2013 Budget

Presentation to Regional Council

Bill Hughes

November 15, 2012

Overview of Presentation

Part 1: The Budget

- Overview of 2013 Budget and 2014 Outlook
- Operating Budget
- Capital Budget

Part 2: Fiscal Planning

- The Fiscal Environment
- Debt
- Reserves

Part 3: Budget Review Process

Overview of 2013 Budget and 2014 Outlook

The Proposed Budget at a Glance

Tax increase for 2013:	**1.94%**
Tax increase outlook for 2014:	**1.75%**
Capital budget for 2013:	**$1.2B**
Capital budget for 2014:	**$1.3B**
Capital plan compliant with the Province's Annual Repayment Limit regulation	✓

Multi-Year Budgeting is a Strategic Plan Deliverable

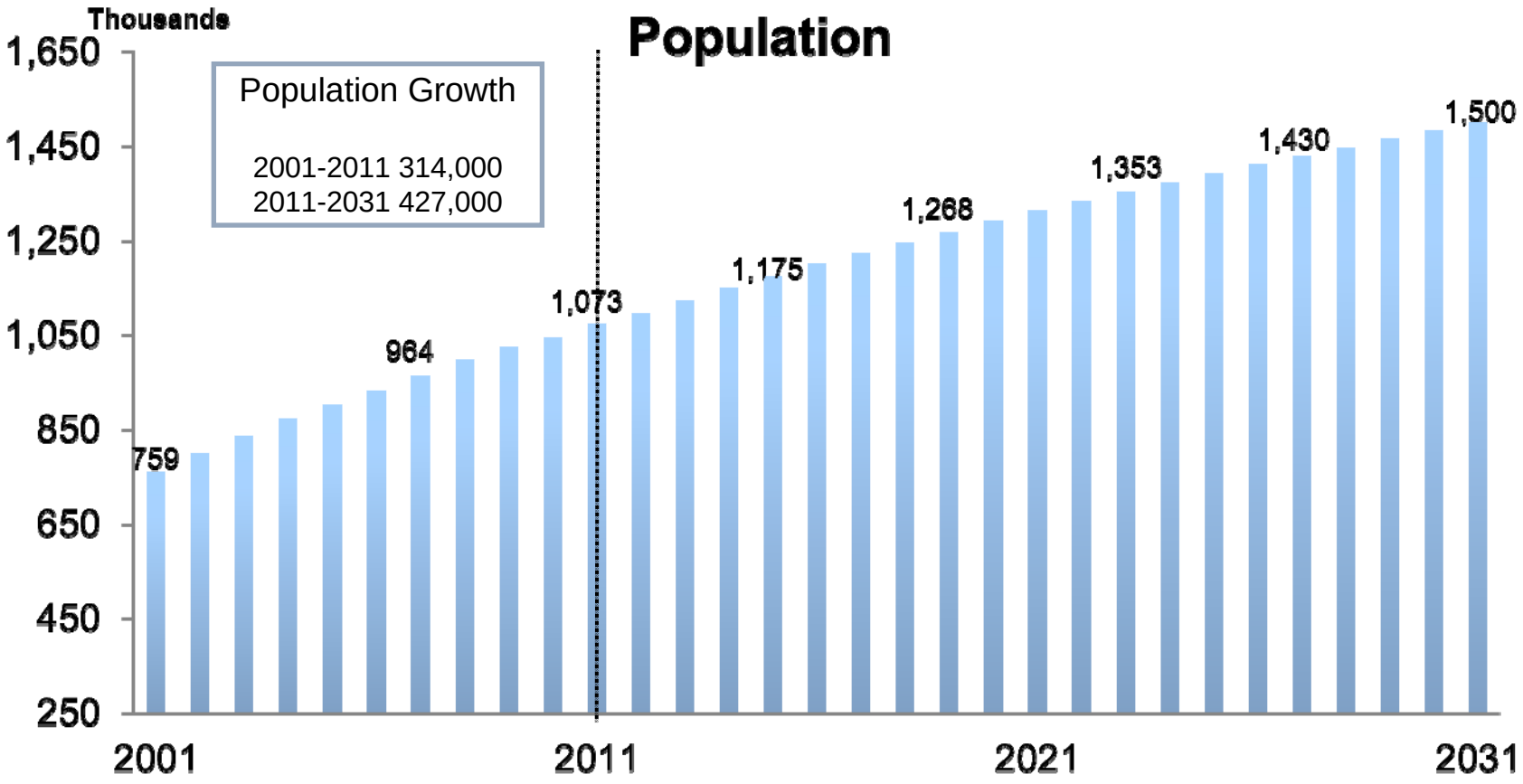
- Council endorsed multi-year budgeting in June 2012

- Advantages of multi-year budgeting:
  - Better coordination of budgeting & strategic priorities
  - Greater certainty for departments in managing their expenditures
  - Improved fiscal discipline

- Council is requested to approve:
  - The 2013 budget in the usual manner
  - A 2014 outlook, at a similar level of detail

The budget is the mechanism through which financial resources are applied to achieve Council's policy priorities.

Growth Motivates the Budget



York Region is one of Canada's fastest growing municipalities

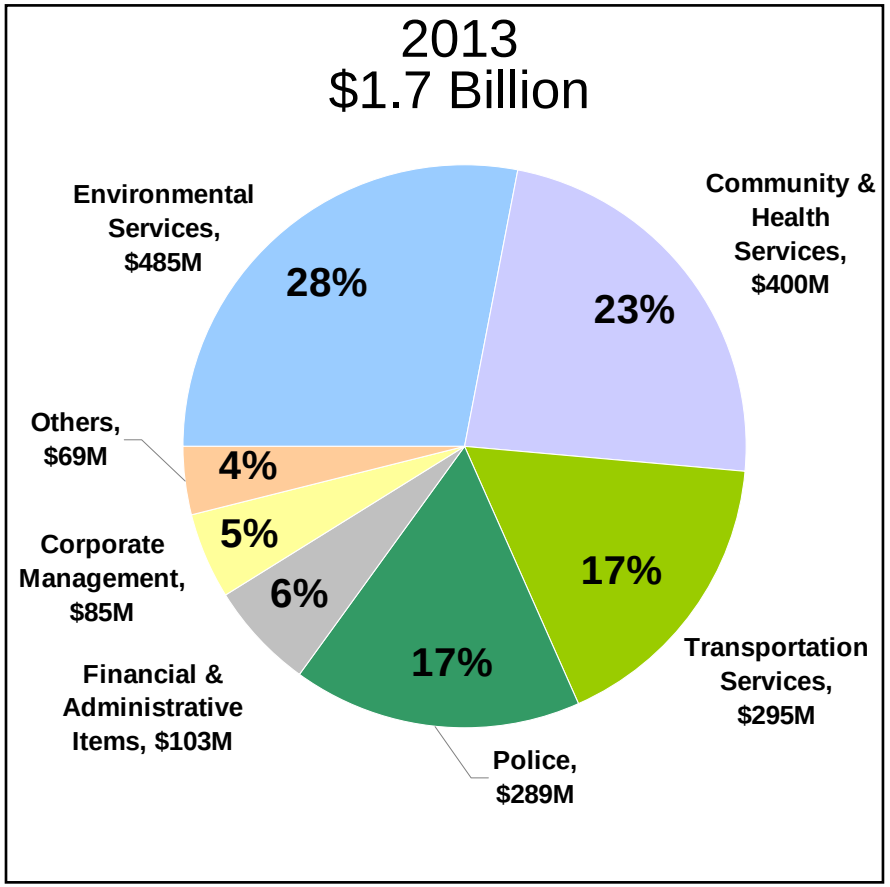
The Operating Budget

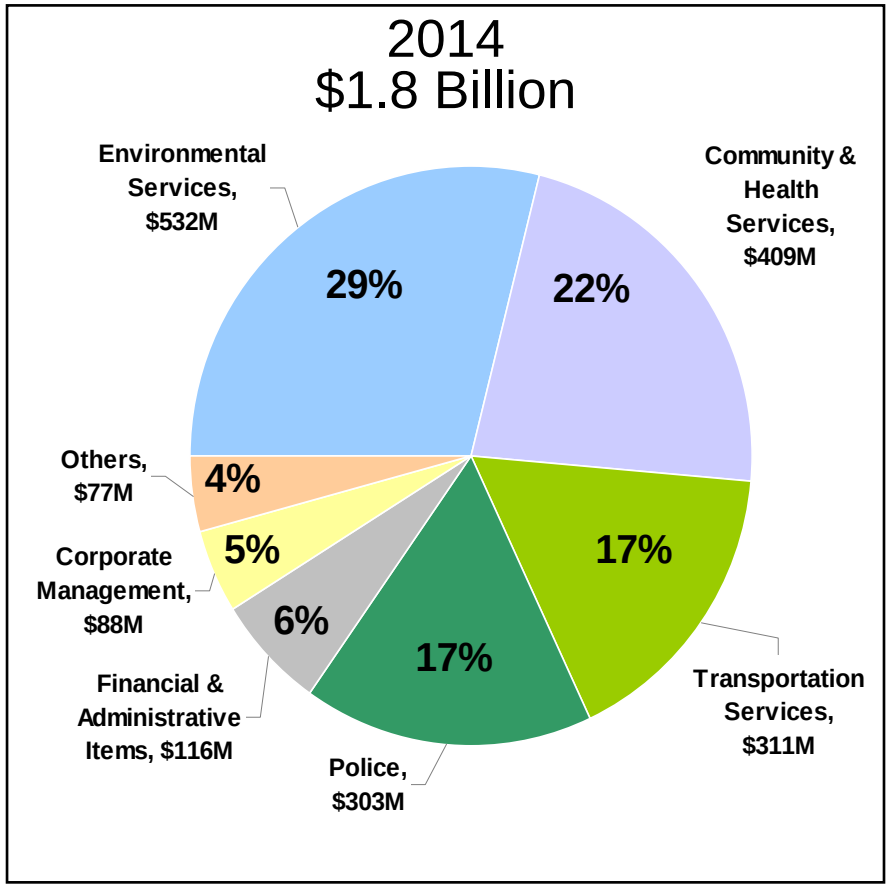
Proposed Operating Budget

2013 Operating Budget	
Gross Operating	$1,725.5M
Non-Tax Revenue	$ 866.5M
Net Operating	$ 859.0M
Assessment Growth	2.0%
Proposed Tax Levy Increase	1.9%

2014 Operating Budget	
Gross Operating	$1,829.3M
Non-Tax Revenue	$ 938.1M
Net Operating	$ 891.2M
Assessment Growth	2.0%
Proposed Tax Levy Increase	1.75%

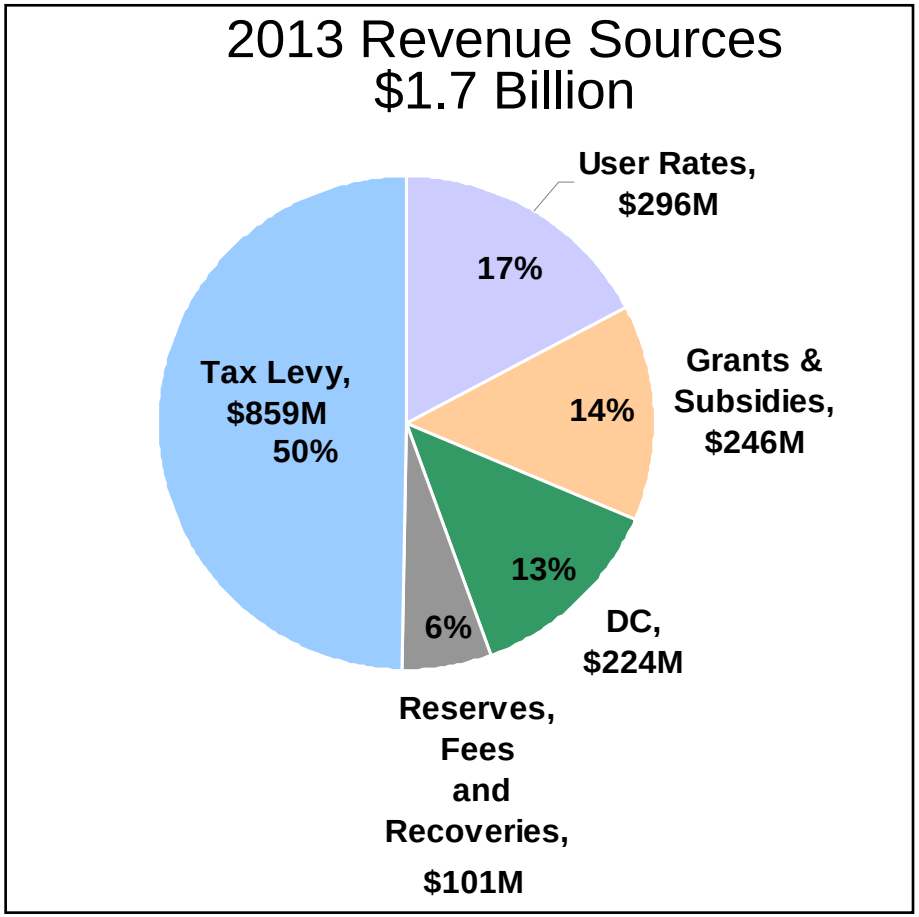
Proposed Gross Operating Expenditure

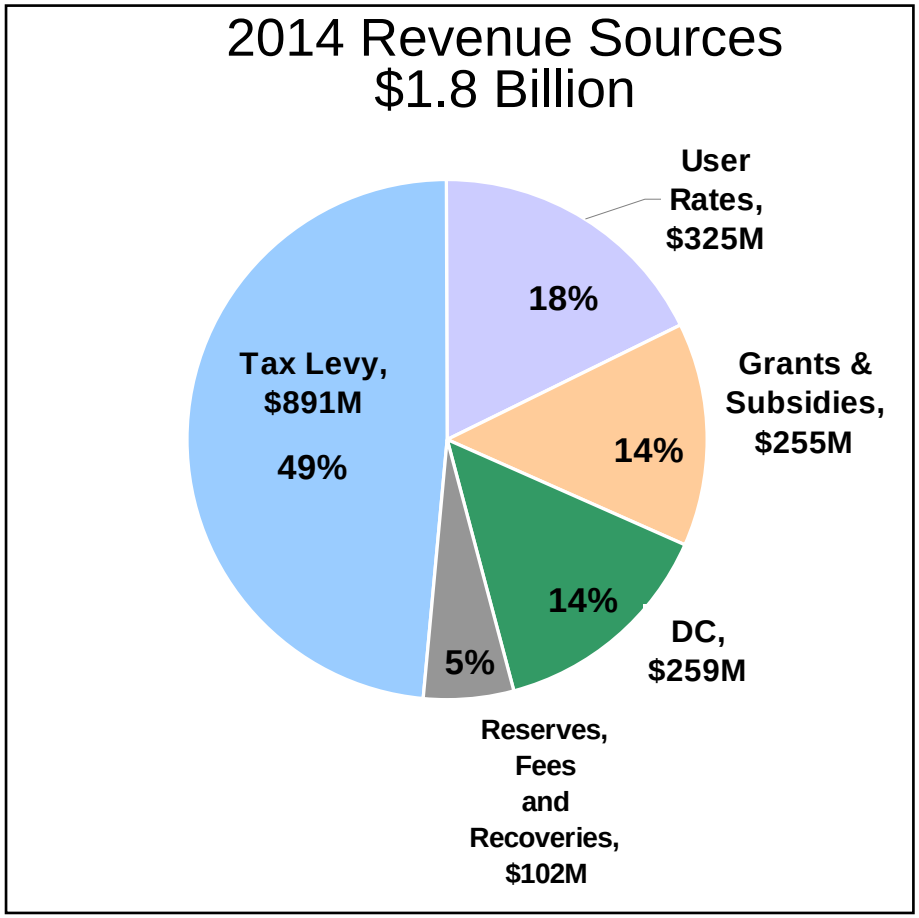




Environmental Services, Community & Health Services, Transportation and Police account for 85% of spending.

