Clause 7 in Report No. 18 of Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting held on December 14, 2017.

7
2018 Regional Fiscal Strategy

Committee of the Whole recommends adoption of the following recommendations contained in the report dated November 22, 2017 from the Commissioner of Finance:

It is recommended that Council:

1. Adopt the updated fiscal strategy outlined in this report.
2. Affirm the 2018 Long-Term Debt Management Plan shown as Attachment 1 to this report.
3. Amend the purpose of the following reserve funds to clarify that:
    a. The Tax Stabilization Reserve is to fund unforeseeable one-time expenditures
    b. The Fiscal Stabilization Reserve is to fund temporary revenue shortfalls
4. Discontinue the following reserve funds:
    a. The Social Assistance Reserve, with the balance transferred to the:
        i. Regionally Owned Housing Reserve - $16.1 million;
        ii. Tax Stabilization Reserve - $6.0 million;
        iii. Facilities Rehabilitation and Replacement Reserve - $1.0 million; and
        iv. Non-Profit Housing Capital Repairs and Maintenance Reserve for any remaining balance
    b. The Alternative Community Living Reserve, with the remaining balance transferred to the Facilities Rehabilitation and Replacement Reserve
    c. The Insurance Claims and Certificate System Reserve, with the remaining balance transferred to the Insurance Reserve

5. Amend the Reserve and Reserve Fund Policy so that:

    a. Starting in 2018, the allocation of the annual operating surpluses will be made to reserves and reserve funds that are below their funding targets in the following order:

        i. First to the Working Capital Reserve

        ii. Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, the Workers' Compensation Reserve and the Insurance Reserve

        iii. Then to the General Capital Reserve

        iv. Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions

        v. Then any remaining funds to the Debt Reduction Reserve.

        Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

    b. The Commissioner of Finance will have the authority to rebalance reserves and reserve funds within the same funding sources as he/she deems necessary.

6. Establish an Infrastructure Reserve Fund – Police, to help fund the tax levy component of new capital projects as well as the rehabilitation and replacement of police assets, to be funded from annual budget appropriations.

7. Establish a credit facility, up to a maximum outstanding of $26.5 million, to help fund York Telecom Network's capital projects that have been approved through the 10-year Capital Plan, to be drawn from the General Capital Reserve and repaid with interest in accordance with terms and conditions set out by the Commissioner of Finance.

8. Authorize the Regional Solicitor to prepare, amend and/or repeal the necessary bylaws.

Report dated November 21, 2017 from the Commissioner of Finance now follows:

1. Recommendations

It is recommended that Council:

1. Adopt the updated fiscal strategy outlined in this report.

2. Affirm the 2018 Long-Term Debt Management Plan shown as Attachment 1 to this report.

3. Amend the purpose of the following reserve funds to clarify that:

    a. The Tax Stabilization Reserve is to fund unforeseeable one-time expenditures

    b. The Fiscal Stabilization Reserve is to fund temporary revenue shortfalls

4. Discontinue the following reserve funds:

    a. The Social Assistance Reserve, with the balance transferred to the:

        i. Regionally Owned Housing Reserve - $16.1 million;

        ii. Tax Stabilization Reserve - $6.0 million;

        iii. Facilities Rehabilitation and Replacement Reserve - $1.0 million; and

        iv. Non-Profit Housing Capital Repairs and Maintenance Reserve for any remaining balance

    b. The Alternative Community Living Reserve, with the remaining balance transferred to the Facilities Rehabilitation and Replacement Reserve

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ii. Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, the Workers' Compensation Reserve and the Insurance Reserve

iii. Then to the General Capital Reserve

iv. Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions

v. Then any remaining funds to the Debt Reduction Reserve.

Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

b. The Commissioner of Finance will have the authority to rebalance reserves and reserve funds within the same funding sources as he/she deems necessary.

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8. Authorize the Regional Solicitor to prepare, amend and/or repeal the necessary bylaws.

2. Purpose

This report updates and reports on the 2018 Fiscal Strategy, whose principles guided staff in the preparation of the 2018 Budget.

This report also seeks adoption of the 2018 Long-Term Debt Management Plan to allow the Region to access a growth-related cost supplement for its Annual Repayment Limit (ARL).

Finally, this report seeks approval for amendments to the Reserve and Reserve Fund Policy as well as a number of reserve bylaws.

3. Background and Previous Council Direction

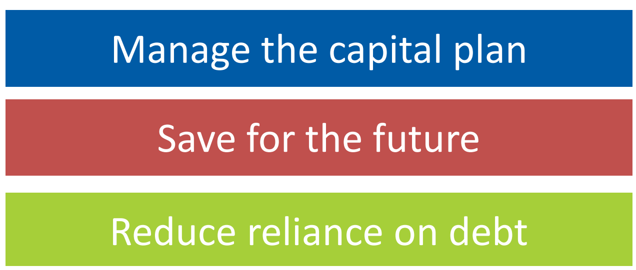
Council has had a formal fiscal strategy since 2014

In 2014, Council adopted the first fiscal strategy, which is updated annually as part of the budget. The current fiscal strategy was adopted by Council on December 15, 2016. The extract of this report can be found in Clause 6 in Report No. 19 of the Committee of the Whole.

The fiscal strategy provides the framework for managing the integration of the Region's capital plan, reserves and the use of debt

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

Figure 1: Pillars of the Fiscal Strategy



4. Analysis and Implications

First Pillar of the Fiscal Strategy - Managing the Capital Plan

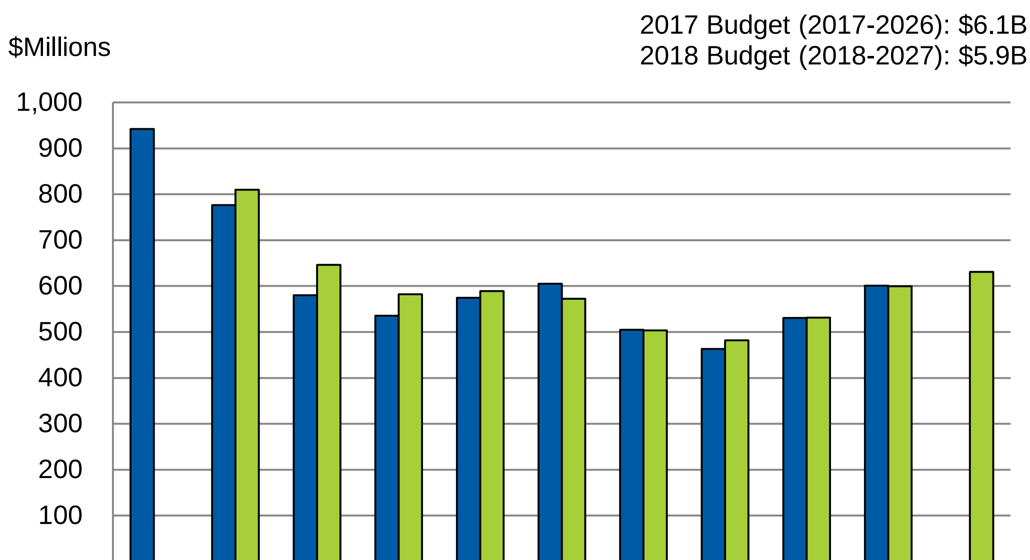
Infrastructure investment needs to match the pace of growth and associated development charge collections

Prudent management of the capital plan involves delivering infrastructure as needed while using available funding sources efficiently and reducing reliance on debt. The 2018 Budget continues with the strategy of aligning the timing of projects with the expected timing of growth and associated development charge collections. It also protects planning and development work for previously deferred projects to ensure they are construction-ready should growth pick up.

The Ten-Year Capital Plan is similar to last year

At $5.9 billion, the proposed ten-year capital plan is similar in size to last year, as shown in Graph 1. The Region's ten-year capital plan is still one of the highest among the 905 regions, as shown in Graph 2.

