ATTACHMENT 1

The Regional Muncipality of York

2024 Long-Term Debt Management Plan

York Region

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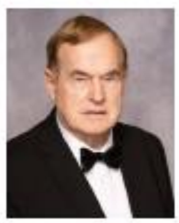

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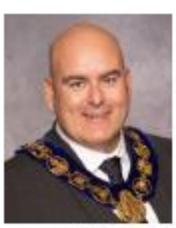

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2024 Long-Term Debt Management Plan

Executive Summary

Council's annual affirmation of the Long-Term Debt Management Plan (the Plan) is one of the two conditions required for York Region to access the growth-related cost supplement component of its Annual Repayment Limit (ARL). This supplement allows the Region, if required, to borrow more than it would otherwise be permitted under provincial regulations. In April 2021, the Province renewed the growth-related cost supplement for another ten years, which will now expire on December 31, 2031.

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

Since 2011, Council has annually affirmed the Long-Term Debt Management Plan. The Region has remained well within its ARL with the growth-related cost supplement during this period and maintains its strong financial position. Through the annual implementation of the Plan and the Fiscal Strategy, the Region has reduced its net debt level from the 2017 peak of $2.9 billion – net debt of $2.2 billion is expected in the end of 2023.

An amendment to the Capital Financing and Debt Policy was implemented in December 2021 through the Regional Fiscal Strategy that limited access to the growth-related cost supplement to only the debt associated with the Yonge North Subway Extension (YNSE). Based on the proposed 10-year capital plan, this requirement will be met.

As highlighted in the 2024 Regional Fiscal Strategy, non-development charge revenue will be needed to make up for development charge collection shortfalls from Bill 23 exemptions, phase-ins, and discounts, or the like. Refer to Section 3 for further details.

Background

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

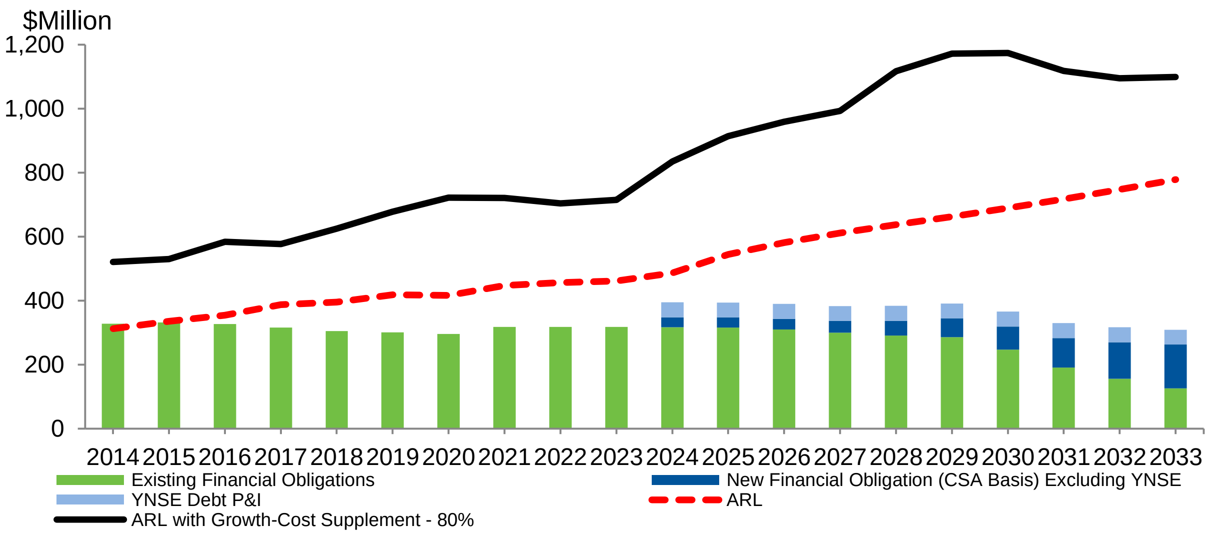
In 2011, the Province recognized York Region as a high growth municipality with unique debt requirements and passed a York-specific regulation[2] that allowed it to borrow a higher amount based on the amount of its development charge collections. The regulation was renewed by the Province in 2021 for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

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

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

Figure 1

Annual Repayment Limit Actual and Forecast



Source: York Region Finance Department. Actual amounts between 2014 and 2023. Forecast amounts between 2024 and 2033. Development Charge Collections used for Growth-Cost Supplement calculation reflect the known impacts of Bill 23 exemptions, rate phase-ins and discounts.

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

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

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

1. Maintain at least an Aa3 credit rating from Moody's Investors Service or AA– from S&P Global Ratings (or equivalent)

2. As part of the preparation of its budget for the fiscal year, Council adopts or affirms a plan for the management of its long-term debt and financial obligations

In 2023, the Region met the first condition by maintaining its Aaa credit rating with Moody's Investors Service and AAA credit rating by S&P Global Ratings.

To meet the second condition, the Province requires Regional Council to consider the following items as part of its Long-Term Debt Management Plan:

1. Long-term debt and financial obligations over a multi-year period

2. Projections of annual repayment limit for each year of the multi-year period compared to its existing and proposed long-term debt and financial obligations payments

3. Risk and mitigation strategies associated with the long-term debt strategy

4. Long-term debt and financial obligations policy

5. Prudent and cost-effective management of existing and projected long-term debt and other financial obligations

6. Estimated temporary borrowing needs for 2024

7. Evaluation and comparison of 2023 projections and outcomes

1. Long-term debt and financial obligations needs over a multi-year period

The fiscal strategy guided preparation of the 2024 Budget

When preparing the 2024 Budget, staff followed principles of an updated fiscal strategy to help better manage the Region's financial resources. A major tenet of this strategy is to use a balanced approach when funding long-term capital expenditures. To accomplish this, there is a detailed annual review of both forecasted capital expenditures and funding sources. Where necessary, the level of expenditures may be adjusted to better match available funding, while maintaining overall capital priorities.

The 10-year capital plan submitted to Council for the 2024 Budget is $1.7 billion higher than last year's 10-year capital plan (Figure 2).