Non-Tax Revenue Has a Big Impact on the Bottom Line





Emphasis is on fiscal responsibility

- For the most part, assessment growth covers the cost of providing existing levels of service to new residents and businesses.

- Tax levy increases are needed to pay for:
  - Increases in base costs
  - Changes in the legislative and regulatory environment
  - Any enhanced services Council wishes to provide.

- The 2014 Outlook includes a 1% Revenue increase / Expenditure reduction applied to Regional programs.

	2013	2014
Consumer Price Index Forecast	**2.0%**	**2.0%**
York Region Population Growth Forecast	**2.5%**	**2.3%**
Proposed Tax Levy Increase	**1.9%**	**1.75%**

Proposed tax levy increase is tracking below the rate of inflation.

Operating Budget Framework

Step 5 - ENHANCEMENTS
New services or enhanced service levels

Step 4 - GROWTH
Costs required to maintain existing levels of service for the Region's increased population

Step 3 - ANNUALIZATION
Additional cost of full-year implementation of prior year commitments

Step 2 - MANDATORY / LEGISLATIVE
Non-discretionary costs imposed by others

Step 1 - BASE
Costs required to maintain existing service levels (salaries & benefits, inflation, utilities and contracted services) for the existing population
Less: Reduction/ Efficiencies / Other Savings

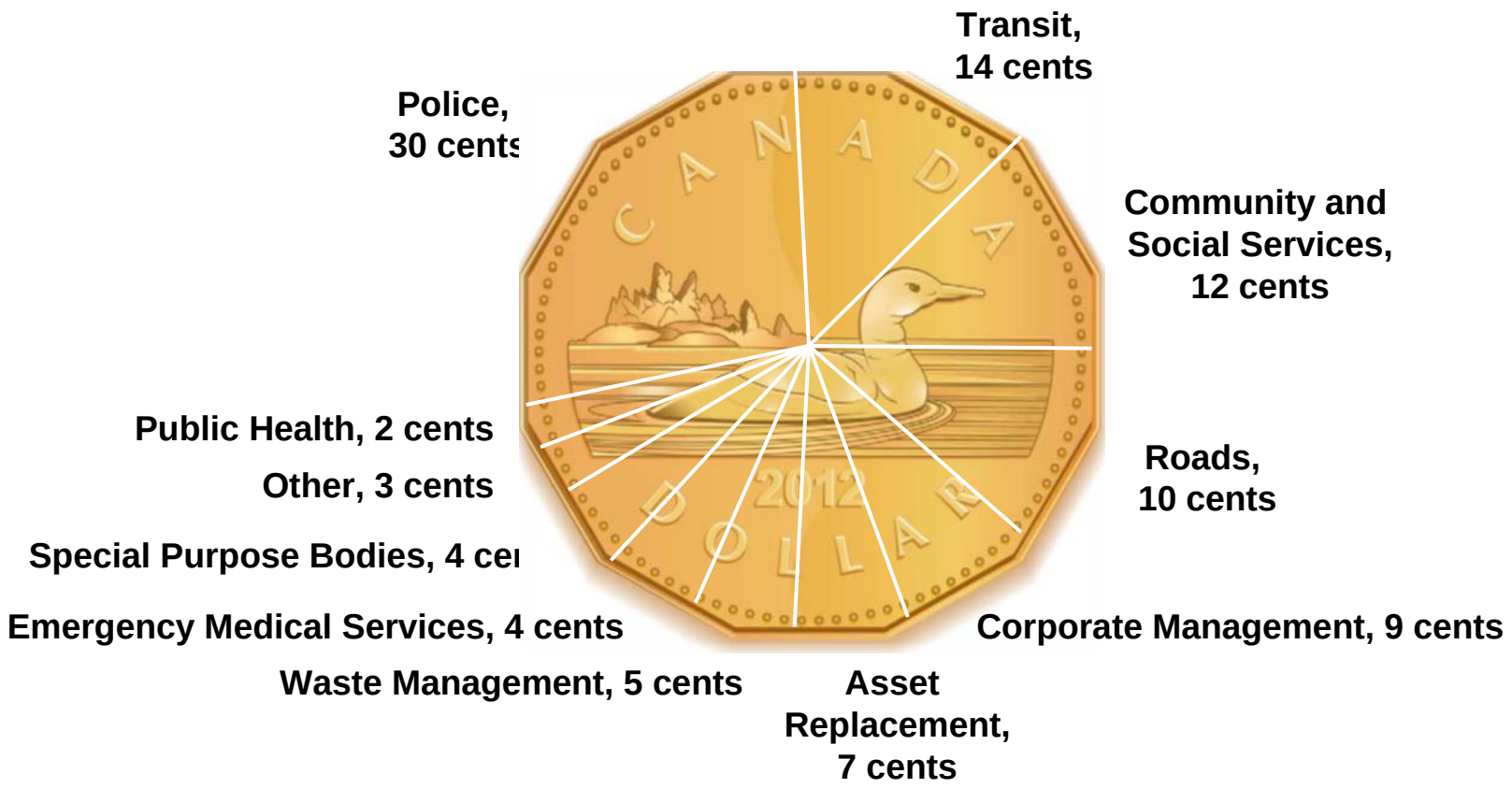
Applying the Framework

	2013		2014	
	$ Millions	% Net Levy Impact	$ Millions	% Net Levy Impact
Base (incl. Reductions/Efficiencies/Cost Savings)	26.4	3.2	5.1	0.6
Mandatory	(18.1)	(2.2)	(1.3)	(0.1)
Annualization	14.7	1.8	20.2	2.3
Growth	5.6	0.7	5.7	0.6
Enhancements	4.0	0.4	2.5	0.3
Total Budget Pressures	32.6	3.9	32.2	3.7
Less Assessment Growth	(16.5)	(2.0)	(17.2)	(2.0)
Net Tax Levy Increase	16.1	1.9	15.0	1.75

Initiatives Included in the Budget

- Police staff increase of 18 uniform officers and 33 civilians
- Additional 18 paramedics to provide service in high call-volume areas of the Region
- Investment in homelessness support initiatives
- Introduction of the red light camera program

Share of Regional Tax Dollar



72 cents of each tax dollar is allocated to Police, Transit, Roads, and Community & Health Services

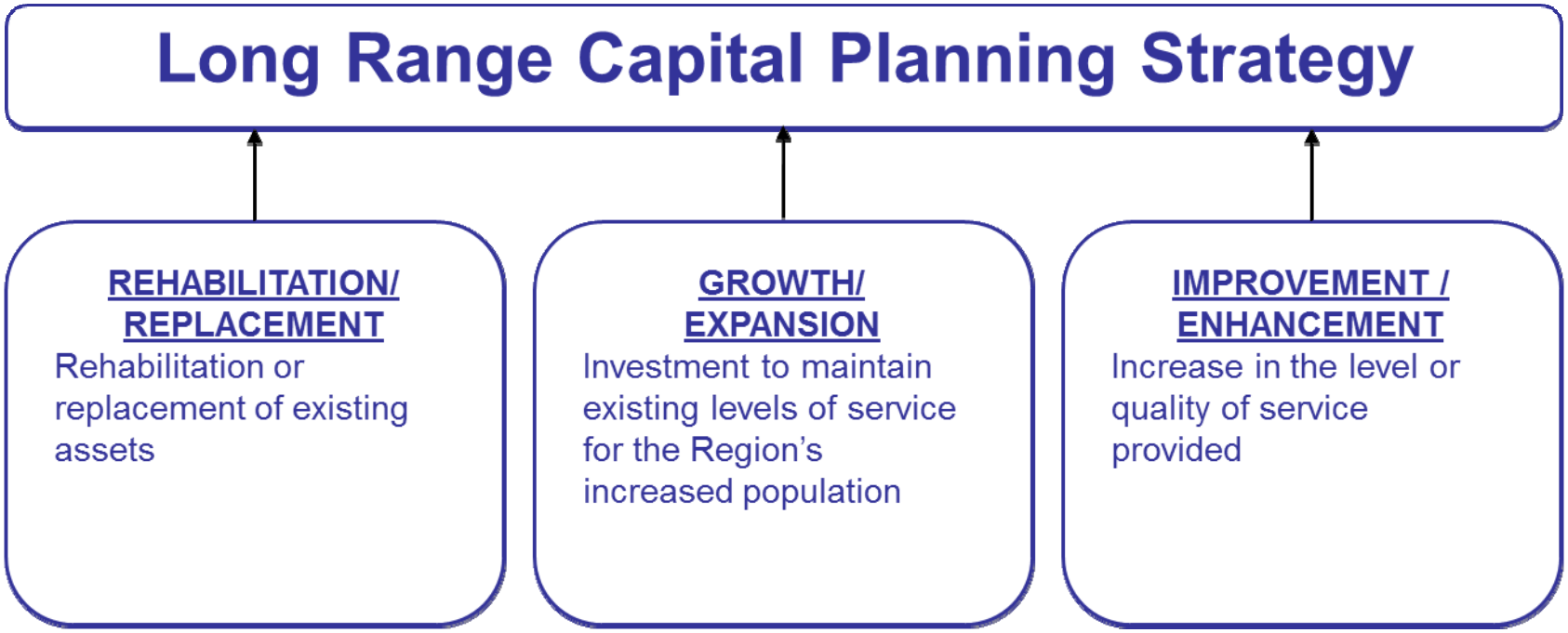
Capital Budget

Proposed Capital Budget

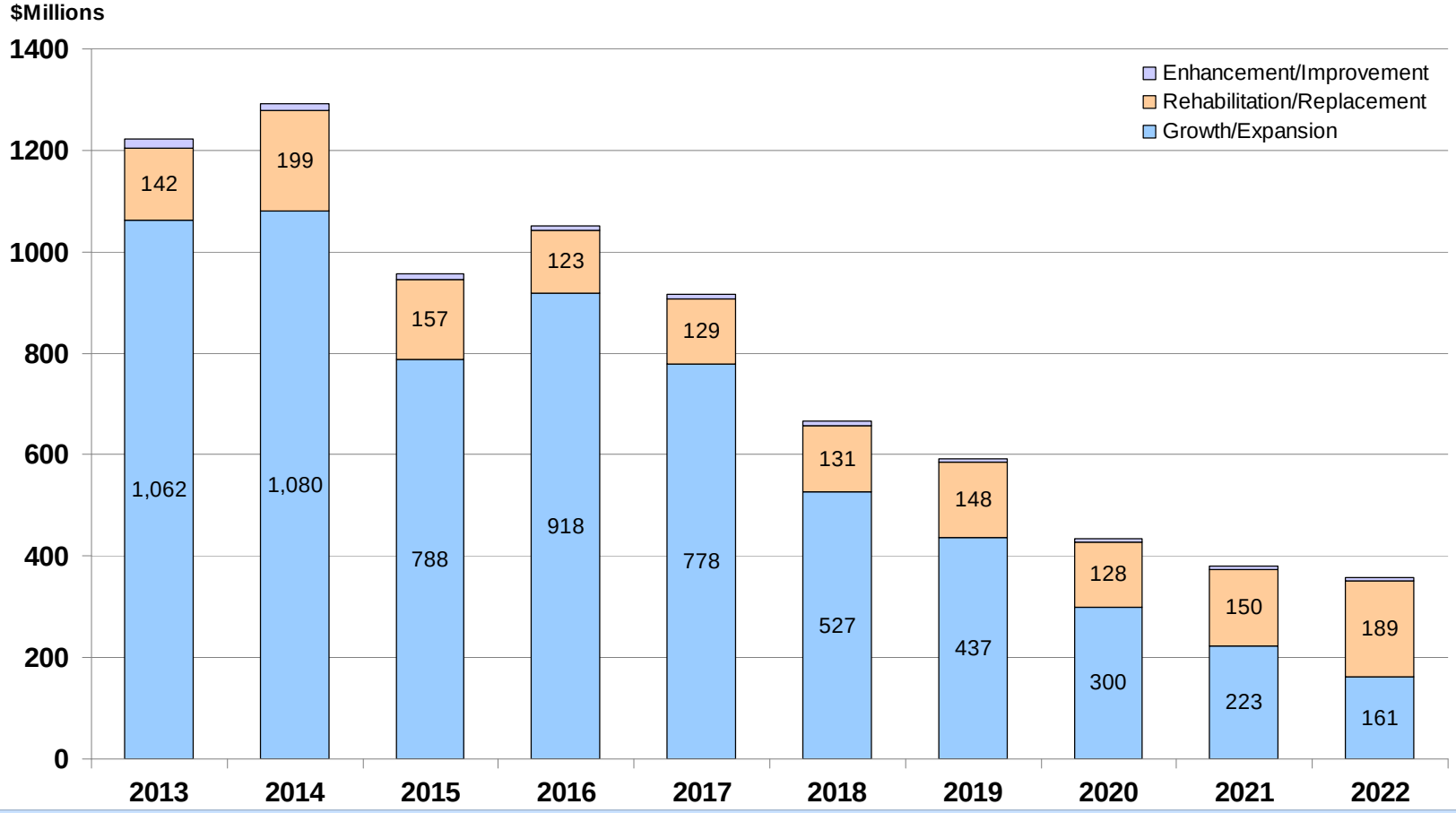
2013 Capital Budget	
2013 Capital Budget	$1,221M
10-Year Plan	$7,868M
2013 Capital Spending Authority	$3,082M

