Laura Mirabella, FCPA, FCA
Commissioner of Finance and
Regional Treasurer

THE REGIONAL MUNICIPALITY OF YORK

TREASURER'S REPORT

Reflecting the Regional Municipality of York's strong commitment to fiscal prudence, results for the year ended December 31, 2023, show continued strengthening of the Region's balance sheet. Spending in 2023 supported important priorities that advanced the Region's Vision of strong, caring, safe communities.

Financial results in this report are presented on a full accrual basis of accounting, and a comparable budget is published in the "Accrual Budget Presentation" chapter of the 2023 budget book.

The Region's 2023 revenues exceeded expenses, resulting in an annual surplus of $766.6 million, $248.0 million higher than expected in the budget. Financial assets, including investments, increased by $443.8 million.

The annual surplus resulted from the Region's operating surplus, net investments in capital assets, and saving for future needs through reserve contributions. The Region's reserves increased by $591.1 million to a balance of $5.4 billion at the end of 2023. The reserves are a significant component of the $10.7 billion accumulated surplus at the end of 2023, up from $10.0 billion in 2022.

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

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
- Highlighting the Region's financial performance in 2023
- Discussing financial results for 2023 compared to 2022 and the 2023 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. They 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 statements 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, 2023.

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. The statement also shows the impact of this difference on the Region's accumulated surplus. Revenues exceeded expenses in the year ended December 31, 2023, resulting in an annual surplus that increased the accumulated surplus.

Consolidated Statement of Change in Net Financial Assets

This statement reconciles the change in net financial assets for the current and prior year. This statement previously recorded changes in net debt. Under public sector financial reporting in Canada, "net debt" is defined as the difference between a reporting entity's financial assets and its liabilities. By year-end 2021, the Region's financial assets were greater than its liabilities, so it no longer had net debt to report and it remained in this position in 2023. In some contexts, the Region uses "net debt" to mean its issued debt, excluding borrowings on behalf of local municipalities and net of sinking fund assets. This differs from the public sector reporting definition.

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 2023 fiscal year, the main elements guiding the Region's financial management were:

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

Vision and The 2023-2027 Strategic Plan

The 2023 budget was developed with long-term direction set out in *Vision*, the Region's long-term blueprint for strong, caring, safe communities.

Every four years, to coincide with the new term of Regional Council, the Region develops a four-year Strategic Plan with the purpose of turning *Vision* and related goals into day-to-day activities. Priorities of the 2023-2027 Strategic Plan are foster economic prosperity, support community well-being, drive environmental stewardship and efficiently deliver trusted services.

2023 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 2022-2026 term, Regional Council reviewed a four-year plan consisting of the proposed budget for the first year and an outlook for the remaining three years. The 2023 budget, with outcomes reported here, represented the first year of the multi-year budget.

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

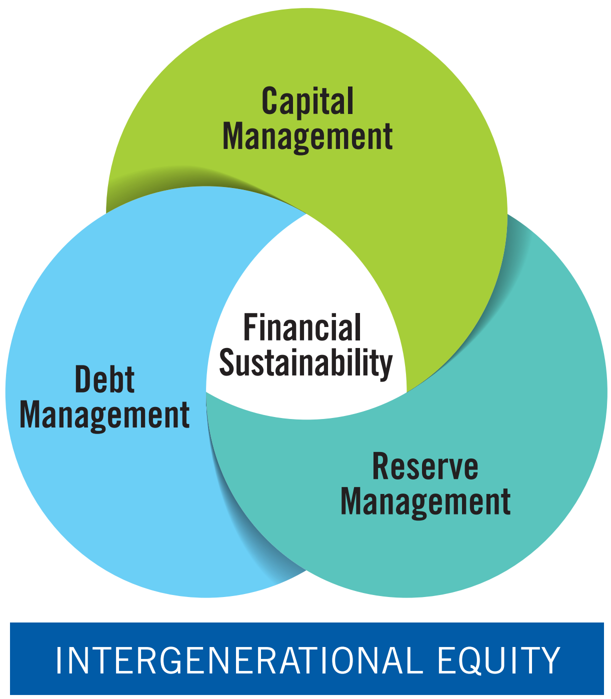
The Region's budget shows major cash inflows and outflows and determines the tax levy needed to achieve the balance between both. It gives decision-makers and other readers a clear picture of expected sources of cash resources and how they will be applied to all activities, including capital and operating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

This annual report provides a set of statements on a 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 2023 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 time between spending on infrastructure and collecting development charges. 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 built up and accessed over time for specific purposes, including paying capital-related costs to avoid issuing debt. Under its fiscal 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 and updated in May 2024, 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.

2023 HIGHLIGHTS

In 2023, pandemic-related pressures on the Region's budget eased significantly. Revenue increased as transit fares, which had declined sharply, continued to recover. Some pandemic-related spending also went down.

At the same time, pandemic-related support from senior governments tapered off while high rates of inflation and continuing supply chain disruptions pushed many costs up. Despite these factors, careful management of its own activities allowed the Region to remain in a strong financial position in 2023.

On full accrual basis of accounting, by year-end York Region had:

- Increased its net financial assets by $525.1 million to reach a balance of $1.3 billion
- Recorded an annual surplus of $766.6 million, increasing its accumulated surplus to $10.7 billion
- Continued to save for future needs including debt servicing costs and asset replacement needs by adding $591.1 million to reserves, increasing the balance to $5.4 billion
- Increased tangible capital assets by $214.9 million, recording a total of $9.4 billion

CHANGES IN FINANCIAL POSITION

The Consolidated Statement of Financial Position gives a picture of the Region's balance sheet on December 31, 2023. The table below provides a summary.

Consolidated Statement of Financial Position

($ Millions)	2023 Actual	2022 Actual	Variance	% Change
Financial Assets	6,861.4	6,417.5	443.8	6.9%
Liabilities	5,539.7	5,620.9	(81.3)	(1.4%)
Net Financial Assets	**1,321.7**	**796.6**	**525.1**	**65.9%**
Tangible Capital Assets	9,364.6	9,149.7	214.9	2.3%
Other Non-Financial Assets	57.1	30.4	26.7	87.8%
Accumulated Surplus	**10,743.4**	**9,976.7**	**766.6**	**7.7%**

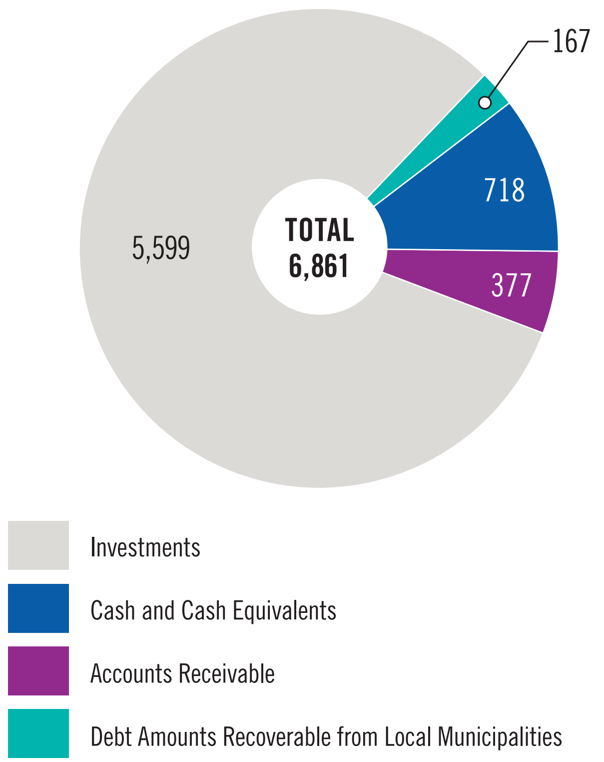
Note: numbers may not add due to rounding

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 6.9 %

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 totaled $6.9 billion at the end of 2023, up by $443.8 million or 6.9% from the previous year, largely reflecting the Region's commitment to building reserves through the Regional Fiscal Strategy. The major change was an increase of $588.0 million in longer-term investments, partially offset by a decrease of $89.6 million in cash and cash equivalents and $84.8 million in accounts receivable. The discussion of major sources and uses of cash that follows provides further details.

