting the new technology, and by the recent provincial target of adding 1.5 million new residences to Ontario's housing stock.

SLOWER-THAN-EXPECTED POPULATION GROWTH

Many large growth-related assets are built based on a population forecast, often for a specific area of the Region. When growth differs significantly from forecast, related development charge collections can be delayed. There are financial impacts when growth is not aligned to forecast.

The Regional Official Plan aligns growth with the timing and delivery of Regional infrastructure. It also coordinates with the Water and Wastewater and Transportation Master Plans. Further, the Region works with local municipalities and other stakeholders to provide new infrastructure in an orderly way. These measures support the Region's financial sustainability.

A CHANGING POPULATION

Changes in the make-up of the population can have fiscal impacts. For the Region, a major driver is its aging population. Data from the 2021 census showed the Region's seniors' population was growing faster than any other age group. For the first time, there were more seniors than children in the Region. This can have fiscal impacts because seniors need more supports as they age. The Region has responded by updating its Seniors' Strategy.

The 2021 census also recorded the arrival of almost 53,500 new immigrants to York Region since 2016. Close to 240 distinct ethnic origins were reported for the Region's population and almost half of its residents were born outside Canada. Despite a generally high level of education, newcomers to the Region often need language and other training and help finding jobs. The Region and its partners provide a range of services to help newcomers and to support diversity and inclusivity.

HOUSING AFFORDABILITY

Housing affordability continues to be a challenge in York Region and throughout the Greater Toronto and Hamilton Area. High home prices and a scarcity of rental units threaten the ability of residents living with low income to find housing they can afford. Responding to housing concerns, the Region established a Housing Affordability Task Force in February 2021 and has increased funding for housing-related programs.

THE IMPACTS OF CLIMATE CHANGE

The global climate is changing, with impacts on Canada that include warmer average temperatures, more extreme storms and more volatile weather. Projected changes in climate are expected to have wide-ranging impacts in York Region, including potentially costly property damage from flooding, hail, ice, snow and wind, economic losses, environmental degradation and health risks. The Region's recently adopted Climate Change Action Plan outlines its response, which includes measures both to mitigate impacts by reducing greenhouse gases in the atmosphere and adapt by strengthening infrastructure and promoting climate resiliency.

In the 2023 budget, the Region outlined how it will develop a new framework for reporting on its Environmental, Social and Governance performance. This framework will help to fund activities in these areas as well as monitoring and reporting on them.

PANDEMIC-RELATED RISKS

By 2022 year-end, almost all restrictions on individuals, businesses, schools and other public places had been dropped, pandemic-related supply chain problems had eased and 90% of York Region residents aged five or older had received at least one dose of a COVID-19 vaccine. As noted above, this contributed to continuing economic recovery. It also reduced impacts on the Region's finances.

Senior government funding, which tapered off in 2022 and is expected to end after 2023, was important in helping the Region cover pandemic-related costs and maintain its strong financial position. While most immediate impacts have declined, transit revenue is expected to take several years to recover. As well, the Region continues to monitor long-term impacts of the pandemic to assess whether a "new normal" baseline is being established in some areas that would affect its budget.

WORKFORCE CHANGES

Demographic factors are affecting Regional government, especially through health and safety concerns related to an aging workforce. In addition, the Region, like many other employers, faces a labour market with increasing competition for workers with the right skills as many older employees retire.

The Region is managing these pressures and risks by increasing its contributions to a number of staffing-related reserves and by placing greater emphasis on employee wellness. As well, to manage the risk of loss of knowledge and expertise as employees retire, it is planning carefully for succession needs.

CYBER-SECURITY

Web-based interactions are increasing between residents and the Region and across its workforce. Going hand-in-hand with this trend is a higher risk of cyber attacks. Third parties constantly try to access systems, whether to take information, interrupt services or steal and extort funds, reflecting a problem that is global in scope and affects all organizations. The Region has developed a comprehensive set of protocols and practices to better understand, safeguard against and act quickly to address these risks and safeguard data. In the case of a breach, the Region's processes and quick action are able to limit access and mitigate damage.

CONCLUSION

York Region's strong financial results for 2022 show the ability to manage cost pressures triggered by global events while continuing to resume regular services as pandemic pressures eased.

The Region's borrowings continued to drop in line with Council's commitment through the Regional Fiscal Strategy to reduced reliance on debt. Looking ahead, changes resulting from recent provincial measures, especially Bill 23, will present fiscal challenges by reducing revenues and increasing costs. We look forward to greater clarity and additional details from the provincial government to assess the long-term impacts. This will be particularly important in light of the Region's need to fund its $1.12 billion share of the Yonge North Subway Extension, which has already required us to plan for additional funding.

Despite these concerns, the Region remains a net investor, with the ratio of reserves to debt continuing to rise. It is our hope that this strong position, combined with fiscal prudence, will allow the Region to successfully meet the challenges of a changing fiscal landscape.

The value of our prudent financial management to date is confirmed by maintaining highest possible credit ratings from S&P Global Ratings and Moody's Investors Service. These ratings allow the Region to borrow at favourable rates and increase our pool of potential investors.

The Treasurer's report requires diligent work and collaboration from staff across the whole organization. As always, I offer my thanks for their dedication and effort, which are clearly reflected in these pages.

Laura Mirabella

Laura Mirabella, FCPA, FCA
Commissioner of Finance and Regional Treasurer
May 11, 2023