Figure 2

Fiscal Impacts at a Glance

	2023 Budget ($Billion)	2024 Budget ($Billion)	Change ($Billion)
10-year capital plan	9.9	11.6	1.7
New DC debt in the next 10 years	2.8	2.0	(0.8)
New housing related debt in the next 10 years	0.0	0.0	0.0
New tax-levy debt in the next 10 years	0.1	0.1	(0.0)
New rate-supported debt in the next 10 years	0.0	0.0	0.0
Debt repaid over next 10 years	2.6	2.2	(0.4)
Increase in reserves in next 10 years	3.1	3.9	0.8
DC collection in the next 10 years	4.8	4.9	0.2

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

The Region's projected new debt issuance over 2024-2033 is $2.1 billion, which is $0.8 billion lower than last year's 10-year capital plan. The Region is expected to collect $4.9 billion in development charges over the next ten years for projects which help service incremental debt along with funding some capital projects directly. The 2024 development charge collection forecast is discussed in more detail in section 3 of this plan.

The use of the tax levy-supported Debt Reduction Reserve will avoid $403.1 million of new tax levy debt over the next 10 years.

Phase-in of full cost recovery for water and wastewater services began in 2016. With the rate increases adopted by Council on September 9, 2021, user rate reserves are expected to be sufficient to pay for water and wastewater related infrastructure projects without the need to issue any new user rate debt over the next 10 years.

Debt required for capital projects being authorized by Council for 2024 is lower compared to the previous budget

Capital spending authority (CSA) is Council's authorization for departments to proceed with capital projects, including multi-year projects. The Region must have enough debt room when capital spending authority is approved to remain within its provincially-mandated annual repayment limit.

Approximately $0.9 billion (or 43 per cent) of the $2.1 billion in projected debenture requirements has been included within the capital spending authority for 2024, as illustrated in Figure 3. This is lower than the capital spending authority for 2023 of approximately $2.1

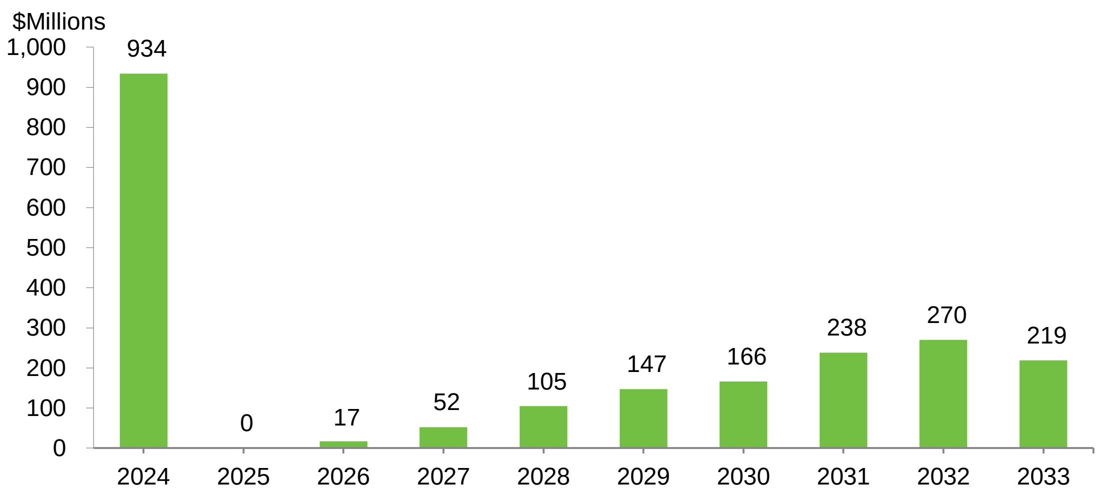
billion (or 70 per cent) of the $3.0 billion in the projected debenture requirements within the 2023 budget.

The capital plan also contains projects with an estimated debt of about $1.2 billion that are planned, but do not yet have capital spending authority. For the purposes of this Plan, Finance staff has estimated future debt requirements for each year of the plan on a capital spending authority basis[3]. Figure 3 illustrates the amount of new debt to be issued on a capital spending authority basis. For example, the Region will seek Council authorization to issue $0.9 billion of new debt to commit to capital projects within the capital spending authority for 2024.

Capital spending authority in the first budget year is required for the full amount of debt expected to be issued over the term of the project. This authority is needed for departments to be able to commit to capital projects and helps the Region manage debt projections on the long-term basis. Actual debt issuance will be spread between 2024-2033.

Figure 3

Multi-Year Forecast of New Debt on a CSA Basis



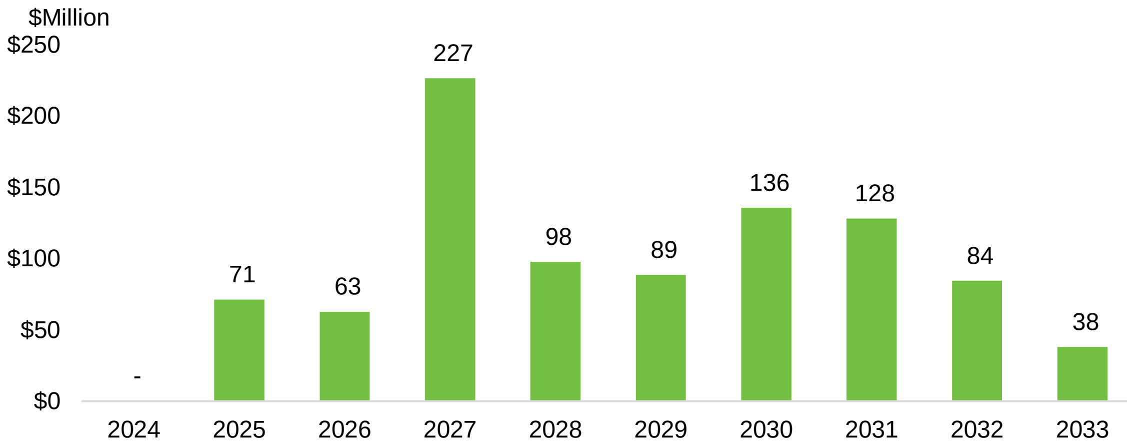
Source: York Region Finance Department

Actual capital expenditures associated with the $0.9 billion 2024 CSA debt are expected to be incurred over 10 years as shown in Figure 4.

[3] Capital Spending Authority is the authority from Council to commit funding to a capital project. The authority may span several years for multi-year projects and is based on departmental spending estimates. The 2024 Budget will approve one year of multi-year capital spending authority for 2024.