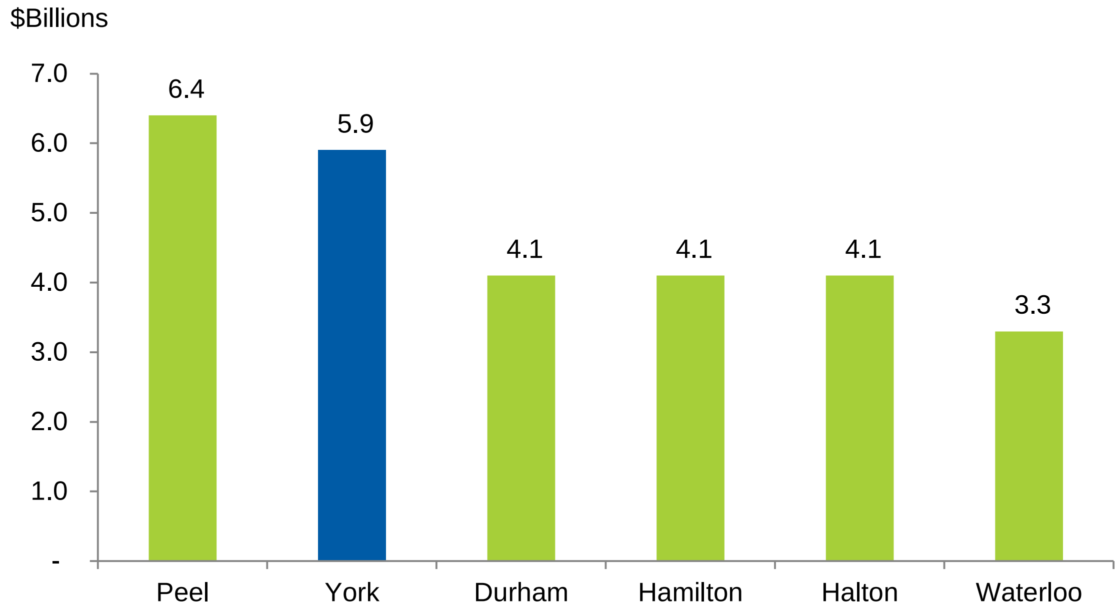
Graph 1: Ten-Year Capital Plan Comparison
2017 Budget compared to 2018 Proposed Budget



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
2017 Budget	942	777	580	536	574	605	505	463	531	601	-
2018 Budget	-	810	646	582	589	572	504	482	531	600	631

Source: York Region Finance Department

Graph 2: Comparison of Ten-year Capital Plans for the 905 Regions and Selected Others



Source: York Region Finance Department. This chart shows York's 2018 proposed 10-year capital plan and the 2017 capital plans for other municipalities.

Second Pillar of the Fiscal Strategy - Save for the Future

The second pillar of the fiscal strategy focuses on long-term stewardship by saving for the future. The Region contributes to three different types of reserves to accomplish this goal – the Debt Reduction Reserve, the tax-supported asset replacement reserves and the water and wastewater capital asset replacement reserves.

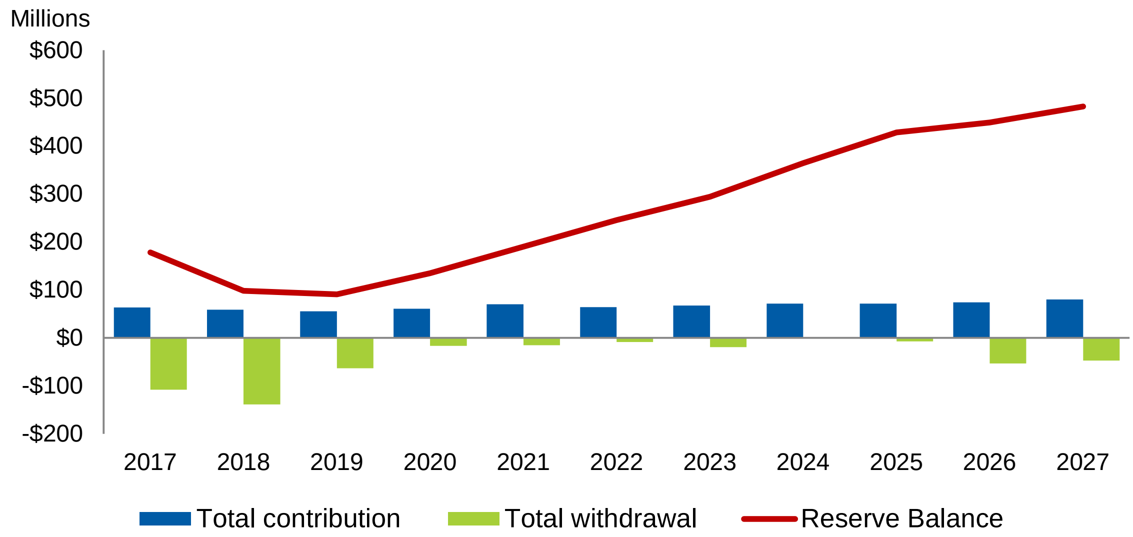
Contributions to the Debt Reduction Reserve have eliminated the need for future tax levy debt

As part of the 2014 Budget, a Debt Reduction Reserve was created to reduce or eliminate debt that was previously approved to be funded through the tax levy.

This reserve is funded by a number of different mechanisms including an annual corporate contribution of $11.8 million, contributions based on the savings from avoided debt, 50 per cent of supplementary tax revenue, and an annual allocation from the operating surplus (if available).

Through the use of the Debt Reduction Reserve, the Region expects to avoid issuing any new tax levy debt for at least the next 10 years. Graph 3 shows the transactions and reserve balances in the Debt Reduction Reserve.

Graph 3: Growth in the Debt Reduction Reserve



Source: York Region Finance Department

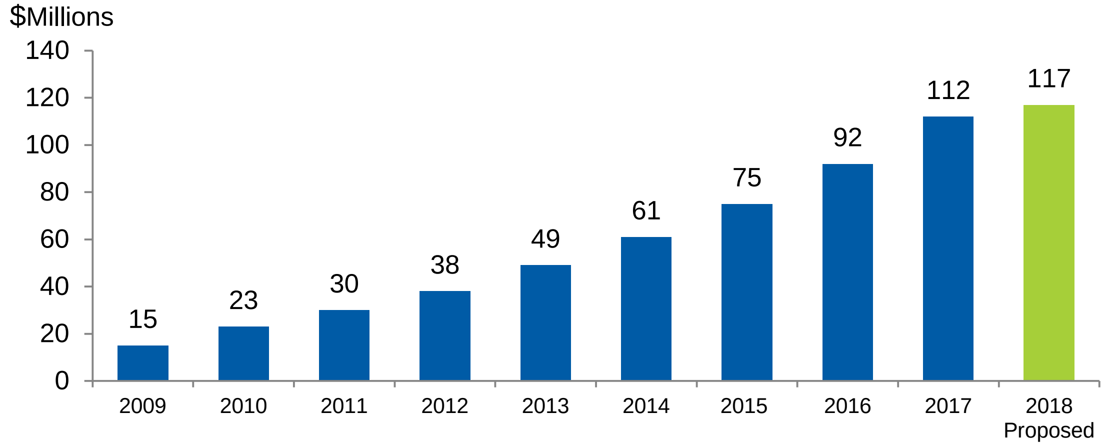
The Region continues to save for future asset replacement

The 2018 Budget continues to set money aside for future asset replacement, which ensures that reserves, rather than debt, will be available to fund this type of infrastructure when needed.

In 2013, Council approved increases to the annual tax levy contribution to the capital asset replacement reserves. The annual increase in the contribution to these reserves was initially one per cent of the prior year's tax levy. This increased each year until it reached two per cent of the prior year's tax levy in 2017. For the 2018 Budget, a 4.2 per cent increase over the prior year's contribution, totalling $117 million, has been included.

Graph 4 shows the contributions to the asset replacement reserves since 2009.

