1
2012 OPERATING AND CAPITAL BUDGETS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated December 20, 2011, from the Commissioner of Finance, subject to recommendation 1 being amended to read as follows:

1. Receipt of the presentations from Bill Hughes, Commissioner of Finance and Kelly Strueby, Director, Business Planning and Budget regarding the 2012 Business Plan and Budget and from Ed Hankins, Director, Policy, Risk and Treasury, regarding the 2012 Long-Term Debt Management Plan.

2. Adoption of the recommendations contained in the following report dated December 20, 2011, from the Commissioner of Finance, subject to recommendation 1 being amended to read as follows:

> **1. Approve the 2012 Operating and Capital Business Plan and Budget, as amended by this report and as summarized in *Attachments 2* and *3*, *subject to "Financial/Administrative Items" in Attachment 2 including an increase of $520,000 in the Fiscal Stabilization Reserve and a commensurate reduction of $520,000 in contingency*.**

1. RECOMMENDATIONS

It is recommended that the Finance and Administration Committee recommend that Council:

1. Approve the 2012 Operating and Capital Business Plan and Budget, as amended by this report and as summarized in *Attachments 2* and *3*.

2. Approve additional funding of $257,000 for the Lake Simcoe Region Conservation Authority and $542,000 for the Toronto and Region Conservation Authority, for the projects identified in Table 2 of this report.

3. Approve the creation of a Fiscal Stabilization Reserve Fund for the purpose of stabilizing tax rates after 2013.

4. Authorize the Commissioner of Finance and Treasurer to:
   a) Cancel all previous debt authority for which debt has not yet been issued and establish new debt authority as per *Attachment 4*.

b) Obtain temporary financing where necessary and issue long term debt financing for the projects up to the amounts specified in *Attachment 4* in accordance with the Capital Financing and Debt Policy, subject to either the Region meeting its Annual Repayment Limit in the year of issue, or obtaining any other required approvals from the Province or the Ontario Municipal Board.

c) Prepare and submit any application(s) to the Ontario Municipal Board for any or all of the long term financing requirements associated with the projects outlined in *Attachment 4*, if necessary.

d) Make any necessary adjustments, within the total approved budget, to reflect organizational changes, adjustments and any other reallocation of costs.

5. Adopt the Long-Term Debt Management Plan that forms *Attachment 5* of this report.

6. Endorse *Attachment 6* as required under Ontario Regulation 284/09.

2. PURPOSE

This report presents the 2012 Regional Operating and Capital Business Plan and Budget as recommended by Standing Committees and seeks the Finance and Administration Committee's endorsement of the Budget for consideration and adoption by Council on January 26, 2012.

This report also responds to Ontario Regulation 284/09, which requires that the 2012 budget be provided in the Public Sector Accounting Board (PSAB) 3150 format prior to approval of the 2012 budget.

3. BACKGROUND

The 2012 Regional Budget was developed over the past several months

The Region's budget was developed over the past several months, with the timeline for budget development and approval as follows:

- Departmental submissions – August/September 2011
- CAO, Treasurer and Chair reviews – September/October 2011
- Draft Operating and Capital budgets tabled at Regional Council – November 17, 2011
- Standing Committee Reviews – November/December 2011
- Consolidated 2012 Business Plan and Budget to Finance and Administration Committee – January 12, 2012

- Approval by Regional Council – scheduled for January 26, 2012

Proposed 2012 Operating and Capital Business Plan and Budget was tabled at Regional Council on November 17, 2011 with a proposed net tax levy increase of 1.8%

The proposed 2012 Operating and Capital Business Plan and Budget presented at Council on November 17, 2011 reflected a net tax levy increase of 1.8%.

Standing Committees reviewed the proposed 2012 Operating and Capital Business Plans and Budgets in November/December 2011

In November and December 2011, Standing Committees reviewed and made recommendations on the draft budgets. Table 1 summarizes the results of Standing Committee reviews.

Table 1

Outcome of Budget Reviews by Standing Committees

Committee	Date	Department	Outcome
Transportation Services	Nov. 30	Roads Traffic Management and Intelligent Transportation Systems Natural Heritage and Forestry York Region Transit	Recommended as submitted
Planning and Development Services	Nov. 30	Planning and Development Services	Recommended as submitted
Finance & Administration	Dec. 1	Finance &IT	Recommended as submitted
		Office of the CAO, Office of the Regional Chair, Court Services, GTA Pooling, Hospital Funding, Financial Items, GO Transit, MPAC	Recommended as submitted
		York Regional Police	Recommended as submitted
		Conservation Authorities	Recommended as submitted; staff directed to recommend additional projects that could be accommodated within a 0.1% tax levy increase
		Corporate Services	Recommended as submitted
		YRRTC	Recommended as submitted

Community and Health Services	Dec. 7	Emergency Medical Services, Long Term Care, Public Health, Employment & Financial Support, Family & Children's Services, Program Support Services**,** Housing Services, Strategic Service Integration and Policy	Recommended as submitted
Environmental Services	Dec. 7	Water and Wastewater Services, Waste Management Services	Recommended as submitted

Staffing requests are detailed in each departmental business plan. *Attachment 1* contains a reference to the page number in the 2012 Operating Business Plan and Budget for the proposed new staff summary for each business unit. These staffing changes are included in the budgets recommended by the Standing Committees.

4. ANALYSIS AND OPTIONS

Assessment growth has increased as a result of the Municipal Property Assessment Corporation (MPAC) providing a late supplementary tax extract

Near the end of the fourth quarter, MPAC advised the Region of a fourth supplementary tax extract. This final extract included properties that were entered into the MPAC system late in the year. As a result of this late extract, MPAC is showing increased taxing capacity of 2.87%. This results in an additional 0.17% assessment growth to fund 2012 expenditures, over and above the 2.7% included in the draft Budget.

Finance and Administration Committee directed staff to report back on the requests for additional funding for Conservation Authorities

At the December 1, 2011 meeting of the Finance and Administration Committee, the Commissioner of Finance was requested to review the additional budget requests from the Toronto and Region Conservation Authority and the Lake Simcoe Region Conservation Authority, and:

- Provide a recommended list of projects based on Regional priorities
- Cap the increase at approximately 0.1% of the overall Regional operating budget
- Preserve approximately a 2:1 ratio of TRCA to LSRCA additional requests.

Staff recommendations are outlined in Table 2 below.

Table 2
Summary of Staff Recommendations for Conservation Authorities Additional Budget Requests

LSRCA	**Recommended Funding ($000)**	**Future Years**
LEAP Program	200	LEAP and Information Management Systems funding would be built into the base; Sheppard's Bush is one-time funding
Information Management Systems	46	
Development/Enhancement of Sheppard's Bush	11	
Total Funding for LSRCA	257	
TRCA		
Kortright Visitor Center Retrofit	242	Request for on-going funding would result in projects being built into the base budget; Kortright funding is for 5 years
Flood Management Service	200	
Stream Infrastructure	100	
Total Funding for TRCA	542	
Total Additional Funding	**799**	

Annual funding for Hospital Capital is adjusted for assessment growth change

On October 22, 2009 Council approved a Hospital Capital Funding MOU between the Region and the four York Region hospitals. The MOU requires the Region to set aside capital funding of $12 million per year from 2012 to 2031, adjusted for assessment changes. When the 2012 Business Plan and Budget was tabled at Council the assessment growth applied to Hospital Capital Funding was 2.7%. The amended budget will reflect assessment growth of 2.87%.

Direction on possible additional funding for fiscal stabilization or capital asset replacement reserves is needed

Council members have identified two options for additional contributions to reserves: increased contributions to either the Fiscal Stabilization Reserve or the Capital Asset Replacement Reserve. The Committee decided to consider this topic at its January 12, 2012 meeting. Table 3 below summarizes the impact of each of these decision points, for the Committee's consideration.