Figure 4

Actual capital expenditures associated with 2024 CSA debt

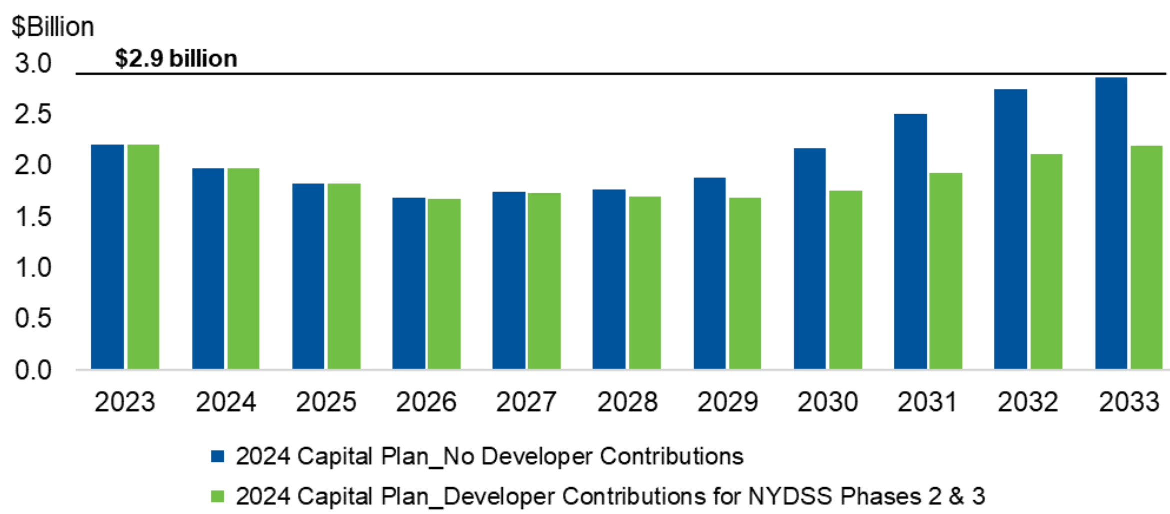


Source: York Region Finance Department

If the debt needs remain as shown in the 10-year capital budget and all future capital spending authority debt occurs as planned, the Region's net outstanding debt is projected to reach $2.2 billion in 2033 as illustrated in Figure 5.

Figure 5

Net Outstanding Debt Projection 2023 to 2033



Source: York Region Finance Department
Assuming the Development Charge shortfalls of approximately $700 million for the known impact of Bill 23 are made whole

The debt profile has improved from the 2023 Capital Plan reaching a lower level of net outstanding debt by 2033 in the 2024 Proposed Capital Plan. This is primarily the result of discipline exercised to ensure the Region follows steps to maintain AAA credit rating, while collecting development charges to cover debt principal and interest payments each year.

Council has authorized a one-time exemption on issuing tax-levy supported debt to accelerate fleet electrification

In June 2022, Council authorized a one-time exemption to the Council directive of not issuing new tax levy debt to participate in the Canada Infrastructure Bank (CIB) low-interest loan program, as part of the Zero Emission Transit Fund (ZETF) joint program application to support the Region's Council-approved Transit Fleet Electrification Program.

As part of the 2014 Fiscal Strategy, Council directed the Debt Reduction Reserve to be used to reduce or eliminate the need to issue tax-levy funded debentures. Since then, no tax levy debt has been issued in the Region. The CIB financing links loan repayment requirements with projected lifecycle cost savings over the lifecycle of battery-electric buses purchased through the project. Since repayment of debt from lifecycle cost savings of an electric bus would be funded from the tax levy, a specific exemption to the Council directive enabled the Region to participate in the program. As such, $134.2 million tax-levy debt is included in the 2024 10-year debt issue forecast.

2. Projections of annual repayment limit for each year of the multi-year period compared to its existing and proposed long-term debt-related payments

How much debt room will we have?

The annual repayment limit is calculated by determining and projecting 25 per cent of own-source revenues and adding 80 per cent of the rolling average of the preceding three years' development charge collections (derived from actual development charge collections for the past years and anticipated development charge collections net of any reductions due to provincial legislation for the current and future years). Existing and proposed annual financial obligations must be within this limit. These calculations are shown in Appendix A.

Based on these calculations, the Region's annual repayment limit will increase from $834 million in 2024 to $1,098 million by 2033, as illustrated on the solid black line in Figure 1.

What are our estimated debt and other financial obligation payments?

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

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

Annual payments for existing debt and other financial obligations will total $317 million in 2024 and are estimated to decrease to approximately $126 million by 2033. This estimate is for existing debt only and excludes any principal and interest costs associated with new debt that will be needed in the future. Annual payments on existing debt only are expected to reduce from $297 million in 2024 to $124 million by 2033 as debt is repaid. Hospital financing reserve contributions reflect committed projects and assume the Region's annual assessment growth rate of approximately 0.1 per cent per year, rising from $7.2 million per year in 2024 to approximately $7.8 million per year in 2029 before the final contribution of approximately $7.1 million in 2030. The Region is also expected to contribute approximately $1 million annually towards a commitment of $25 million for a new York University campus located in the City of Markham ($8 million contributed to date from 2015-2022).

As noted earlier, the capital spending authority budgeting concept employed by the Region requires that there be enough debt room under the annual repayment limit at the time of project authorization. For example, to assign capital spending authority to projects as part of the 2024 budget process, the Region must have sufficient room under its 2024 annual repayment limit to recognize the full financial cost of the projects "as if" they were going to be incurred entirely in 2024, even if the actual costs are spread out over multiple years. This is the case for each year of the capital plan.

The 10-year capital plan in the proposed 2024 Budget is $11.6 billion, of which $2.1 billion will be debt financed. Assuming a weighted average annual interest rate of 4.90 per cent and a term of 20 years, the annual obligation arising from the $0.9 billion capital spending authority debt required in 2024 will be approximately $78 million.[4]

Annual debt payments related to each year's increment have been calculated on the same basis as the 2024 capital spending authority, assuming a weighted average interest rate for new debt being issued of 4.90 per cent by 2033 factored in the financial obligations associated with new debt-related capital spending authority increasing to $183 million by 2033.

Will the Region be within its annual repayment limit?

As previously shown on Figure 1, the Region's financial obligations will remain within its annual repayment limit with the growth cost supplement for each of the next ten years. An illustration of the calculation of the 2024 annual repayment limit is shown in Figure 6 below.

[4] The 2024 repayment obligation of $78 million is based on the weighted average interest rate based on a review of current and historic rates as well as planned capital spending authority cash flow timing. The 20-year term is based on the anticipated average term of future debt issues. Debt repayment is calculated on a "full commitment basis", which allocates a full year's payment to the year of issuance rather than the partial (i.e., interest only) payment that usually occurs as a result of issuance timing.

