ATTACHMENT 1

The Regional Municipality of York

2020 Long-Term Debt Management Plan

York Region

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Council's annual affirmation of the Long-Term Debt Management Plan is one of the two conditions required in order for York Region to access the growth-related cost supplement component of its Annual Repayment Limit (ARL). This supplement allows York, if it wishes, to borrow more than it would otherwise be permitted under provincial regulations.

Although the 10-year debt projection prepared as part of the 2020 Budget does not envisage the need to use the supplement, the additional flexibility provided by it would allow York Region to finance other major projects not currently reflected in its proposed 10-year capital plan. As a result of York maintaining its Aaa credit rating with Moody's Investor Service and its AA+ credit rating from S&P Global Ratings in 2019, it has already satisfied the second condition required under the regulation.

The 2020 Long-Term Debt Management Plan uses a revised development charge collections forecast. The new forecast shows that collections could be reduced by $521 million to $3.3 billion over the next 10 years. This is the result of lower than previously anticipated development activities and changes to provincial legislation. Consequently, there is an increase in anticipated debt requirements of $611 million during this period. As in prior years, no new tax or rate-supported debt is forecasted.

Total reserves are expected to grow moderately and could reach $5.1 billion by 2029.

Background

Municipalities in Ontario may only issue debt for capital purposes. The Province regulates the amount of municipal debt and other financial obligations through an annual repayment limit regulation (ARL) under the Municipal Act, 2001.

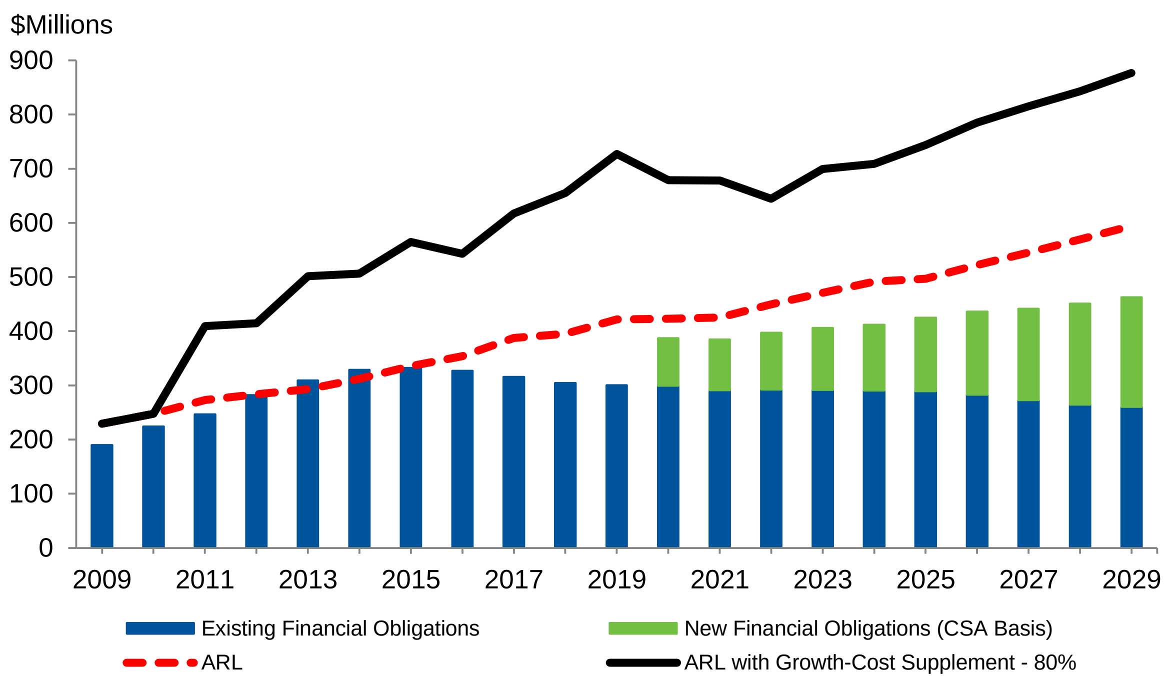
In 2011, the Province recognized that York Region is a high growth municipality with unique debt requirements and provided a York-specific regulation that allows it to borrow a higher amount based on its development charge collections. The York-specific regulation expires on December 31, 2021.

The annual repayment limit restricts the aggregate annual cost of servicing the anticipated long-term debt and 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 will be referred to as the annual repayment limit in this plan.

In the absence of the growth-related cost supplement, as illustrated on the red dotted line in Figure 1, the Region would have breached the annual repayment limit in 2013 and 2014.

Figure 1

Annual Repayment Limit Actual and Forecast



Source: York Region Finance Department. Actual amounts between 2009 and 2019. Forecast amounts between 2020 and 2029.

The Region meets both conditions to qualify for the 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 from Moody's Investor Service or AA– from S&P Global Ratings (or equivalent) credit rating; and

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.