TANGIBLE CAPITAL ASSETS

The 2023 budget included a capital plan of $894.1 million for the year. Under Public Sector Accounting Standards $707.5 million was classified as planned spending on tangible capital assets with the balance allocated to capital-related operating expense.

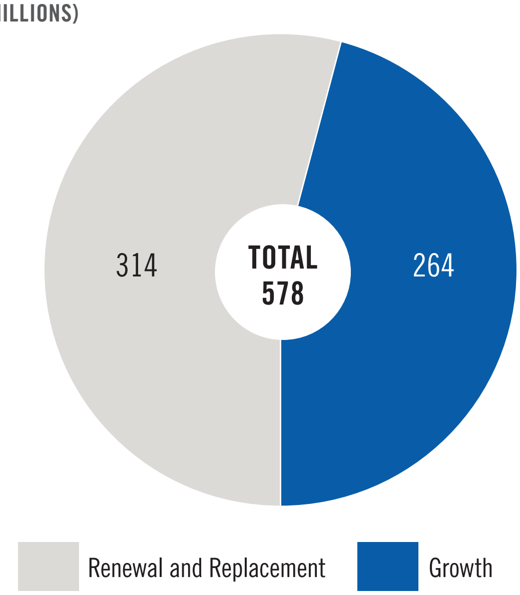
By year end, $578.0 million or 81.7% of the accrual-based capital plan was spent.

Underspending was largely due to:

- Supply chain issues, construction and tender delays for Community and Health Services projects
- Longer-than-anticipated site plan approvals and tender delays to accommodate financing needs for Public Works projects
- Design rework and delays in finalizing funding agreements for YorkNet projects

Savings related to lower than forecasted bus rapid transit (BRT) land transaction costs and project delays in General Government. Despite these factors, the share of plan spent was slightly higher than in recent years. As the graph below shows, more than 50% of the spending went to renewing and/or replacing existing assets. This work was largely funded by asset management reserves. The balance of investment was on growth-related projects. The growth-related portion was largely funded by development charges and $104.5 million in new borrowings.

TANGIBLE CAPITAL ASSETS: 2023 CAPITAL SPEND
$(MILLIONS)



Financial reporting makes a distinction between "assets under construction" and "assets in use." As assets are completed and go into service, the cost of building and/or acquiring them is moved from the "assets under construction" account to the appropriate category of "assets in use." Note 15 to the Consolidated Financial Statements shows these categories and their values at year end.

Assets under construction totalled $1.4 billion at the end of 2023. The table below lists the five largest additions to assets under construction, along with the figure projected in the 2023 capital budget.

2023 Top 5 Capital Spend $(Millions)

Project	Service Area	Additions(2)	Capital Budget (1)
Road Asset Renewal and Replacement	Transportation Services	57.1	53.3
55 Orlando Garage Expansion	Transportation Services	32.2	32.0
16th Avenue Sewer Rehabilitation Phase 2	Environmental Services	28.6	28.4
Humber Sewage Pumping Station	Environmental Services	27.9	26.7
Conventional Bus Replacement	Transportation Services	25.6	23.6

(1) Capital budget is based on the 2023 budget approved by Council on February 23, 2023 and in-year reallocations.
(2) Additional spending was within the overall Capital Spending Authority.

Several projects were completed in 2023, with related assets put into use. The table below lists the five largest additions to assets in use and the year that work first began on the project.

2023 Top 5 Additions to Assets in Use $(Millions)

Project	Service Area	Additions	Project Start Date
Road Asset Renewal and Replacement	Transportation Services	52.5	2023
Viva Bus Replacement	Transportation Services	30.3	2022
Major Mackenzie Drive West Terminal	Transportation Services	18.6	2015
Langstaff Gravity Sewer Construction	Environmental Services	18.4	2021
Duffin Creek Stage 3 Incinerators	Environmental Services	16.2	2018

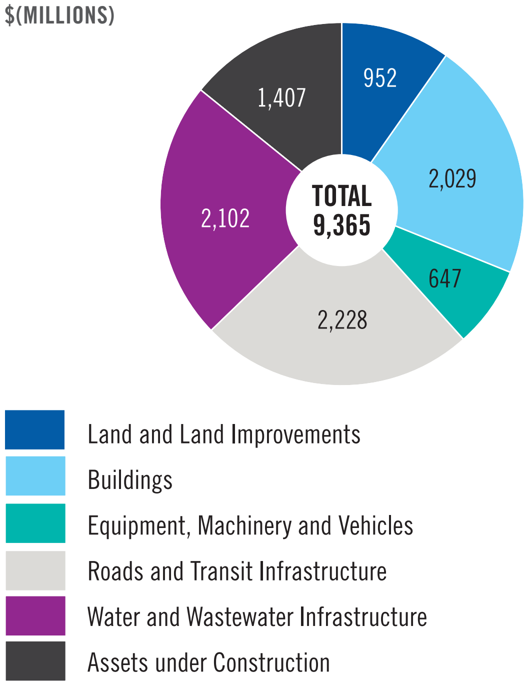
In addition to projects listed in its 10-year capital plan, the Region builds bus rapidways and associated infrastructure for the Viva bus rapid transit network. The first phase of these projects was fully funded by the provincial Metrolinx agency.

Net book value, as reported in 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 $336.9 million and the disposal of assets during the year, the net book value of the Region's assets rose by $214.9 million, taking the total to $9.4 billion at the end of 2023.

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

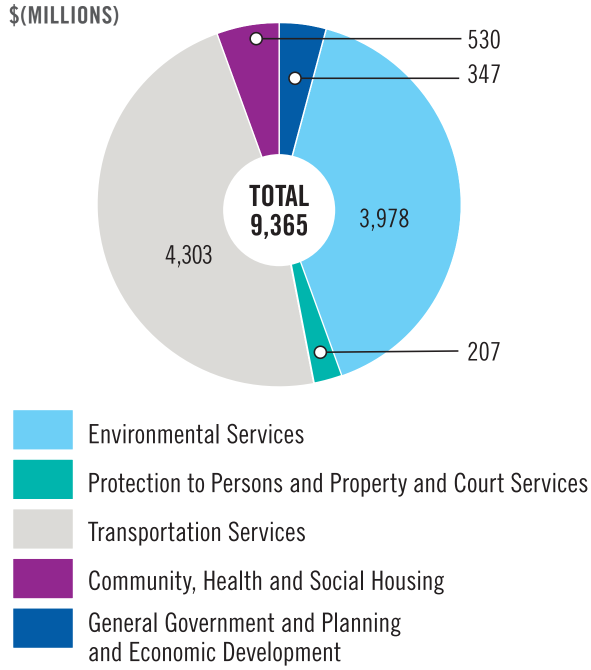
NBV OF TANGIBLE CAPITAL ASSETS BY CATEGORY

$(MILLIONS)