Figure 6

Region's 2024 Annual Repayment Limit Calculation ($Millions)

Component Description	Forecast 2024	Forecast 2033
25% of Own Source Revenues	486	778
Plus: Growth Cost Supplement[5]	348	321
Total Annual Repayment Limit	**834**	**1,098**
Less: Existing Debt Payment and Financial Obligations*	317	126
Less: Anticipated New Debt Payment	78	183
Remaining Annual Repayment Limit	**440**	**789**

Source: York Region Finance Department

*At the time the report had been finalized a Fall 2023 debt issuance had not been confirmed and not included.

After considering the new debt requirements, the Region's remaining annual repayment limit room lowers to $440 million in 2024 and $789 million in 2033. Excluding the growth-related cost supplement, the Region's remaining annual repayment limit would lower to $92 million in 2024 and $469 million in 2033.

3. Risk and mitigation strategies associated with the long-term debt strategy, including interest rate risk and foreign currency exposure

High interest rates and fluctuating annual development charge collections represent one of the most significant risks to debt management

Higher interest rates directly impact the cost of borrowing for the Region. As the Bank of Canada's policy rate increases, investors require a higher rate of interest on the Region's debt issuances. A key metric used by credit rating agencies is the interest expense as a percentage of operating revenue. As interest rates increase, greater pressure is placed on this metric, and it could lead to a potential downgrade if debt levels are not maintained at financially sustainable levels. The 2024 Capital Plan has been optimized to ensure debt servicing costs remain sustainable.

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

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

[5] Growth Cost Supplement in 2024 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2020-2022 inclusive).

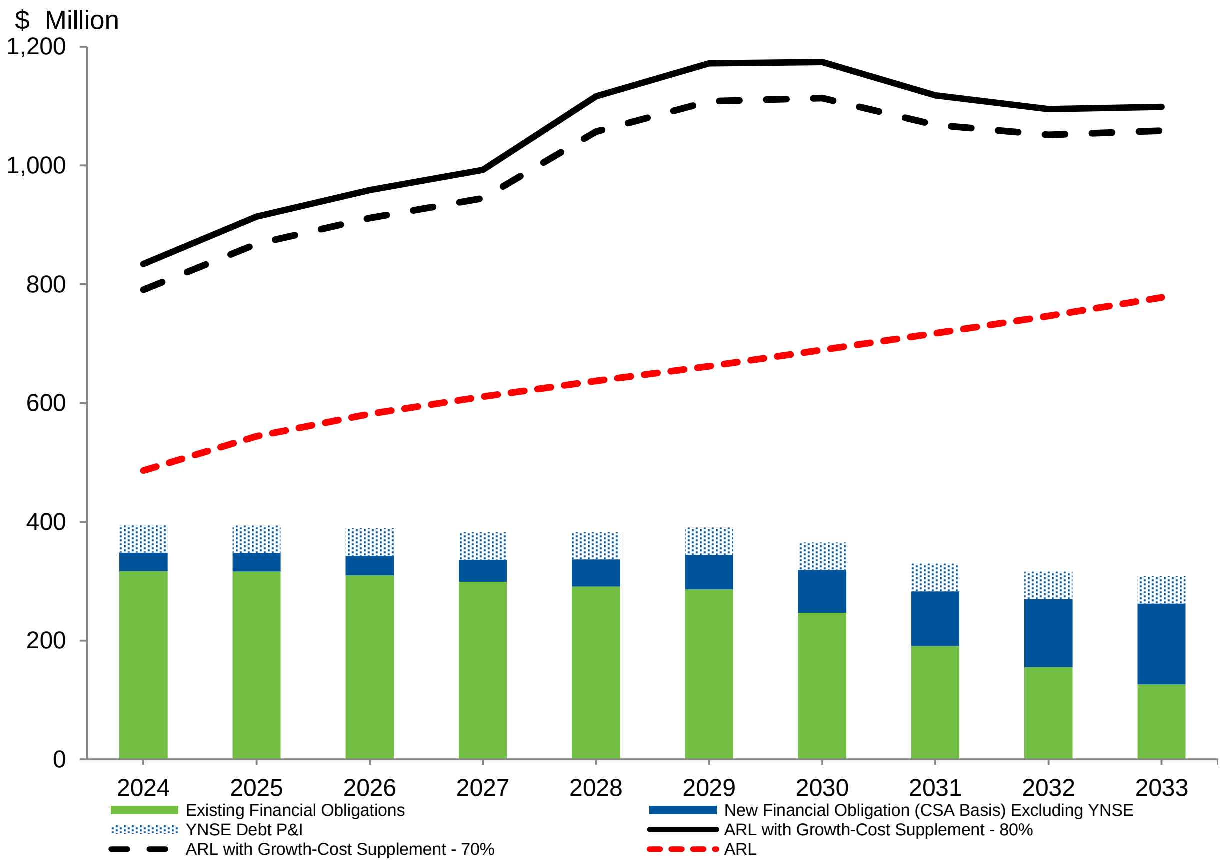
indicated in this plan and require changes in the phasing of the capital plan if the overall debt level is to be maintained as planned. Staff review development charge collection trends continually and update forecasts to incorporate necessary changes before finalization of the capital plan during the budget process.

The capital plan is measured against an adjusted annual repayment limit

As a practice to mitigate risk, the capital plan is measured against an adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of development charge collections as a cost supplement, versus the 80 per cent permitted, unless specific Council approval is obtained to do otherwise. This would have the effect of partially mitigating the impact of lower-than-expected development charge collections. The impact on the annual repayment limit calculations of the adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of development charge collections as a cost supplement is illustrated on Figure 7, which shows that the Region's obligations would still be well within its annual repayment limit even if only 70 per cent of forecasted development charge collections are considered as a cost supplement.

Figure 7

Adjusted Annual Repayment Limit



Source: York Region Finance Department

Bill 23, *More Homes Built Faster Act* has put downward pressure on DC collections

On November 28, 2022, the Province enacted Bill 23, which has led to significant changes in how the Region administers development charges. For bylaws passed after January 1, 2022, DC rates must now be phased-in over five years, starting at 80%. The Region is also no longer able to collect development charges for Housing Services, as well as for growth-related studies and some land costs, starting with its next development charges bylaw update. In addition, Bill 23 provides for development charges exemptions for affordable and attainable housing.