Graph 4: Rising Contributions to Tax Levy Supported Asset Replacement Reserves



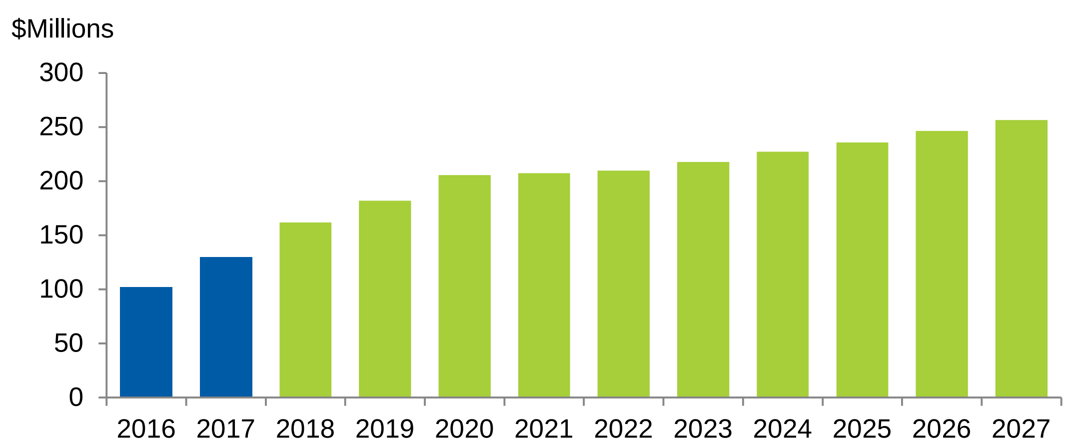
Source: York Region Finance Department

Full cost recovery user rates will build reserves to fund future water and wastewater capital rehabilitation and replacement

In October 2015, Council approved six years of rate increases in order to achieve full cost recovery for water and waste water rehabilitation by 2021. This will enable the reserves to fund all future rehabilitation and replacement requirements without the need to issue any new user rate debt and without any impact to the tax levy.

Graph 5 shows the projected annual contributions to the water and wastewater capital asset replacement reserves.

Graph 5: Contribution to Water and Wastewater Capital Asset Replacement Reserves



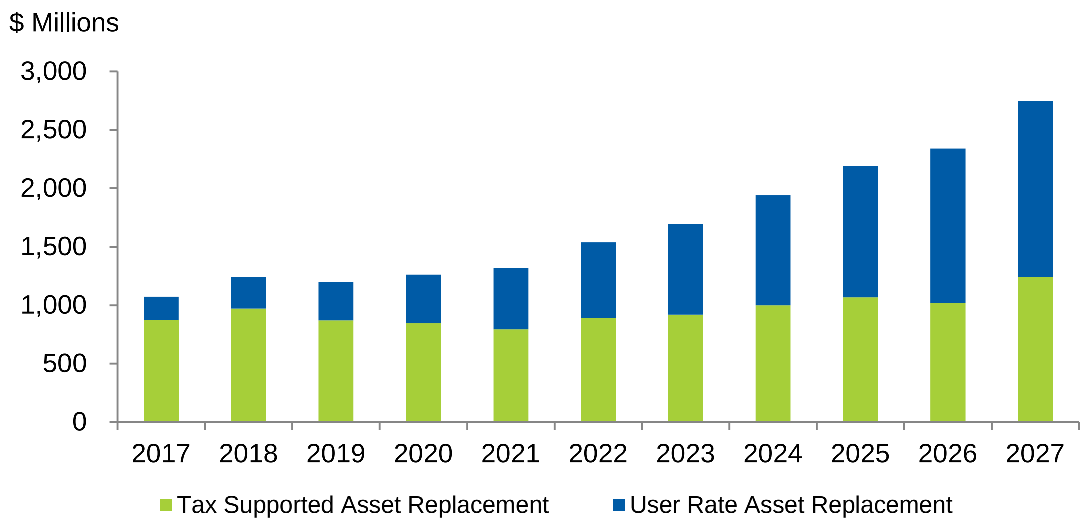
Source: York Region Finance Department

Asset replacement reserves continue to grow

Graph 6 shows the potential growth of the capital asset replacement reserves over the ten-year forecast period.

Starting with the 2018 Budget, the reserve forecast reflects potential draws for asset management needs that have been based on preliminary asset management plans. Over the next ten years, staff estimate that draws may be needed of up to $1.2 billion over and above what is in the current capital plan to fund asset management needs. These draws have not been included in the proposed 2018 Capital Plan but will be refined and incorporated into the 2019 Budget.

Graph 6: Growth in Capital Asset Replacement Reserve Balances



Source: York Region Finance Department

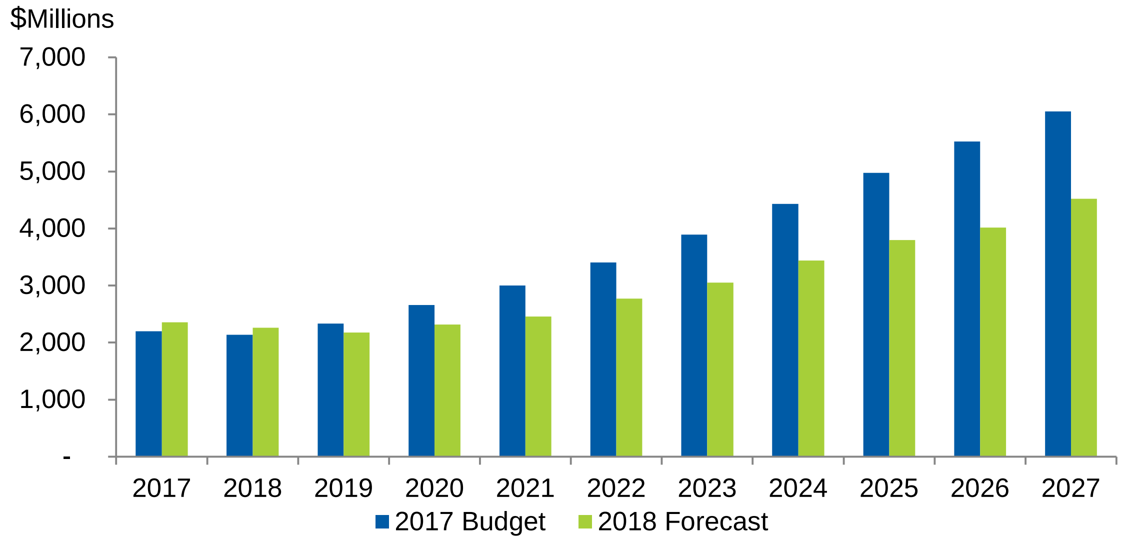
Total reserves are expected to grow moderately and reach $4.5 billion by 2027

The appropriate use of reserves is a key element of the fiscal strategy as they, provide flexibility for unanticipated expenditures, allow for the replacement of assets without major impacts on the tax levy, and supply funds for new major capital assets. As well, because the Region’s reserves consist of cash and cash-equivalent assets, they promote investor confidence.

As part of its fiscal strategy, York Region continues to maintain and build reserves, with a focus on saving for asset replacement and debt reduction. Graph 7 shows the expected reserve projection in which total reserves could grow to approximately $4.5 billion by 2027. The major difference between the

2017 Budget and the 2018 Budget projection is the inclusion of the additional draws needed to fund future asset management requirements, as discussed above.

Graph 7: Total Reserve forecast

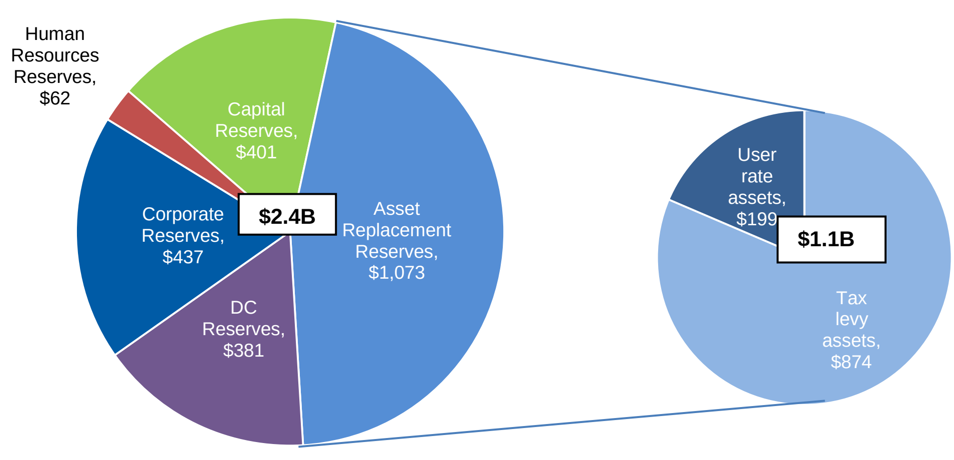


Source: York Region Finance Department

Note: 2018 forecasted reserve balances include a preliminary estimate for asset management draws above the current capital plan.