NBV OF TANGIBLE CAPITAL ASSETS BY SERVICE AREA

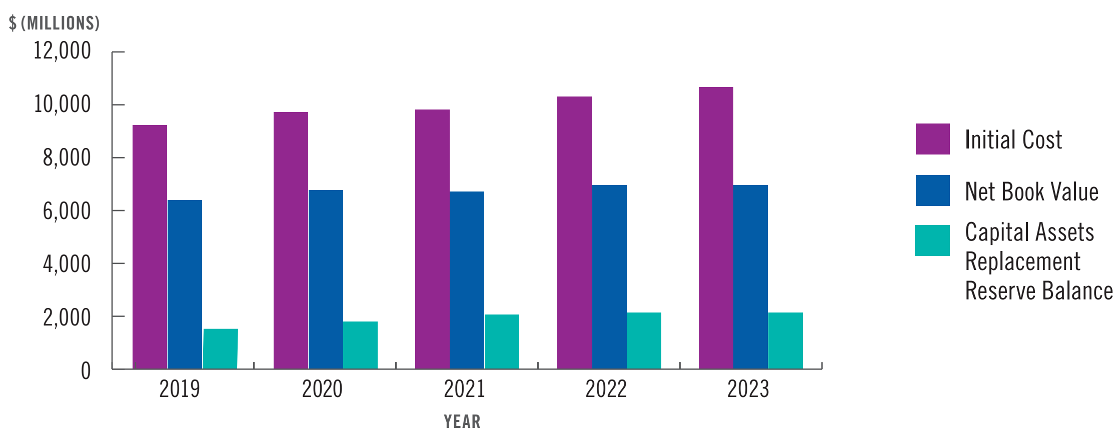
$(MILLIONS)



FIVE-YEAR TREND IN NET BOOK VALUE AND ASSET CONDITION

Net book value of the Region's assets, as displayed in the graph below, has increased since 2019, largely due to 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 net book value of assets to their initial cost. This ratio provides an estimate of assets' remaining service life. A low ratio suggests assets are being used up without being replaced. Service areas use this measure, combined with regular reviews of asset conditions and servicing needs, to assess overall spending needs.

The ratio for the Region has held fairly steady over the past five years at between 65.9% and 70.1%. This means the Region is consistently adding or replacing assets, which helps to offset the decline in the net book value of existing assets.

Another measure of whether a government is prepared for future asset-related needs is the level of dedicated reserves available for asset management compared to expected needs. Current balances in asset replacement reserves are lower than the accumulated amortization associated with the existing asset base. Accumulated amortization is one way to assess how much of the Region's asset value 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.

The Corporate Asset Management Plan updated May 2024 describes the current state of infrastructure, as well as customer, technical, current and proposed levels of service metrics for existing and growth-related assets and their associated financial plans over a 10-year period from 2023-2032. This plan builds on the 2018 plan and updates the corporate asset management strategy and policy. The 2024 plan meets Ontario Regulation 588/17 requirements for levels of service, documenting current and proposed performance and the associated 10-year financial sustainability and asset management plans. Asset management maturity has also significantly improved across the Region over the past many years, representing staff dedication to optimizing costs, risks and performance for Regional programs and services. The 2024 plan identifies total asset lifecycle costs to meet level of service needs amounting to $18 billion over the 2023-2032 period, with nearly 100% of needs expected to be accommodated within the budget.

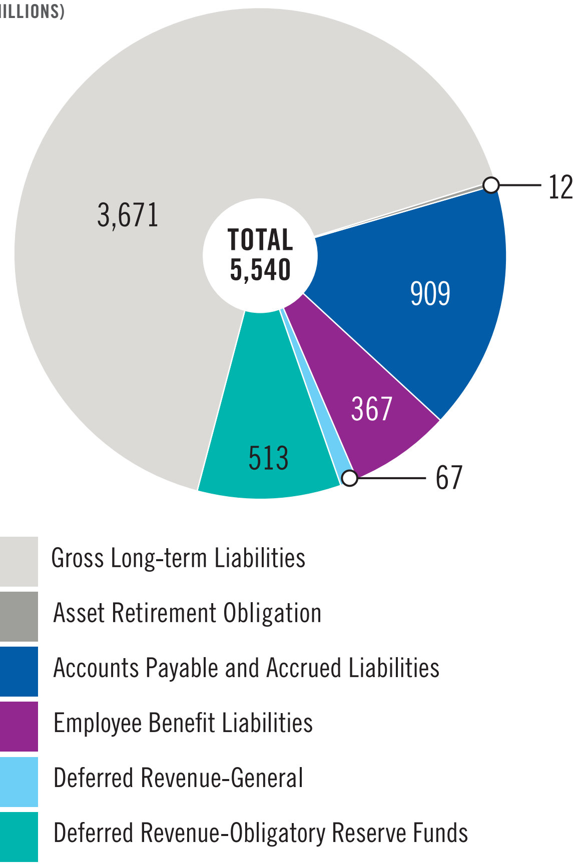
The latest State of Infrastructure Report rated 92% of the Region's asset portfolio as being in fair or better condition. According to the report, the current replacement value of Regional assets has increased significantly over the past five years to reach $25.3 billion, in large part due to improvements to replacement cost evaluation methods and inflation.

LIABILITIES DECREASED BY 1.4%

The Region's gross long-term liabilities as reported in the Consolidated Statement of Financial Position consist of accounts payable and accrued liabilities, employee benefit liabilities, deferred revenue, asset retirement obligation and total debt. The pie chart below shows the breakdown:

LIABILITIES

$(MILLIONS)



Total liabilities decreased by $81.3 million, ending the year at $5.5 billion.

Liabilities other than debt

Liabilities other than debt decreased by $202.2 million, ending the year at $1.9 billion. The largest drop was in deferred revenue-obligatory reserve funds, which declined by $213.7 million.

Deferred revenue represents funds received from third parties and set aside for specific purposes. For accounting purposes, funds are recorded on the asset side of the Consolidated Statement of Financial Position in financial assets, balanced by 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.

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 decreased by a net $213.7 million or 29.4% by year-end 2023. This was due to a decrease of $206.6 million in the development charges balance, representing new collections and accrued receivables for deferred development charges of $260.0 million less the $466.6 million taken into revenue to help pay for new infrastructure to support growth and a net $7.1 million decrease in the Gas Tax/Canada Community-Building Fund balance.

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 $18.4 million or 37.9% from 2022.

Employee benefit liabilities include expected costs of extended health and dental coverage for retirees, vested sick leave benefits, long-term disability claims, vacation payable and workers' compensation liabilities. Estimates are based on long-term actuarial expectations and updated at three-year intervals. These liabilities increased by $23.3 million or 6.8% from 2022, reflecting increases in estimates of future costs. The Region maintains reserves to help address these liabilities as they become due.

Asset retirement obligation represents $12.4 million in funds set aside for future asset retirement obligations related to certain tangible capital assets. This category is new for 2023 and relates to a new accounting standard, discussed in Note 1 and 9 of the financial statements.

Debt

Total debt increased by $120.9 million to reach $3.7 billion by the end of 2023.

Total debt includes funds borrowed by the Region on behalf of local municipalities. The local municipal borrowings, which totaled $167.5 million at the end of 2023, 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 $227.6 million in 2023.

Excluding the sinking fund asset and local municipal borrowing, the Region's net outstanding debt ended the year at $2.2 billion, a decrease of $136.9 million from the previous year.