2014 Capital Budget	
2014 Capital Budget	$1,291M
2014 Incremental Capital Spending Authority	$ 343M

Capital Planning Framework

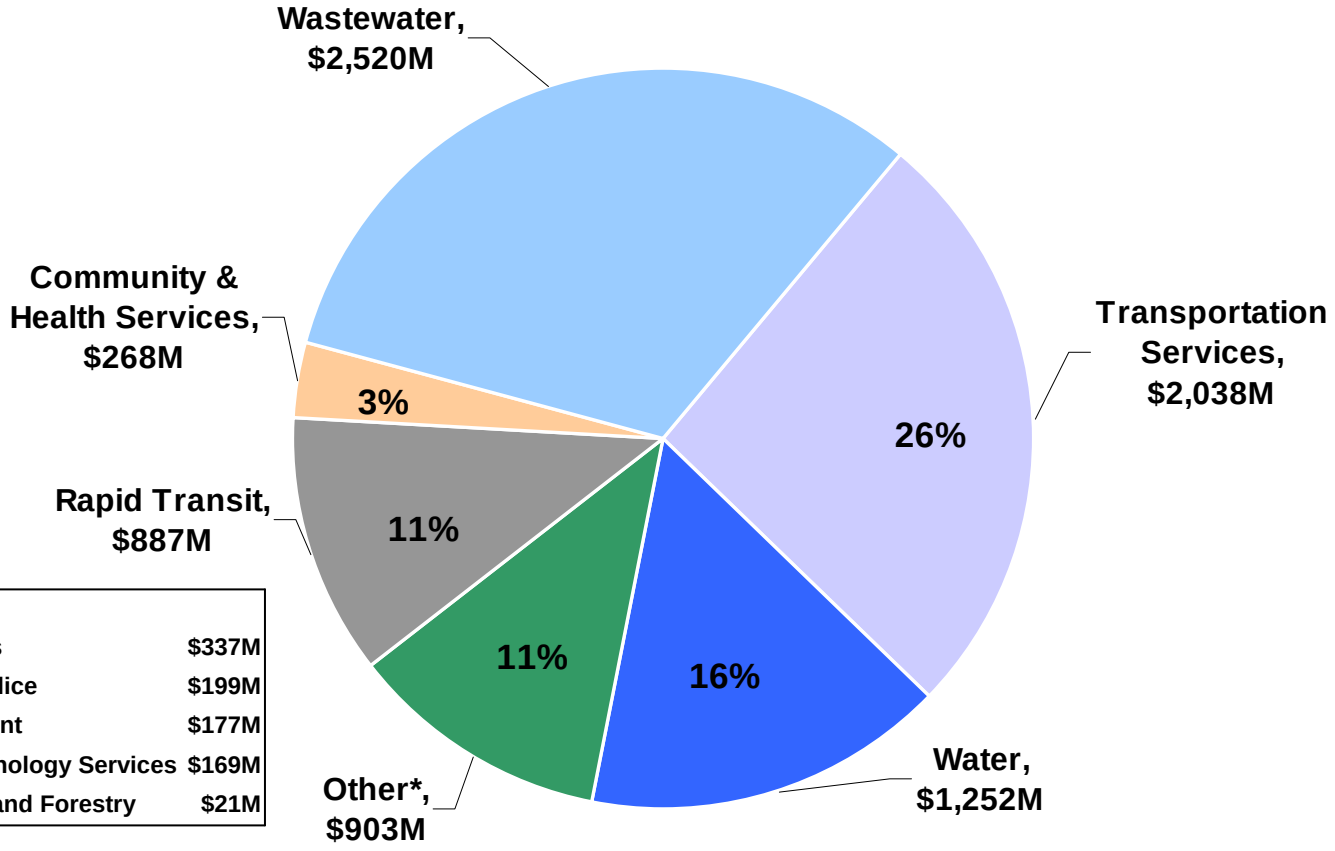


Planned Capital Expenditures



The Ten-Year Capital Plan includes investment of $7.9 billion, 80% of which is to support growth.

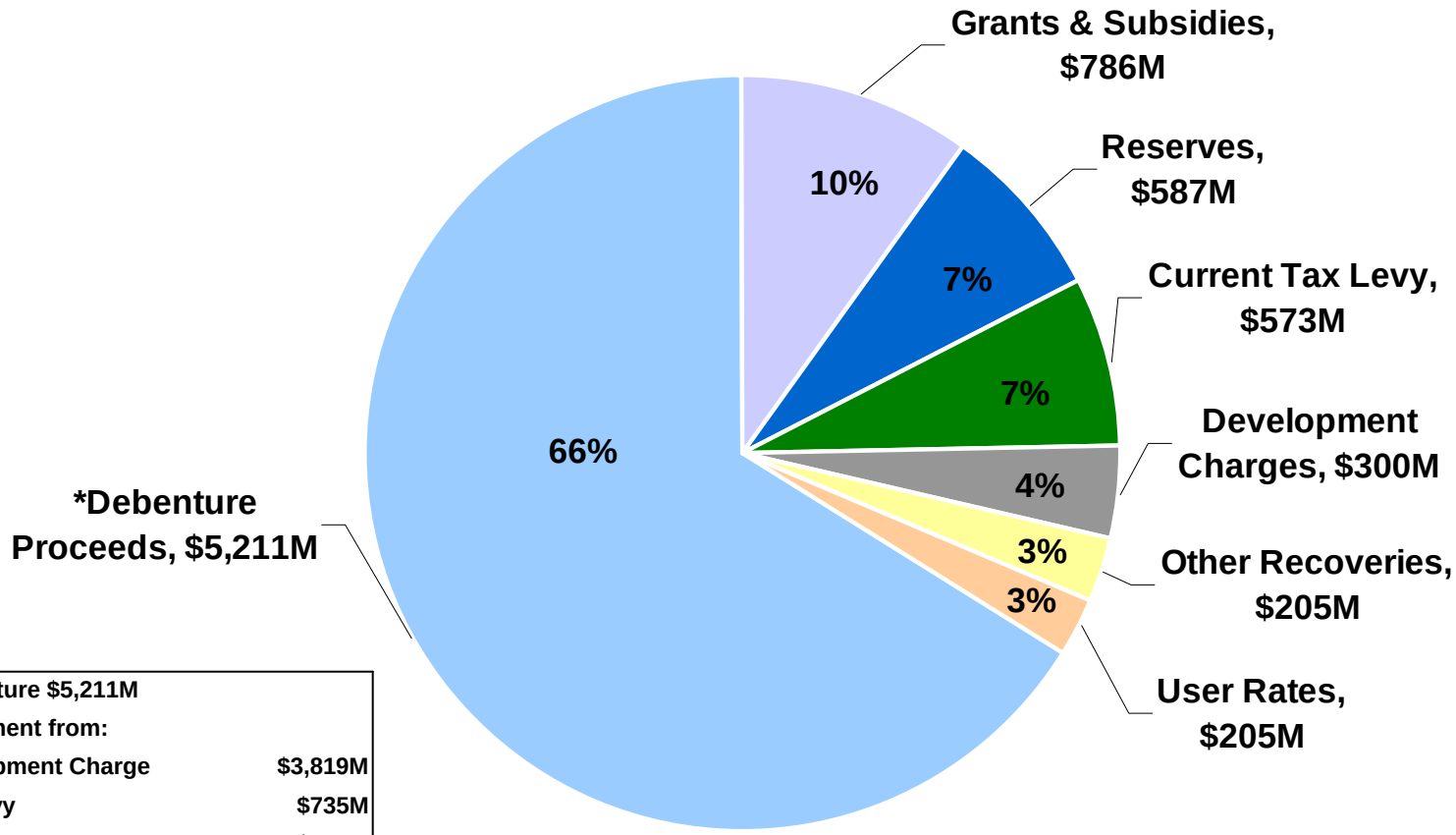
Growth-Oriented Infrastructure Investment



*Other $903 M	
Property Services	$337M
York Regional Police	$199M
Waste Management	$177M
Information Technology Services	$169M
Natural Heritage and Forestry	$21M

Approximately 86% of the Capital Plan is for Transportation Services, Water, Wastewater and Rapid Transit.

Ten-Year Capital Plan Financing



*Debenture $5,211M	
Repayment from:	
Development Charge	$3,819M
Tax Levy	$735M
User Rate	$615M
Other (tenant rents, HYI)	$42M

NOTE: Grants & Subsidies include Federal Gas Tax

About two thirds of the capital plan will be debenture financed

Top Ten Capital Projects

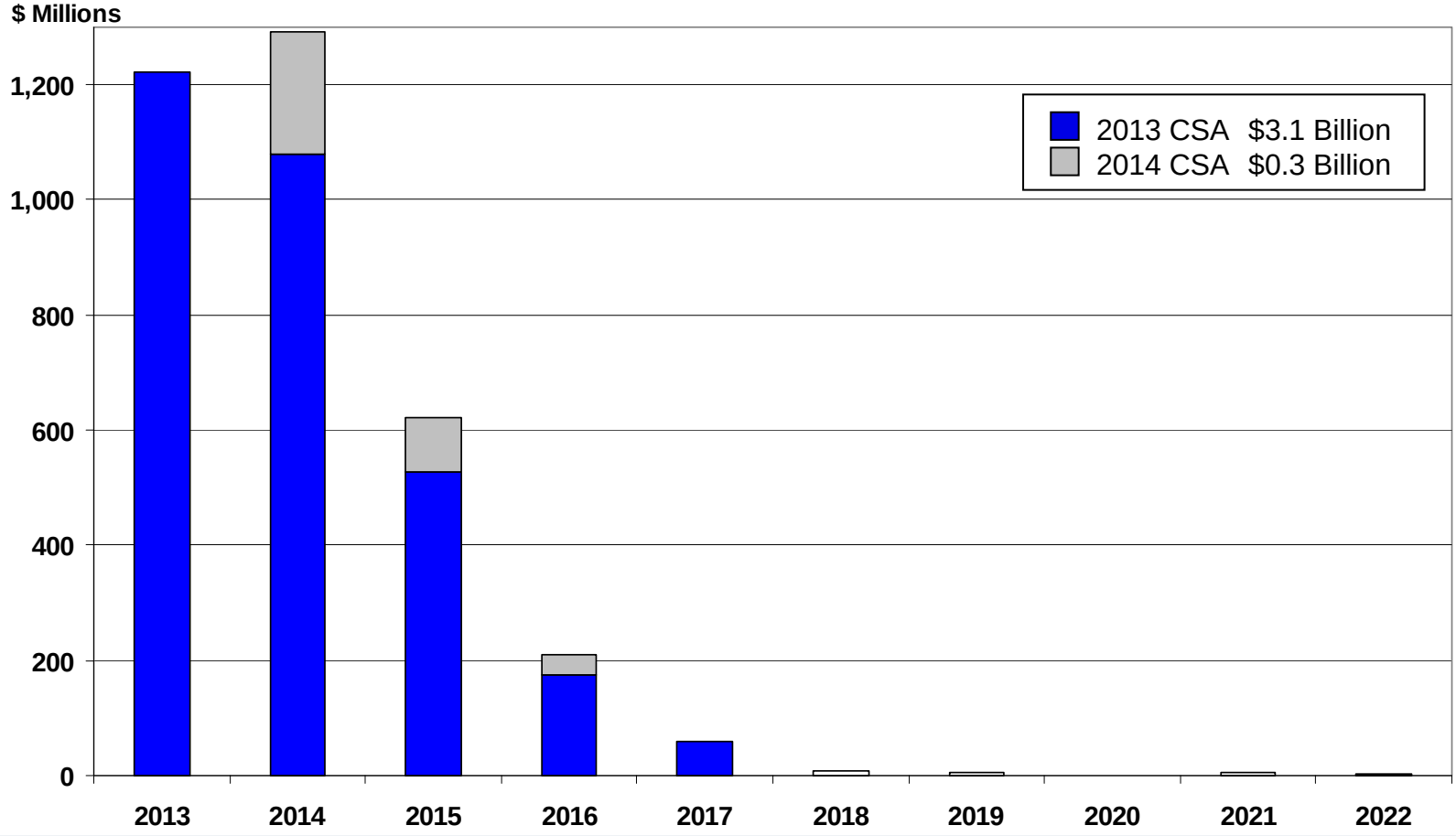
Projects	$ Millions					
	Actual to 2011	2012 Forecast	2013 Budget	2014 Budget	Total Cost	Regional Share of Total Cost
Peel Water Supply - Cost Shared Work	357	55	55	62	725	725
York Durham Sewage System Southeast Collector	162	110	135	85	563	563
Upper York Sewage Solutions	9	12	7	26	510	510
York Durham Sewage System Duffin Creek Water Pollution Control Plant Phase 3 Expansion*	538	35	50	9	632	491
Toronto Cost Shared Work - Water Supply Agreement	152	17	16	21	459	459
Spadina Subway Extension*	239	235	266	248	1,085	382
Central Services Centre	2	1	6	1	223	223
Road Resurfacing Projects*	83	18	14	11	222	219
Duffin Creek Stage 1 & 2 Upgrades*	7	10	38	66	267	215
West Vaughan Sewage Servicing	1	1	0	6	209	209