Graph 8 shows the estimated composition of the Region's reserves as at December 31, 2017, which include over $1,073 million for asset replacement.

Graph 8: Composition of Reserves as at December 31, 2017 ($Millions)



Source: York Region Finance Department

Third Pillar of the Fiscal Strategy - Reduce Reliance on Debt

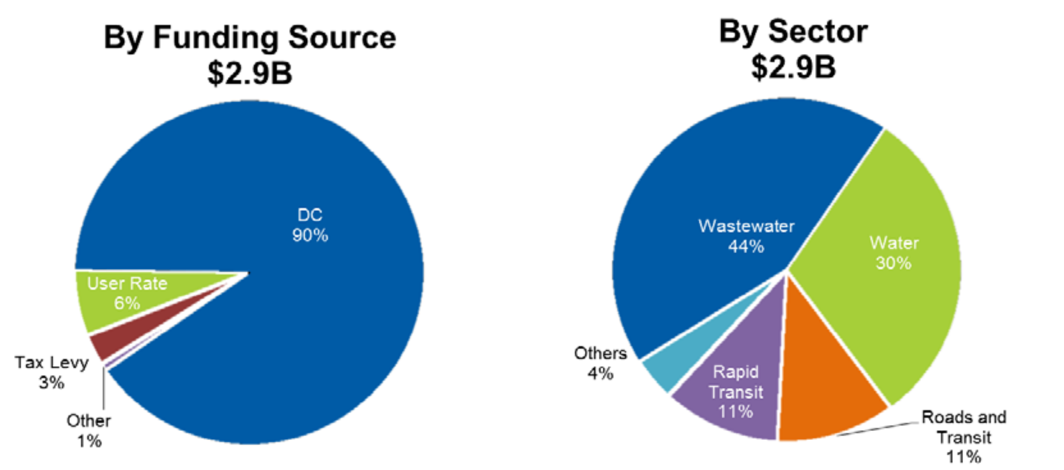
The third pillar of the fiscal strategy focuses on reducing the reliance on debt, especially debt issued to finance growth-related capital.

Reducing borrowing needs is a way to manage the risk that growth may be slower than expected, since the Region is committed to servicing its debt whether or not growth occurs. It also preserves fiscal flexibility by keeping interest costs down relative to own-source revenue.

Most of the outstanding debt is for growth-related infrastructure and will be funded with development charges

Most of the Region's infrastructure investment has been driven by the need to service growth. Building new infrastructure, such as water and wastewater assets, often requires investments in advance of future needs. In these instances, the Region must rely on debt financing, which will be mainly repaid from development charge collections as growth takes place. As shown in Graph 9, approximately 90 per cent of the outstanding debt at the end of 2017 is growth related and funded by development charges, making the matching of planned growth-related capital expenditure to actual growth very important.

Graph 9: Outstanding Net Debt – York Region as at December 31, 2017



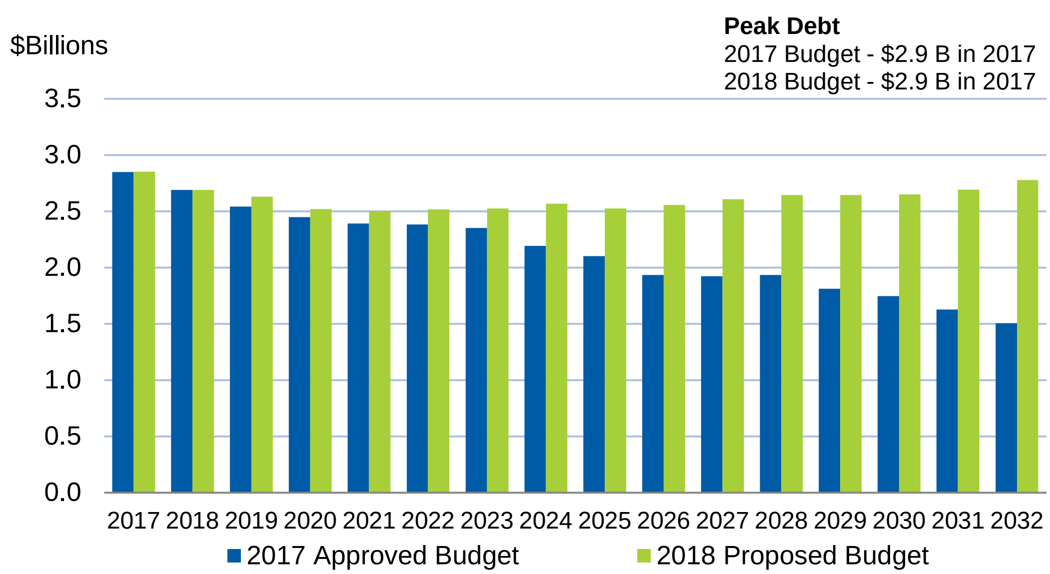
Note: Outstanding debt is an estimate and subject to change as part of year-end adjustments.
Source: York Region Finance Department

Projected debt levels have come down substantially over the last three years

Prior to the 2014 Fiscal Strategy, the Region's peak outstanding debt was anticipated to be over $5.0 billion by 2020. However, as a result of the measures taken over the last four budget cycles, the total net outstanding debt is now expected to peak at $2.9 billion in 2017.

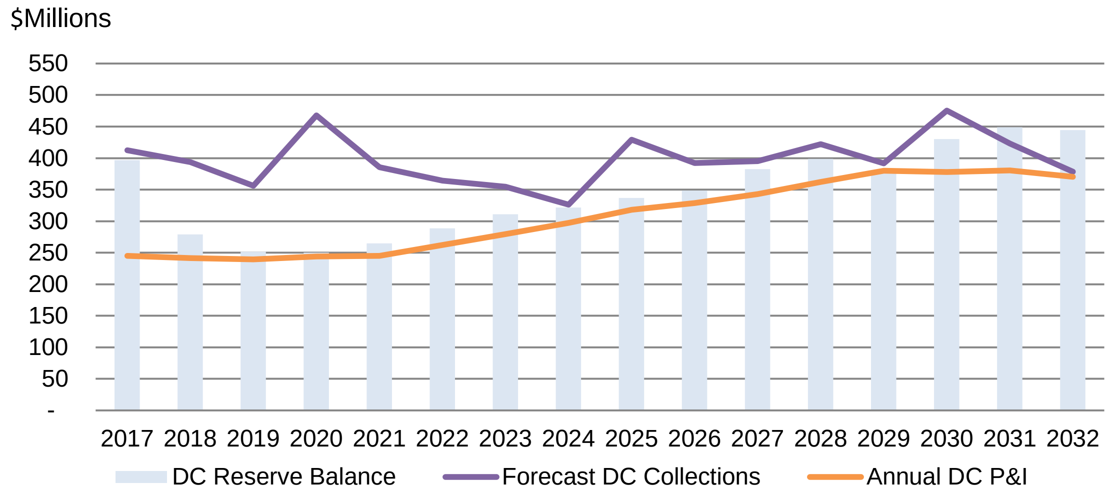
Based on the current version of the 2017 Development Charges Bylaw, collections over the next 15 years are expected to be $5.9 billion. This forecast produces a debt profile that peaks at $2.9 billion in 2017, and then declines, but rises steadily from 2022 onwards resulting from reduced forecasted development charge collections. Graph 10 shows the resulting debt projection. Graph 11 shows the development charge principal and interest and the Development Charge Reserve forecast balance resulting from this scenario.