Table 3
Decision Points With Respect to Increased Reserve Contributions

Reserve	2012 Budget ($M)	Potential Increase ($M)	Tax Levy Impact %
Fiscal Stabilization	8.1	5.1	0.6
Capital Asset Replacement	7.9	7.9	1.0

The 2012 Business Plan and Budget as tabled at Council included an $8.1M contribution to the newly established Fiscal Stabilization Reserve. Council members identified the possibility of increasing this contribution by an additional $5.1M to match GTA Pooling upload of $13.2M. This additional contribution amount would have a tax levy impact of 0.6%.

The 2012 Business Plan and Budget tabled at Council included a $7.9M contribution to the Capital Asset Replacement Reserve. This contribution is a further step in Council's commitment to increasing the Capital Asset Replacement Reserve by 1% of the tax levy each year. An additional 1% contribution of $7.9M would result in a 1% tax levy increase.

Reserves are an integral component of the Region's multi-year fiscal strategy. The continued building of reserves will preserve the Region's high credit rating and help manage future pressures.

A Long-Term Debt Management Plan has been prepared as part of the 2012 budget process

As outlined in *Attachment 3*, the 2012 budget includes $3,408.1 million in Total Project Budget Authority capital costs, of which it is expected that $1,777.5 million will be financed through debt. *Attachment 4* further details the $1,777.5 million debt financing requirements at the project level. In addition to the 2012 debt request, $2.3 million will be required for previously approved projects that require debt financing for a total of $1,779.8 million.

Previous to the 2012 budget cycle, the Region had carried debt authorities stretching back several years. These authorities in some cases were for projects that had already been completed under budget, or financed with sources of funding other than debt. Cancelling these authorities and restating them allows for more transparent tracking of the progress of the underlying capital projects and a better understanding of when debt will be required on a cash flow basis.

In accordance with a new provincial regulation enacted in 2011, Council must adopt or affirm a multi-year Long-Term Debt Management Plan as part of its annual budgeting process. The Plan must indicate the debt needs of the Region over a multi-year period, the anticipated methods of financing this debt, the risk associated with issuing the planned debt and mitigation strategies, including Regional policies in place to mitigate identified risks. The Long-Term Debt Management Plan is included in *Attachment 5*.

Ontario Regulation 284/09 requires the 2012 budget be provided in Public Sector Accounting Board 3150 format prior to budget approval

In addition to presenting the results of Standing Committee reviews in order to finalize the 2012 budget, this report also responds to an additional requirement under Ontario Regulation 284/09. While preparing budgets on an accrual accounting basis as per PSAB 3150 is not required, Ontario Regulation 284/09 requires municipalities to report on whether they are budgeting for amortization expenses, post-employment benefit expenses and solid waste landfill closure and post-closure expenses. The regulation also requires that this report be prepared prior to adopting the budget for that year.

Exclusions from the proposed 2012 Budget are as follows:

1. The budget does not include $144 million in expenses for the amortization of tangible capital assets. However, the budget does include reserve contributions of $49.8 million for capital asset replacement.
2. The budget does not contain the current year's post-employment benefit expense for early retirement, accrued sick leave, vacation, WSIB and long term disability totalling $112.6 million for employees that are eligible for these benefits.
3. The Region does not have a landfill site and therefore is not subject to solid waste landfill closure and post-closure expenses.

The above items, if they were included in the 2012 budget, would decrease the operating surplus.

Attachment 6 reconciles the 2012 proposed budget (prepared on a cash basis) to an accrual accounting basis.

Link to Key Council–approved Plans

The 2012 Business Plan and Budget was prepared concurrently with the 2011 to 2015 Strategic Plan. The Budget was influenced by the priorities outlined in the Strategic Plan and, as a result, the 2012 Business Plan and Budget as presented is supportive of the objectives outlined in the Strategic Plan.

5. FINANCIAL IMPLICATIONS

The 2012 Tax Levy budget has been amended following Standing Committee Reviews

The 2012 tax levy budget that was presented to Council on November 17, 2011 outlined a net tax levy increase of $14.4 million, representing an increase of 1.8%, after adjusting for assessment growth of $21.3 million.

Table 4 describes the changes since the tabling of the budget in November. The tax levy increase remains the same at 1.8%.

Table 4
Changes to the 2012 Tax Levy Budget

	$M	%	Net Tax Levy %
Tabled November 17, 2011	**14.4**		**1.82**
Assessment Growth Dec. 2011	(1.32)	(0.17)	1.65
Hospital Capital	0.02	0.00	1.65
LSRCA / TRCA	0.80	0.10	1.75
Financial /Administrative Items*	0.52	0.07	1.82
Presented to F&A, January 12, 2012	**14.4**		**1.82**

*The remaining balance from the additional assessment growth has been contributed to Financial/Administrative items.

Debt financing of $1,779.8 million is required to support the Total Project Budget Authority for capital

Debt financing as detailed in *Attachment 4* includes $1,777.5 million for projects requested for approval as part of the 2012 budget process and an additional $2.3 million for previously approved projects that require debt financing for a total of $1,779.8 million. Of the proposed debt requirement, $1,385.3 million is for water and wastewater rate supported projects and $394.5 million is for tax supported projects.

The 2012 Business Plan and Budget includes the creation of a Fiscal Stabilization Reserve

A Fiscal Stabilization Reserve Fund will be established for the purposes of stabilizing tax rates after the GTA pooling upload is phased out. The reserve fund will be operated and maintained from appropriations approved by Council for the years 2012-2013, from earnings derived from the investment of monies held in the reserve fund, and from the allocation of funds from any other sources as may be determined by Council. The Fund will be used to reduce tax rates, in accordance with Council approval for years subsequent to 2013.

6. LOCAL MUNICIPAL IMPACT

The Region provides essential services and capital infrastructure for residents and businesses in all local municipalities within York Region. The 2012 Business Plan and Budget endeavours to meet growing demands for service with reasonable tax levy requirements and sustainable multi-year capital investment.

7. CONCLUSION

This report provides the results of Standing Committee reviews and related recommendations regarding the 2012 budget. In addition, this report outlines those items requiring further consideration by the Finance and Administration Committee and responds to direction from Committees.

For more information on this report, please contact Kelly Strueby, Director, Business Planning and Budgets at Extension 1611.

(The six attachments referred to in this clause are attached to this report.)

COUNCIL ATTACHMENT 1

Reference to 2012 New Staff Requests

Departments/Branches	Page # of New Staff Summary in Operating Business Plan
Transportation Services	48
York Region Transit/VIVA	95
Roads	125
Traffic Management & Intelligent Transportation Systems	138
Natural Heritage & Forestry	148
Environmental Services	
Waste Management	180
Water & Wastewater	217
Community & Health Services	
Emergency Medical Services	239
Long Term Care	254
Public Health	275
Employment & Financial Support	290
Family & Children's Services	304
Housing Services	319
Strategic Service Integration Policy	334
Business Operations & Quality Assurance	339
Planning & Development Services	353
Finance & Information Technology	
Finance	396
Information Technology Services	403
Corporate Services	
Property Services	434
Legal Services	441
Office of the Regional Clerk	447
Human Resources Services	453
Court Services	470
York Region Rapid Transit Corporation	510