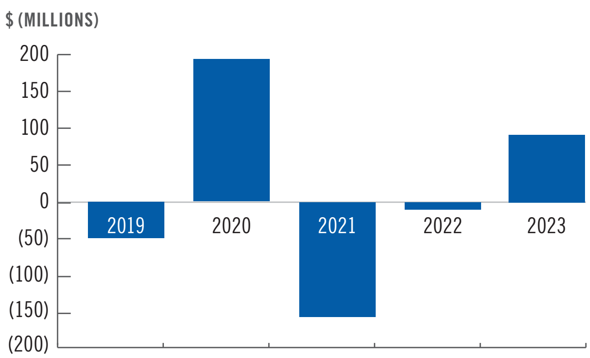
The Region met its commitment to keep its own debt, net of sinking fund assets and local municipal debt below the peak of $2.9 billion that was reached in 2017.

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. In 2023, the Region issued debt for the first time since 2021 to complement development charge reserve funding for growth projects.

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 interest costs, limiting its ability to fund other priorities.

The Region's ratio was 4.7% in 2023, continuing a steady decline from 6.4% in 2019 for two reasons:

- Interest expense remained constant at $101.7 million in 2023 from $104.4 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 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 $194.6 million in 2023.

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 3.8%, down from 5.6% in 2019.

NET FINANCIAL ASSETS

As explained earlier under the "York Region Financial Statements" header, the Region reports on its net financial assets, as it no longer is in a position of net debt. Net financial assets were $1.3 billion at the end of 2023, representing the difference between its $6.9 billion in financial assets and $5.5 billion in debt and other liabilities.

Net financial assets increased by $525.1 million from the previous year-end level of $796.6 million because financial assets, particularly investments, grew while total liabilities declined.

ACCUMULATED SURPLUS

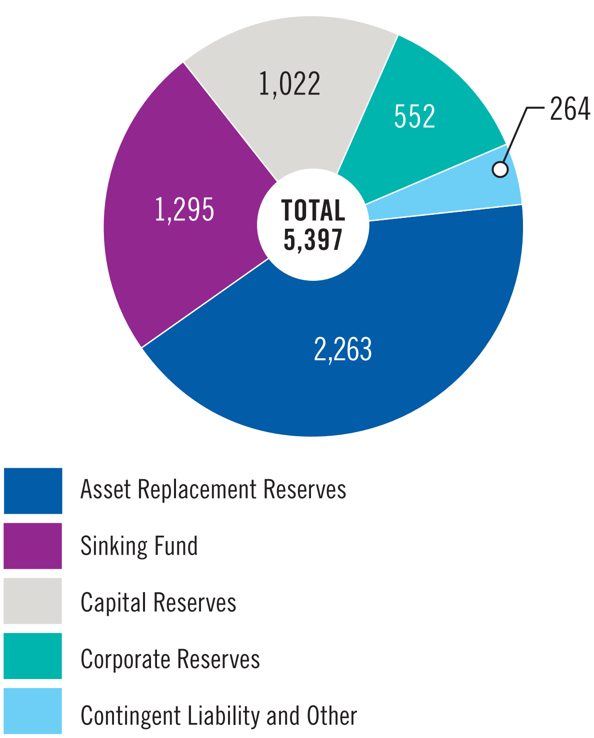
The Region's accumulated surplus increased by $766.6 million or 7.7% from 2022 to reach $10.7 billion at the end of 2023. The increase is equal to the annual surplus and is calculated based on Public Sector Accounting Standards. It differs from the operating surplus, which represents any excess in revenue or underspending in relation to the operating budget. The 2023 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 several specific future needs and allocated a portion of the total accumulated surplus for them. These amounts are called reserves and reserve funds and at 2023 year-end they totalled $5.4 billion, up from $4.8 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 $2.3 billion by year-end, having increased by $131.5 million or 6.2% during the year. This increase was made up of contributions and interest earned totalling $445.0 million, less $313.5 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 $227.6 million or 21.3% in 2023 to reach $1.3 billion by year-end.

Capital reserves that help to fund construction and other capital projects increased by $185.1 million or 22.1% in 2023. The debt reduction, rapid transit, transit and social housing development reserves all saw growth, while the non-profit housing repairs and roads capital reserves were drawn down.

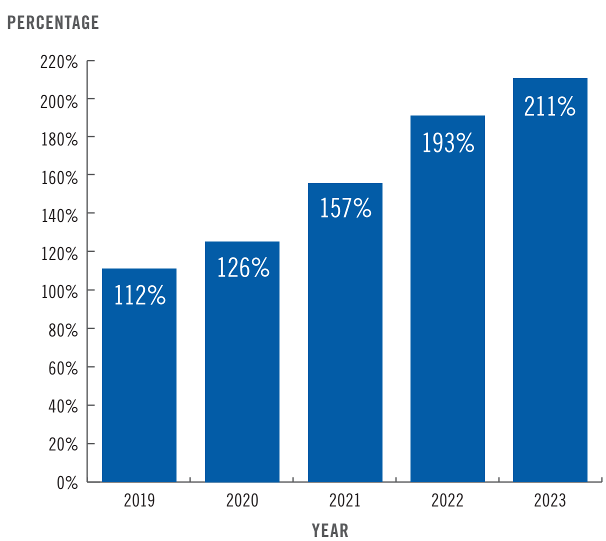
The balance reflects other reserves that the Region maintains to smooth fluctuations in operating revenue and expense items and to build funding over time for special projects. These additional reserves rose by a total of $46.9 million or 6.1%, over the year.

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 2023 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.

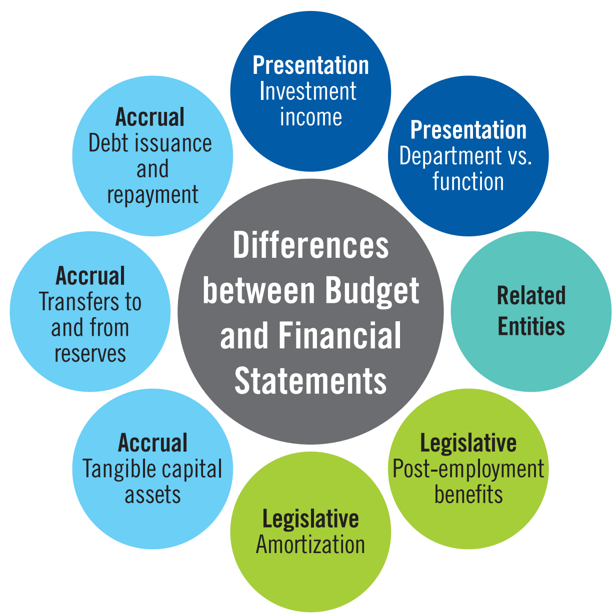
CONSOLIDATED STATEMENT OF OPERATIONS

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. During 2022, Transportation Services and Environmental Services were brought together as the Public Works department. The budget for 2023 reflects this amalgamation.

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.

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 2023 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	3,957.5	(580.8)	3,376.7
Expenses	3,957.5	(1,099.4)	2,858.0
Surplus	–	518.6	518.6

Note: numbers may not add due to rounding

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 2023 AND FIVE-YEAR TRENDS

This section compares operating results for 2023 to the full accrual budget and to results for 2022. 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 2023 Consolidated Statement of Operations:

Consolidated Statement of Operations

$(Millions)	2023 Budget	2023 Actuals	2022 Actuals	Budget to Actual Variance	Year over Year Variance
Revenues	3,376.7	3,510.4	3,135.5	133.8	375.0
Expenses	2,858.0	2,743.8	2,448.3	(114.3)	295.5
Annual Surplus, Accrual Basis	518.6	766.6	687.2	248.0	79.5

Note: numbers may not add due to rounding

At $766.6 million, the surplus for 2023 was $248.0 million higher than expected in the accrual-based budget. It was $79.5 million higher than the previous year's $687.2 million surplus.