Graph 10: Outstanding Net Debt Projection by Year (with $5.9 billion DC Collections)



Source: York Region Finance Department

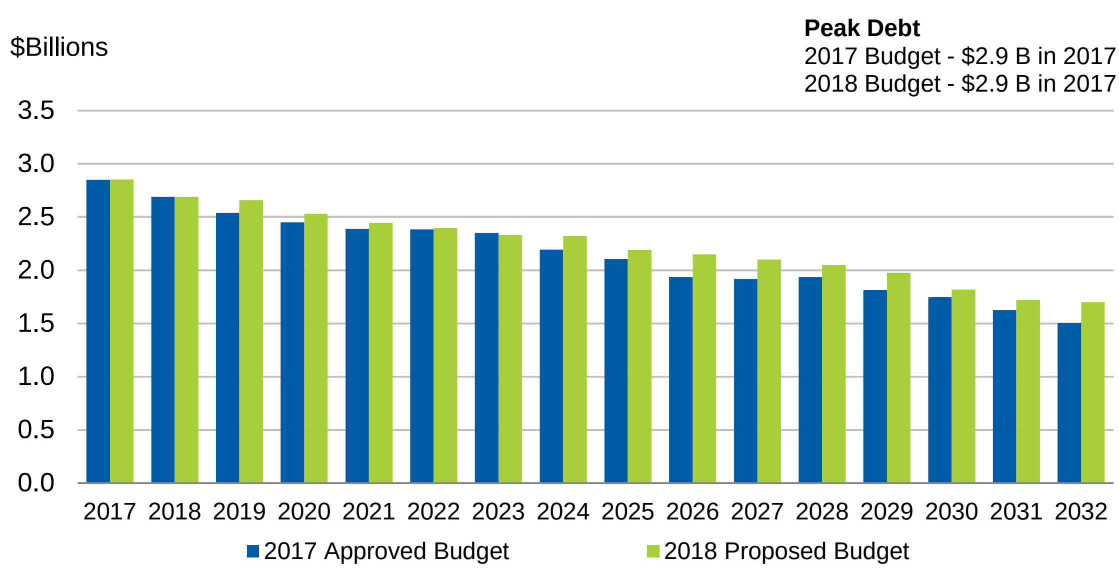
Graph 11: Development Charge P&I and Forecasted DC Reserve balance (with $5.9 billion DC Collections)



Source: York Region Finance Department

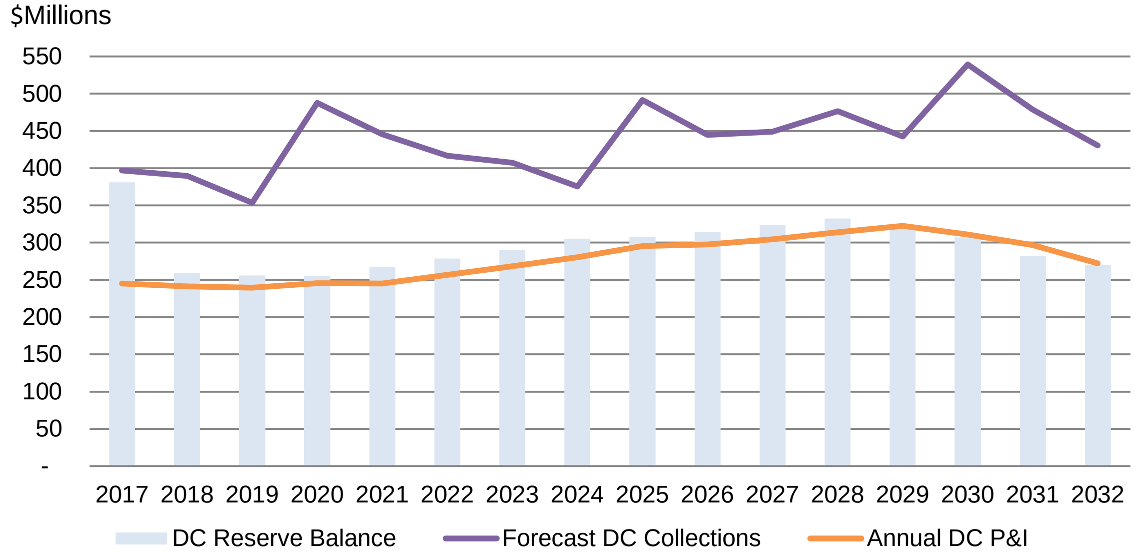
However, if Council approves an amendment to the 2017 Development Charge Bylaw in 2018 which adds the projects on Contingency List "B", then development charge collections are forecast to be $6.6 billion over a 15-year horizon. The resulting debt profile is very similar to the 2017 Budget, which peaks at $2.9 billion in 2017 but then slopes downward thereafter as shown in Graph 12.

Graph 12: Outstanding Net Debt Projection by Year (with $6.6 billion DC Collections)



Source: York Region Finance Department

Graph 13: Development Charge P&I and Forecasted DC Reserve balance (with $6.6 billion DC Collections)



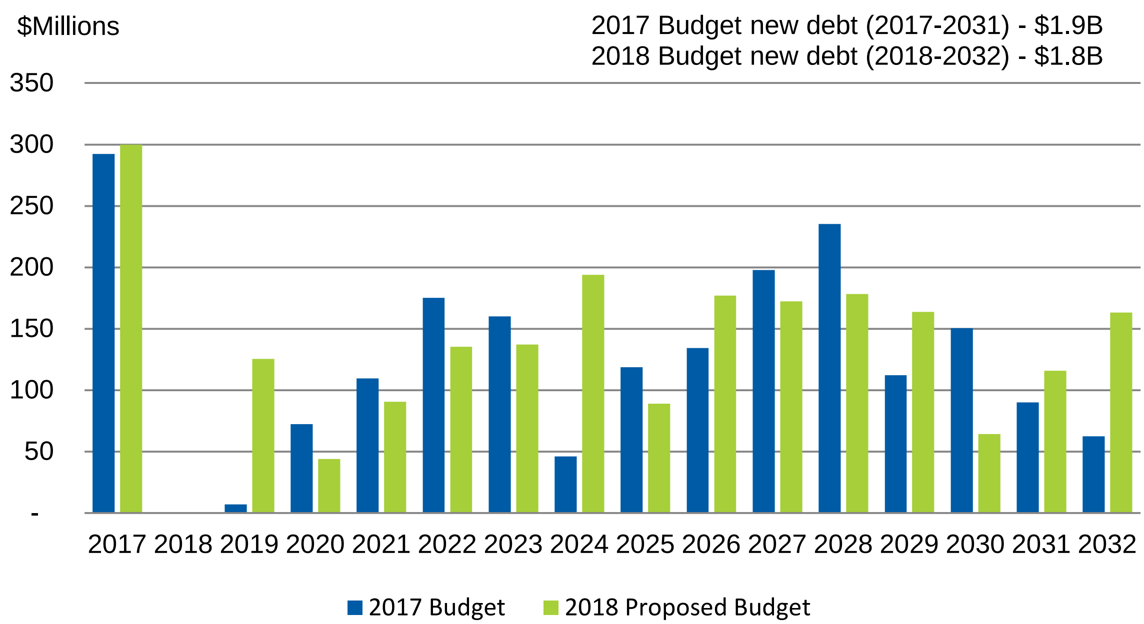
The fiscal strategy strives to reduce the need for future development charge debt

Since the 2014 Budget, the need for future development charge debt has been reduced by better matching growth-related capital with the forecast of development charge collections. The development charge reserves are used to fund projects as much as possible, while preserving liquidity levels.

The 2018 ten-year capital plan projects the need to issue $1.8 billion of new debt, which is a decrease of $0.1 billion compared to the $1.9 billion of new debt that was expected in the 2017 Budget, as shown in Graph 14.

As illustrated below, no new debt is planned to be issued during 2018.