* These projects receive additional external funding

Capital Spending Authority and Planned Investment

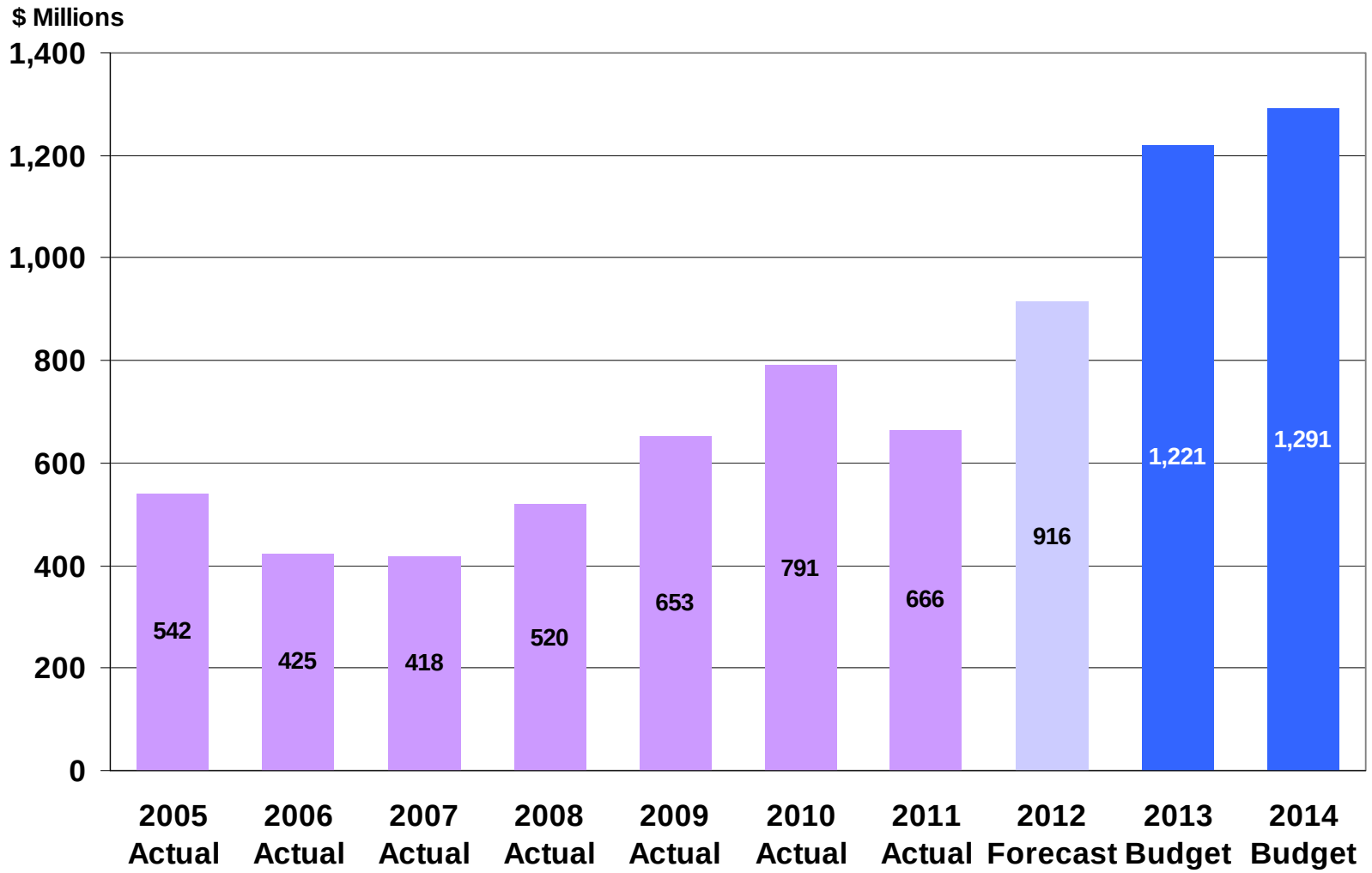
- Capital Spending Authority (CSA)
  - Formerly called “Total Project Budget Authority” (TPBA)
  - CSA is the authority from Council to commit funding to a capital project
  - It is a multi-year authority for multi-year projects
  - Capital spending authority must be forecast for each year of the capital plan to ensure that the Region will be able to comply with the provincial Annual Repayment Limit

Requested Capital Spending Authority



Although the capital budget for 2013 is $1.2 billion, Capital Spending Authority is $3.1 billion.

Capital Plan Reflects Robust Spending on Growth-Related Projects



Tax Levy Contribution for Capital Supports Long-Term Fiscal Strategy

	2012	2013	Change	2014
	($ Millions)			
Capital Asset Replacement	38.0	47.9	9.9	60.0
Debt Reduction	11.8	11.8	0.0	11.8
Solid Waste Reserve	6.8	7.0	0.2	3.7
Non-Profit Housing Repair Reserve	4.8	5.8	1.0	6.3
Direct Contribution to Capital	52.3	50.6	(1.7)	47.9
Capital Program Debt Repayment	27.9	30.5	2.6	36.6
Total	141.6	153.6	12.0	166.3

Contributions to capital program account for 19% of 2013 net expenditures.

Fiscal Planning

Building Blocks of Sound Financial Stewardship

The Fiscal Environment

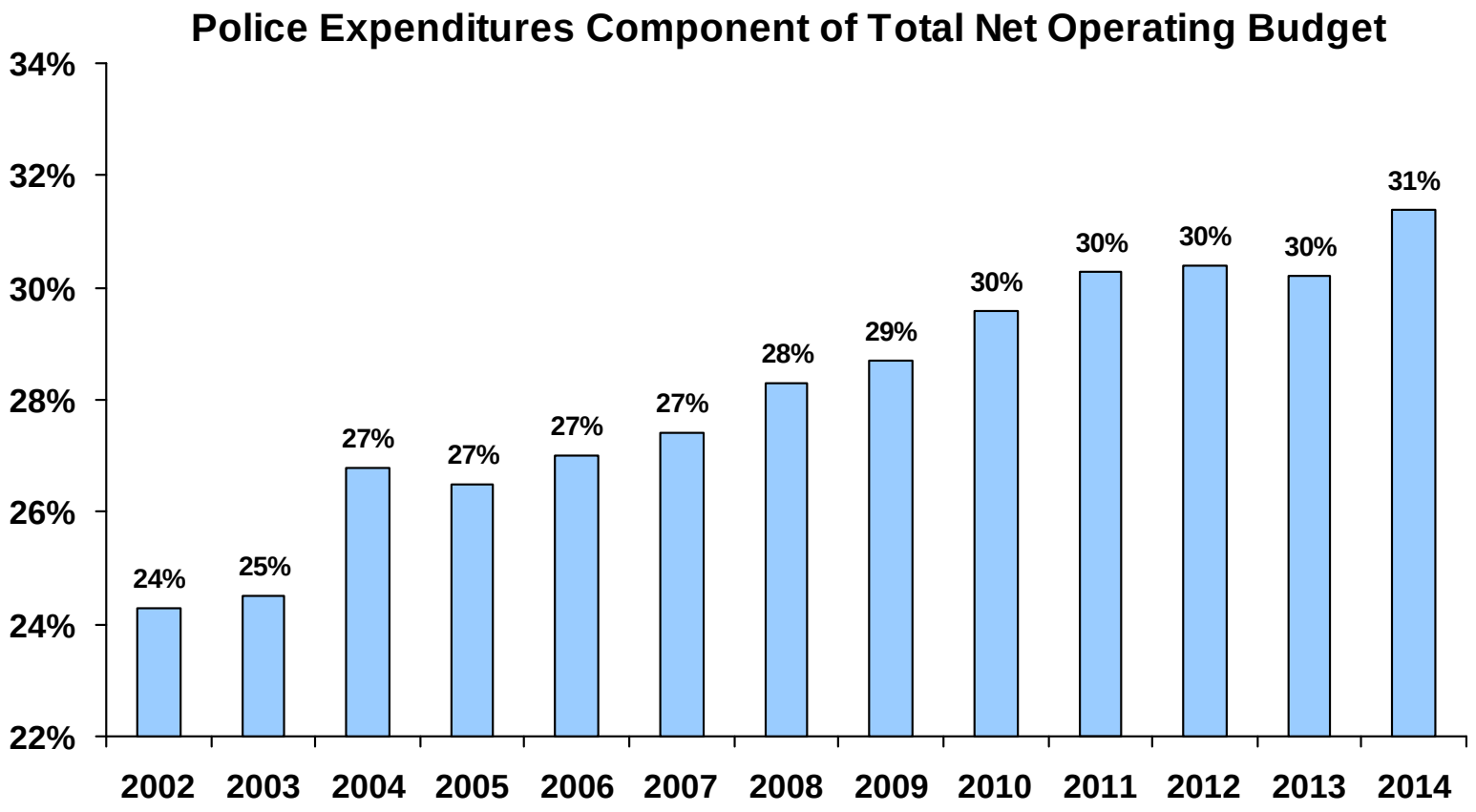
GTA Pooling Upload Coming to an End

$ Millions

Source	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
GTA Pooling	5.6	13.2	13.2	13.2	13.2	13.2	13.2	0	0	0	0	0	84.8
ODSP		1.3	2.9	6.7	11.4	0	0	0	0	0	0	0	22.3
Ontario Works				0.3	0.3	0.9	1.7	1.7	1.7	1.8	1.9	0	10.3
Prisoner Transport							1.6	0.8	0.8	0.8	0.8	0	4.8
Homelessness Prevention							2.5	0.2	0	0	0	0	2.7
Totals	5.6	14.5	16.1	20.2	24.9	14.1	19.0	2.7	2.5	2.6	2.7	0	124.9

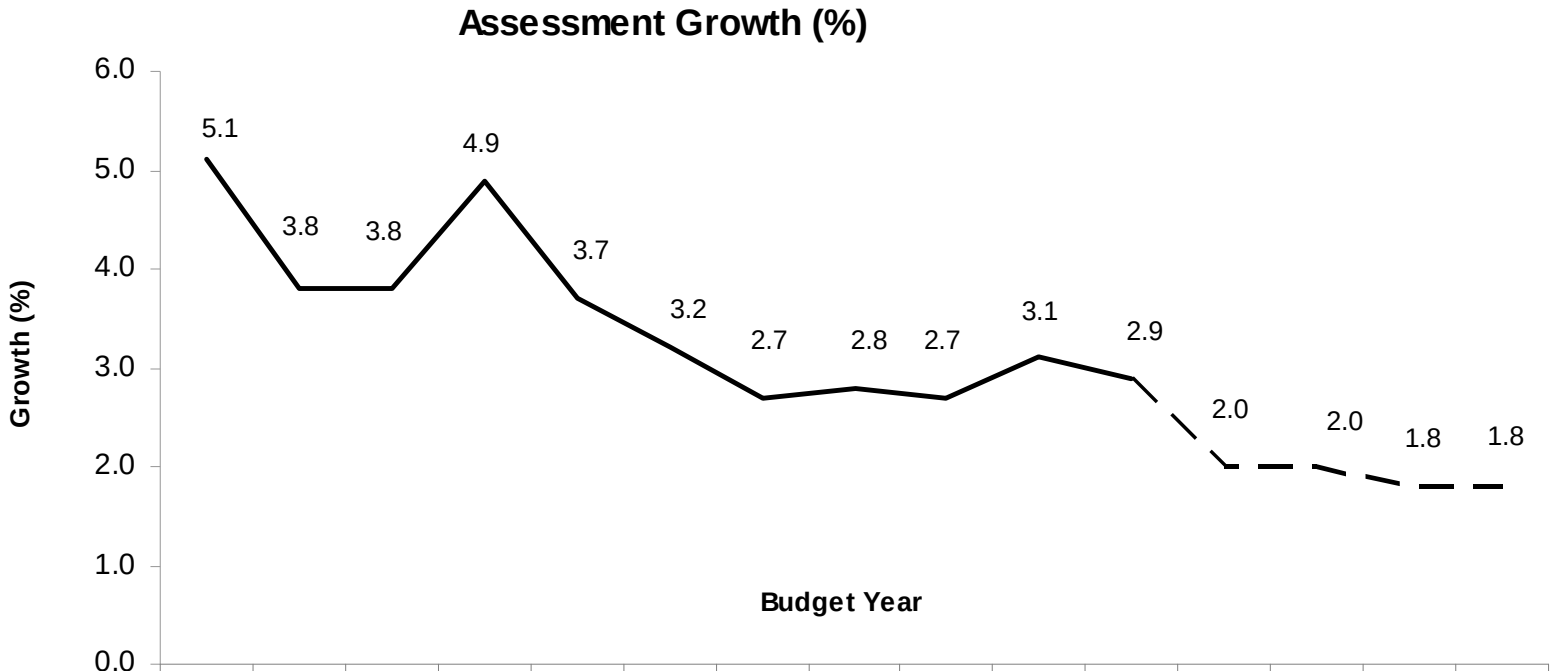
The GTA pooling upload was used to improve services, establish asset replacement reserves, and keep tax increases low.

Police Expenditures Rising as a Share of Total Spending



Police expenditures have increased from 24% of the net operating budget to 30% in the last eleven years.

Assessment Growth Forecast to Moderate



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Actual Assessment Growth (%)	5.1	3.8	3.8	4.9	3.7	3.2	2.7	2.8	2.7	3.1	2.9	2.0	2.0	1.8	1.8
Assessment Growth ($MM)	$20.3	$17.0	$17.6	$18.9	$25.2	$21.3	$19.6	$17.5	$19.1	$19.9	$23.1	$16.5	$17.2	$16.0	$17.3

The Region continues to grow, but the percentage increase in assessment is moderating because the assessment base is becoming larger.

Debt Management

From the Credit Rating Agencies

"The Regional Municipality of York's Aaa debt rating reflects high reserve levels, prudent and far-sighted fiscal management and consistent reporting of positive operating outcomes."

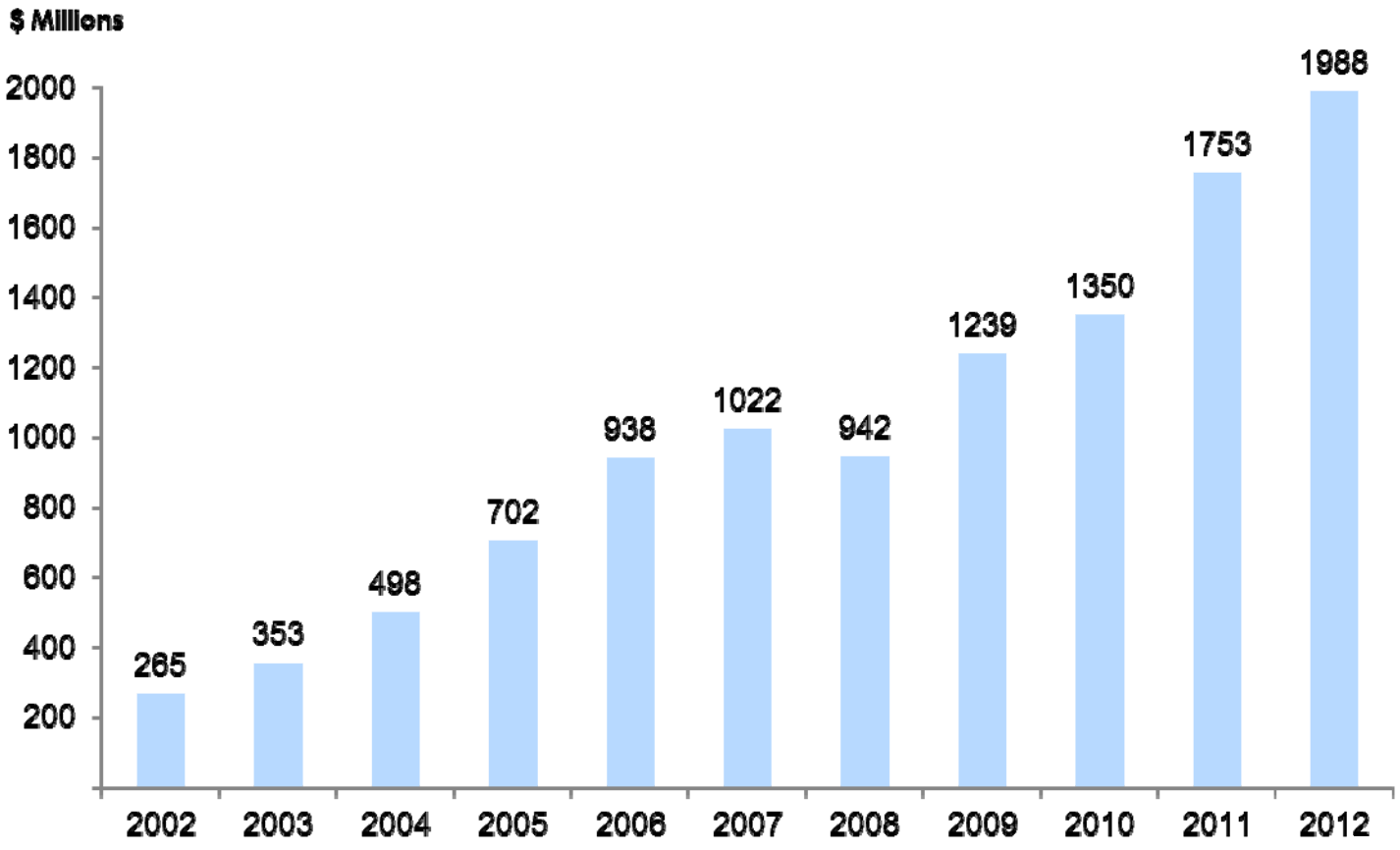
- Moody's Investor Service, October 2012

"We are affirming our 'AAA' long-term issuer credit and senior unsecured debt ratings on the Regional Municipality of York…York has a highly diversified, dynamic economy that is well integrated within the broader economy of the Greater Toronto Area…the region has very positive liquidity."