SUMMARY OF 2012 PROPOSED OPERATING BUDGET

($ 000)	2011 GROSS	2011 NET	2012 REQUEST GROSS	2012 REQUEST NET	CHANGE GROSS	CHANGE NET	% CHANGE NET
Transportation Services							
York Region Transit/Viva	168,720	99,769	175,228	97,454	6,508	(2,315)	(2.3)%
Contribution to Capital	6,200	6,200	7,200	7,200	1,000	1,000	16.1%
Roads Transportation	51,365	35,782	53,530	37,946	2,165	2,164	6.0%
Contribution to Capital	32,570	32,570	30,190	30,190	(2,380)	(2,380)	(7.3)%
TM & ITS	12,144	11,052	13,135	12,043	991	991	9.0%
Contribution to Capital	3,351	3,351	2,673	2,673	(678)	(678)	(20.2)%
Natural Heritage & Forestry	4,024	3,343	4,750	4,055	726	712	21.3%
Contribution to Capital	870	870	1,535	1,535	665	665	76.4%
Sub Total	**279,244**	**192,937**	**288,241**	**193,096**	**8,997**	**159**	**0.1%**
Environmental Services							
Waste Management	57,011	39,706	58,682	40,767	1,671	1,061	2.7%
Water & Wastewater Services	318,168	0	349,087	0	30,919	0	-
Contribution to Capital	21,645	0	24,470	0	2,825	0	-
Sub Total	**396,824**	**39,706**	**432,239**	**40,767**	**35,415**	**1,061**	**2.7%**
Community & Health Services							
Emergency Medical Services	48,965	24,182	53,683	26,507	4,718	2,325	9.6%
Contribution to Capital	3,088	3,088	3,254	3,254	166	166	5.4%
Long Term Care	36,627	13,144	37,408	13,531	781	387	2.9%
Public Health	53,118	11,175	55,328	11,920	2,210	745	6.7%
Employment & Financial Support	79,658	21,983	84,039	18,492	4,381	(3,491)	(15.9)%
Family & Children's Services	62,236	14,239	64,321	16,069	2,085	1,830	12.9%
Housing Services	74,316	41,386	66,849	43,187	(7,467)	1,801	4.4%
Strategic Service Integration & Policy	14,376	11,920	14,367	12,539	(9)	619	5.2%
Sub Total	**372,384**	**141,116**	**379,249**	**145,498**	**6,865**	**4,382**	**3.1%**
Planning & Economic Development	**8,609**	**7,558**	**9,093**	**8,135**	**484**	**577**	**7.6%**
Corporate Management							
Office of the C.A.O.	4,109	3,918	4,312	4,123	203	205	5.2%
Finance	11,121	9,426	12,442	10,673	1,321	1,247	13.2%
IT Services	17,597	15,839	18,983	17,225	1,386	1,386	8.8%
Property Services	17,905	17,364	19,439	18,897	1,534	1,533	8.8%
Contribution to Capital	244	244	244	244	0	0	-
Legal Services	2,802	2,468	3,320	2,970	518	502	20.3%
Clerk's Office	2,223	2,219	2,981	2,977	758	758	34.2%
Human Resource Services	6,859	6,849	7,390	7,380	531	531	7.8%
Sub Total	**62,860**	**58,327**	**69,111**	**64,489**	**6,251**	**6,162**	**10.6%**
Chair & Council	**1,955**	**1,955**	**2,020**	**2,020**	**65**	**65**	**3.3%**
Financial Items-Asset Replacement	**50,936**	**41,936**	**64,530**	**49,830**	**13,594**	**7,894**	**18.8%**
Financial/Administrative Items	**7,023**	**604**	**18,725**	**13,904**	**11,702**	**13,300**	**2203.1%**
Recovery from WWw (User Rate)	0	(5,033)	0	(5,291)	0	(258)	5.1%
TOTAL REGIONAL OPERATING PROGRAMS	**1,179,834**	**479,106**	**1,263,207**	**512,448**	**83,373**	**33,342**	**7.0%**
Court Services	**9,854**	**(842)**	**10,368**	**(327)**	**514**	**515**	**61.1%**
Boards & Authorities							
Conservation Authorities	5,177	5,177	6,159	6,159	982	982	19.0%
GO Transit	2,500	0	2,500	0	0	0	-
Hospital Capital Funding	12,706	12,706	13,071	13,071	365	365	2.9%
Property Assessment (MPAC)	15,702	15,702	16,400	16,400	698	698	4.4%
Sub Total	**36,085**	**33,585**	**38,130**	**35,630**	**2,045**	**2,045**	**6.1%**
GTA Pooling	**26,400**	**26,400**	**13,200**	**13,200**	**(13,200)**	**(13,200)**	**(50.0)%**
York Region Rapid Transit Corporation	**18,123**	**11,994**	**17,386**	**10,810**	**(737)**	**(1,184)**	**(9.9)%**
York Regional Police	252,897	233,321	268,215	248,503	15,318	15,182	6.5%
Contribution to Capital	5,851	5,851	6,200	6,200	349	349	6.0%
Sub Total	**258,748**	**239,172**	**274,415**	**254,703**	**15,667**	**15,531**	**6.5%**
TOTAL OPERATING BUDGET	**1,529,044**	**789,415**	**1,616,706**	**826,464**	**87,662**	**37,049**	**4.7%**
Less Assessment Growth				(22,656)		(22,656)	(2.9)%
TOTAL AFTER ASSESSMENT GROWTH	**1,529,044**	**789,415**	**1,616,706**	**803,807**	**87,662**	**14,393**	**1.8%**

COUNCIL ATTACHMENT 3

2012 Business Plan and Budget

Capital Budget Consolidated Summary

2012 Total Project Budget Authority Financing Sources

(In $000's)	Capital Project Total	Current Tax Levy - Reserves	Reserves	Debenture Proceeds	Development Charges	Grants & Subsidies	User Rates	Other Recoveries
Tax Supported								
York Region Transit/Viva	48,650	7,231	9,536	13,817	1,612	16,454	-	-
Roads	389,934	52,401	38,202	9,127	285,845	840	-	3,519
Traffic Management & Intelligent Transportation Systems	17,247	4,672	2,502	-	5,418	4,655	-	-
Natural Heritage & Forestry	2,720	1,720	1,000	-	-	-	-	-
Waste Management	88,553	-	39,812	48,741	-	-	-	-
Emergency Medical Services	17,566	3,254	8,629	5,123	560	-	-	-
Long Term Care	4,765	-	4,765	-	-	-	-	-
Public Health	3,131	-	1,822	-	1,309	-	-	-
Housing	62,821	-	(5,765)	5,316	-	63,270	-	-
Information Technology Services	26,605	-	26,605	-	-	-	-	-
Property Services	30,756	244	13,662	16,850	-	-	-	-
York Region Rapid Transit Corporation	1,012,080	-	23,131	284,384	74,185	630,380	-	-
York Regional Police	17,896	6,200	2,056	8,875	388	-	-	377
Total Tax Supported	**1,722,722**	**75,722**	**165,956**	**392,232**	**369,317**	**715,599**	**-**	**3,896**
Rate Supported								
Water	702,730	-	45,847	645,741	382	-	10,760	-
Wastewater	982,605	-	17,988	739,511	-	-	46,600	178,506
Total Rate Supported	**1,685,335**	**-**	**63,835**	**1,385,252**	**382**	**-**	**57,360**	**178,506**
Total Financing Sources	**3,408,057**	**75,722**	**229,791**	**1,777,484**	**369,699**	**715,599**	**57,360**	**182,402**