Graph 14: New Debt to be Issued 2017 Budget compared to 2018 Proposed Budget with (with $6.6 billion DC Collections)



Source: York Region Finance Department

Debt is highly sensitive to development charge collections and capital spending

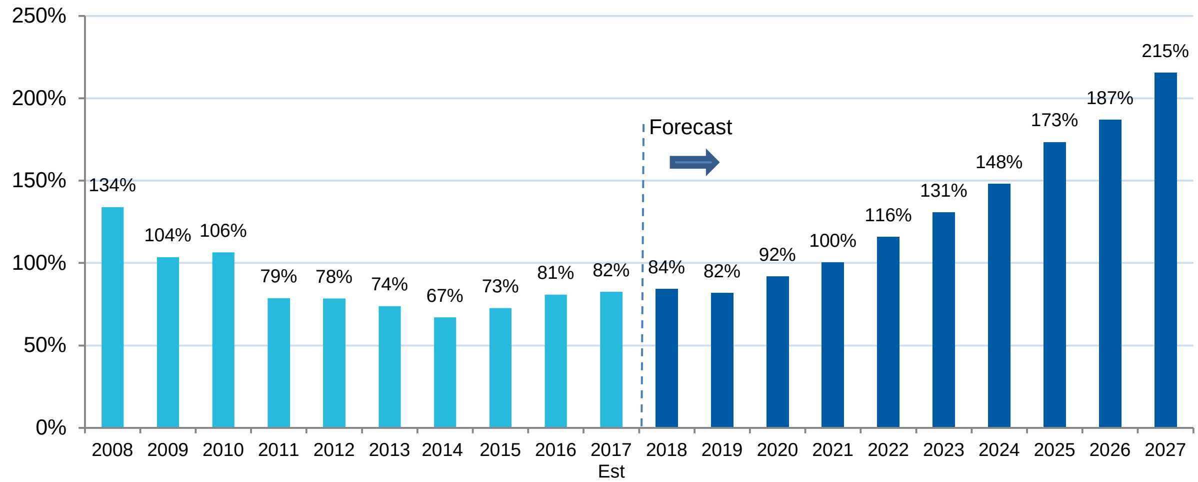
Over the long term, development charges fund growth capital projects, but debt is often required to fund infrastructure in advance of growth. Any unexpected shortfalls in development charges automatically places pressure on how much debt the Region needs. A reduction in development charge collections may require capital deferrals.

York Region is on track to become a net investor by 2021

Assuming that Council approves the amendment to the 2017 Development Charge Bylaw, peak debt will remain $2.9 billion in 2017. Also, York Region will see a significant improvement in its ratio of reserves to debt.

In the 2017 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 later, in 2021. This change is due to the inclusion of the estimated additional capital spending needed for asset management. The current forecast is shown on Graph 15.

Graph 15: Reserves to Debt Ratios



Source: York Region Finance Department

The Development Charge Collection Forecast

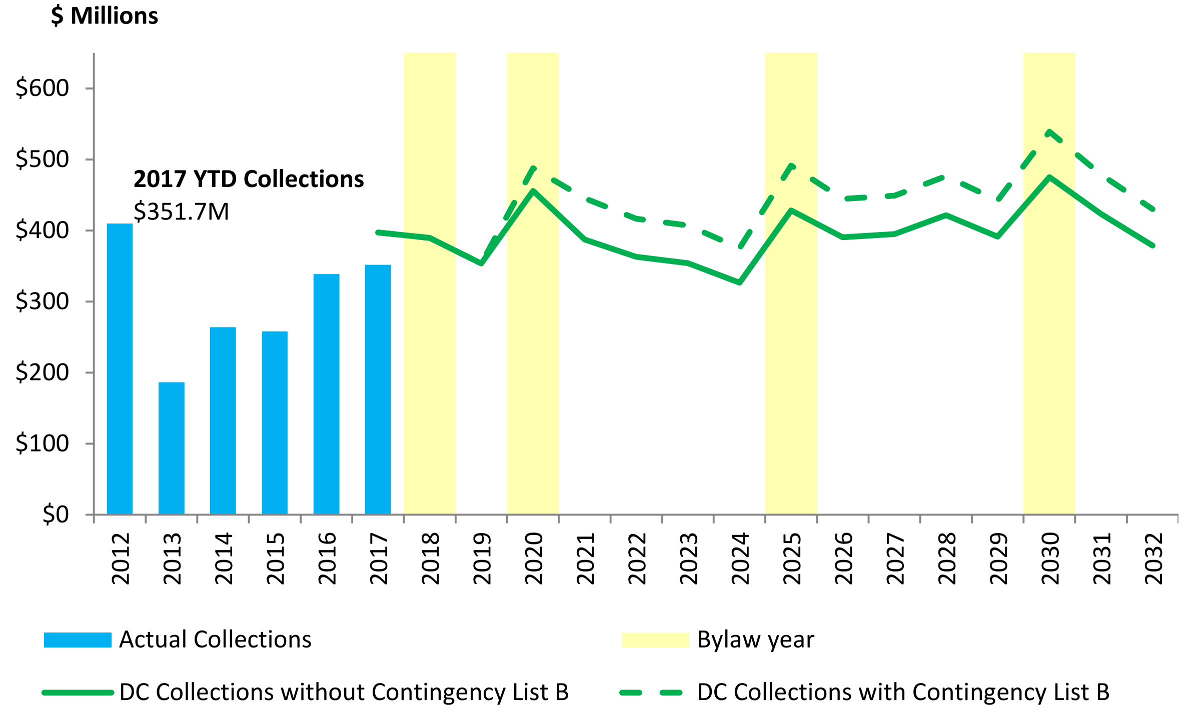
Staff have developed two scenarios for future development charge collections

When Council adopted the 2017 Development Charge Bylaw in May 2017, it also directed staff to bring back a potential amendment during the first quarter of 2018 that would add the cost of all of the roads projects in “Part B” of the Contingency Schedule to the bylaw. In total, these projects have a gross cost of approximately $1.49 billion of which approximately $1.35 billion would be eligible for recovery through development charges.

Adding these projects to the rate calculation could increase the development charge on a single and semi-detached home by approximately $9,000, or about a 19 per cent increase from the current rate.

For the purpose of developing the 2018 Budget, staff created two development charge collection forecasts (Graph 16). The first scenario assumes status quo and that the development charge bylaw would not be amended in 2018. The second scenario includes the effect of adding the Contingency List B projects into the rate calculation, which would result in higher development charge collections over the forecast period.

Graph 16: Actual and Forecast Development Charge Collections



Note: 2017 Historic Actual Collection is year to date as of October 31st, 2017
Source: York Region Finance Department

The Contingency List B collection forecast is approximately $400 million higher over the next 10 years and $700 million higher over the next 15 years than the scenario without these projects (Table 1).

Table 1
Comparison of Development Charge Collection Forecasts

($ Billions)	10-year DC Collections (2018-2027)	15-year DC Collections (2018-2032)
2017 Budget	4.2	6.4
2018 Budget – Excluding Contingency List B	3.8	5.9
2018 Budget – Including Contingency List B	4.3	6.6

While the eligible cost for these projects is approximately $1.35 billion, staff are forecasting that a lower amount would be recovered during this period due to three major assumptions.

First, it was assumed that the projects on Contingency List B could be subject to a high post period benefit deduction. This assumption has the effect of delaying the recovery of some costs to a future period. Second, the forecast has been reduced to reflect the impact of statutory and non-statutory exemptions which limit the Region’s ability to fully recover eligible costs. Third, staff are using a more conservative growth projection when forecasting development charge collections for the 2018 Budget than what was used for the 2017 Development Charge Background Study.

The development charge collections forecast is highly dependent on the growth assumptions

The Provincial Growth Plan establishes both the population and employment growth targets for York Region’s Official Plan. Both of its infrastructure Master Plans, which estimate the need for infrastructure projects, and the development charge background study, which helps fund infrastructure, are consistent with these targets.

However, since 2012 York Region’s actual residential and non-residential development has been consistently lower than what was envisaged by the Growth Plan, especially for non-residential development. (The Ministry of Finance’s annual population projection for York Region to 2041 is also currently below Growth Plan Amendment II population targets for the same period.)

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 2018 Budget to help reduce financial risk including the need to incur unanticipated debt and/or defer capital projects.

Staff are expecting robust growth in the short term and a gradual decline over the medium and long term

Both development charge collection forecast scenarios used for the 2018 Budget were based on the same underlying growth forecasts.