REVENUES

The table below provides a summary of the revenues from the 2023 Consolidated Statement of Operations with comparisons to the accrual-based budget and the previous year:

$(Millions)	2023 Budget	2023 Actuals	2022 Actuals	Budget to Actual Variance	Year over Year Variance
Revenues					
Net Taxation	1,350.8	1,357.1	1,281.7	6.3	75.4
Government Transfers	868.8	869.0	721.4	0.2	147.6
Development Charges	379.7	466.6	433.9	86.9	32.7
User Charges	392.0	394.8	387.8	2.7	7.0
Investment Income	153.7	186.4	125.0	32.7	61.4
Fees and Services	151.3	179.8	150.6	28.5	29.3
Other	80.3	56.7	35.2	(23.6)	21.5
	3,376.7	3,510.4	3,135.5	133.8	375.0

Note: numbers may not add due to rounding

At $3.5 billion, actual 2023 revenues were $133.8 million higher than expected in the 2023 budget and $375.0 million higher than actual 2022 revenues.

- Net taxation revenues were consistent with plan, at $1.4 billion. The increase over 2022 was $75.4 million or 5.9%, which was in line with the approved tax levy increase of 3.90%, assessment growth of 1.32% and year-over-year increase in supplementary taxes of 0.65%.
- At $869.0 million, revenue from provincial and federal transfers was close to budget.

  Most of the increase of $147.6 million or 20.5% in transfer payments from 2022 to 2023 comes from higher senior government funding for Social Services. This included the Canada-Wide Early Learning and Child Care grant, which is designed to reduce daycare fees to an average $10 a day by 2026. The program went into operation on April 1, 2022 and 2023 represents the first full year of operation. Higher transfer payment revenues in 2023 were largely offset by higher spending since the funds are flowed through to daycare providers.

- 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 and to service debt that funded previous projects. This source of revenue was $86.9 million above budget, owing mainly to the need to fund capital projects and limit new debt.

  Development charge revenue was $32.7 million or 7.5% higher than in 2022.
- 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 2023 results were above forecast owing to warmer and drier summer weather than usual.

  The year-over-year increase was $7.0 million or 1.8%, due to higher summer usage and Council-approved rates.
- At $186.4 million, interest income and other earnings on investments were $32.7 million above budget, reflecting a continued trend from 2022 of better-than-expected performance in a highly uncertain market environment

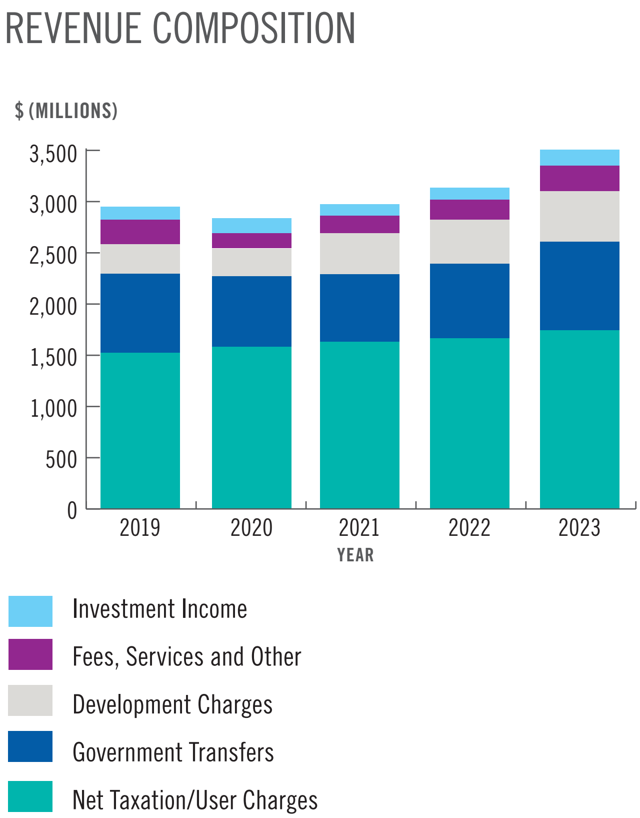
  Revenue from this source increased by $61.4 million or 49.1% from the previous year, largely because of higher interest rates in 2023.
- Fees and services revenue was $28.5 million higher than budgeted. The most significant variance relates to higher-than-budgeted transit fare revenue of $18.7 million as ridership rebounded more quickly than expected from the pandemic. In addition, advertising and shuttle revenues came in $1.9 million over plan and unbudgeted land sale revenues were $5.2 million.

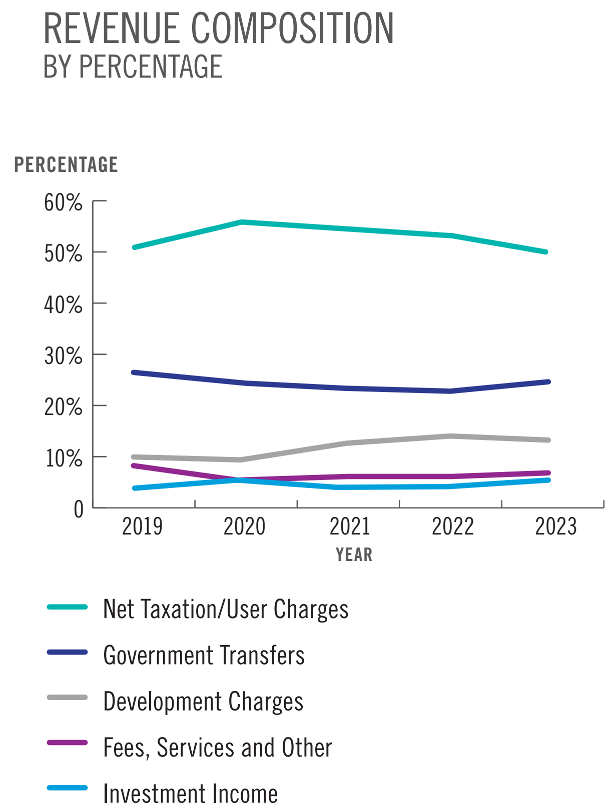
  Fees and services revenue rose by $29.3 million or 19.4%, year-over-year, mainly for the reasons outlined above.
- Other revenue was $23.6 million lower than budgeted, largely owing to lower recoveries from landowners for construction activity that shifted to 2024. The decrease from plan mainly reflects enhanced coordination of the detailed design of capital projects with the local municipalities, utilities and landowners. Apart from that, actual other revenue was close to budget.

  Despite the change from budget, the year-over-year increase was $21.5 million or 61.1%.

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 62.0% of revenue in 2023. Over the past five years, these revenue sources have provided 63.8% 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 24.4% 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 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. The Ministry of Education confirmed funding of $103.2 million in 2022 and $237.6 million in 2023 to the Region related to the Canada-Wide Early Learning and Child Care system. This funding has resulted in an uptick in 2022 and 2023. 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 11.8% of the Region's total. In 2019 the level was 10.0% of total revenue, followed by declines in 2020 as the Region relied on debt to fund a portion of the growth-related infrastructure and some construction activity was deferred. In 2022 and 2023, development charge drawdowns increased to 13.8% and 13.3 % of total revenue, respectively.