As of October 2019, the Region had met the first condition by maintaining an Aaa credit rating with Moody's Investor Service and receiving a AA+ credit rating from 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. The long-term debt and financial obligations needs over a multi-year period;

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

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

4. A 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 2020; and

7. Evaluation and comparison of 2019 projections and outcomes.

1. The Long-Term Debt and Financial Obligations Needs Over a Multi-Year Period

The fiscal strategy guided the preparation of the 2020 Budget

When preparing the 2020 Budget, staff followed the principles of the fiscal strategy, which was first approved by Council for the 2014 Budget, to help better manage the Region's financial resources. A major tenet of this strategy is to use a more balanced approach when funding long-term capital expenditure. To accomplish this, there is a detailed annual review of both the forecasted capital expenditure and the 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 2020 Budget is $479 million higher than last year's 10-year capital plan (Figure 2). The increase in the 2020 Budget incorporates roughly $200 million of new draws from the Roads Capital Acceleration Reserve to fund the acceleration of priority road projects and additional $136 million of additional draws from asset management reserves to fund asset rehabilitation and replacement needs.

Figure 2

Fiscal Impacts at a Glance

	2019 Budget ($Billions)	2020 Budget ($Billions)	Change ($Billions)
10-year Capital Plan	6.6	7.1	0.5
New DC debt in the next 10 years	1.8	2.4	0.6
New housing related debt in the next 10 years	<0.1	<0.1	0.0
Tax-levy debt in the next 10 years	0.0	0.0	0.0
Rate-supported debt in the next 10 years	0.0	0.0	0.0
Debt repaid over next 10 years	2.1	2.3	0.2
Increase in reserves in next 10 years	3.0	2.4	(0.6)
DC collection in the next 10 years	3.8	3.3	(0.5)

Source: York Region Finance Department

The Region's need for new long-term debt during the 2020-2029 period is expected to be $2.5 billion, which is approximately $611 million higher than last year's 10-year capital plan of $1.9 billion. The increase of $611 million in new debt is largely attributable to the $521 million decline of development charge collections to $3.3 billion. The 2020 development charge collection forecast is discussed in more detail in section 3 of this plan.

The use of tax levy Debt Reduction Reserve will avoid approximately $436 million of new tax levy debt over the next 10 years.

The phase-in of full cost recovery for water and wastewater services that began in 2016 is expected to permit the Region to continue avoid issuing new user rate debt.

Overall reliance on debt increases in the next 10 years

The Region's overall reliance on new debt in the 10-year 2020 Capital Plan increases due to a lower development charge collections forecast. As the development charge collections forecast is highly dependent on the growth assumptions being used, staff used a more conservative growth forecast when preparing the 2020 Budget to help reduce financial risk including the need to incur unanticipated debt and/or defer capital projects.

Capital spending authority is based on existing and future project commitments. Capital spending authority provides 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.

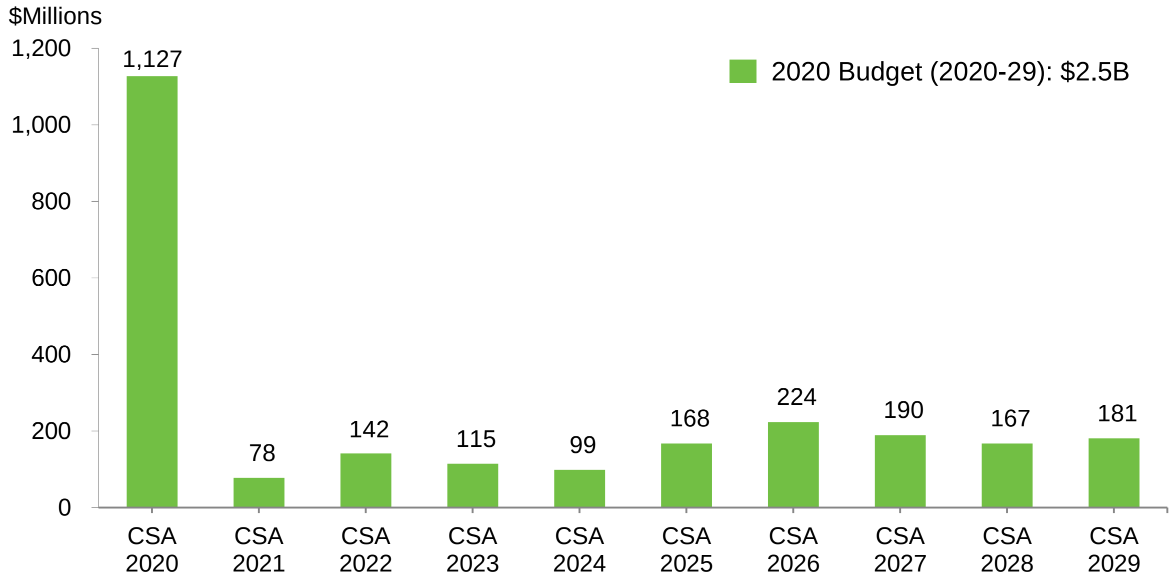
Approximately $1.1 billion (or 45 per cent) of the $2.5 billion in projected debenture requirements has been included within the capital spending authority for 2020, as illustrated on Figure 3. This amount includes carry forward of unused capital spending authority from 2019. In contrast, approximately $363 million (or 18 per cent) of the $1.9 billion in the projected debenture requirements was included within the capital spending authority for 2019.

The capital plan also contains projects with an estimated debt of about $1.4 billion that are planned, but do not yet have capital spending authority. For the purposes of this Debt Management Plan, Finance has estimated the future debt requirements for each year of the plan on a capital spending authority basis[1]. Figure 3 illustrates the amount of new debt to be issued on a capital spending authority (CSA) basis. For example, the Region will seek Council authorization to issue $1.1 billion of new debt to commit to capital projects within the capital spending authority for 2020. However, the actual capital expenditure associated with this debt is expected to flow over 10 years: $177 million in 2020, $205 million in 2021, $155 million in 2022, $123 million in 2023, $123 million in 2024, $107 million in 2025, $99 million in 2026, $75 million in 2027, $44 million in 2028 and $19 million in 2028.