- Standard and Poor's, July 2012

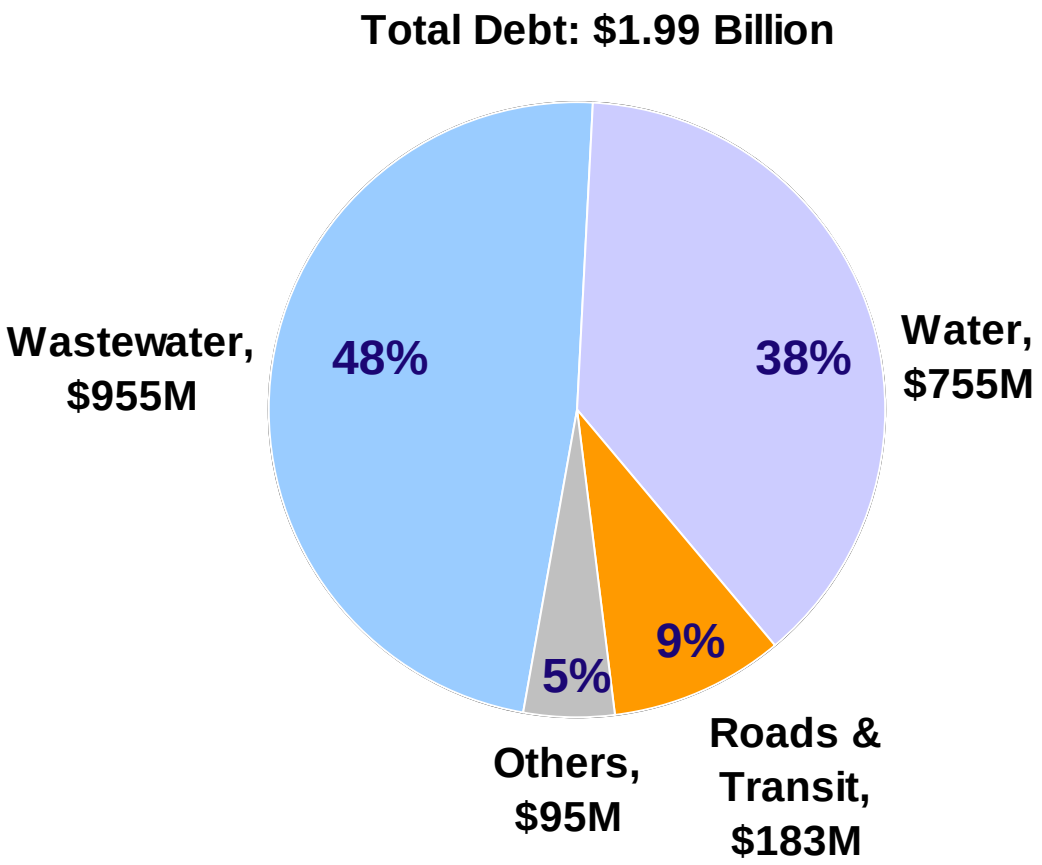
The Region has received an AAA/Aaa credit rating for 12 years in a row. Triple A is the highest credit rating and allows the Region to borrow at the lowest possible cost.

Historical Debt Levels



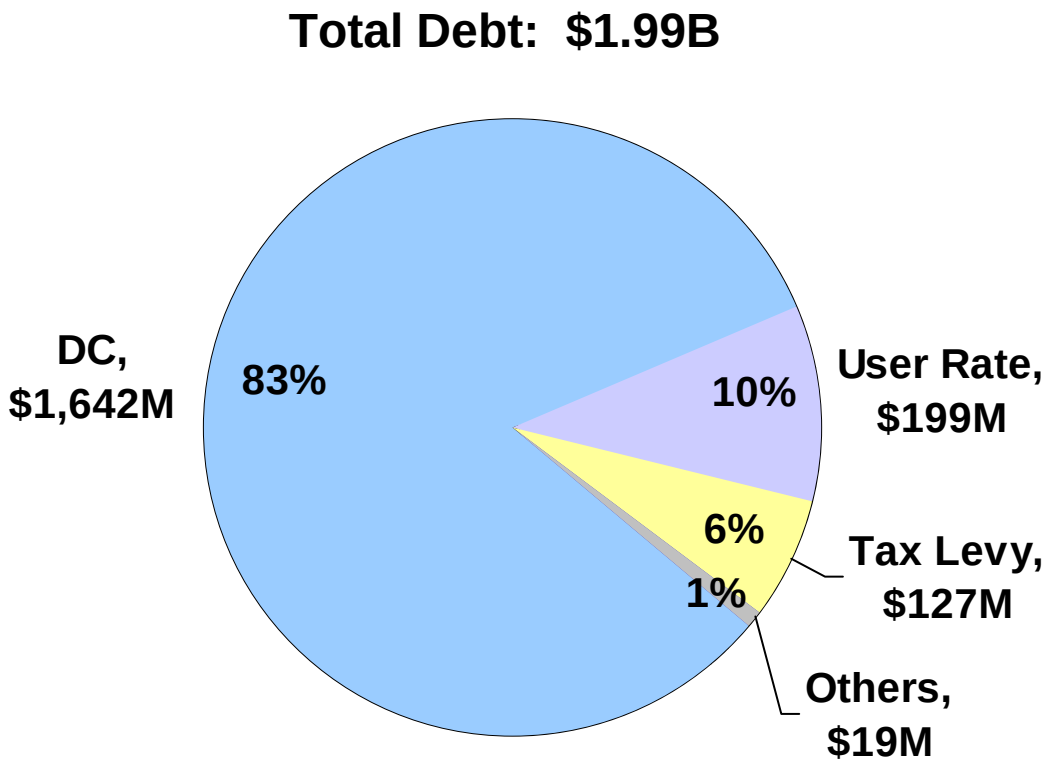
The Region's current debt is just under $2 billion.

Purpose of Debt is to Finance Infrastructure



86% of our current debt is related to water and wastewater projects.

Funding Sources for Debt Servicing



Over 80% of the existing debt will be repaid through development charges.

York-specific Annual Repayment Limit Regulation

- The Province's Annual Repayment Limit regulation limits a municipality's debt servicing and other financial obligations to a maximum of 25% of its own-source revenue.

- In June 2011 the province amended the Annual Repayment Limit regulation under the *Municipal Act* to allow York Region to include 80% of its average development charge collections over the last three years in its ARL calculation.

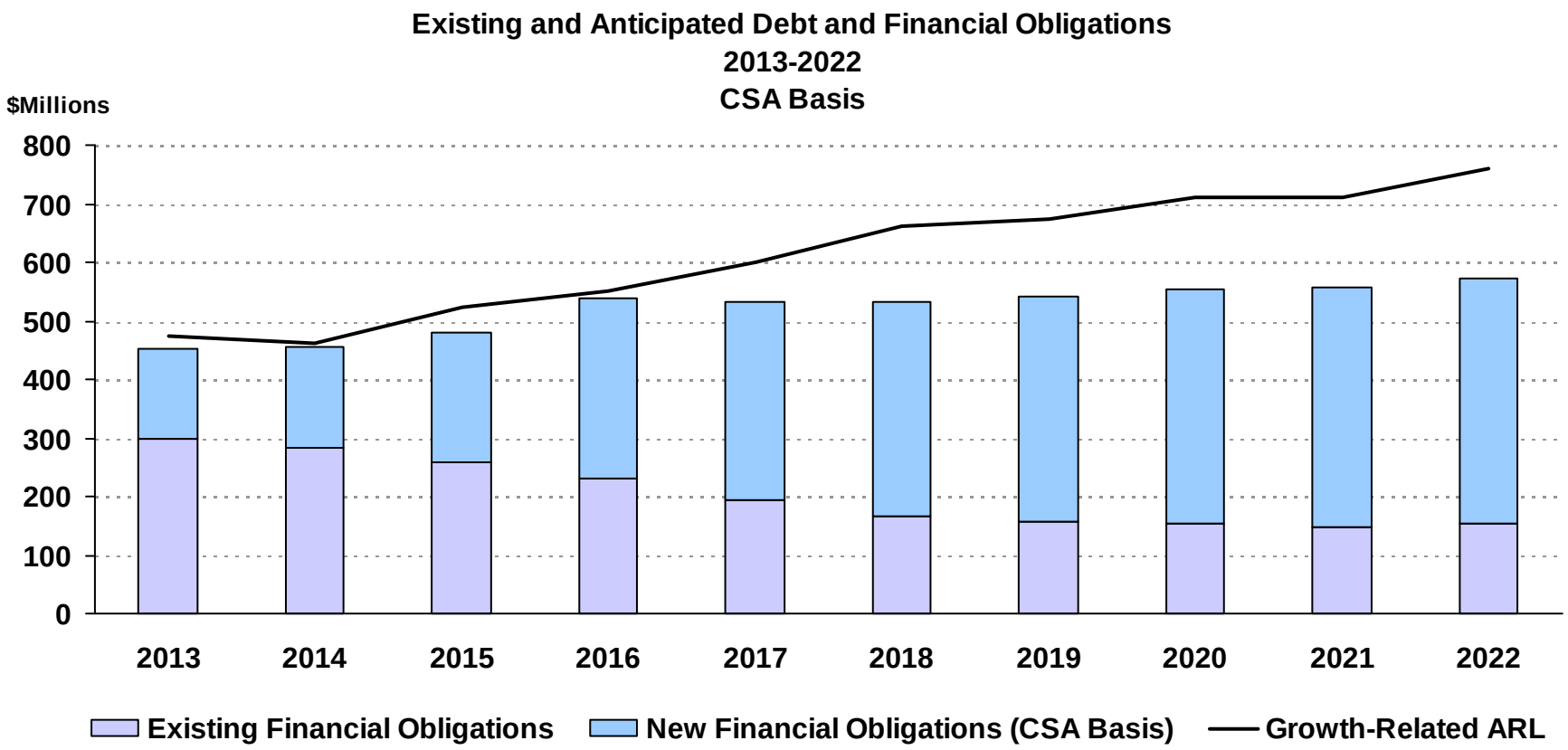
- The regulation requires two main things of the Region:
  - A Long-Term Debt & Financial Obligations Management Plan must be adopted or affirmed by Council as part of each annual budget.
  - The Region must maintain a high credit rating.

Annual Repayment Limit Regulation has Implications for Capital Budgeting

- Capital Spending Authority is granted based on contractual and other clear commitments to capital projects.
- The debt-financed portion of Capital Spending Authority is considered a debt commitment for the purposes of the Annual Repayment Limit (ARL).
- The Region is close to its ARL because of the robust capital program currently under way, much of which is debt financed.
- The timing of some capital projects had to be adjusted to stay within the ARL.

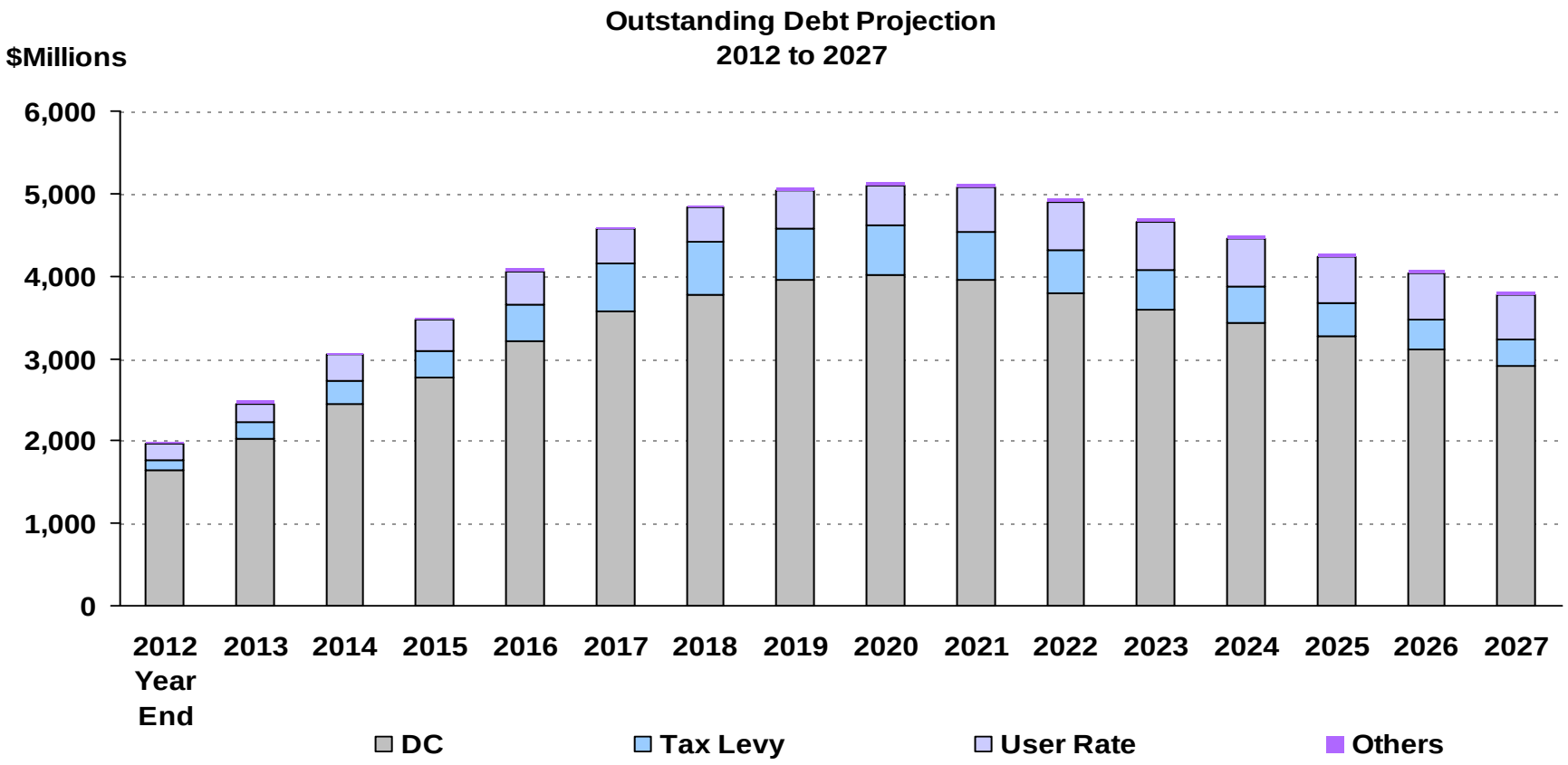
The timing of the start of construction of the Central Services Centre is moving from 2014 to 2016