EXPENSES

The table below provides a summary of the expenses from the 2023 Consolidated Statement of Operations with comparisons to the accrual-based budget and the previous year:

$(Millions)	2023 Budget	2023 Actuals	2022 Actuals	Budget to Actual Variance	Year over Year Variance
Expenses					
Community and Health Services (2)	1,068.9	1,008.8	845.7	(60.2)	163.1
Transportation Services (3)	609.6	541.1	510.7	(68.5)	30.4
Environmental Services	529.3	533.7	486.8	4.4	46.9
Protection to Persons and Property (4)	473.2	475.6	451.2	2.5	24.5
Other (5)	177.1	184.6	153.9	7.5	30.7
	2,858.0	2,743.8	2,448.3	(114.3)	295.5

Notes:

1. Numbers may not add due to rounding
2. Community and Health Services comprises Health and Emergency Services, Community Services and Social Housing (including Housing York Inc.) from the Consolidated Statement of Operations
3. Transportation Services including York Region Rapid Transit Corporation
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 $2.7 billion. This was a decrease of $114.3 million from the full accrual budget plan and a $295.5 million increase from 2022.

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

- In Community and Health Services, spending was $60.2 million below budget. This was mainly driven by lower-than-anticipated uptake by childcare centres in the Canada-Wide Early Learning and Child Care system, which accounted for $31.8 million. In addition, public health spending was lower because of lower COVID-19 cases than expected. Partially offsetting these factors, Ontario Works caseloads were higher than forecast and $5.1 million in new spending was approved in-year by Council in response to emerging needs related to Ukrainian Humanitarian Efforts and Newcomer Support (Asylum Seeker) programs.

  Spending rose by $163.1 million year-over-year. This was largely driven by the Canada-Wide Early Learning and Child Care program despite lower-than-expected uptake. In addition, Ontario Works caseload grew from 2022. This spending is offset by higher funding from senior levels of government.

- Overall spending by Transportation Services was $68.5 million less than expected. The decrease was driven by less spending on capital projects owing to longer-than-anticipated site plan approvals and other project delays due to third-party dependency, manufacturing delays and poor soil conditions. Other factors included lower-than-anticipated amortization, delayed debenture issuance resulting in lower interest costs and later-than-planned reinstatement of conventional transit services.

  The year-over-year increase was $30.4 million or 6.0%, owing mainly to resumption of conventional transit services.
- Spending by Environmental Services was close to budget at $533.7 million with a slight increase of $4.4 million.

  On a year-over-year basis there was an increase of $46.9 million. Some of this variance related to the *Supporting Growth and Housing in York and Durham Regions Act, 2022,* which resulted in the write-down of capital assets built to serve northern growth.
- Spending on Protection to Persons and Property, which largely reflects York Regional Police, was close to budget at $475.6 million.

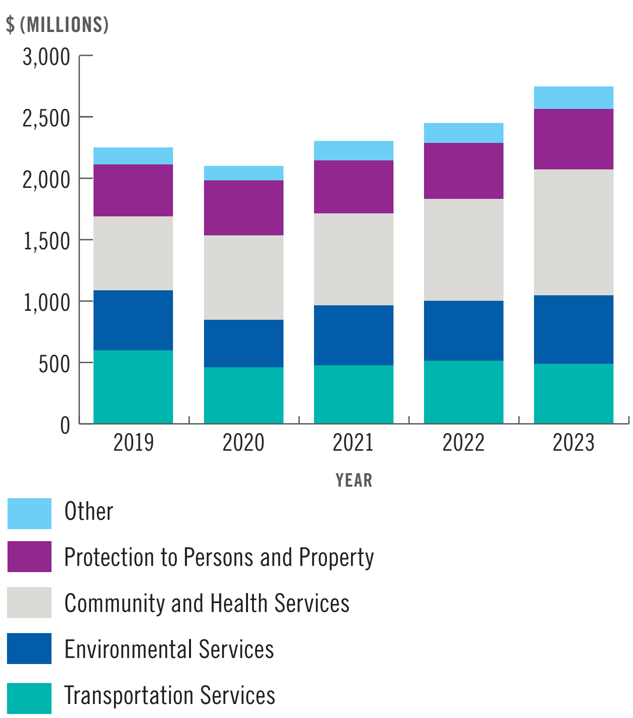
  Spending was up $24.5 million year-over-year because of expanded service needs for a growing population.
- Spending in the “Other” category (which comprises General Government and Planning and Economic Development) was $7.5 million more than budgeted owing mainly to higher than anticipated corporate costs for employee benefits programs.

  On a year-over-year basis, spending was up $30.7 million, partially owing to higher employee benefits program costs discussed above and higher corporate insurance program costs.