[1] Capital Spending Authority (CSA) is the authority from Council to commit funding to a capital project. The authority may span several years for multiyear projects and is based on departmental spending estimates. The 2020 Budget will approve one year of multi-year capital spending authority for 2020.

Figure 3

Multi-Year Forecast of New Debt to be Issued

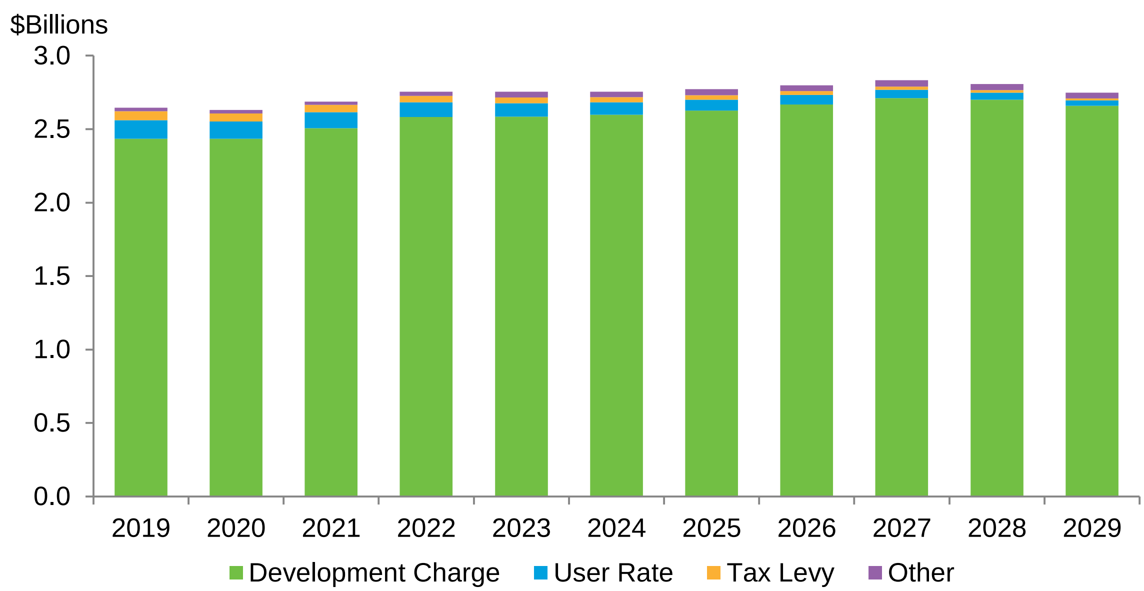


Source: York Region Finance Department

Assuming that 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 outstanding debt will stabilize over the next ten years as illustrated on Figure 4.

Figure 4

Outstanding Net Debt Projection



Source: York Region Finance Department

2. Projections of the 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 three-year rolling average of historic development charge collections (derived from the development charge collection forecast). The existing and proposed annual financial obligations must be within this limit. These calculations are shown in Appendix 1.

Based on these calculations, the Region's annual repayment limit will increase from $679 million in 2020 to $877 million by 2029, as illustrated on the solid black line in Figure 1. This limit assumes the province grants renewal of the York-specific growth-related cost supplement.

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

The annual payments for existing debt and other financial obligations will total approximately $299 million in 2020, but are estimated to decline to approximately $260 million by 2029. 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. The annual payments on existing debt only are expected to decrease from $271 million in 2020 to $244 million by 2029 as the debt is repaid. The hospital financing reserve contributions reflect committed projects and assume the Region's annual assessment growth rate of approximately 1.5 per cent per year, rising from $7.0 million per year in 2020 to $7.9 million per year by 2029. The Region is also expected to contribute approximately $1 million annually to the Innovation Investment Reserve towards a commitment of $25 million for the new York University campus located in the City of Markham.

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 2020 budget process, the Region must have sufficient room under its 2020 annual repayment limit to recognize the full financial cost of the projects "as if" they were going to be incurred entirely in 2020, 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 2020 Budget is $7.1 billion, of which $2.5 billion will be debt financed. Assuming a weighted average annual interest rate of 3.92 per cent and a term of 20 years, the annual obligation arising from the $1.1 billion debt capital spending authority required in 2020 will be approximately $88 million.[2]

The annual debt payments related to each year's increment have been calculated on the same basis as the 2020 capital spending authority, except that the assumed weighted average interest rate is projected to increase to 4.50 per cent by 2029. As a result, the financial obligations associated with new debt-related capital spending authority will increase to $203 million by 2029.

Will the Region be within its annual repayment limit?

Figure 1 shows that the Region's financial obligations will be well within its annual repayment limit for all years.

Based on the proposed debt capital spending authority for 2020, discussed previously, the Region will also be well within its annual repayment limit, as shown in Figure 5 below.

Figure 5

Region's 2020 Annual Repayment Limit Calculation ($Millions)

Component Description	Forecast 2020
25% of Own Source Revenues	423
Plus: Growth Cost Supplement[3]	256
Total Annual Repayment Limit	679
Less: Existing Debt Payment and Financial Obligations	299
Less: Anticipated New Debt Payment	88
Remaining Annual Repayment Limit	292

Source: York Region Finance Department

[2] The 2020 repayment obligation of $88 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.