Through Bill 134, *Affordable Homes and Good Jobs Act, 2023* (Bill 134), which was tabled on September 28, 2023, the Province proposed revised definitions for what constitutes affordable ownership and rental housing that would qualify for development charges exemptions. However, Bill 134 did not provide any further guidance on the definition of attainable housing. The revised definitions now incorporate an income-based approach along with a market-based approach to determine qualification for the respective exemptions. To determine the fiscal implications of these changes, more information is required from the Province. The Ministry of Municipal Affairs and Housing is expected to provide these details as part of their Affordable Residential Units Bulletin, which could be released once these proposed changes to the *Development Charges Act, 1997* take effect.

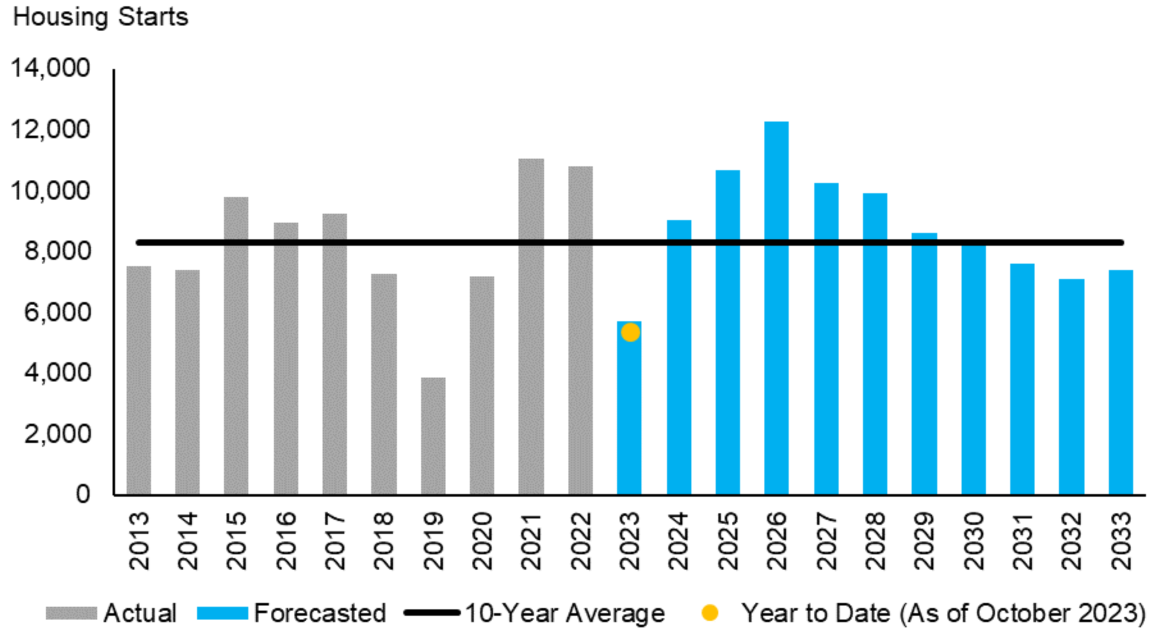
These recent legislative changes put downward pressure on DC collections and impacts the Region’s debt capacity. Without additional funding, any infrastructure capital costs not collected from development charges would need to be made up from non-development charge revenue, such as tax levy or user rates.

The Region’s development charge collection forecast is predicated on robust growth that reflects the recent Provincial Housing Targets

Development charge collections are highly dependent on the pace of growth and development. The development charges collections forecast supporting this Plan is premised on a robust level of DC revenue resulting from growth in line with achieving 60% of new provincial housing targets overall from 2022 to 2031, with higher-than-average growth in the near term.

The forecast assumes that from 2024 to 2033, the average annual level of development will be approximately 9,100 residential units per year (Figure 8). That level of development activity is higher than the average annual number of units developed in the Region for the last 10 years due to the consideration that there will be accelerated growth to achieve the housing targets by 2031.

Figure 8
Actual and Forecasted Housing Starts



Source: CMHC, York Region Finance Department

New non-residential development continues to be slow, particularly for office and retail space, due in part to the effects of COVID-19. However, starting in 2025, the non-residential GFA is expected to grow over time as it considers the accelerated population growth to 2031 as a result of the housing pledges, and employment growth by sector consistent with the Regional Official Plan, which assumes healthy industrial and institutional employment growth.

Overall, the model assumes that from 2024 to 2033, there will be 2.9 million square feet of non-residential development annually which is below historic averages.

Developer financing for infrastructure projects mitigates debt risk and provides certainty of when growth will occur

Advancing North York Durham Sewage System Phases 2 and 3 will be critical to support delivery of new housing units required by the Province. The Region does not control when growth occurs. By asking developers to share the risk of advancing Phases 2 and 3 of the North YDSS project by contributing funding for it until the development charges are received, it benefits not only the Region but also incentivizes development. Therefore, to support fiscal sustainability, this option has been used when developing the 10-year Capital Plan.

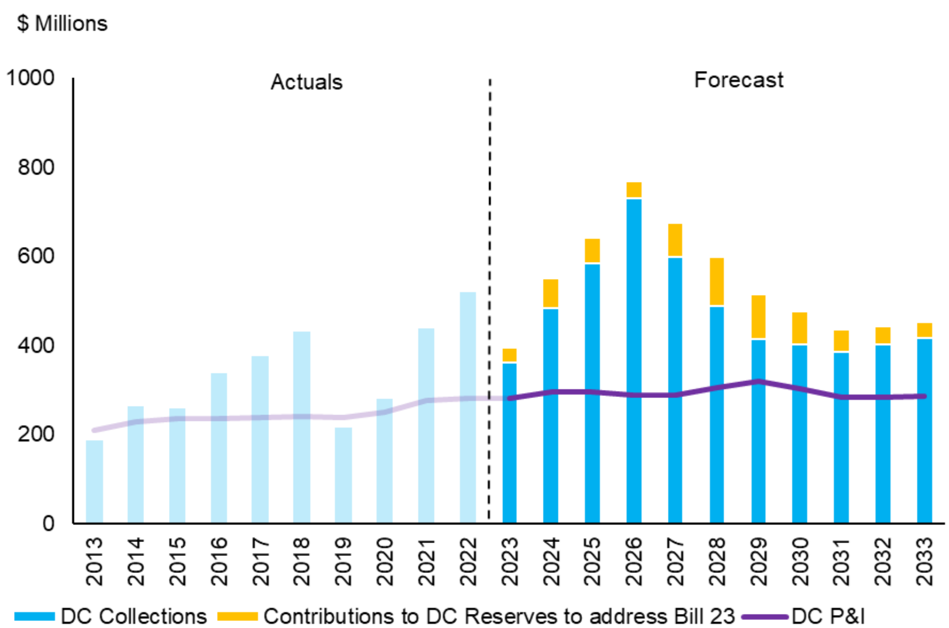
Development charge collections are expected to exceed principal and interest payments over the next ten years

As of the end of October, the Region collected $250 million in development charge collections (cash basis), and it is anticipated the Region could achieve the year-end forecast of $362 million. Over the next ten years, the Region anticipates collecting, on average, $490 million (in 2024 dollars) in development charges annually to pay for growth infrastructure and servicing development charges supported debt (Figure 9). This forecast considers known impacts of Bill 23 at this time, which includes DC rate phase-ins, removal of Housing Services, removal of growth-related studies and some land costs upon the next DC bylaw, rental DC rate discounts and capping interest rate at prime plus 1%. An updated analysis will be provided when additional information from the Province is available.