2012 Business Plan and Budget
2012 Total Project Budget Authority
Debt Financing

		2012 and Outyears TPBA ($000's)
York Region Transit/Viva		
81582	Transit Vehicle Garage - North	12,220
81583	Transit Vehicle Garage - Southeast	282
84613	Conventional Buses Replacement - 2013	1,065
86100	Facility Security	250
Sub-total		**13,817**
Roads		
82680	Highway 404 crossing north of Highway 7 (Pre-Construction)	742
85790	Southeast Patrol Area Works Yard (Pre-Construction)	6,822
98340	19th Avenue - Yonge Street to Bayview Avenue	1,563
Sub-total		**9,127**
Water		
70050	Leslie Street Watermain	1,000
70120	Orchard Heights Pumping Station and Kirby Pumping Station Upgrade	8,330
71180	Queensville Elevated Tank No. 1	8,146
72170	Georgina Water Supply- Keswick North Elevated Tank and Connecting Watermain to Woodbine Avenue	4,242
72180	Georgina Water Supply - Woodbine and Ravenshoe Watermain (Church Street-Keswick Tank)	297
72200	Georgina Water Supply - Sutton Water Servicing	2,617
72390	Water for Tomorrow Program	4,710
72440	Aurora/Newmarket Water Supply System Study	210
72450	Aurora Elevated Tank (related to Leslie Street Watermain project # 70050)	9,763
72500	Infrastructure Stimulus Fund - Georgina Water Supply / Water Treatment Plant Phase 2	614
72520	Pressure District 6 Nashville Road Watermain- Huntington to the Kleinburg Elevated Tank	6,930
73160	Nobleton - Additional Water Supply and Watermain to Town	4,834
73170	King City - Additional Water Supply Watermain	377
73300	Water Master Plan Pressure District	100
73580	Toronto Cost Shared Work - 2005 Water Supply Agreement	94,810
73790	Peel Water Supply - Cost-Shared Work	326,134
74210	Pressure District 6 Markham Bypass	5,339
74220	Decommission Markham Pumping Station	1,150
74260	Toronto Supply - Kennedy Watermain - Milliken Pumping Station to Major Mackenzie Drive	59,988
75390	Kleinburg Storage and Pumping Station	50,024
75400	Pressure District 8 West Richmond Hill Pumping Station and Watermain	1,250
75420	Pressure District 7 Maple Pumping Station Upgrade and Flowmeter	300
75430	Bathurst Street Watermain	10
75440	Yonge Street to Woodspring Avenue Watermain	20
75450	Glenway Reservoir Expansion	7,757
75460	Yonge Street Watermain from Gladman Avenue to Green Lane	268
75480	Newmarket West Yonge Elevated Tank and Yonge Street Watermain	1,629
75510	Second Concession Watermain	5,957
75520	Stouffville Zone 2 Elevated Tank and Watermain	10
75530	Pressure District 7 Vaughan Watermain and Reservoir	10
75590	Wellington Reservoir and Watermain	10
75620	Richmond Hill (Pugsley Avenue) Pumping Station Capacity Upgrade	7,180
75700	Water Servicing – Richmond Hill/Langstaff Gateway Provincial Urban Growth and Regional Centre	35
76120	Pressure District 7 Elgin Mills (Enford Road to Bayview Avenue)	11,350
76290	Bathurst Watermain (Elgin Mills Road to North Richmond Hill Reservoir & Gamble Road to Jefferson Reservoir)	227
76300	North Richmond Hill Elevated Tank No. 2 and Yonge Vandorf Bloomington Bayview Watermain	6,100
77480	Kleinburg - Additional Water Supply Watermain	11,498
78180	Ballantrae - New Production Well and Watermain to Town	2,415
79670	Water System Capacity Assessment	100
Sub-total		**645,741**

2012 Business Plan and Budget
2012 Total Project Budget Authority
Debt Financing

	2012 and Outyears TPBA ($000's)
Wastewater	
72230 Joe Dales Forcemains & Pumping Station Upgrades	2,126
72240 Keswick Water Pollution Control Plant Expansion	32,517
72360 Duffin Creek Water Pollution Control Plant Outfall / Effluent Strategy	510
72410 Temporary Flow Control System on York Durham Sewage System	340
72530 Duffin Creek Stages 1 & 2 Upgrade and Refurbishment	188,184
73640 Inflow & Infiltration Reduction	9,600
73720 York Durham Sewage System Duffin Creek Water Pollution Control Plant (Phase 3) Expansion	77,429
74030 York Durham Sewage System 16th Avenue Trunk (Stone Mason-Woodbine)	2,900
74040 York Durham Sewage System Southeast Collector	365,798
74270A Upper York Sewage Solutions (Pre-Construction)	14,799
75300A West Vaughan Sewage Servicing (Pre-Construction)	2,111
75310 East Vaughan Trunk Sewer	10
75330 Green Lane Sewer Diversion	156
75650 Wastewater Servicing – Richmond Hill/Langstaff Gateway Provincial Urban Growth and Regional Centre	55
76050 York Durham Sewage System Interceptor Sewer (Lower Leslie Street/19th Avenue)	15
77090 York Durham Sewage System Langstaff Trunk	285
77470 Kleinburg Water Pollution Control Plant Expansion/Extension of York Durham Sewage System	300
79100 Wastewater Master Plan Update	100
79740 Peel System Cost Shared Works	18,327
79890 York Durham Sewage System - Leslie Pumping Station Upgrade	23,949
Sub-total	**739,511**
Waste Management	
71325 Energy From Waste Facility	37,410
71335 Source Separated Organics Facility	11,331
Sub-total	**48,741**
Emergency Medical Services	
54420 Queensville Station	750
54490 Pefferlaw Station	775
54510 Vaughan Station - Maple Teston Road	938
54580 Vaughan - West Woodbridge	1,860
54640 Newmarket Northwest Station	400
54645 Newmarket Southeast Station	400
Sub-total	**5,123**
Housing	
67915 Dew Street	(2,858)
67917 Mackenzie Green (Essex)	8,174
Sub-total	**5,316**
Property Services	
14722 Master Accommodation Plan Implementation	6,000
14751 Energy Initiatives	4,150
14780 Central Service Centre - (Pre-Construction)	6,700
Sub-total	**16,850**
York Region Rapid Transit Corporation	
90992 Bus Rapid Transit Facilities and Terminals	49,768
90993 Bus Rapid Transit Vehicles - Partially or Fully Funded	12,464
90996 Spadina Subway Extension	197,413
90997 Yonge Subway Extension	5,000
90999A Spadina - Viva Concourse	18,600
90999C Park 'n Ride Strategy	1,139
Sub-total	**284,384**

2012 Business Plan and Budget
2012 Total Project Budget Authority
Debt Financing

		2012 and Outyears TPBA ($000's)
York Regional Police		
27730	Marine Patrol Boat	500
27820	Police Helicopter	709
29023	Interception Equipment Rooms	1,256
29026	In Car Video	488
29030	Information Technology Infrastructure and Retention	783
29031	#3 District - Marine Headquarters	500
29033	Renovations to Existing Facilities	300
29038	Central Services Building	4,000
29039	Employee Scheduling	339
Sub-total		**8,875**
Total Debt financing requirements for 2012 as submitted to Regional Council on November 17th, 2011		**1,777,484**

Previously Approved Projects		**2011 and Prior**
81582	York Region Transit/ Viva - Transit Vehicle Garage North	48
54510	EMS - Vaughan Station (Maple Teston Rd)	99
54580	EMS - Vaughan (West Woodbridge)	50
90999	York Region Rapid Transit Corporation - Spadina/ Viva Concourse	700
29013	York Regional Police - Central Services Building	158
29025	York Regional Police - Digital Witness Statement	560
29026	York Regional Police - In Car Video Pilot	720
Sub-total		**2,335**

Total Debt Financing Requirements	**1,779,819**

2012 Long-Term Debt Management Plan

Introduction

Municipalities in Ontario are restricted by the Province in the amount of debt they can incur through an Annual Repayment Limit (ARL). The ARL limits Council's authorization of projects to those for which the annual cost of servicing its long-term debt and financial obligations does not exceed 25% of its own source revenue plus a growth cost supplement equal to 80% of the average of the Region's last three fiscal years of development charge collections. The cost supplement applies to York Region only.

In order to qualify for the growth-related cost supplement, the Region is required to meet two conditions:

1. Maintain at least an AA low (or equivalent) credit rating.
2. As part of the preparation of its budget for the fiscal year, Council must adopt or affirm a plan for the management of its long-term debt and financial obligations.

As of October 2011, the Region has maintained an AAA credit rating for the tenth year in a row.

The Province requires Regional Council to consider the following items as part of its long-term debt management plan:

1. The Region's needs for its long-term debt and financial obligations over a multi-year period
2. Projections of the ARL 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 Region's long-term debt strategy
4. Long-term debt and financial obligations policy
5. Prudent and cost-effective management of existing and projected long-term debt and other financial obligations
6. Estimated temporary borrowing needs for 2012
7. Evaluation and comparison of 2011 projections and outcomes.