[3] Growth Cost Supplement in 2020 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2017-2019 inclusive).

3. Risk and Mitigation Strategies Associated with the Long-Term Debt Strategy, including Interest Rate Risk and Foreign Currency Exposure

Anticipated development charge collections represent one of the most significant risks to debt management

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 development charge collections (derived from the development charge collection forecast).

Development charge collections are difficult to predict from one year to the next and can vary significantly as economic conditions change over time. Collections lower than forecast could limit the Region's debt borrowing ability to levels below that indicated in this plan and require changes in the phasing of the capital plan. Staff reviews development charge collection trends and forecasts annually to enable further changes before finalization of the capital plan during the budget process.

This year's long-term development charge collections forecast also takes into account the anticipated impact of Bill 108, the More Homes, More Choice Act, 2019. Bill 108 is expected to result in delayed cash flow and potential permanent revenue loss. Bill 108 also introduced a new regime for funding certain growth-related services called Community Benefits Charges. For York Region, Community Benefits Charges will replace development charges to fund public health, court services, senior services, and social housing.

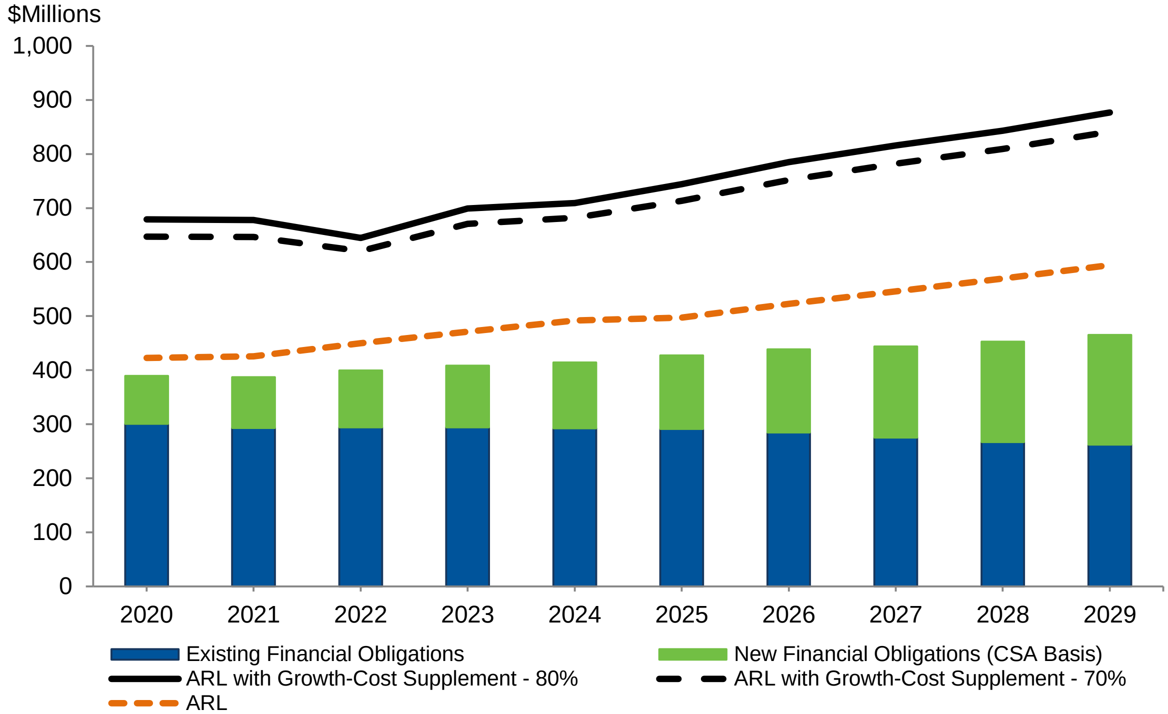
Although Bill 108 received Royal Assent in June 2019, as of November 2019 it had not yet been proclaimed and related regulations were still under development. As well, in November 2019 the province tabled Bill 138, which could further amend Bill 108. Given these uncertainties, the Region's estimate of potential impacts, which is based on information available as the Fiscal Strategy was developed, may be subject to change.

The capital plan is measured against an adjusted annual repayment limit

As a matter of normal practice, the capital plan is measured against an adjusted annual repayment limit that uses only 70 per cent of the three-year rolling average of historic 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 historic development charge collections as a cost supplement is illustrated on Figure 6, which shows that the Region's obligations would still be well within its annual repayment limit even if only 70 per cent of forecast development charge collections are considered as a cost supplement.