Growth-Related ARL Servicing and the Annual Debt



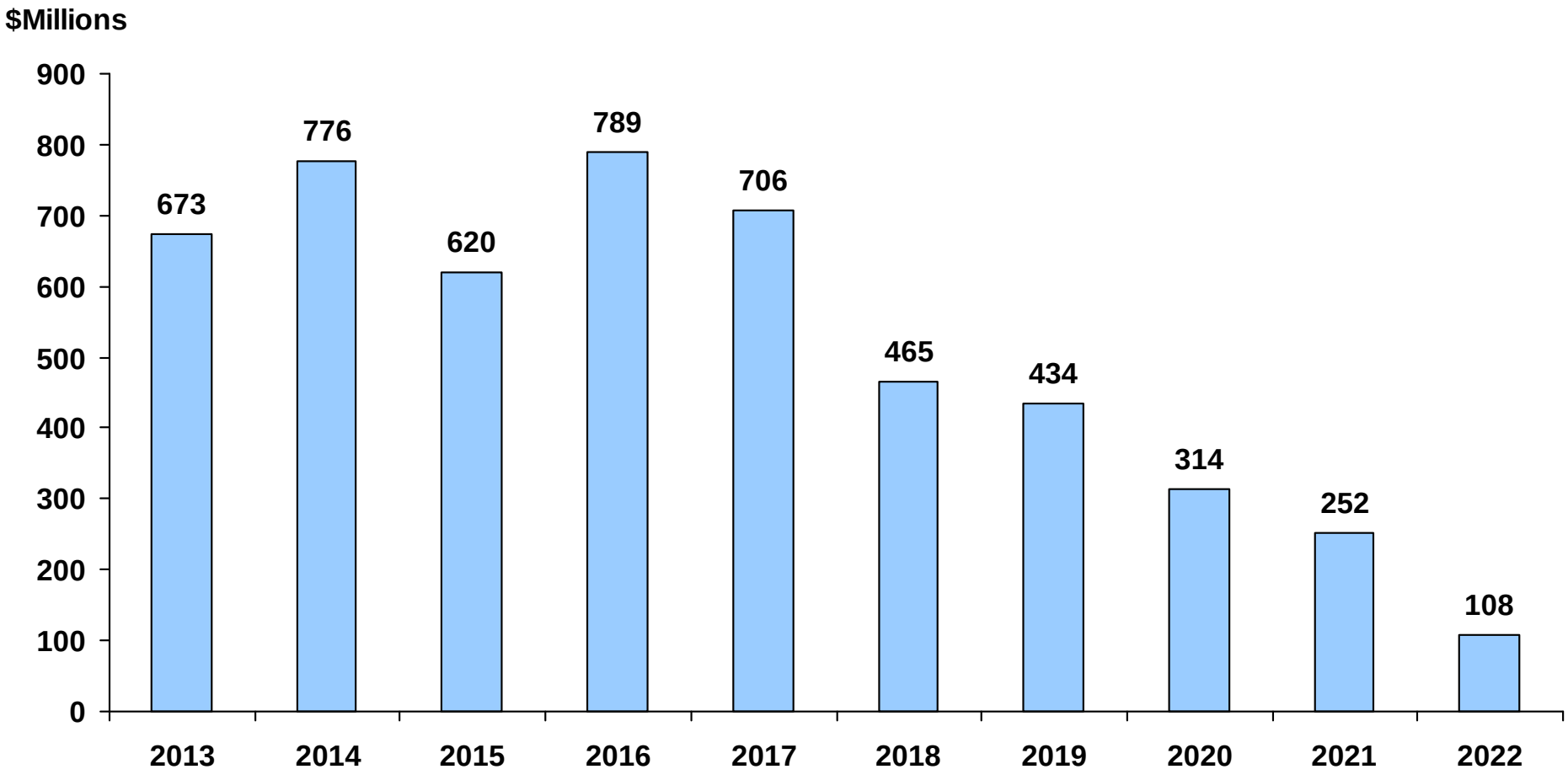
The Region will remain near its Annual Repayment Limit for at least the next four years.

Debt Will Rise to Support New Infrastructure and Growth

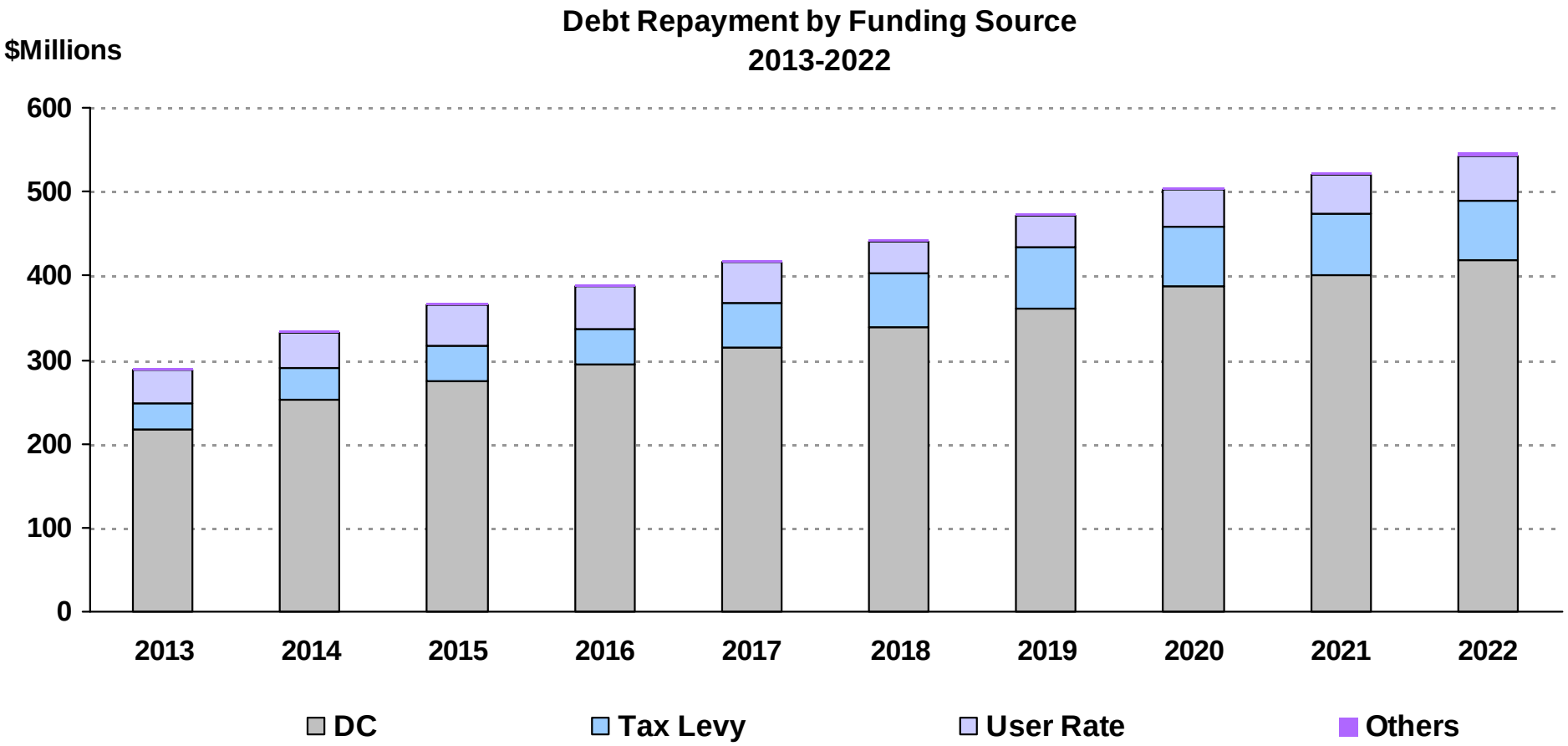


Debt levels are forecast to rise for the next eight years, in line with the Region's capital construction program, and then begin to fall.

Forecast of Incremental Debt to be Issued

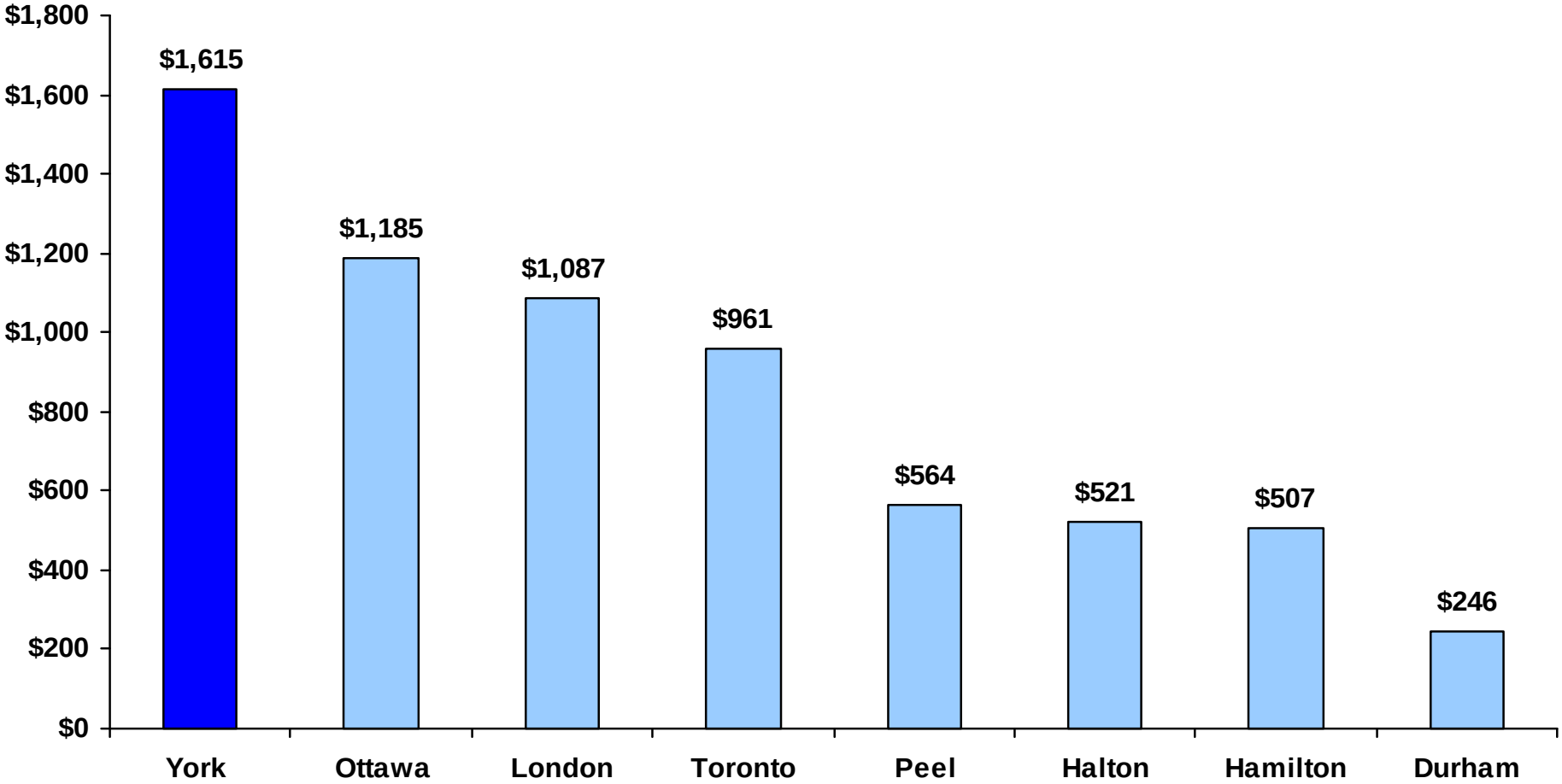


The Region Continuously Repays Its Debt



Development charges are expected to repay growth-related debt.