2012 Long-Term Debt Management Plan

1. The Region's Needs for its Long-Term Debt and Financial Obligations Over a Multi-Year Period

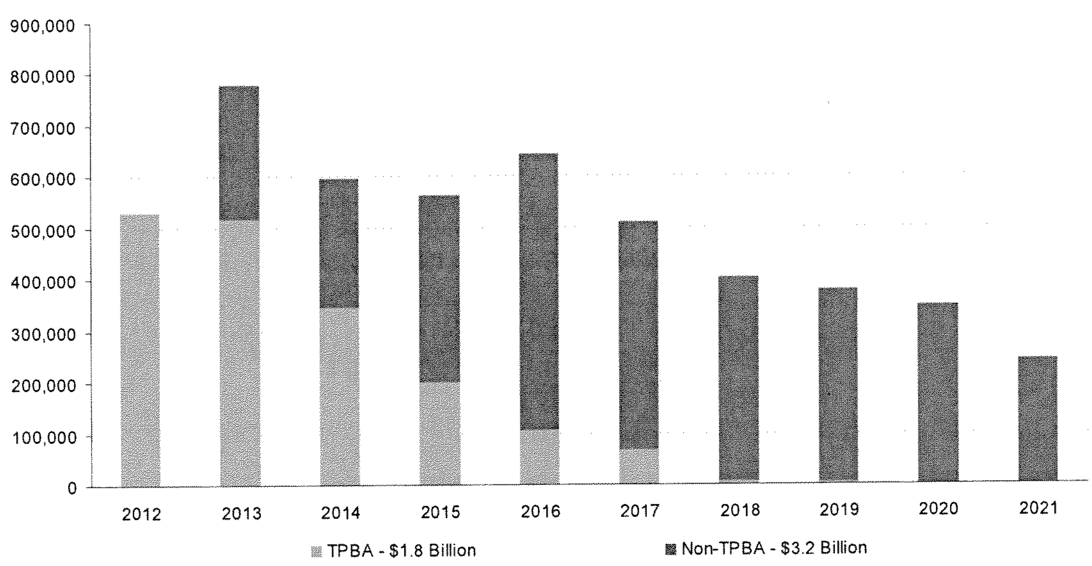
The Region is relying on debt to fund a significant portion of its capital plan

The 2012 Capital Plan shows capital expenditure needs totalling approximately $8.2 billion over the 2012-2021 forecast period. Of this, approximately $5 billion will be funded from debenture proceeds. Approximately $1.8 billion of the $5 billion in projected debenture requirements is included within the Total Project Budget Approval (TPBA) identified for 2012, as illustrated in Chart 1.

TPBA provides Council's authorization for departments to proceed with capital projects. Approving a capital project requires that the Region demonstrate the availability of all sources of funding, including debt, over the time the project will be delivered. To this end, the Region must demonstrate it has enough debt room at the time of project commitment to remain within its provincially-mandated debt limits.

Additionally, the Region's Capital Plan contains projects with an estimated debt of about $3.2 billion that are planned, but not yet approved.

Chart 1
Forecast of New Debt to be Issued
2012-2021
($000's)



Note: Forecast includes additional debt to maintain Development Charge reserve balances at a minimum of one year principal and interest payment

For the purposes of this Debt Management Plan, the Region will need to estimate its future debt requirements on a TPBA basis as well. This will be described in further detail below.

2012 Long-Term Debt Management Plan

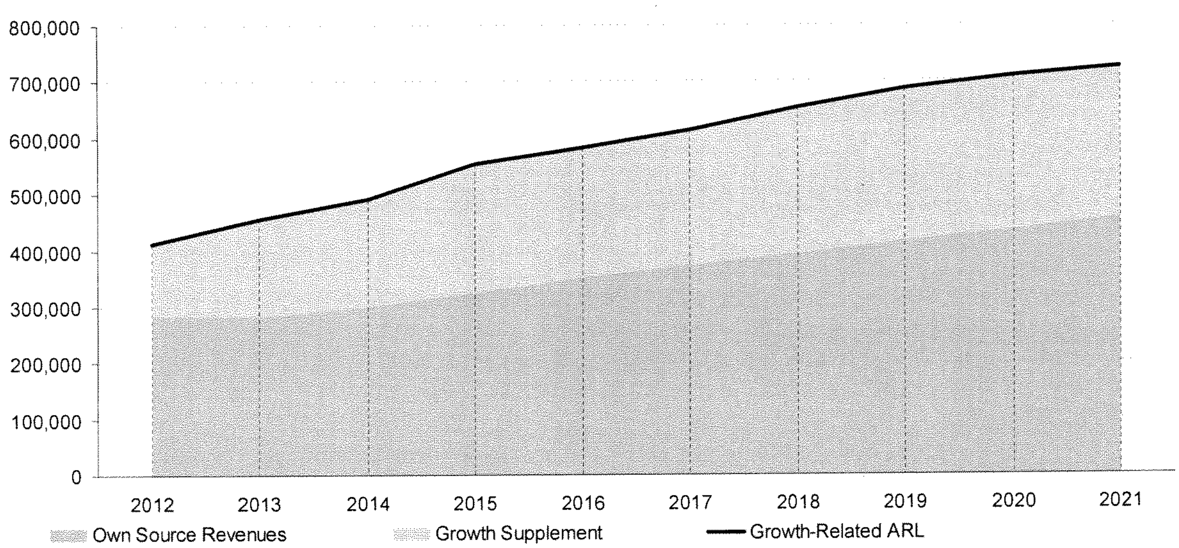
2. Projections of the Growth-Related ARL for Each Year of the Multi-Year Period Compared to Existing and Proposed Long-Term Debt-Related Payments

How much debt room are we estimating we will have?

The ARL is calculated by determining and projecting 25% of the Region' own-source revenues, and adding 80% of the 3-year rolling average of development charges. The Region's existing and proposed annual debt payments and financial obligations must be within this limit. These calculations are shown in Appendix 1.

Based on these calculations, the Region's ARL increases from $412 million in 2012 to $722 million by 2021, as illustrated in Chart 2 below:

Chart 2
Annual Repayment Limit Forecast
2012-2021
($000's)



2012 Long-Term Debt Management Plan

What are our estimated debt and financial obligation payments?

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

- Principal Obligations
- Interest Obligations
- Social Housing Mortgages
- Long-term Leases
- Hospital Funding

These obligations totalled approximately $271 million at the end of 2011, and are estimated to decrease to $118 million by 2021. The largest component is the principal and interest obligations on existing debt, which decrease from $242 million in 2012 to $86 million in 2021 as existing debt is repaid in full. Hospital financing is forecast to increase at a rate of 2% per year, rising from $12.2 million in 2012 to $14.6 million in 2021.

As noted earlier, the financial implications of the TPBA budgeting concept employed by the Region requires that there be enough debt room under the growth-related ARL at the time of project authorization. For example, in order to assign TPBA to projects as part of the 2012 budget process, the Region must have sufficient room under its 2012 growth-related ARL to accommodate the related project costs "as if" they are going to be incurred in full in 2012, regardless of planned timing.

TPBA to be assigned in 2012 totals $1.8 billion. Assuming an annual interest rate of 4.75% and a term of 20 years, this generates an annual repayment obligation of approximately $138 million[1].

For 2012, the Region will be within its debt limit room, as shown in Table 1 below.