Figure 6

Adjusted Annual Repayment Limit



Source: York Region Finance Department

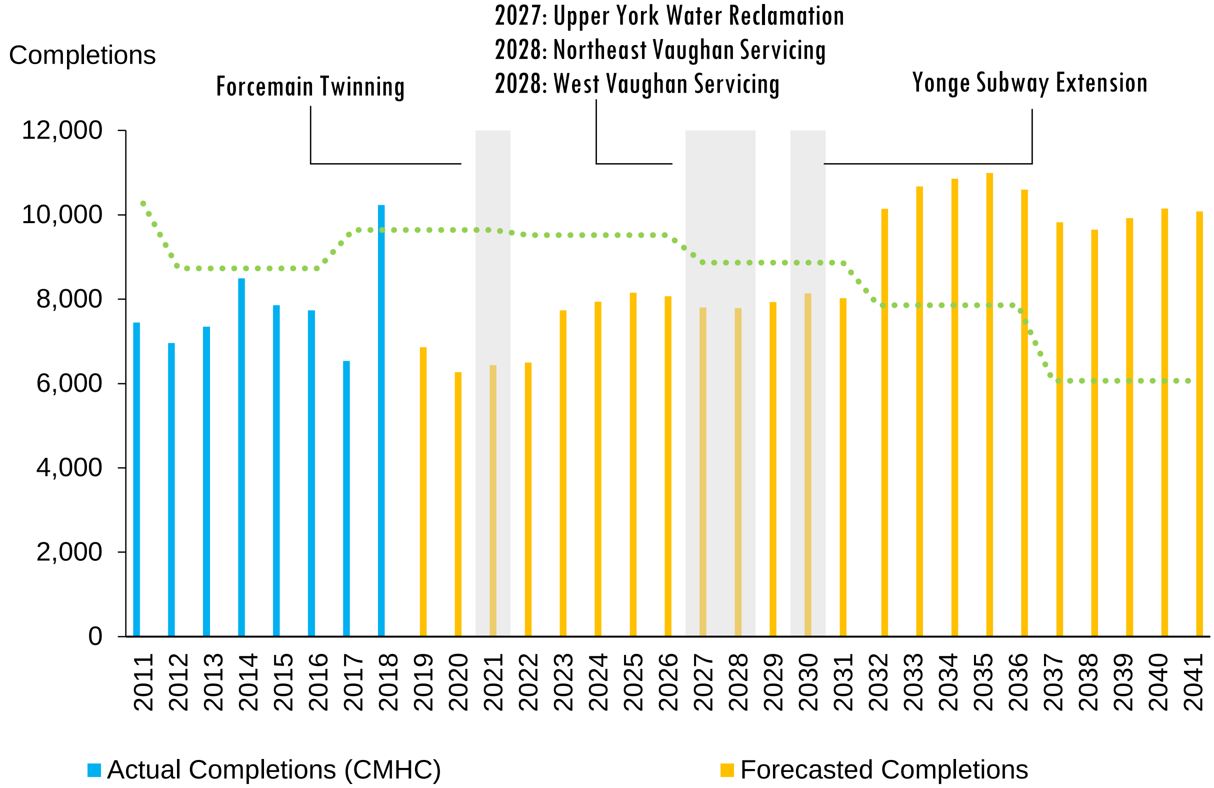
The Region's long term development charge collection forecast assumes a level of development in line with the Growth Plan growth target

Development charge collections are highly dependent on the pace of growth and development. Firstly, the Region's development charge rates are determined on the assumption that the growth targets set out by the Official Plan will be realized. Secondly, annual development charge collections are a direct function of actual growth as measured by the number of housing units and the total square footage of non-residential development.

The Region's financial models are built on the assumption of a conservative level of development activity in the short and medium term, and a high level of growth in the long term to reach the level of development needed to support the 2041 Growth Plan population target. This trajectory of projected development is informed by recent market data. The models assume that from 2019 to 2041, there will be 8,700 new housing units 3.7 million square feet of new non-residential development annually (Figure 7).

Figure 7

Actual and Forecasted Completions



Source: Growth Plan Amendment II technical addendum June 2013, Hemson Consulting Ltd., CMHC

The Region currently has servicing capacity for 223,000 persons to 2026

The [2019 Water and Wastewater Capacity Assignment to Support Growth] was developed in consideration of York Region's Fiscal Strategy, in accordance with the approved 10 Year Capital Plan, including the Upper York Sewage Solutions (UYSS) project as well as other key water and wastewater infrastructure required to service growth (e.g. West Vaughan Servicing and Northeast Vaughan Servicing). Forecasts indicate that total available capacity is 223,000, and is expected to meet growth to 2026.

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.

Being vigilant and improving growth forecasting accuracy also helps provide a better understanding of both overall population growth and specific areas where growth occurs.