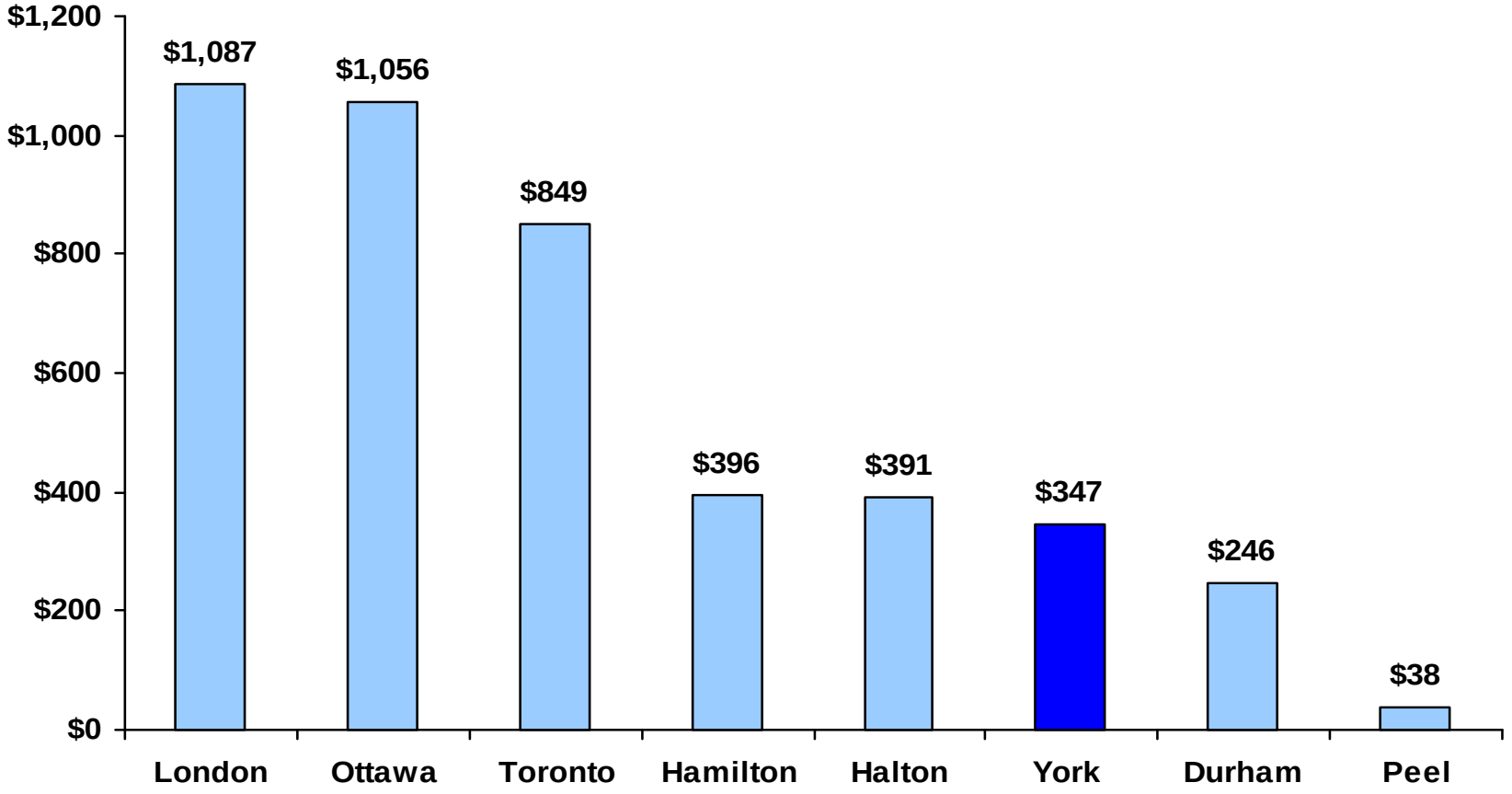
Debt Per Capita Comparison



Source: 2011MMAH Financial Information Returns (FIR) and York Region Finance Department

Debt per capita is not a good indicator of the impact of debt on existing residents.

Tax & Rate Supported Debt Per Capita



Source: 2011MMAH Financial Information Returns (FIR) and York Region Finance Department

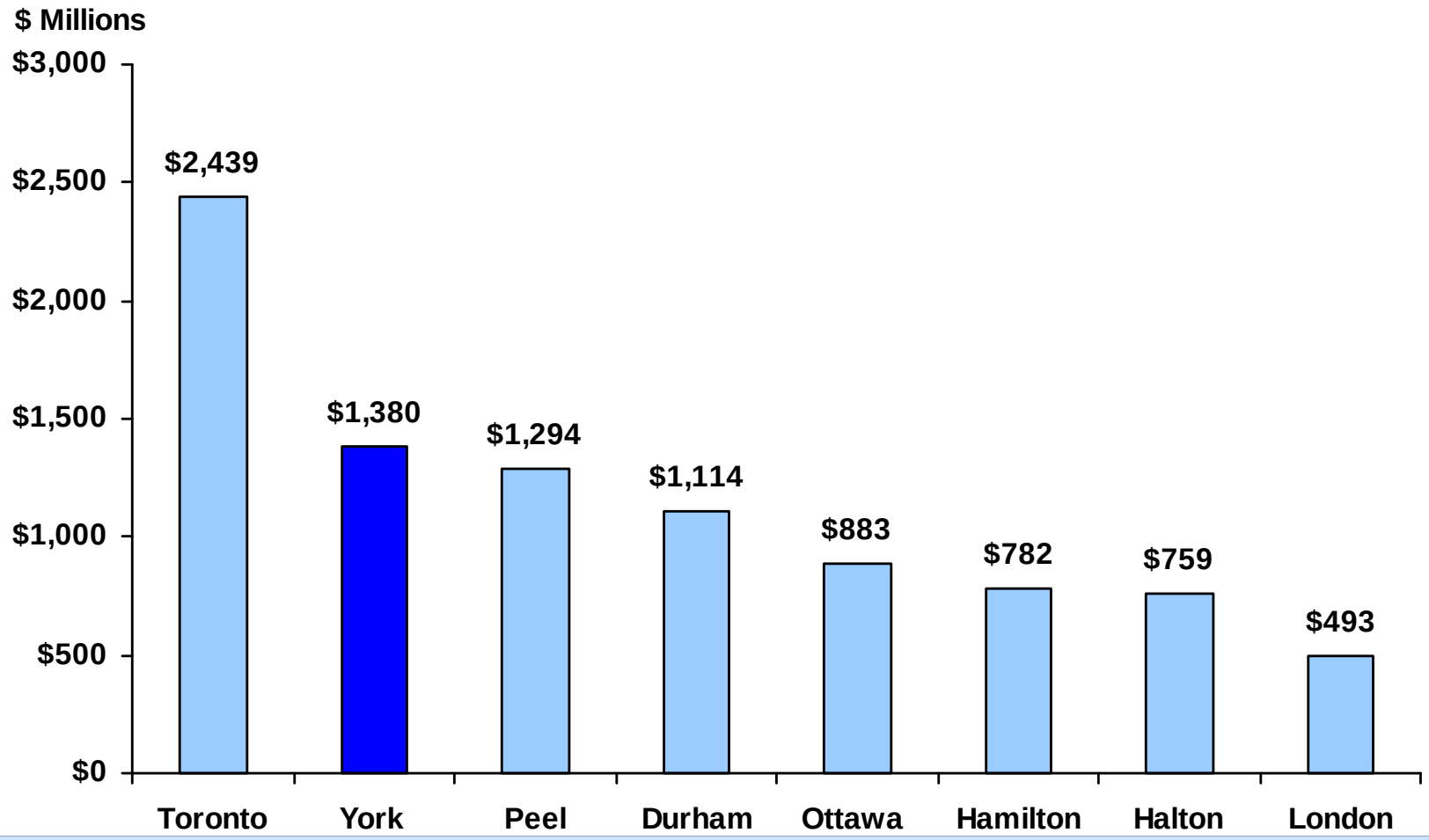
When development charges are taken into consideration, York's debt per capita compares favorably to other municipalities.

Reserves

Purpose of Reserves

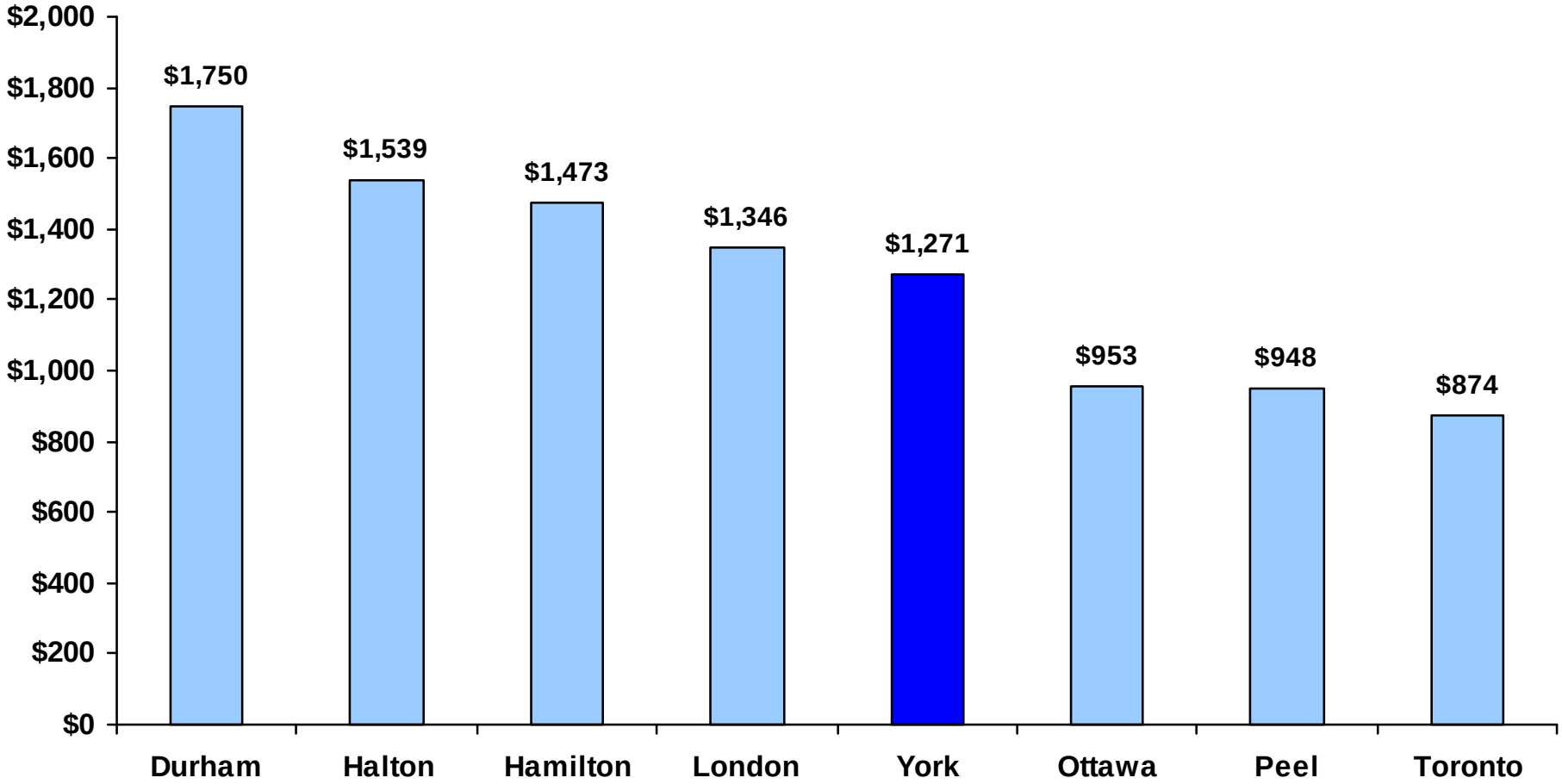
- Reserves are critical to the Region's debt management plan because:
  - Credit rating agencies evaluate liquidity and consider reserves an indicator of fiscal prudence.
  - Reducing the need to issue debt for asset rehabilitation and replacement depends on building reserves over time.
- Reserves also protect the Region against non-capital long-term liabilities and external shocks.
- Finance is working on a longer-term reserve management strategy.

The Region has high levels of reserves



York's reserves are second only to Toronto.

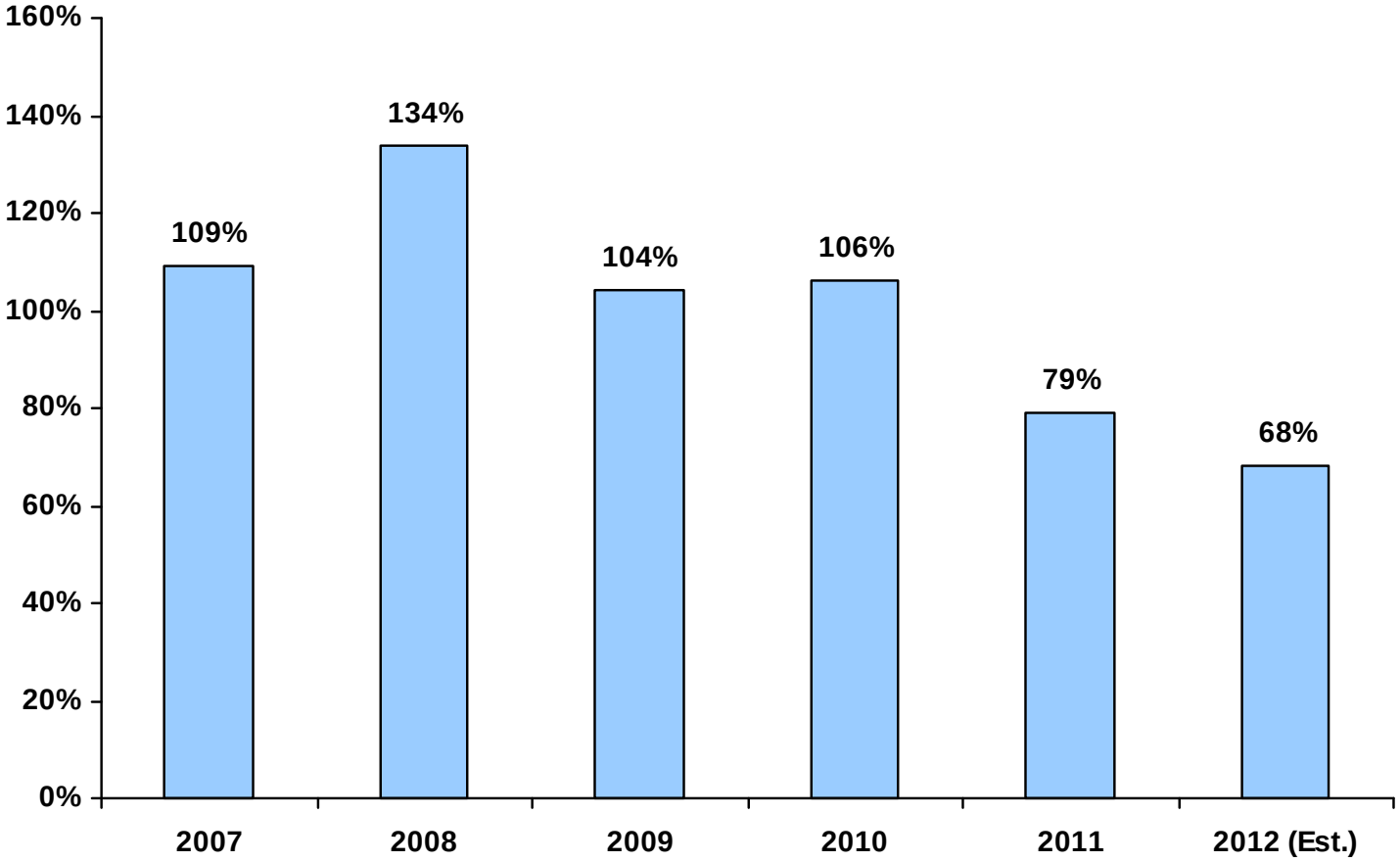
Comparison of Reserves Per Capita



Source: MMAH Financial Information Returns (FIR) and York Region Finance Department