During the same period, the 2024 budget assumes that the average annual principal and interest payments are expected to be $295 million per year, which is premised on annual contributions to development charge reserves to address Bill 23. This includes the Yonge North Subway Extension related debt. Contributions to development charge reserves are forecasted to average approximately $65 million annually.

Figure 9

Historic and Forecasted Development Charge Collections and P&I



Source: York Region Finance Department

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

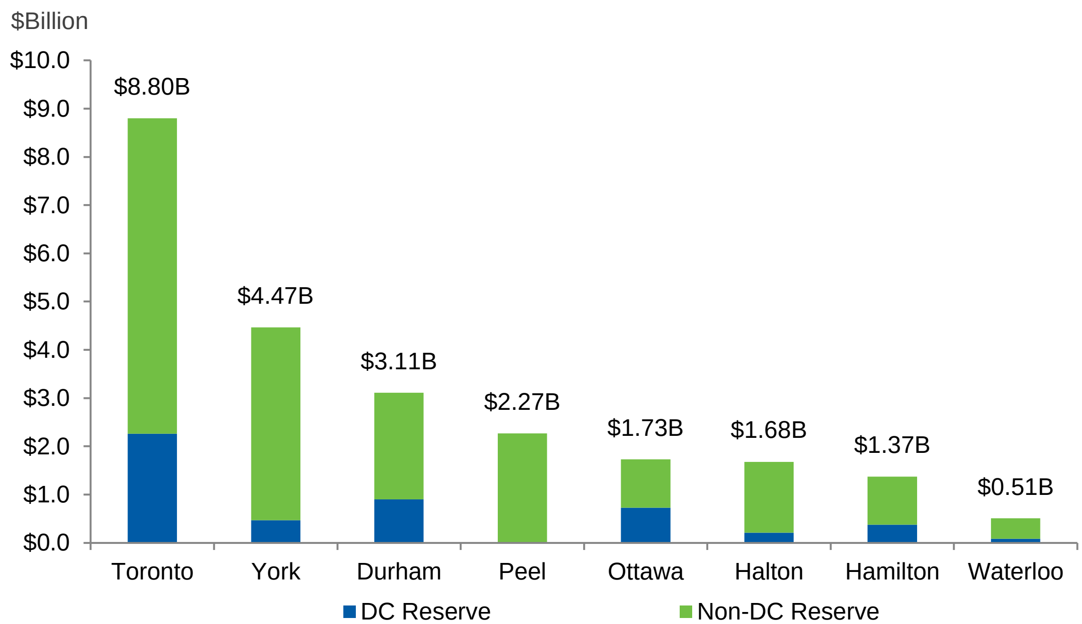
Capital planning will continue to focus on aligning growth with infrastructure and avoiding undertaking capital projects prematurely. This will include taking into account the need to phase projects carefully to better match expected funding and avoid over-burdening the Region with debt.

Reserves are critical to the Region’s debt management plan

In assessing the Region’s risk profile, credit rating agencies evaluate liquidity and consider reserves an indicator of fiscal prudence. Reserves provide funding for infrastructure investments help fulfill non-capital long-term liabilities and protect against external shocks. The Region has been successful in building up a level of reserves that is above the weighted per capita average of comparable municipalities, as shown on Figure 10.

Figure 10

Comparison of 2022 Reserves and Reserves per Capita



Per capita ($) 2,909 3,603 4,185 1,496 1,619 2,636 2,312

Source: York Region Finance Department

The Region maintains several reserves and reserve funds, which have been broadly categorized as shown in Figure 11. These reserves and reserve funds are estimated to be approximately $4.6 billion by the end of 2023.

Figure 11

Estimated Reserves and Reserve Funds at December 31, 2023 and 2024 Planned Contributions

Reserve Balance ($Millions)	2023 Forecasted Balance	2024 Planned Contribution	Progress
Funded from Operating Budget:			
Asset Replacement: Tax Levy	1,448	196	Under Target
User Rate	803	206	On Target
Growth Capital	906	169	On Target
Corporate Reserves*	753	31	On Target
Total from Operating Budget	3,910	603	
From Deferred Revenue:			
Development Charges	603	551	On Target
Provincial Gas Tax	6	16	On Target
Canada Community-Building Fund	97	37	On Target
Total from Deferred Revenue	707	604	
Total	**4,617**	**1,207**	

*Excludes Provincial Gas Tax and Canada Community-Building Fund Reserves, shown separately under Deferred Revenue