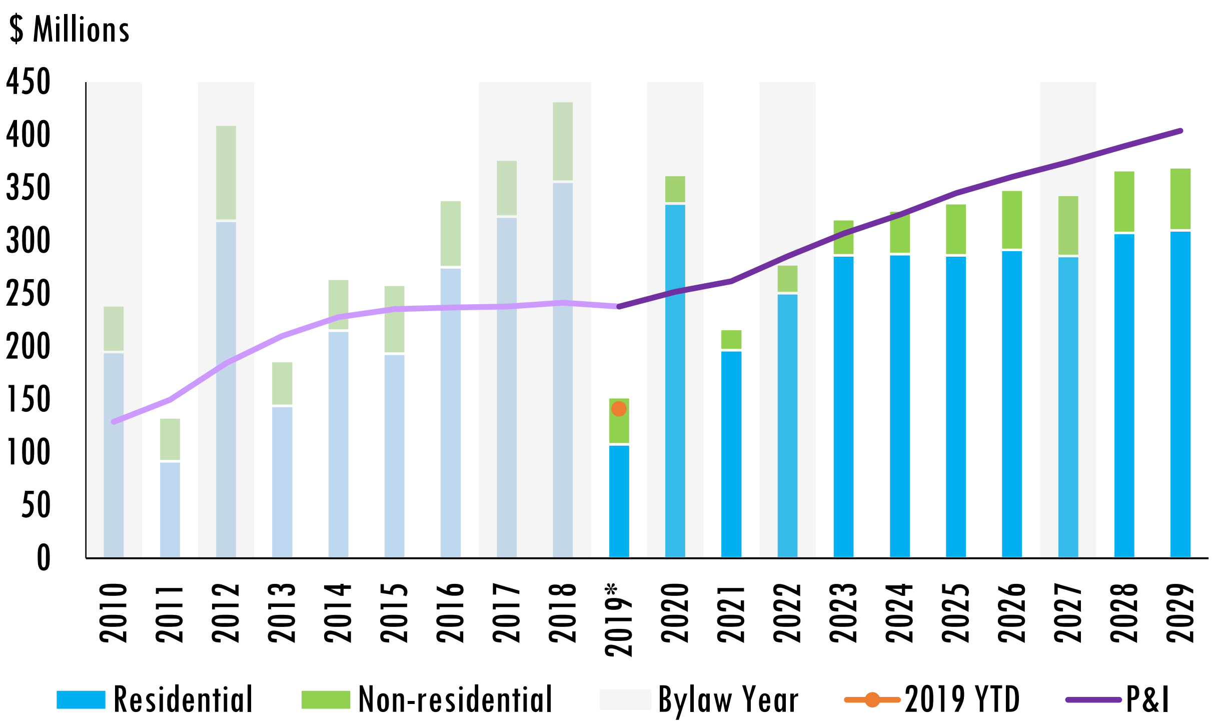
Development charge collections fund new growth-related infrastructure and service growth-related debt

From 2010 to 2019, principal and interest payments on development charges (DC) debt averaged $209 million annually and was paid from DC collections. For the next 10 years, approximately $330 million will be needed annually for the principal and interest payments. Development charge collections above this level could be used to fund new growth-related projects.

Under the new forecast, average total DC collections and future Regional community benefits charges are expected to be $330 million per year, which is approximately equivalent to the average one-year interest and principal payment (Figure 8). The new forecast is lower than previous projections due to the impact of Bill 108 as well as the slowdown in the housing market.

Figure 8

Historic and Forecasted Development Charge Collections and P&I



* As of October 31st, 2019

Note: The forecast includes future Regional community benefit charge revenue

Source: York Region Finance Department

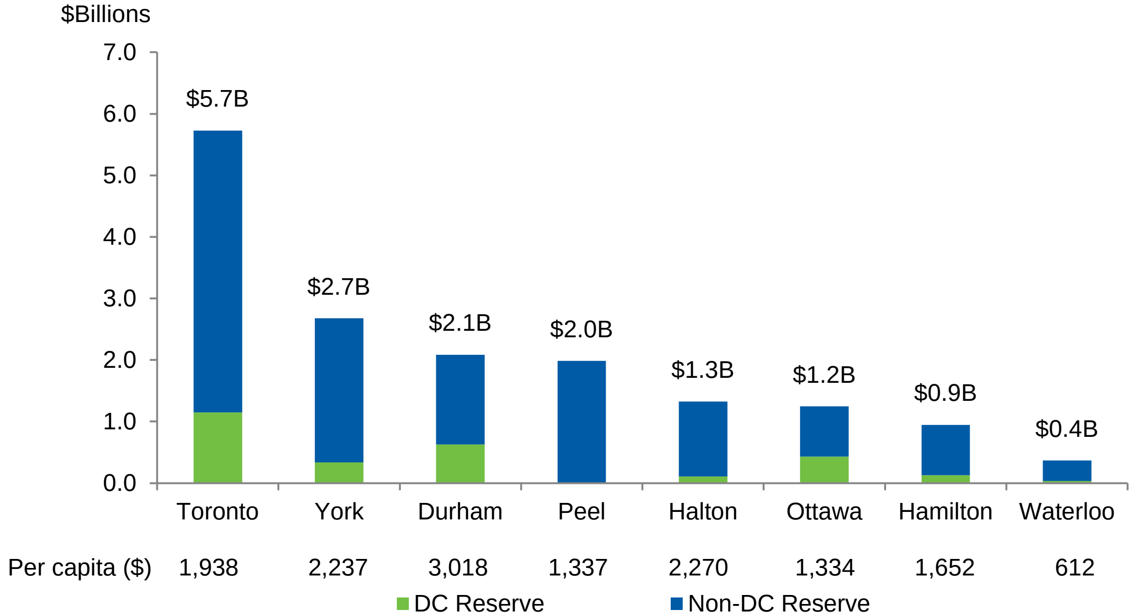
Lower than expected development charge collections in any given year may result in a decrease in liquidity and debt servicing ability. The Region maintains significant non-development charge reserves (Figure 10) that could be used to fund development charge-related debt servicing costs on an interim basis, should the need arise.

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 also protect against non-capital long-term liabilities and external shocks. The Region has been successful in building up a high level of reserves that are above the weighted average per capital of comparable municipalities, as shown on Figure 9.