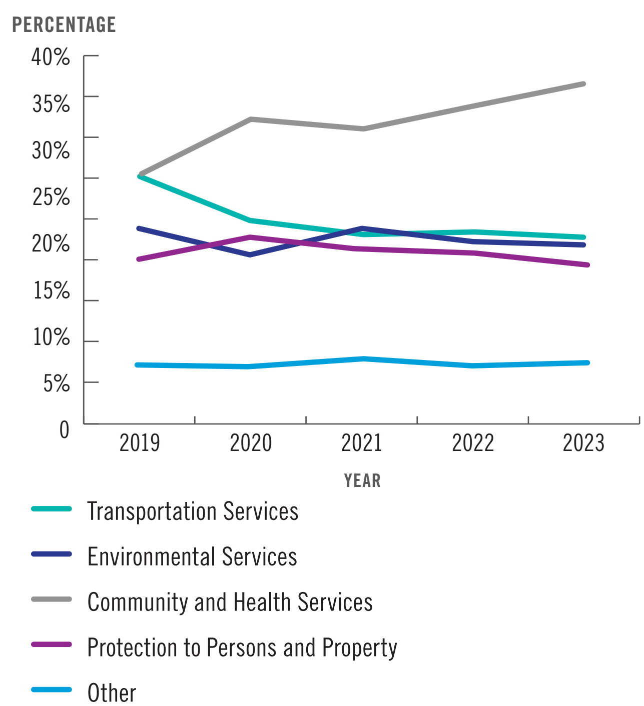
Five-year trend

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

EXPENSE COMPOSITION
BY SERVICE



EXPENSE COMPOSITION
BY SERVICE AND PERCENTAGE

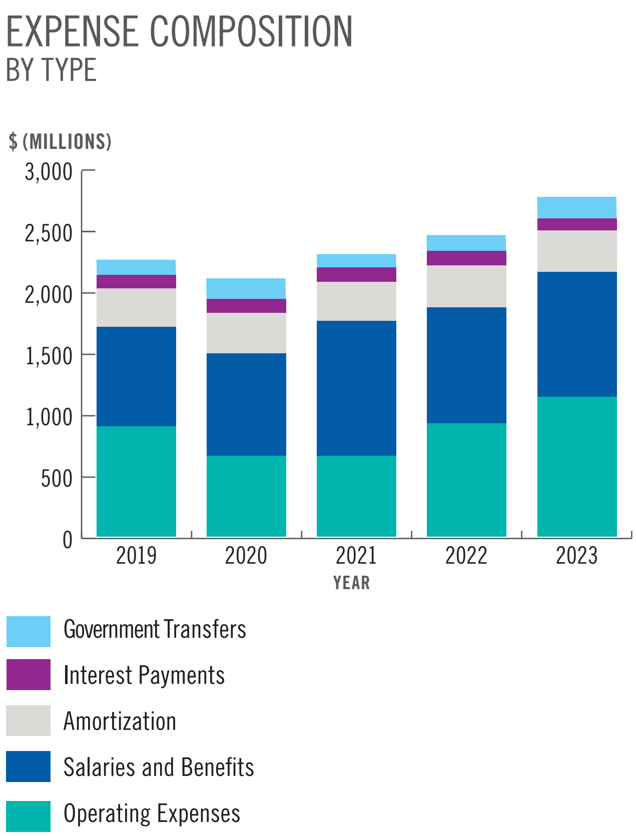


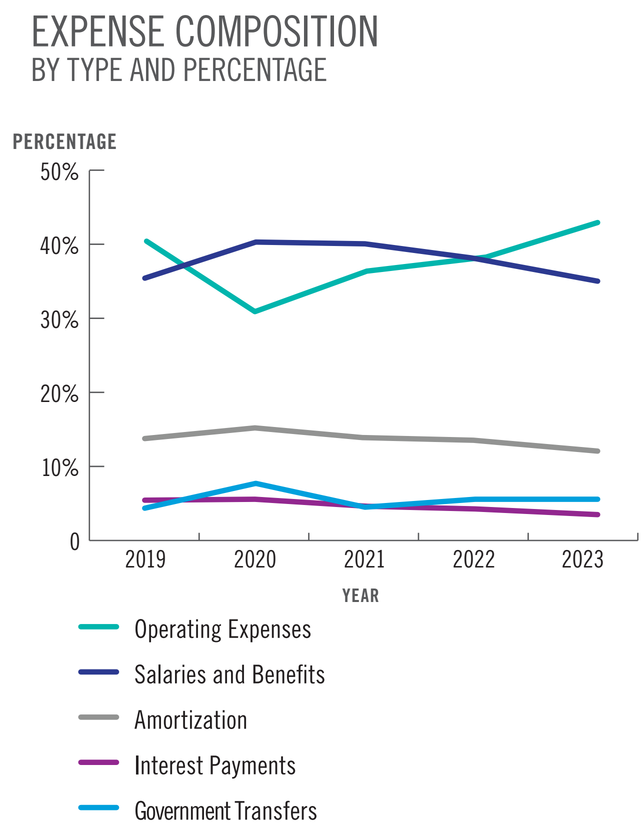
By service area:

- Fluctuations in Transportation Services expense at the start of the five-year review period 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. The building of Metrolinx projects has not had a major impact on reported spending since 2021. In 2020 and 2021, expense fell in part because of reduced transit service in response to the pandemic. Results from 2022 and 2023 show conventional transit service reinstatement to support ridership recovery, offset in 2023 by the factors outlined above. Transportation Services has also seen amortization expense increase steadily due to significant investments in tangible capital assets.
- Day-to-day Environmental Services expenses reflect costs to operate and maintain a large and technically complex portfolio of assets, higher amortization and more stringent regulation, offset by the department's ongoing efforts to find savings. The department's share of total spending fell from 21.4% in 2019 to 19.5% in 2023. Fluctuations reflect before 2022 reflect accounting adjustments. In subsequent years its share of total spending has decreased.
- Community and Health Services spending rose from $612.0 million or 27.2% of the total in 2019 to $1.0 billion or 36.8% in 2023. A significant amount of the department's expenses reflects the flow-through of senior government transfer payments for social programs to third parties, which fluctuates with policy direction. From 2020 through 2023 most of the Region's pandemic-related costs were recorded in Community and Health Services. New childcare spending, funded by senior levels of governments, contributed to the increase in 2022 and 2023.
- Protection to Persons and Property largely reflects York Regional Police, whose budget is strongly tied to staffing costs. Spending has increased from $405.7 million in 2019 to $475.6 million in 2023. 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 illustrate the five-year trend in expenses by composition:





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 $312.6 million or 13.9% of total expense in 2019, it reached 15.2% of the total in 2020. Although its share declined to 14.1% in 2021, 13.8% in 2022 and 12.3% in 2023, reflecting stronger year-over-year growth in other expenses, amortization continued to increase in absolute terms, reaching $336.9 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 $109.6 million or 4.9% of total expense in 2019 to $160.4 million or 5.8% in 2023. The peak in 2020 reflects a capital grant to the Cortellucci Vaughan Hospital, which was largely completed that year.

Operating spending fell between 2019 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, pandemic-related workplace closures starting early in 2020 reduced operating spending on items like transit contracts. In 2021, operating spending rose as some activities curtailed by the pandemic resumed. Starting in 2022 spending on child care increased, which was offset by additional senior government funding. Overall, operating spending grew in absolute terms from $910.2 million in 2019 to $1.2 billion in 2023 and from 40.4% to 43.0% as a share of all expenses over the same period.

Salaries and benefits grew from $799.8 million in 2019 to $965.4 million in 2023. 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 higher salaries and the cost of benefits. This item's share of total spending 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 35.2% share of the total in 2023 reflects stronger year-over-year growth in operating spending.

Interest expense reached a five-year high in 2019 at $120.4 million but has declined ever since as the Region reduced its reliance on debt. Interest totalled $101.7 million in 2023, falling to 3.7% of total spending from 5.3% in 2019.

MAJOR SOURCES AND USES OF CASH

Cash inflows from operations, which is the annual surplus adjusted for amortization, drawdown of deferred revenues, contributed assets and other non-cash items, amounted to $959.2 million in 2023.

The Region invested $552.9 million in tangible capital assets, offset by $1.3 million in asset sale proceeds. Funds were also used to repay $13.8 million in existing debt. As a result, financing represented a net $90.7 million use of cash and cash equivalents.

The Region added $588.0 million to its investment portfolio, while cash and cash equivalents declined. In 2021 and 2022, the Region increased its balances in interest-bearing savings accounts, which are an element of cash and cash equivalents. In 2023, cash was moved to longer-term investments to take advantage of yields that were higher than in recent years. After these inflows and outflows, cash and cash equivalents stood at $717.8 million by year-end, a decrease of $89.6 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 $67.6 million in 2023.

The operating surplus was driven by lower-than-expected expenditures in most departments, additional senior government transfers in Community and Health Services and faster recovery in transit ridership, which resulted in higher transit revenues. The outcomes differ from the full accrual results because of differences in how certain items are treated under modified accrual, as outlined in "Comparing actual results to the budget".

The 2023 operating surplus was directed in accordance with the Region's Surplus Management Policy. Of note, $28.8 million was directed to the Debt Reduction Reserve to address emerging risks to the Region's budget, including the *More Homes Built Faster Act, 2022* (Bill 23) development charge collection reductions. In addition, Council directed $2.5 million, to the Pandemic Management and Recovery Reserve to support the development of a Mental Health Community Care Hub operated by the Canadian Mental Health Association York Region South Simcoe.

FINANCIAL MANAGEMENT FRAMEWORK

YORK REGION BYLAWS, POLICIES AND CONTROLS

In addition to its Regional Fiscal Strategy, the Region has implemented various bylaws, policies and controls to reduce risk and support better financial management and stewardship.

These cover a range of activities, including borrowing, managing reserves, investing Regional funds, procuring goods and services, choosing insurance coverage and levying development charges. They also include a thorough audit, which is a key element of financial management.

MANAGEMENT RESPONSIBILITY

The Controllership Office 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.

In preparing the Consolidated Financial Statements, the Controllership Office follows Canadian Public Sector Accounting Standards established by the Public Sector Accounting Board. Note 1 to the Consolidated Financial Statements provides a summary of the significant accounting policies, including recent accounting standard changes.

ACCOUNTING STANDARDS

In 2023, the Region adopted two new accounting standards issued by the Public Sector Accounting Board. One relates to reporting and note disclosure for financial instruments, while the other relates to the retirement of certain tangible capital assets. Applying the standards resulted in a slight decrease in both the annual surplus and the accumulated surplus for the 2022 fiscal year as restated. Note 1 to the financial statements explains the standards and their impacts in more detail.