Table 1
Region's 2012 Annual Repayment Limit
($ Millions)

Component Description	Forecast 2012
25% of Own Source Revenues	$284
Plus: Growth Cost Supplement	$128
Total Growth-Related ARL	**$412**
Less: Existing Debt Payment and Financial Obligations	$271
Less: Anticipated New Debt Payment and Financial Obligations	$138
Remaining Growth-Related ARL (>$0)	**$3**

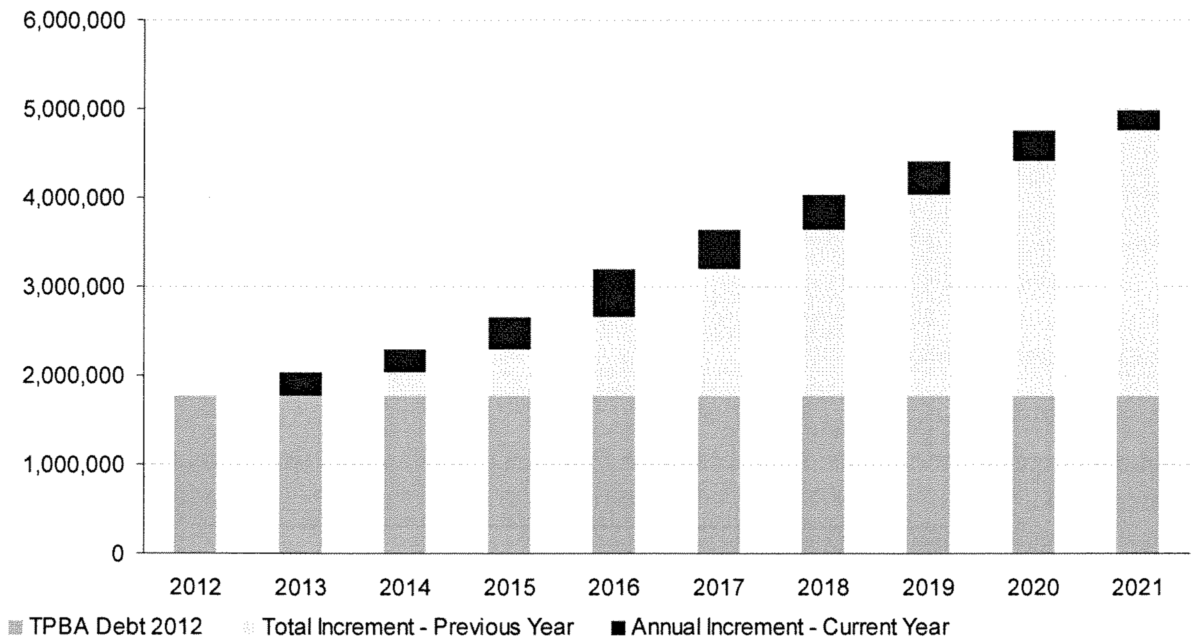
[1] Interest rate based on a review of current and historic rates. Term based on anticipated average term of future debt issues. Debt repayment is calculated on a "Full Commitment Basis" which allocates a full year's payment to the year of issuance rather than the partial (i.e., interest only) payment that usually occurs as a result of issuance timing.

2012 Long-Term Debt Management Plan

We estimate we will be within our debt limit room in future years, if we assume that all of the anticipated non-TPBA debt planned over the next ten years will become TPBA in the year that it is projected to be incurred.

In order to provide this calculation over a multi-year period, future TPBA will need to be estimated. However, future TPBA is difficult to ascertain beyond the current year because circumstances will change from one year to the next and this may result in additional and/or cancelation of TPBA. For the purposes of this plan, it is assumed that the debt needs identified in the 2012 budget remain constant and all of the anticipated non-TPBA debt planned over the next ten years will become TPBA in the year that it is projected to be incurred[2]. This will increase TPBA from $1.8 billion in 2012 to $5 billion in 2021 as shown in Chart 3.

Chart 3
Cumulative TPBA Debt Issuance Forecast
2012-2021
($000's)



[2] While it is acknowledged that debt authorities will not be carried forward from one year to the next, it is assumed that the amount of debt authorized in 2012 will form the "base" for the debt request to be authorized in subsequent years.

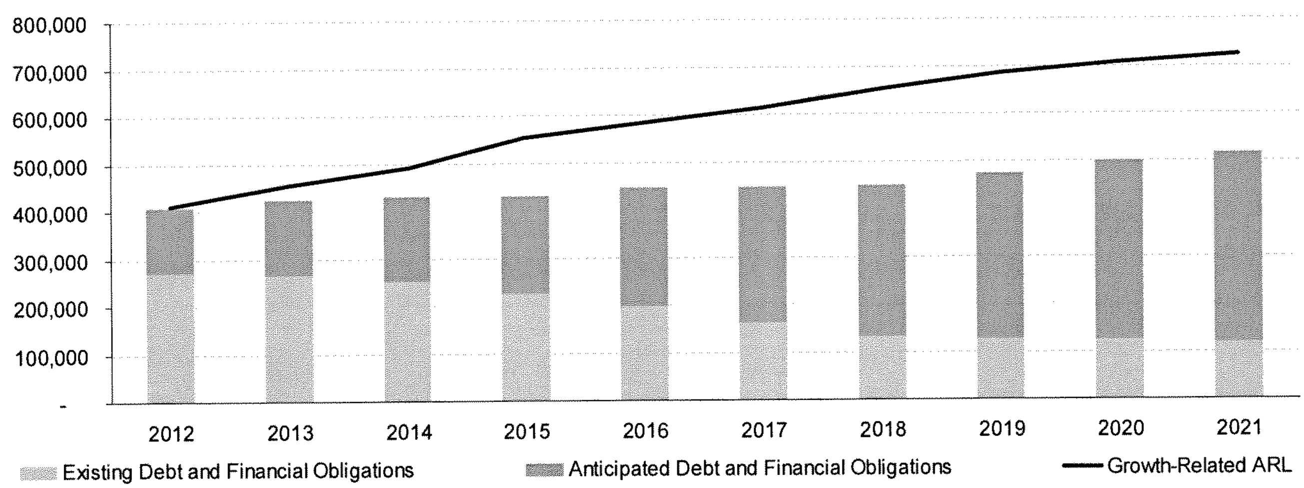
2012 Long-Term Debt Management Plan

The annual debt payments related to each year's increment will be calculated on the same basis as the 2012 TPBA, except that the assumed interest rate will increase from 4.75% to 6% over the forecast period[3]. As a result, the anticipated debt and financial obligation associated with new TPBA will increase from $138 million in 2012 to $398 million in 2021.

The multi-period growth-related ARL vs. debt and financial obligation forecast is provided in Chart 4.

Chart 4

Growth-Related Annual Repayment Limit
vs. Existing and Anticipated Debt and Financial Obligations TPBA Basis
2012-2021
($000's)



Charts 4 and 5 include the annual increment in debt-financed capital investment, but do not include the multi-year impact of TPBA (which is not shown and would mean that the Region is closer to its Annual Repayment Limit).

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

Our anticipated DC Collections represent one of the most significant risks to remaining within our debt room

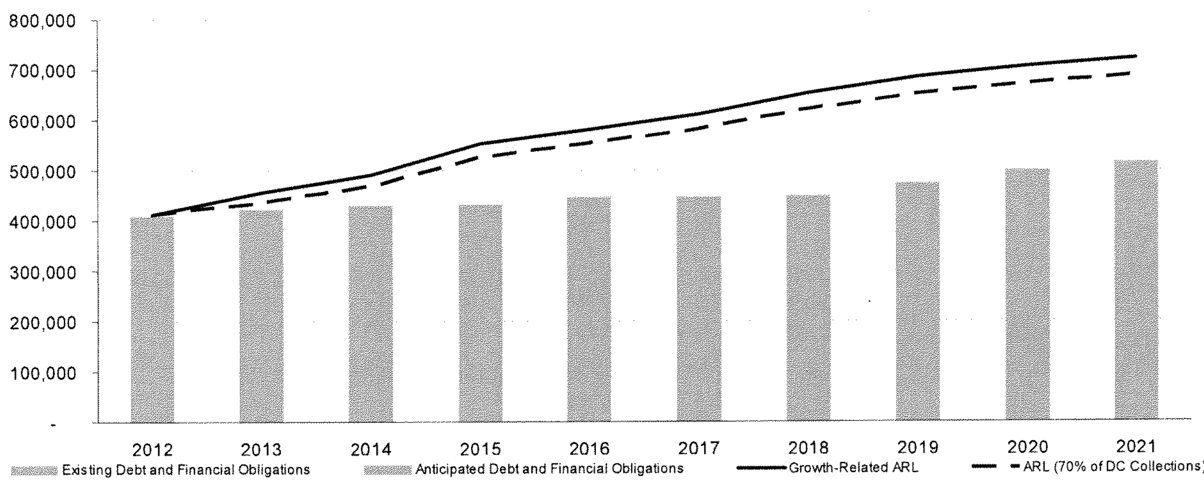
DC collections are difficult to predict from one year to the next and can vary significantly as economic conditions change over time. Lower than forecast DC Collections could limit the

[3] The term will remain 20 years and the payment will continue to be calculated on a "Full Commitment" basis.