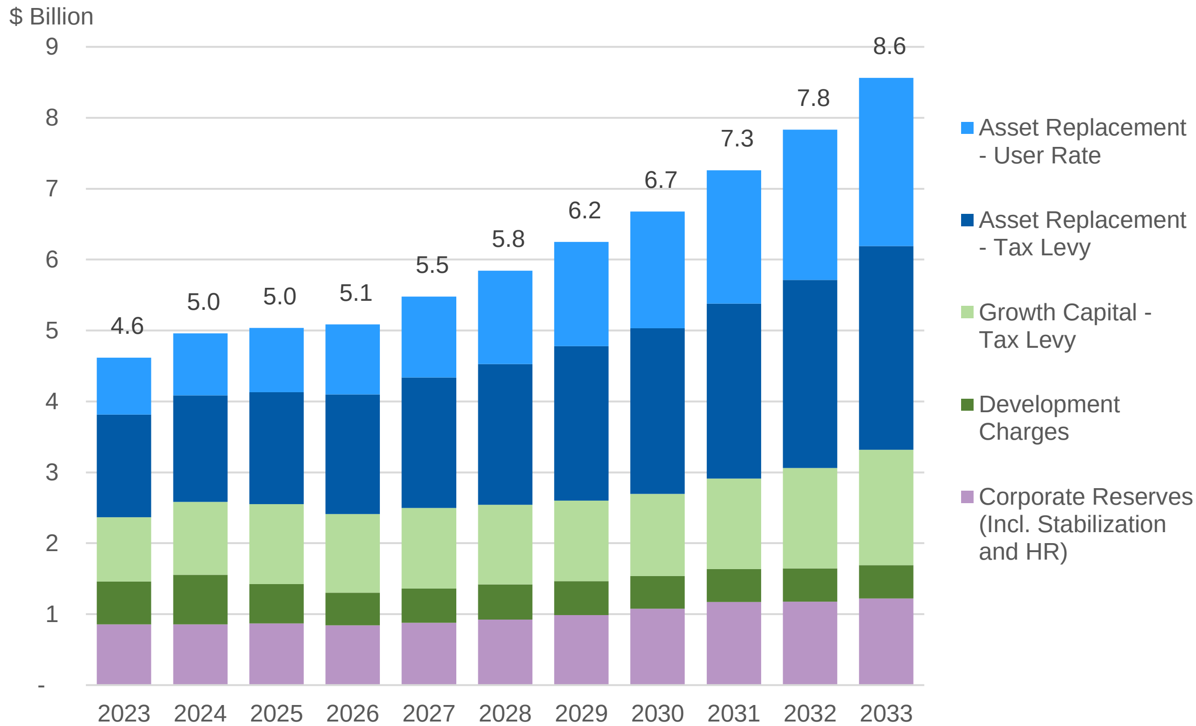
Source: York Region Finance Department

Total reserves could reach $8.6 billion by 2033

As part of its fiscal strategy, York Region continues to maintain and build reserves. Figure 12 shows the reserve projection in which total reserves could grow to approximately $8.6 billion by 2033 based on current and planned contributions increases occurring during this period.

Figure 12

Total Reserves (2023 – 2033)



Source: York Region Finance Department

York Region remains a "net investor"

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

With projected debt forecast in the 10-year capital plan and the forecasted reserves balances, the ratio could increase from 209% in 2023 to 389% by 2033.

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

Average interest rates are weighted to incorporate the actual cash flow timing of a given year's capital spending authority commitment given there are multi-year projects. Interest rate assumptions are summarized in Figure 13.

Figure 13

Interest Rate Forecast

Interest Rate	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Annual Estimate (%)	5.10	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90
Weighted Average (%)*	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90	4.90

* The weighted average interest rates apply to new debenture requirements in the 2024 capital plan.

Interest rate fluctuations will also affect debt with refunding provisions. Refunding provisions occur where the debt amortization period (e.g., 20 years) is longer than the contractual terms (e.g., 10 years), requiring part of the debt to be refinanced for an additional term. The concept is like a mortgage whereby the mortgage amortization period (e.g., 20 years) is longer than the mortgage contractual term (e.g., 5 years), requiring the borrower to refinance the mortgage upon expiration of the contractual term (e.g., obtain another mortgage contract after 5 years). For existing debt, this risk has been accounted for by calculating the annual repayment on the amount outstanding after the contract term expires using an additional 10-year term with a re-forecasted future interest rate. For new debt, forecast annual repayments have been calculated at the rates noted in Figure 13 using a twenty-year term.

The Region has the ability to offset market risk through a variety of mechanisms

Given the volatility of financial markets in recent years, there is a risk that borrowing costs will be higher than expected and/or the market may not be able to absorb the issuance of new debt at the specific time when it is needed.

Interest/market risk mitigation strategies that are being employed to deal with this possibility include:

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

The debt management plan has other risks

Other risks relate to the forecast of capital infrastructure costs. Factors such as change orders, inflation, the addition of new projects or projects being moved forward in the capital plan, could result in higher debt requirements than are anticipated in this Plan. To address this risk, phase-in strategies for large capital projects will be considered when appropriate.

4. Long-term debt and financial obligations policy

Council approved a Capital Financing and Debt Policy that guides the overall management of the Region's current and expected financing needs and underpins this long-term debt management plan. This policy, last updated on December 16, 2021, is reviewed annually to identify and incorporate best practices.

The policy covers all long-term financial obligations entered into by the Region. It establishes objectives, standards of care, authorized financing instruments and reporting requirements and responsibilities so as to ensure that the Region's infrastructure needs are financed as effectively as possible.

5. Prudent and cost-effective management of existing and projected long-term debt and other financial obligations

The Capital Financing and Debt Policy sets out provisions to manage existing and projected long-term debt and other financial obligations in the most prudent and cost-effective manner possible.

These provisions include:

- Parameters and risk considerations for financing leases, which can be used in certain circumstances where long-term debt financing is neither feasible nor appropriate (i.e., lease versus buy)
- Diversification and optimization of the term structure of debentures through a review of interest rate curves
- Limiting the term of financing to the lesser of the anticipated useful life of the underlying asset or the period over which repayment will occur
- Ensuring a high standard of care by ensuring that staff are sufficiently knowledgeable with respect to standard financing transactions and/or the use of outside advice when necessary
- Maintaining an investor relations program to increase market awareness and boost demand for Regional debentures
- Maintaining at least an AA- credit rating to minimize interest costs and maximize access to capital markets

- Use of an underwriting syndicate to facilitate the marketing and selling of debenture issues.

6. Estimated temporary borrowing needs for 2024

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

The Region's temporary borrowing requirements are addressed in detail in a report to the Committee of the Whole on Nov 9, 2023. In 2024, it is estimated that approximately $605 million will be required for operating needs. Temporary borrowing can also result from the need to interim finance capital expenditures until long-term financing is in place. In 2024, it is estimated that approximately $300 million will be required for interim capital financing.

Similar to long-term debt and financial obligations, the Province limits the amount of funding used for temporary borrowing needs to 50 per cent of budgeted total revenue from January to September of the previous year and 25 per cent from October to December.[6] The Region's estimated temporary borrowing needs noted above are well within these limits. It is a Regional policy to fund these short-term needs out of reserves and promissory notes when it is economically advantageous to do so in the event borrowing rate is lower than what the Region earns on its investment portfolio. Any funds borrowed from reserves are always paid back during the year of borrowing with interest at the same rate that would have been earned on the corresponding reserves.

7. Evaluation and comparison of 2022 projections and outcomes

As Figure 14 shows, the Region was in compliance with its annual repayment limit for 2023.