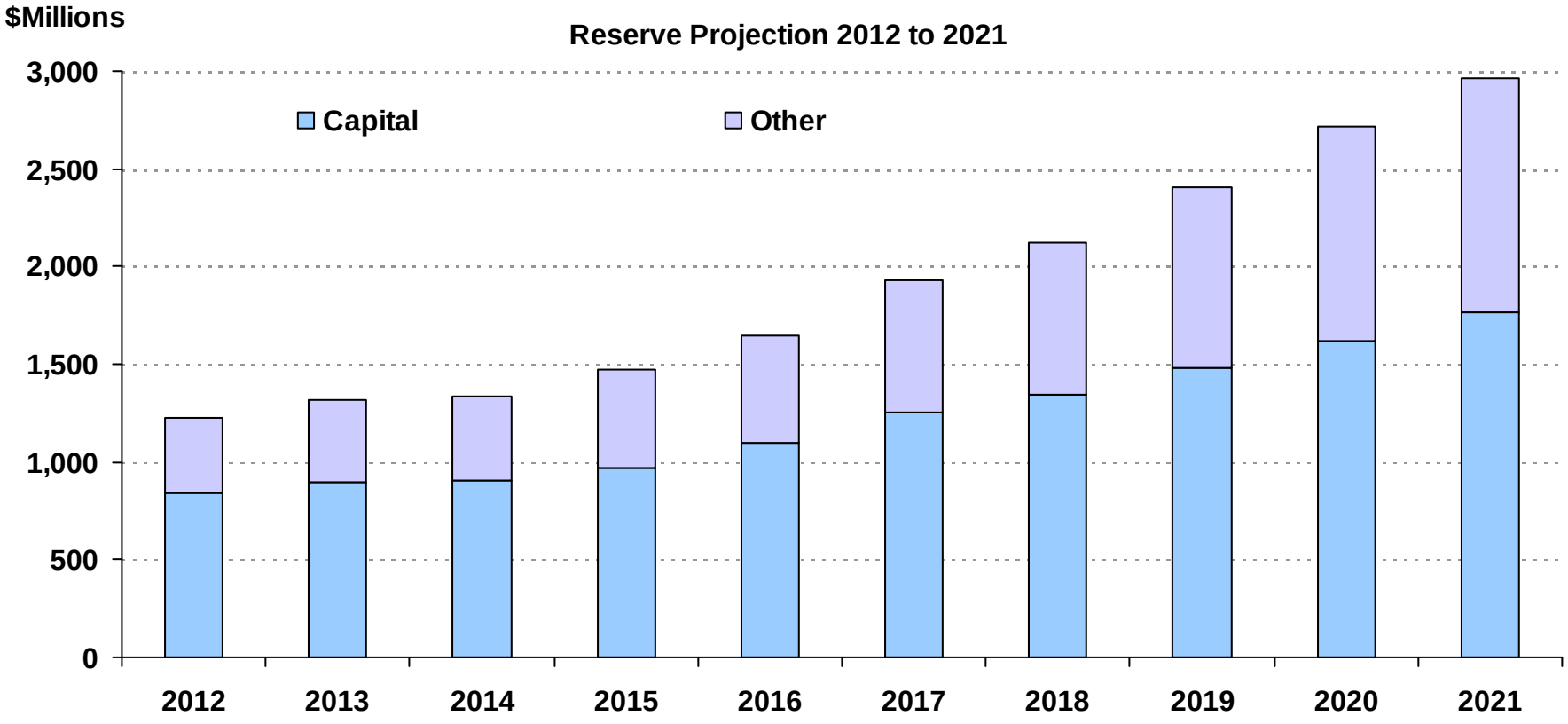
York's reserve levels per capita compare well to other municipal peers.

York Region's Historical Reserve to Debt Ratio



The reserve to debt ratio is declining, highlighting the importance of future growth in reserves.

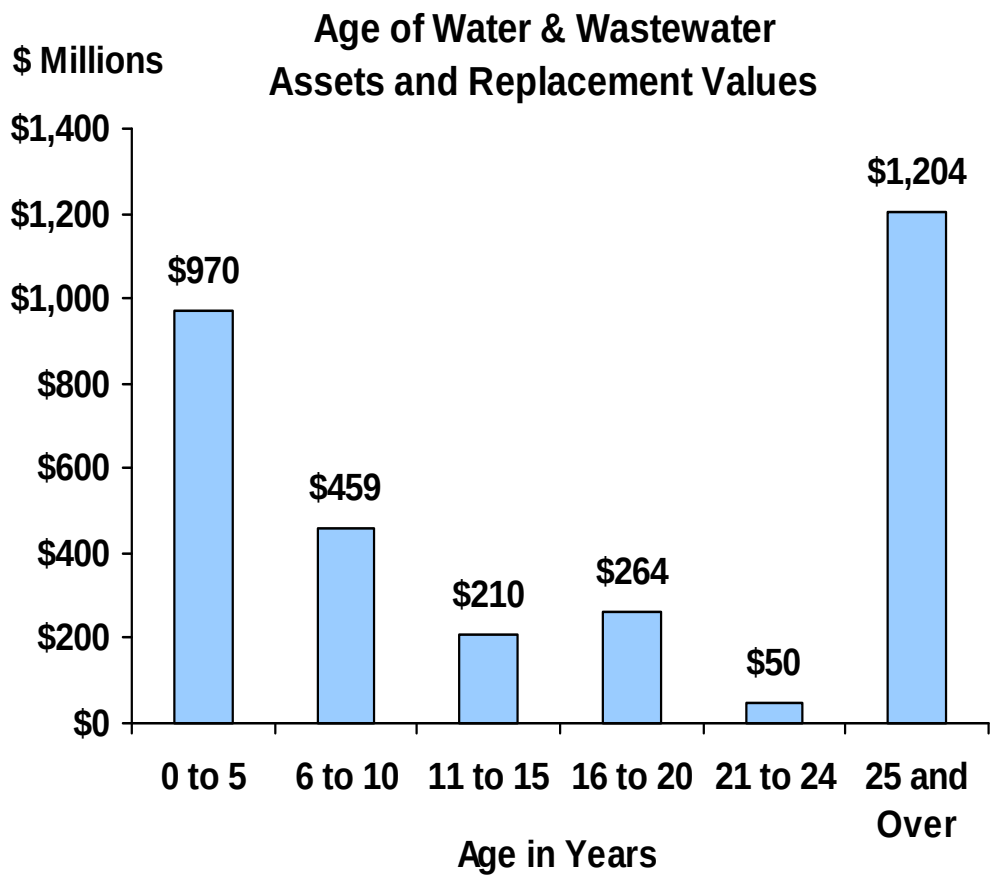
High and Growing Reserve Balances Support the Credit Rating



The Region's reserves are expected to grow significantly over the next ten years.

Reserves and Future Infrastructure Investment

- As infrastructure ages, it periodically needs major (usually expensive) rehabilitation and ultimately needs to be replaced
- Development charges cannot be used for this purpose
- Insurance appraisals indicate that the replacement value of a representative sample of Regional assets is 40% more than the original cost and more than twice the current net book value



The total replacement value of water and wastewater assets is approximately $3.2B.

Strategy for Building Asset Replacement Reserves

- Council has been increasing its contribution to capital asset replacement reserves by 1% of the annual tax levy each year
- Operating surpluses also help build reserves, in accordance with Council's approved surplus policy
- Water and wastewater rate increases will help build reserves for asset rehabilitation and replacement

Proposed New Policy

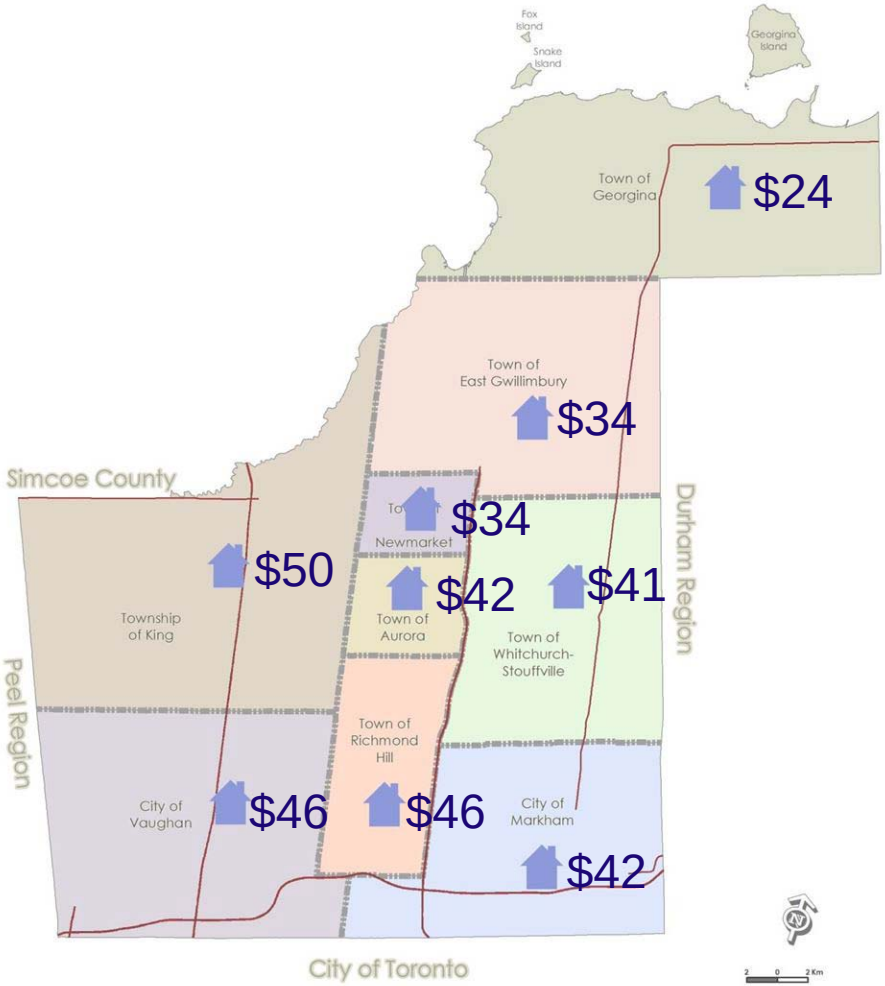
- Increase contributions to capital asset replacement reserve by a further 0.2% per year until it reaches 2%
- Increase already built into proposed budget
  - 1.2% in 2013
  - 1.4% in 2014

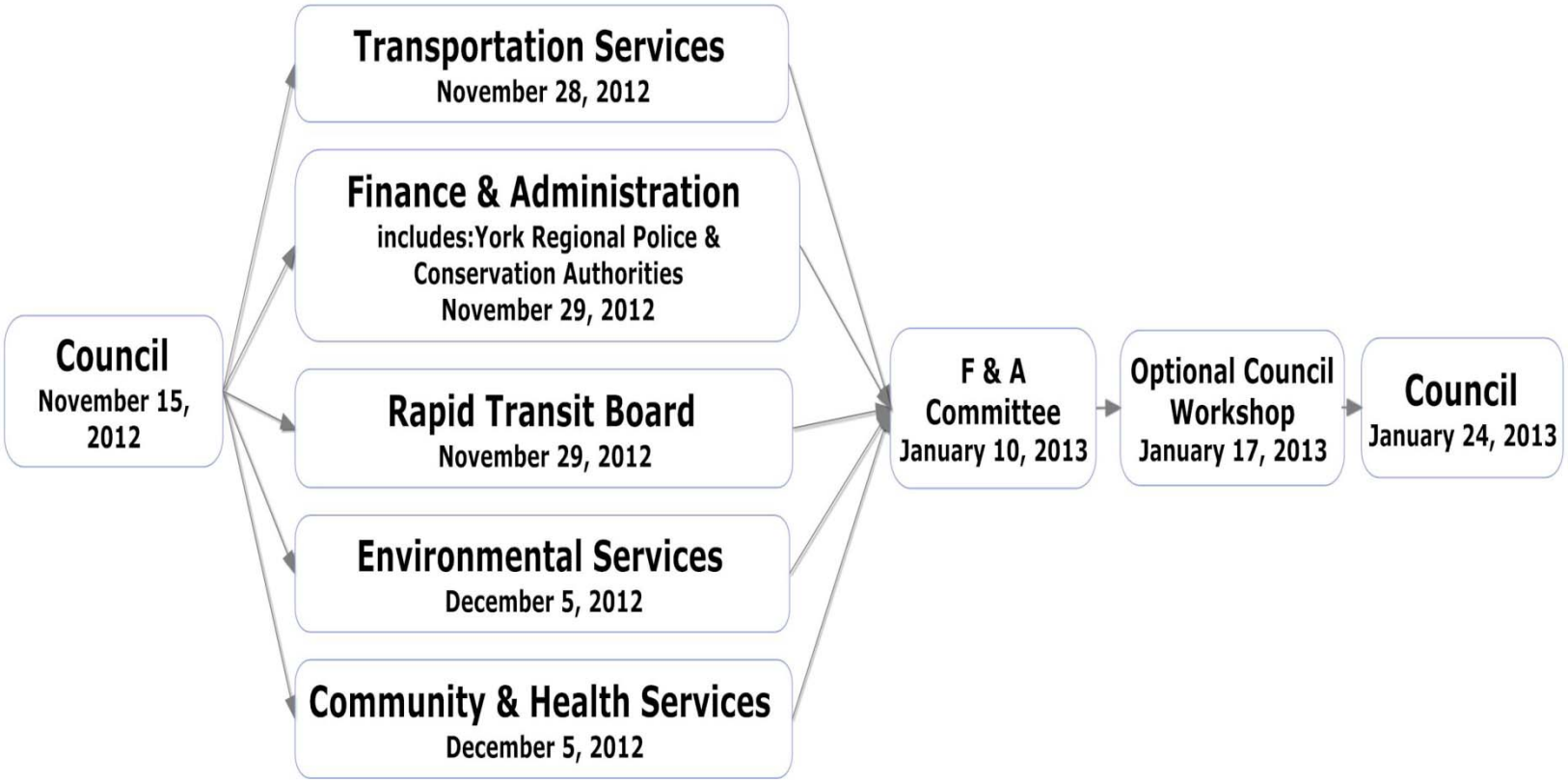
Summary of the Budget

- Budget responds to the continued growth of the Region
- First year of true multi-year budgeting
- Proposed tax increases below the rate of inflation
- Robust capital program
- Increased contribution to capital asset replacement reserves
- Compliant with the Provincial Annual Repayment Limit

Impact on the Homeowner

For an average York Region residential property assessed at $460,000, a 1.94% tax levy increase in 2013 is equivalent to $40



Budget Review Process

2013 Budget – Council/Committee Review Process