Region's debt issuing abilities to levels below those indicated in this plan and require changes in the phasing of the capital plan.

As a matter of normal practice, the Region's capital plans will be measured against an adjusted growth-related ARL whereby only 70% of the three-year rolling average of historic DC collections is included as a cost supplement, versus the 80% permitted. This would have the effect of partially mitigating the impact of lower-than-expected DC collections. The impact on the growth-related ARL calculations is illustrated in Chart 5.

Chart 5
Adjusted Growth-Related Annual Debt Repayment – TPBA Basis vs. Existing and Anticipated Debt and Financial Obligations
2012-2021
($000's)



Lower-than-expected DC collections in any given year can result in a decrease in liquidity and debt servicing ability. To help mitigate this, it is Regional policy to maintain overall DC reserve balances that are at least equal to the next year's estimated principal and interest obligations. Moreover, the Region maintains significant non-DC reserves that could be used to fund DC-related projects and expenditures on an interim basis, should the need arise.

We have built an increase into our expected costs of debt financing over time

The growth-related ARL forecast will be sensitive to interest rate fluctuations over the forecast period. For example, a 1% increase in interest rates would result in approximately $0.6 million in additional financing costs for every $100 million in debt, assuming a twenty-year term. On the $5 billion in forecasted debt included in the 2012 budget, this equates to approximately $33 million in additional financing costs and consequently less room under the growth-related ARL.

In light of this, interest rate assumptions have been adjusted within the debt repayment calculations so as to incorporate the impact of increasing rates on the growth-related ARL as follows:

2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
4.75%	4.75%	4.75%	4.91%	5.08%	5.25%	5.43%	5.61%	5.80%	6.00%

Interest rate fluctuations will also affect debt with refunding provisions[4]. For existing debt, this risk has been accounted for by recalculating the annual repayment using a twenty-year term (vs. ten years) with an annual interest rate of approximately 5.5% (vs. 5% or less on actual issues)[5]. For new debt, forecasted annual repayments have been calculated at the rates noted above using a twenty-year term.

We have the ability to offset market risk through a variety of mechanisms

Given the volatility of the financial markets in recent years, there is a risk that 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 will be employed to deal with this eventuality include:

- Use of bond forward agreements to hedge interest costs
- Pre-financing
- Borrowing applications to government agencies such as Infrastructure Ontario
- Limit the use of debt repaid from tax levy where the amortization period differs from the term of the debt
- Use of variable rate debt/lines of credit or short-term borrowing from reserves during periods of market turmoil or in anticipation of significantly lower interest rates
- Use of underwriting syndicates.

The debt management plan has other risks

Other risks relate to the capital infrastructure costs as they have been forecasted. Factors such as change orders, inflation, the addition of new projects or projects being moved up in the forecast period could result in higher debt requirements than are anticipated in this Plan. It is now Regional policy to prioritize projects each year as part of the budget process to ensure sufficient debt financing is available for the highest priority projects. In addition, phase-in strategies for large capital projects will also be considered.

[4] Refunding provisions occur where the debt amortization period (i.e., 20 years) is longer than the contractual terms (i.e., 10 years) requiring part of the debt to be refinanced for an additional term.
[5] This assumes that the refinancing will take place over an additional 10 years at 5.5%.

2012 Long-Term Debt Management Plan

4. Long-Term Debt and Financial Obligation 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.

The policy covers all financial obligations entered into by the Region. It establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities so as to ensure that the Region's operating and 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 Region's Capital Financing and Debt Policy described above 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 vs. buy)
- Diversification and optimization of term structure 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 the funding will be received
- 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 in order to increase market awareness and boost demand for Regional debentures
- Maintain a AA- credit rating in order 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 2012 Needs of the Region for Temporary Borrowing

Temporary borrowing requirements arise from the need to finance operational expenditures pending receipt of taxes and other revenues. In 2012, it is estimated that approximately $300 million will be required for operating needs. Temporary borrowing can also result from the need to interim finance capital asset expenditures until long-term financing is in place. In 2012, it is estimated that approximately $225 million will be required for capital needs.

Similar to long-term debt and financial obligations, the Province limits the amount of funding used for temporary borrowing needs to 50% of budgeted total revenue from January to

September and 25% from October to December[6]. The Region's estimated temporary borrowing needs noted above are well within these limits. Furthermore, it is Regional policy to fund these short-term needs out of reserves and this is expected to continue in 2012. Any funds borrowed from reserves are always paid back during the year of borrowing.

7. Evaluation and Comparison of 2011 Projections and Outcomes

As Table 2 shows, the Region was in compliance with its growth-related ARL for 2011. The 2011 debt management plan is in Appendix 2.

Table 2
Region's 2011 Annual Repayment Limit
($ Millions)

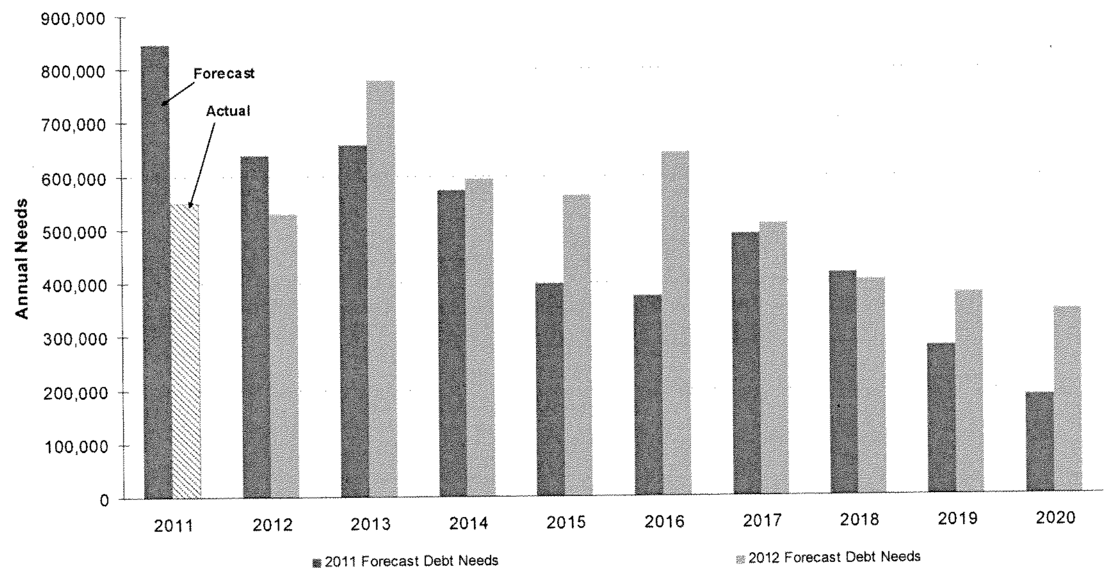
Component Description	Actual 2011
25% of Own Source Revenues	$273
Plus: Growth Cost Supplement	$136
Total Growth Related ARL	**$409**
Less: Existing Debt Payment and Financial Obligations	$273
Less: Anticipated Debt Payment and Financial Obligations (Contract Commitment Basis)	$95
Remaining Growth-Related ARL (>$0)	**$41**

Existing debt included $550 million of debt issued in 2011, which added approximately $16 million to the existing debt payment and financial obligations[7]. For 2011, anticipated debt was projected on a contract commitment basis. After consulting the respective operating departments, it was determined that the Region had approximately $1.2 billion in contractual commitments requiring debt financing. Annual principal and interest calculations were based on a term of 20 years at an annual interest rate of 4.96%.