In the near term (2017 to 2020), housing starts are expected to average approximately 9,700 units per year. This level of housing starts is significant higher than what the Region experienced from 2012 to 2016, when housing starts averaged 8,800 units per year. The uptick in near-term unit growth forecast driven largely by robust growth in apartment starts.

Over the medium and long-term (2021 to 2037), the residential forecast is slightly less than the 2017 Budget forecast. This change is due in part to the Ontario Ministry of Finance demographic forecast released in Spring 2017, which took into consideration the latest demographic trends and envisaged a lower level of overall population growth to 2031 for York Region compared to the Provincial Growth Plan forecast.

The non-residential gross floor area forecast was revised downward compared to the 2017 Budget forecast. This change reflects the observed trend towards greater office intensification, which reduces the need for new floor space. The reduction is also informed by the Spring 2017 Ministry of Finance demographic forecast which projected lower levels of growth among working age population compared to the Provincial Growth Plan forecast.

York Region Credit Rating

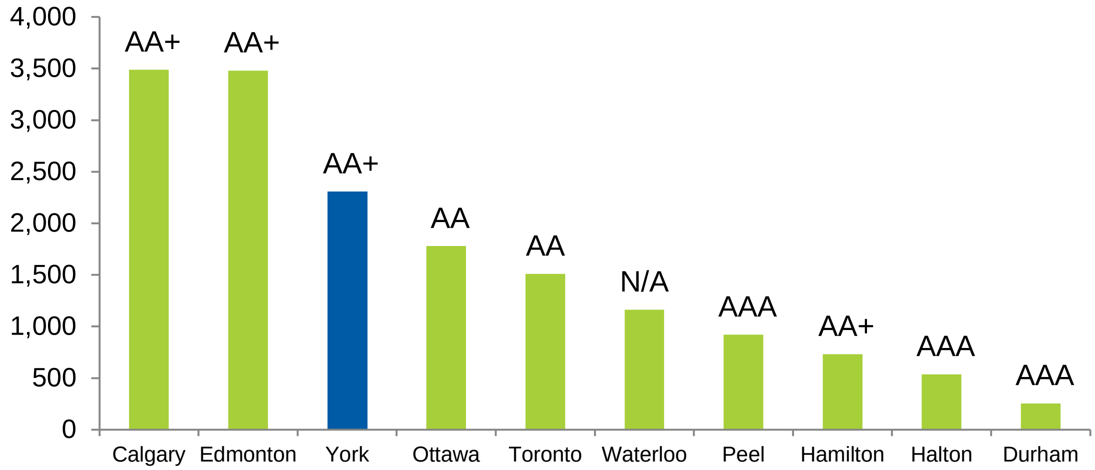
In 2017, both rating agencies reaffirmed York Region's credit ratings (Moody's Aaa/Stable and S&P AA+/Stable)

In 2017, both Moody's Investors Service (Moody's) and S&P Global Ratings (S&P) reaffirmed their credit rating for York Region supported by:

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

However, both Moody's and S&P have expressed concern about the Region's high debt burden, especially relative to other rated Canadian municipalities. Graph 17 illustrates York's debt-per-capita and S&P credit rating relative to its peers. The debt-per-capita ratio is one of the metrics used by rating agencies when evaluating exposure to economic downturns.

Graph 17: Debt Per Capita in 2016 ($)



Source: Financial Information Returns and Municipal Financial Statements (Edmonton and Calgary)

In particular, Moody's and S&P identified three factors that could lead to a future downgrade:

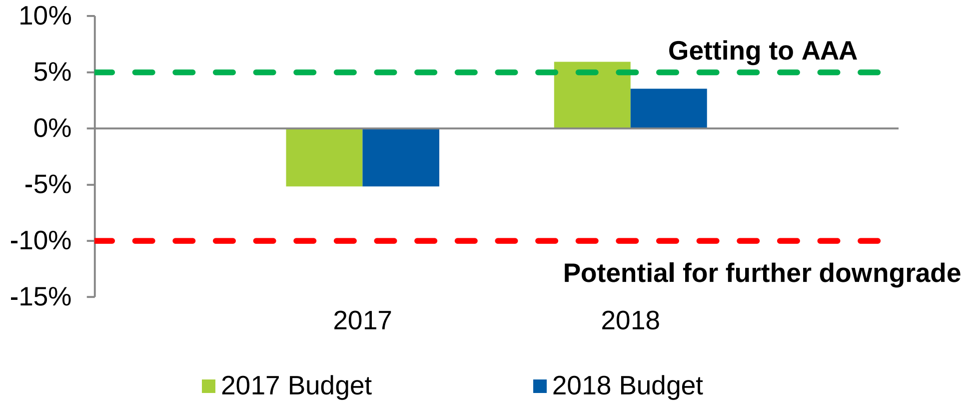
- an increase in debt issuances beyond current expectations
- a decrease in the level of cash and investments
- if York Region generated lower-than-expected revenue resulting in much weaker operating balances

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

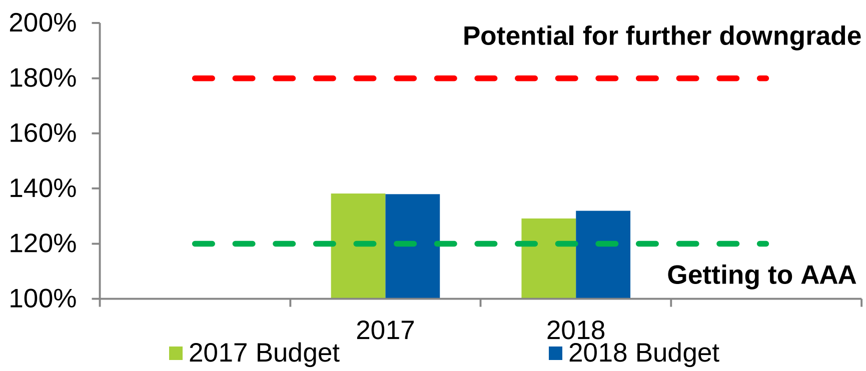
To regain a triple A rating, the Region must closely monitor its capital plan and endeavour to keep to its current debt plan, which forecast an overall decrease in net debt. The 2018 Fiscal Strategy will demonstrate to the credit rating agencies the Region's continued commitment to improve budgetary performance and to reduce its reliance on debt.

Graph 18 shows the Budgetary Performance Ratio improving to a surplus starting in 2018, while Graph 19 shows a continuing improvement to the Debt Burden Ratio. These are the two ratios S&P commented on as areas that the Region would need to improve on to regain its triple A rating.

Graph 18: Budgetary Performance Ratio
Balance After Capital Expenditure/Total Revenue



Graph 19: Debt Burden Ratio
Outstanding Debt/Operating Revenue



Source: York Region Finance Department based on S&P's methodology for rating non-U.S. local and regional governments.

2018 Long-Term Debt Management Plan

The 2018 Long-Term Debt Management Plan needs to be adopted to access the growth-related borrowing capacity

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

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. To qualify for this additional growth-related borrowing capacity, the Region is required to adopt or affirm a plan for the management of its long-term debt and financial obligations. This plan is provided as Attachment 1 to this report.

Proposed Changes to the Regional Reserve Funds and Operating Surplus Management Policy

The purposes of the Tax Stabilization Reserve and Fiscal Stabilization Reserve should be amended to better reflect their intended uses

The Tax Stabilization Reserve Fund was established in 2002 to fund both temporary tax revenue shortfalls and unforeseeable one-time expenditures. The Fiscal Stabilization Reserve Fund was established in 2012 to stabilize tax rates after the Region stopped paying for GTA Pooling, and for other purposes approved by Regional Council.

To clarify the use of these reserves, it is recommended that the Fiscal Stabilization Reserve Fund be designated for the purpose of mitigating the impact of temporary revenue shortfalls and the Tax Stabilization Reserve Fund be designated for the purpose of mitigating the impact of unforeseeable expenditures.

Closing the Social Assistance Reserve and transferring the remaining balance to other reserves is recommended

The Social Assistance Reserve was established in 1998 to fund costs resulting from unanticipated social assistance caseloads within the Region as well as GTA Pooling related to social assistance. GTA Pooling was money collected by the Province of Ontario from York Region, Peel Region and Halton Region to help pay for social assistance and social housing programs in the City of Toronto.