Figure 9

Comparison of 2018 Reserves and Reserves per Capita

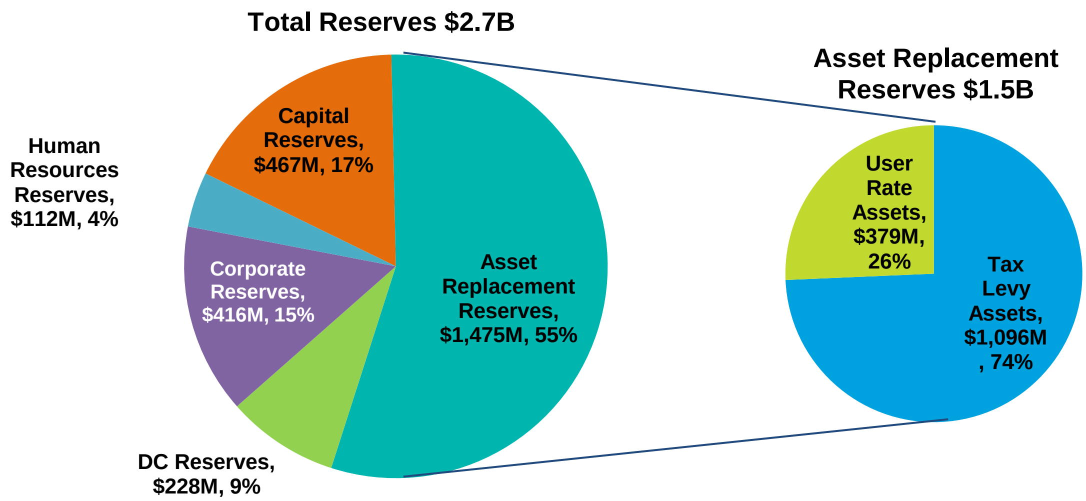


Source: 2018 Financial Information Returns (FIR)

The Region has 59 reserves, which have been broadly categorized into asset replacement, capital, corporate, development charge and human resource reserves. These reserves are estimated to be approximately $2.7 billion by the end of 2019; they are described In Figure 10.

Figure 10

Composition of Reserves Estimated as at December 31, 2019



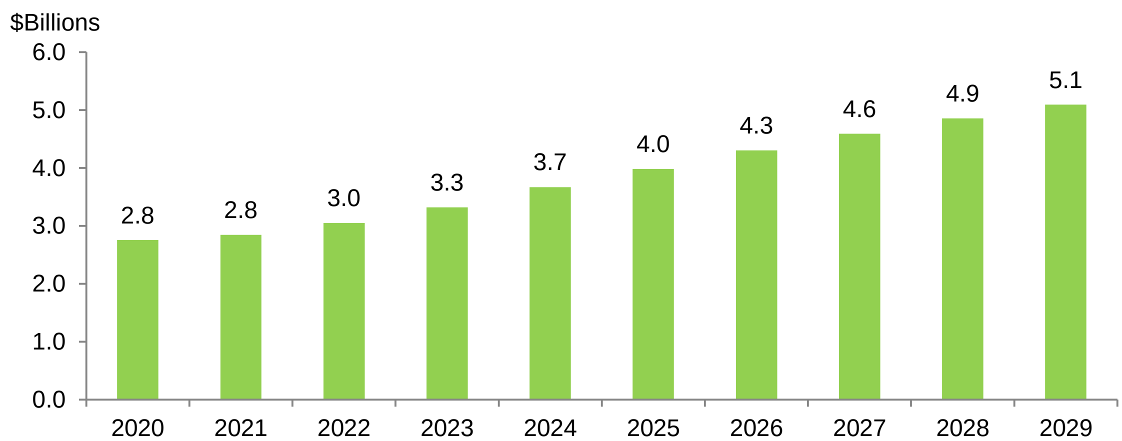
Source: York Region Finance Department

Total reserves are expected to grow moderately and reach $5.1 billion by 2029

As part of its fiscal strategy, York Region continues to maintain and build reserves. Figure 11 shows the expected reserve projection in which total reserves could grow to approximately $5.1 billion by 2029.

Figure 11

Total Reserve forecast



Source: York Region Finance Department

York Region is a net investor in 2019

In the 2019 fiscal strategy, the Region was expected to be a net investor by 2020; however the current forecast now indicates that the target will be achieved one year earlier, in 2019. A ratio greater than 100 per cent indicates the Region is a net "investor" as opposed to a net "borrower."

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 the multi-year projects. Interest rate assumptions are summarized in Figure 12.

Figure 12

Interest Rate Forecast

Interest Rate	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Annual Estimate (%)	3.35	3.65	3.85	3.85	4.25	4.25	4.25	4.25	4.50	4.55
Weighted Average (%)*	3.92	3.73	3.91	4.03	4.25	4.28	4.28	4.28	4.50	4.50

* The weighted average interest rates apply to new debenture requirements in the 2020 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 similar to 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 reforecast future interest rate. For new debt, forecast annual repayments have been calculated at the rates noted in Figure 12 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 has 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 and approved by Council in February 2019, 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 a 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 2020

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 under a separate report to Council. In 2020, it is estimated that approximately $465 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 2020, 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.[4] The Region's estimated temporary borrowing needs noted above are well within these limits. It is Regional policy to fund these short-term needs out of reserves and this is expected to continue in 2020. 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 2019 Projections and Outcomes

As Figure 13 shows, the Region was in compliance with its annual repayment limit for 2019.

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[4] 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.