AUDIT FUNCTION

Council's Audit Committee helps ensure proper financial reporting, internal control and auditing, as well as 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)
- Regional Councillor Michael Chan (Chair)
- Mayor Steven Del Duca (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 how new and existing processes, programs and services can be improved.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING

York Region began developing its ESG strategy in 2023. It has been designed to align closely with the areas of focus of Vision, the Strategic Plan and various other key Regional plans. The Finance department is leading a cross-functional ESG working group dedicated to designing action plans for the ESG roadmap. Moving forward in 2024 and beyond, work will focus on integrating ESG considerations into longer-term processes such as procurement, external reporting, budget and business planning.

PROVINCIAL LEGISLATION

Provincial legislation determines many aspects of municipal financial management, including development charges, debt issuance, budgeting, accounting and financial reporting. As the Outlook and Risk Management section below notes, changes in provincial legislation in recent years has led to fiscal uncertainty and placed unexpected pressure on the Region's financial resources.

DEVELOPMENT CHARGES

The *Development Charges Act, 1997*, provides municipalities the ability to levy development charges on new residential and non-residential development to fund growth-related infrastructure. The Region-wide development charge rates and policies set out in Regional bylaw 2022-31 were approved by Council on May 26, 2022 and effective as of June 17, 2022.

In recent years, the Province has introduced several changes to the *Development Charges Act* as part of their annual Housing Supply Action Plans, to address Ontario's housing affordability crisis. Through the *More Homes, More Choice Act, 2019*, also known as Bill 108, the *Development Charges Act* was amended to allow development charge rates to be frozen at the date of site plan or zoning bylaw amendment application and allow for-profit rental and institutional developers to pay by installments. Changes to the *Development Charges Act* were also made to provide municipalities the ability to charge interest on both frozen development charges and installment payments.

On November 28, 2022, the *More Homes Built Faster Act, 2022* (Bill 23) received Royal Assent. Bill 23 further amended the *Development Charges Act* by introducing new mandatory phase-ins of Council-approved development charge rates, as well as residential discounts and exemptions. It capped the interest rate on frozen development charges and installment payments and made some costs ineligible for development charge funding for example Housing Services, growth studies and land costs for prescribed services. Most of these changes came into effect at Royal Assent and have already reduced the Region's development charge collections. The changes relating to affordable and attainable housing exemptions have yet to be proclaimed, but further details, including potential new changes to the *Development Charges Act,* are expected in Spring 2024.

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" equal to 80% of the average of the Region's last three fiscal years of development charge collections. This provides 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. The Region met these limits in 2023.

OUTLOOK AND RISK MANAGEMENT

This section discusses significant risks and uncertainties and briefly outlines how the Region works to manage them.

PROVINCIAL DIRECTION

As part of Bill 23, the provincial government introduced new housing targets for select municipalities across Ontario, with the goal of building 1.5 million new homes by 2031. In York Region, all local municipalities, except the Township of King have a housing target. The housing targets for York Region amount to 150,000 new units by 2031. Generally, this would require growth between two and four times higher than the average pace of growth over the past ten years. While housing targets are set at the local municipality level, meeting them requires building Regional infrastructure much faster than might have otherwise been planned.

Advancing infrastructure to support the housing targets represents a risk to the Region if growth does not materialize as envisioned by the province. The 2024 budget is premised on a robust level of growth in line with achieving 60% of the housing targets overall from 2022 to 2031, with higher-than-average growth in the near-term. The Region estimates that at least an additional $2.6 billion is needed over and above the approved capital plan to fund the critical infrastructure needed to meet 100% of the housing targets.

To support municipalities in achieving this goal, the province introduced the Building Faster Fund, which provides up to $400 million in funding each year for three years to municipalities that are on track to meet 80% of their housing target. However, York Region, as an upper-tier municipality, is not eligible for this funding.

Another change resulting from Bill 23 was *Supporting Growth and Housing in York and Durham Regions Act, 2022.* It 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 will cost considerably more than the Regional solution based in the Lake Simcoe watershed that was included in previous capital plans.

Taken together, these recent changes in provincial legislation and policy direction require additional investments in growth-related infrastructure, while reducing the ability to recover these costs through development charges. Based on the changes known to date, the Region has estimated a development charge reduction of $70 million a year for the next 10 years. While the provincial government has said it would make municipalities whole, no financial support for any regional government, including York Region, has been announced.

In the meantime, the Region has created two new reserves to manage shortfalls: the Tax Levy Development Reserve for tax levy-related service areas and the Rate Supported Development Reserve for user rate-related service areas.

In December 2023, Regional Council amended the surplus management policy to allow any annual operating surpluses to be directed first to funding the Tax Levy Development Reserve. The 2024 Budget assumes that reductions in tax levy-related service areas will be funded from this source. However, as surpluses are neither budgeted nor guaranteed, there is a risk that this source might be insufficient. In that case, Council has approved a plan to use funds from the Debt Reduction Reserve to make up any difference. Council also directed that Water and Wastewater Rate Stabilization Reserves be used for reductions in user rate-related service areas.

The Region continues to advocate for adequate funding from senior levels of government and new revenue tools to help ensure it can deliver infrastructure and services needed to support housing growth.

ECONOMIC GROWTH

High inflation, rising interest rates, supply chain disruptions, warehouse scarcity and labour shortages made their marks on the Region's economy in 2023. Consumer spending was especially constrained by high interest rates and inflation. However, the outlook for 2024 and beyond is more promising. In its 2024 budget release, the provincial government projected Ontario's real gross domestic product (GDP) would grow by 1.2% in 2023, 0.3% in 2024, 1.9% in 2025 and 2.2% in 2026. Meanwhile, the Conference Board of Canada projects that Regional GDP growth will average more than 3% annually from 2025 to 2028. The Region's economy has historically outperformed that of Ontario as a whole.

In 2023, the Region added 6,000 jobs. Forecasts expect that number to grow to 10,000 annually over the next three years. Growth will be led by construction as the industry responds to demands for new housing. The financial services sector, while hurt by high interest rates, is expected to recover strongly over the next several years as inflation moderates and central banks ease monetary policy.

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, developers and other stakeholders to provide new infrastructure in an orderly way. These measures support the Region's financial sustainability.

A CHANGING POPULATION

A major fiscal concern for the Region is its ageing population since seniors need more supports as they age. 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. The Region has responded by updating its Seniors' Strategy to identify and anticipate the unique requirements of this demographic shift.

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 is a major challenge in York Region, as it is throughout the Greater Toronto and Hamilton Area and much of the rest of the country. High home prices and a scarcity of rental units threaten the ability of residents living with low income to find housing they can afford. Young people hoping to purchase their first home are also being shut out of the market. While higher interest rates kept home prices relatively stable in 2023, average prices ranging from $973,000 to $2.3 million remained well above affordability thresholds for most households.

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.

The Region began developing its Environmental, Social and Governance (ESG) strategy in 2023. The Finance department is leading a cross-functional ESG working group dedicated to designing action plans for the ESG roadmap. Moving forward, work will focus on integrating ESG considerations into longer-term processes such as procurement, external reporting, budget and business planning.

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

As residents rely more on web-based applications to interact with the Region, the risk of cyber-attacks also increases. Third parties constantly attempt to breach systems, whether to steal information, interrupt services or extort funds. The Region has created a new training program to educate staff on how to better protect its data and infrastructure through planning simulations, targeted training materials and by regular testing of employees on their security knowledge. Meanwhile, the Region continues to improve its protocols to guard against and respond to, emerging threats.

CONCLUSION

York Region’s strong financial results for 2023 demonstrate its ability to maintain fiscal health despite pressures at both the global and local levels.

Changes resulting from provincial measures, especially Bill 23, continue to present fiscal challenges. We look forward to greater clarity and additional details from the provincial government.

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
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