Between 2007 and 2013, the Ontario government phased out GTA Pooling. Also from 2008 onward, the Province began to assume more of the costs of the social assistance programs; the upload of Ontario Works is expected to be completed by 2018.

In 2010, Council approved the phase-out of the Social Assistance Reserve Fund, with the funding to be used for other items in the Community and Health Services' Multi-Year Plan. As the Provincial upload will be complete in 2018, it is recommended that the Social Assistance Reserve be closed and its remaining balance goes to other Community and Health Services' uses as follows:

- $16,100,000 to the Regionally Owned Housing Reserve to fund housing replacement capital costs;
- $6,000,000 to the Tax Stabilization Reserve to fund costs of Social Services Transformation;
- $1,000,000 to the Facilities Rehabilitation and Replacement Reserve for leasehold improvements for community and health services facilities; and
- The remaining balance to the Non-Profit Housing Capital Repair and Maintenance Reserve Fund to fund capital repair needs.

Closing the Alternative Community Living Reserve and transferring the remaining balance to the Facilities Rehabilitation and Replacement Reserve is recommended

The Alternative Community Living reserve was established in 1997 to hold transfers from the Ministry of Health. It was used to fund refurbishment and repairs to housing units occupied by the Alternative Community Living residents. However, this reserve has not been used for more than ten years and does not have any forecasted draws in future.

It is recommended that the remaining balance of approximately $271,000 be transferred from the Alternative Community Living Reserve to the Facilities Rehabilitation and Replacement Reserve. Subsequent to the transfer, the funds would remain available for facility modifications to improve accessibility of adult day programs.

Closing the Insurance Claims and Certificate System Reserve Fund and transferring the remaining balance to the Insurance Reserve Fund is recommended

The Insurance Claims and Certificate System Reserve Fund was established in 2003 to hold licensing fees received from the Ontario Municipal Insurance Exchange (OMEX) to be used to fund the cost of updates and enhancements for the Insurance Claims and Certificate System. The licensing agreement with OMEX has ended and the reserve does not have any forecasted future draws.

It is recommended that the remaining balance of approximately $13,000 be transferred from the Insurance Claims and Certificate System Reserve Fund to the Insurance Reserve Fund.

Amending the Region’s Surplus Management Policy is recommended to first fund the Working Capital Reserve as well as remove the allocation to the Social Housing Development Reserve

Currently, the Region allocates its annual operating surpluses as follows:

- To cover off any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, the Workers’ Compensation Reserve and the Insurance Reserve, when it is determined these reserves are inadequately funded;

- Funds will then be placed in the General Capital Reserve if it is determined there is a need for further funds in that reserve;

- Next, funds are directed to the Fuel Cost Stabilization Reserve if there is a loss incurred during the year from hedging transactions;

- Any remaining funds will be transferred to the Debt Reduction Reserve.

Eighty per cent of annual surplus attributable to housing operational savings compared to budget is placed in the Social Housing Development Reserve; the other 20 per cent is placed in the Working Capital Reserve.

It is recommended that the following changes be made to the Policy:

- Since starting with the 2018 Budget, a direct allocation to the Social Housing Reserve will now be made, remove the allocation of housing operational surplus to the Social Housing Development reserve and the Working Capital reserve

- As a transition measure, 40 per cent of any annual surplus attributable to housing operational savings will be allocated to the Social Housing Development reserve in 2018. The remaining housing surplus will be allocated together with any surplus from other operations.

- Starting in 2019, the entire regional operating surplus, including housing operations, will be allocated according to the hierarchy described in the above paragraphs.

- To compensate for the lost funding to the Working Capital Reserve that resulted from removing the housing surplus allocation, staff recommend allocating the regional operating surplus first to the Working Capital Reserve up to a level deemed appropriate by the Commissioner of Finance.

The proposed Surplus Management Policy is shown below:

Starting in 2018, the allocation of the annual operating surplus will be made to reserves and reserve funds that are below their funding targets in the following order:

- First to the Working Capital Reserve
- Then to any contingent liability reserves held by the Region, which include the Long-Term Disability Reserve, Workers' Compensation Reserve and the Insurance Reserve
- Then to the General Capital Reserve
- Then to the Fuel Cost Stabilization Reserve, if there is a loss incurred during the year from hedging transactions
- Then any remaining funds to the Debt Reduction Reserve.

Notwithstanding, for 2018 only, forty per cent of any surplus attributable to housing operations will be placed into the Social Housing Development Reserve.

An amendment to the Reserve and Reserve Fund Policy is needed to assign responsibility for rebalancing reserves within the same funding sources

Starting in 2015, Council authorized the Commissioner of Finance to allocate future asset replacement contributions to individual asset replacement reserves to meet their funding targets.

Staff now recommend an amendment to the Reserve and Reserve Fund Policy to specify that the Commissioner of Finance will have the authority to rebalance all reserves and reserve funds with the same funding sources as he/she deems necessary to meet those targets.

This will ensure that Regional reserves are maintained at appropriated levels to efficiently fund Region's capital and operating needs while respecting the initial funding sources of those reserves.

A new Infrastructure Reserve Fund is recommended to facilitate YRP's capital asset delivery

Currently York Regional Police capital projects are funded through annual budget allocation, with the exception of major new projects and rehabilitations which are funded from the Debt Reduction Reserve. This can cause significant year-over-year fluctuations as expenditures for capital projects can be lumpy.

With a separate capital reserve, YRP can better manage its contribution and smooth the impact on its operating budget. In addition, it will help YRP's long-term reserve planning and reserve adequacy assessment.

The proposed Infrastructure Reserve Fund - Police will be used to fund YRP's capital projects as identified in its capital plan. The capital contribution in current YRP's operating budget, including contributions to the Facilities Rehabilitation and Replacement Reserve, the Vehicle Replacement Reserve and the Equipment Replacement Reserve, will be repurposed to the new reserve. In addition, the reserve will also be funded using a YRP operating budget contribution of around $250,000 per year.

A new credit facility is recommended to facilitate delivery of York Telecom Network's capital plan

In October 2017, Council approved the implementation of York Telecom Network (YTN) as a separate legal entity under the *Ontario Business Corporations Act, 2017*.

The proposed 2018 capital plan for York Telecom Network is approximately $38.5 million, including the Connect to Innovate program ($18.5 million) and the network plan ($20 million). To help fund those projects as well as provide YTN with the flexibility to defer principal repayments as needed, it is recommended that a credit facility of up to $26.5 million be created using funds from the General Capital Reserve. The amount of the credit facility would cover the four years of net funding needed for the Connect to Innovate program.

YTN would only be able to use the facility for in-plan and approved capital projects with debt authority. YTN must also repay the reserve with interest in accordance with terms and conditions set out by the Commissioner of Finance.

Changes to the Reserve and Reserve Fund Policy Appendices are attached

In the 2017 Regional Fiscal Strategy Report, Council authorized the Commissioner of Finance to maintain the Reserve and Reserve Fund Policy Appendices in accordance with changes to the policy, bylaw or statues as required.

If the 2018 Fiscal Strategy is adopted, the updates to the appendix, as shown in Attachment 2, will be made to reflect the changes to the regional reserve funds, including the new reserves, the reserves discontinued and aligning reserve descriptions to their bylaws.

5. Financial Considerations

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

6. Local Municipal Impact

Local municipalities will benefit from the fiscal strategy, which lends support to the Region's credit rating. Since local municipalities must issue all debenture debt and repay debt financing costs through the Region, a good credit rating helps to ensure that both the Region and local municipalities obtain the lowest possible cost of financing.

7. Conclusion

The fiscal strategy has resulted in careful management of the capital plan, an increase in reserves and reduced reliance on debt, all intended to help the Region to achieve financial sustainability.

The fiscal strategy is evolving as economic circumstances change and as more rigorous analysis is developed.

For more information on this report, please contact Edward Hankins, Director, Treasury Office, at 1-877-464-9675 ext. 71644.

The Senior Management Group has reviewed this report.

November 22, 2017

Attachments (2)

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Accessible formats or communication supports are available upon request.