Figure 13
Region's 2019 Annual Repayment Limit ($Millions)

Component Description	Forecast	Actual	Difference
25% of Own Source Revenues	422	422	–
Plus: Growth Cost Supplement[5]	300	306	6
Total Annual Repayment Limit	**722**	**728**	**6**
Less: Existing Debt Payment and Financial Obligations	302	301	(1)
Less: Anticipated New Debt Payment	27	27	–
Remaining Annual Repayment Limit	**393**	**400**	**7**

Source: York Region Finance Department

The favourable difference of $6 million in growth cost supplement shown in Figure 13 above was due to higher than expected development charge collections in 2018. The favourable difference of $1 million to service existing debt and financial obligations was attributable to lower refinancing rate in 2019.

The 10-year Capital Plan included in the 2020 budget has a total debt requirement of $2.5 billion over the 2020 to 2029 period. This debt requirement is $611 million higher than last year's requirement of $1.9 billion over the 2019 to 2028 period. The increase of $611 million in new debt is largely attributable to the decline of development charge collections.

After taking into account the new debt requirements, the Region's remaining annual repayment limit room lowers to $292 million in 2020 and $414 million in 2029. Overall, the Region has sufficient financial flexibility in the 2020 forecast.

8. Conclusion

The long-term debt management plan addresses the matters that Council is required to consider before adopting the Long-Term Debt Management Plan. The financing that the Region requires to fund and manage its capital plan is within its annual repayment limit. Staff will continue to assess the long-term implications of the annual repayment limit methodology as outlined in the Regulation.

[5] Growth Cost Supplement in 2019 is calculated at 80 per cent of the 3-year rolling average of development charge collections (2016-2018 inclusive).

APPENDIX 1

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 2020-2029 forecast based on information and assumptions contained in the 2020 Operating Budget.

Figure A1

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

Annual Repayment Limit determination[1]	2020	2021	2022	2023	2024
Property taxes/Payments in lieu[2]	1,095	1,138	1,189	1,240	1,294
User rates - sewage/water/solid waste[3]	332	357	385	405	421
Transportation user fees	96	77	79	83	86
Other user fees[4]	55	43	47	49	50
Provincial fines	18	15	16	16	16
Other revenue[5]	96	73	83	91	100
Total - Net revenues	1,692	1,703	1,799	1,884	1,967
25% of Net revenues	423	426	450	471	492

Annual Repayment Limit determination[1]	2025	2026	2027	2028	2029
Property taxes/Payments in lieu[2]	1,291	1,348	1,408	1,470	1,536
User rates - sewage/water/solid waste[3]	437	453	471	488	507
Transportation user fees	90	93	97	100	104
Other user fees[4]	51	53	53	55	56
Provincial fines	16	16	17	17	17
Other revenue[5]	103	126	136	147	157
Total - Net revenues	1,988	2,089	2,182	2,277	2,377
25% of Net revenues	497	522	546	569	594

Notes:

1. The calculation uses own source revenues from two years prior to the current year, corresponding to the Financial Information Return year. The annual repayment limit for 2020 is based on actual results of the 2018 Financial Information Return. The limit for 2021 is based on 2019 Operating Budget for 2019. The limit for 2022 to 2024 is based on the 2020 Operating Budget for 2020 to 2022.

2. Property taxes for the 2022 annual repayment limit calculation is based on expected results for 2020 and assume 1.48 per cent assessment growth plus 1.48 per cent net tax levy growth for a total of 2.96 per cent. Thereafter, property taxes are assumed to continue to increase 2.96 per cent annually.

3. Water and wastewater rates are planned to increase 9.0 per cent annually for 2020 and 2.9 per cent for 2021. Thereafter, rate increases are assumed to continue at 2.9 per cent annually.

4. Other user fees include revenues generated by: Social Housing, Police Services, Public Health, Paramedic Services and Planning. The 2020 Operating Budget assumes other user fees grow at an average annual rate of 3.24 per cent between2020 to 2022. Thereafter, fees are assumed to increase by an annual average of 2.00 per cent.

5. 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 2.35 per cent for 2020. Thereafter, rates of return range from 2.65 per cent to 3.55 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 2020 to 2029. The 2020 to 2029 collections forecast is generated using econometric models that differentiate between the short, medium and long terms. The development charge collection estimate for 2019 was based on the actual year-to-date collections as well and recent housing activity. Please see Figure 8 in the plan.

This year's forecast projects that development charge collections will total $3.3 billion from 2020 to 2029, which is less than what was projected for the 2019 budget. This produces an average annual amount of around $330 million for these 10 years, which is approximately one-year of principal and interest payment. The reduction in the forecast reflects the recent slow housing market.

3. 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	2020	2021	2022	2023	2024
Total own source revenues	1,692	1,703	1,799	1,884	1,967
25% of Own source revenues (A)	423	426	450	471	492
Development charge collections (3-year rolling average)	320	315	244	285	272
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	224	221	171	200	190
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	647	647	621	671	682

Component Description	2025	2026	2027	2028	2029
Total own source revenues	1,988	2,089	2,182	2,277	2,377
25% of Own source revenues (A)	497	522	546	569	594
Development charge collections (3-year rolling average)	309	328	337	342	353
Development charge cost supplement (%)	70%	70%	70%	70%	70%
Development charge cost supplement ($) (B)	216	230	236	239	247
Growth related debt and financial obligation limit (Annual repayment limit) (A+B)	713	752	782	808	842

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 2020 to 2029 annual repayment limit is calculated based on a more conservative assumption of 70 per cent.

17250 Yonge Street,
Newmarket, ON Canada
L3Y 6Z1