Figure 14

Region's 2023 Annual Repayment Limit ($Million)

Components	Forecast	Actual	Difference
25% of Own Source Revenues	461	461	0
Plus: Growth Cost Supplement[7]	249	254	5
Total Annual Repayment Limit	**710**	**715**	**5**

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

[7] Growth Cost Supplement in 2023 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2019-2021 inclusive).

Components	Forecast	Actual	Difference
Less: Existing Debt Payment and Financial Obligations	321	318	(3)
Less: Anticipated New Debt Payment	167	179	12
Remaining Annual Repayment Limit	**222**	**218**	**(4)**

Source: York Region Finance Department

The favourable difference of $5 million in growth cost supplement shown in Figure 14 above was due to higher-than-expected development charge collections. The unfavourable difference of $12 million to service new debt was attributable to higher interest rates than anticipated in 2023. This was the main reason actual 2023 remaining ARL was $4 million lower than projected.

Conclusion

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

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

APPENDIX A

Determination of Annual Repayment Limit (ARL)

1. Step 1: Calculate 25 per cent of Own Source Revenue

Own source revenue includes:

- Property tax revenue
- Water and wastewater revenues
- Transit fares
- Fees provided for police services, public housing rents, and fees from services provided to other municipalities.

Own source revenue does not include development charges, grants and subsidies from other levels of government, other deferred revenues (e.g., gas tax revenues), and contributions from reserves.

Figure A1 provides the 2024-2033 forecast of the Region's own source revenues. The calculation uses own source revenues from two years prior to the current year, corresponding to the Financial Information Return year as it is the most recent information submitted to the Ministry of Municipal Affairs at the time of the calculation. The annual repayment limit for 2024 is based on actual results of the 2022 Financial Information Return. The limit for 2025 is based on 2023 Operating Budget for 2023. The limit for 2026 is based on the 2024 Operating Budget for 2024.

Figure A1

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

Annual Repayment Limit determination	2024	2025	2026	2027	2028
Property taxes/Payments in lieu[1]	1,282	1,344	1,416	1,485	1,555
User rates - sewage/water/solid waste[2]	410	447	488	512	535
Transportation user fees	62	55	77	82	86
Other user fees and charges[3]	56	119	117	120	118
Provincial fines	11	23	29	48	55
Other revenue[4]	125	189	200	196	199
Total - Net revenues	1,945	2,176	2,326	2,443	2,548
25% of Net revenues	486	544	582	611	637

Numbers may not add due to rounding

Annual Repayment Limit determination	2029	2030	2031	2032	2033
Property taxes/Payments in lieu[1]	1,619	1,686	1,754	1,825	1,897
User rates - sewage/water/solid waste[2]	556	578	601	625	649
Transportation user fees	90	94	97	101	105
Other user fees and charges[3]	122	127	131	135	139
Provincial fines	53	50	48	46	44
Other revenue[4]	208	223	239	256	277
Total - Net revenues	2,647	2,758	2,870	2,987	3,111
25% of Net revenues	662	690	718	747	778

Numbers may not add due to rounding

Notes:

1. Property taxes forecast assume a 1% annual increment to the infrastructure levy for 2024 to fund the tax-levy portion of the Yonge North Subway Extension, and a further 1% annual increment to the infrastructure levy for 2025 and 2026 to fund other large infrastructure projects in the Region. Property taxes for the 2026 annual repayment limit calculation is based on expected results for 2024 and assume 1.60 per cent assessment growth with a total tax levy increase of 3.75 per cent, including Rapid Transit Infrastructure Levy (RTIL) of 1.00 per cent. Thereafter, property taxes are assumed to increase by 3.60 per cent for 2025 and 3.60 per cent for 2026 (including 1.00 per cent for RTIL in each of those years) and 3.00 per cent beginning in 2027 (does not include any per cent for RTIL).

2. Water and wastewater rates include 3.30 percent increases on April 1 each year from April 1, 2022 to March 31, 2028, as approved by Council, and assumed increases of 2.90 per cent annually thereafter.

3. Other user fees and charges include revenues generated by: Environmental Services, Transportation, Social Housing, Police Services, Public Health, Paramedic Services and Planning. Based on the 2024 Operating Budget other user fees are assumed to increase by 14.82 per cent in 2024. Thereafter, fees are assumed to increase on average by 13.22 per cent.

4. Other revenue includes: Investment Income, Sale of Publications and recoveries. Investment income is based on reserve balance forecasts assuming a rate of return of approximately 4.40 per cent for 2024. Thereafter, rates of return range from 4.15 per cent to 4.25 per cent.

2. Step 2: Calculate Growth Cost Supplement

The growth cost supplement is based on development charge collections. The Regulation allows the Region to include an amount equal to 80 per cent of the average development charge collections for the previous three fiscal years. A forecast of development charge collections is also required as part of this plan.

A 10-year development charge collections forecast was prepared for the period 2024 to 2033. The 2024 to 2033 collections forecast is generated using econometric and financial models that differentiate between the short, medium and long terms. The development charge collection estimate for 2023 was based on the actual year-to-date collections as well as recent housing activity. Please see Figure 9 in the Plan.

The Region anticipates the collection of $4.9 billion in development charges from 2024 to 2033. This is $0.2 billion higher than what was forecast in the 2023 budget. The annual average collection is approximately $490 million for these 10 years, which exceeds the forecast of average annual principal and interest payment on development charge related debt.

Step 3: Calculate Total Annual Repayment Limit

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

Figure A2

Total Annual Repayment Limit ($Millions)

Component Description	2024	2025	2026	2027	2028
Total own source revenues	1,945	2,176	2,326	2,443	2,548
25% of Own source revenues (A)	486	544	582	611	637
Development charge collections (3-year rolling average)	435	463	472	477	600
Development charge cost supplement (%)[1]	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	305	324	330	334	420
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	**791**	**868**	**912**	**945**	**1,057**

Component Description	2029	2030	2031	2032	2033
Total own source revenues	2,647	2,758	2,870	2,987	3,111
25% of Own source revenues (A)	662	690	718	747	778
Development charge collections (3-year rolling average)	637	606	501	435	401
Development charge cost supplement (%)[1]	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	446	424	351	305	281
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	**1,108**	**1,114**	**1,069**	**1,052**	**1,059**

Numbers may not add due to rounding

Note:

1. While the Regulation allows the Region to include an amount equivalent to 80 per cent of the average development charge collections for the previous three fiscal years as a growth cost supplement, the 2024 to 2033 annual repayment limit is calculated based on a more conservative assumption of 70 per cent.

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