As noted earlier, the ten-year capital plan included in the 2012 budget shows a total debt requirement of $5 billion in new debt over the forecast period. This represents a $200 million increase over and above the debt requirements identified in 2011 due to cost adjustments. In addition there have been significant timing changes resulting from better forecasting assumptions built into the capital plan. The comparison of annual debt requirements is detailed in Chart 6.

[6] Temporary borrowing provisions are set out in Section 405 and 407 of the Municipal Act. Temporary borrowings are not part of the ARL calculations.
[7] Total debt issue includes $75 million in pre-funding related to 2012 expenditures, so $475 million is considered in the calculation of the 2011 principal and interest obligations. The remaining $75 million is included in the 2012 anticipated needs.

Chart 6
Comparison of Debt Needs
2011 Budget vs. 2012 Budget
2012-2021
($000's)



Note: 2011 and 2012 forecasts include additional debt to maintain Development Charge reserve balances at a minimum of one year principal and interest payment

The 2012 forecast assumes that the ARL will increase at a slightly higher rate than the 2011 forecast for the period 2016-2021 due to the normalization of the growth in own-source revenue using more current data.

Conclusion

The long-term debt management plan addresses the matters that Council is required to consider before adopting the plan. In doing so, the Region will be able to use the financing capacity as calculated by the ARL to fund and manage its capital plan. However, the ARL methodology as outlined in the Regulation and described above is still under review by staff to assess its long-term implications.

2012 Long-Term Debt Management Plan

APPENDIX 1
Determination of ARL

25% 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.

Table A1 provides the 2012 – 2021 forecast based on information and assumptions contained in the 2012 Operating Budget.

2012 Long-Term Debt Management Plan

Table A1
Annual Repayment Limit Calculation
Forecast Budget Years 2012-2021
($000's)

ARL Determination	Budget Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	FIR Year[1]	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Net Revenues											
Property Taxes/PIL's[2]		781,609	789,417	825,122	882,012	953,396	1,015,508	1,065,729	1,118,434	1,173,746	1,231,793
User Rates - Sewage/Water/Solid Waste		175,776	193,683	215,268	239,264	265,993	295,813	318,912	337,681	351,035	364,919
Transportation User Fees		53,696	53,203	62,433	66,336	70,342	73,174	77,847	82,818	88,106	93,732
Other User Fees[3]		32,742	18,282	19,487	24,155	25,122	24,563	26,016	27,556	29,186	30,913
Provincial Fines		5,730	10,595	10,695	10,802	11,018	11,128	11,362	11,600	11,844	12,092
Other Revenue[4]		85,319	60,923	67,786	71,800	77,445	72,250	71,242	78,295	84,856	89,825
Total - Net Revenues[5]		**$1,134,872**	**$1,126,103**	**$1,200,791**	**$1,294,369**	**$1,403,316**	**$1,492,436**	**$1,571,108**	**$1,656,384**	**$1,738,773**	**$1,823,274**
25% of Net Revenues		**$283,718**	**$281,526**	**$300,198**	**$323,592**	**$350,829**	**$373,109**	**$392,777**	**$414,096**	**$434,693**	**$455,818**

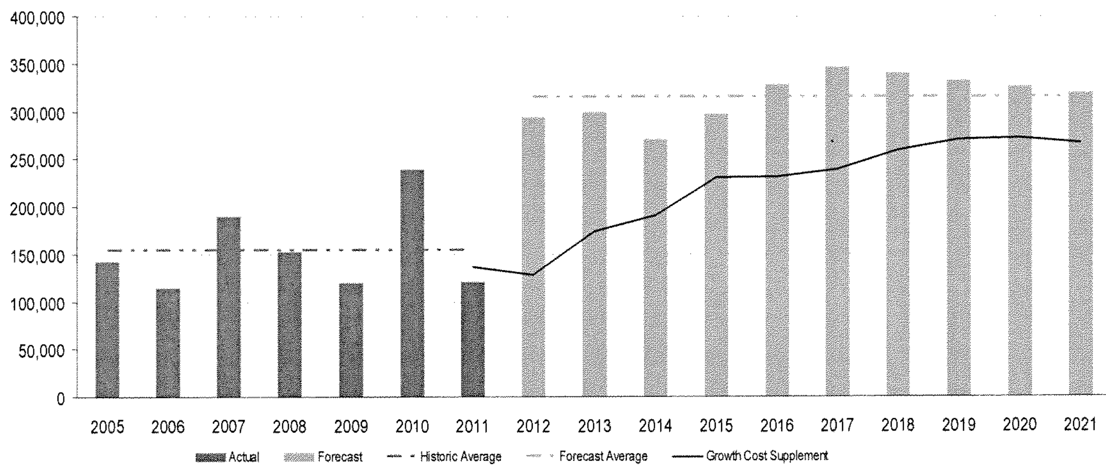
Notes:

1. Own Source Revenues from two years prior to the current year are included in current year ARL calculations represented by FIR Year. FIR Year 2010 is based on actual results. FIR Year 2011 based on restated forecast. FIR Years 2012-2015 based on budget data from 2012 Operating Budget.
2. Property Taxes for 2012 assume approx. 2.7% assessment growth plus 1.8% net levy growth for a total of 4.5%. These grow at an average annual rate of approximately 5.2% over the remaining forecast period.
3. Other User Fees include: Protection, Health, Social and Family, Social Housing, Recreation, and Planning. These are assumed to grow at an average annual rate of 6.4%.
4. Other Revenue includes: Investment Income, Sale of publications etc., and recoveries. Recoveries for 2011-2015 do not include capital related recoveries. Investment income is based on the 2011 reserve forecast assuming an average annual rate of return of approx. 5.1%. Recoveries will continue the downward trend forecast between 2011-2015.
5. Total Net Revenues equal total budgeted net revenues from 2012 Operating Budget. These are forecast to increase approximately 5.41%/year on average.

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% of the average DC collections for the previous three fiscal years. DC collections are very sensitive to economic conditions and as such, can vary widely year to year. Historic and forecast DC collections are provided in Chart A1 below.

Chart A1
Annual DC Collections Actual and Forecast
2012-2021
($000's)



Over the seven year period 2005 – 2011 annual collections have averaged approximately $154 million, with peaks in 2007 and 2010 due to developer prepayments resulting from by-law review/rate increases. Collections were significantly lower in 2008 and 2009 due to the recession.

Based on a review of historic 30-year trends in housing formation[8], building permit activity, and economic cycles, a forecast was developed that shows average collections increasing to approximately $315 million annually. From this, the annual cost supplement has been calculated at $128 million in 2012, increasing to $267 million by 2021.

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[8] Household formation for the past 30 years in the Region calculated as the Persons Per Unit (PPU) based on the number of completions per year compared to the annual incremental increase in population.

2012 Long-Term Debt Management Plan

APPENDIX 2

Report 9, Clause 1 of the Finance and Administration Committee (Adopted by Council on November 17, 2011)

1
UPDATE TO ANNUAL REPAYMENT LIMIT AND CAPITAL FINANCING AND DEBT POLICY

The Finance and Administration Committee recommends:

1. **Receipt of the presentation from Ed Hankins, Director of Policy, Risk and Treasury**

2. **Adoption of the recommendations contained in the following report dated October 21, 2011, from the Commissioner of Finance, and**

3. **Regional staff be formally congratulated for all of their work culminating in the Provincial approval of an amendment to Regulation 403/02.**

1. RECOMMENDATIONS

It is recommended that:

1. This report be approved as York Region's 2011 Long-Term Debt Management Plan as required under Ontario Regulation 403/02 (amended).

2. The amended Capital Financing and Debt Policy attached as *Council Attachment 2* to this report be approved.

3. The 2012 and subsequent annual budgets include a Debt Management Plan that will be adopted or affirmed by Council.

4. Staff be authorized to work with the Province at the appropriate time on a more permanent solution for approving York Region's long term debt requirements.

2. PURPOSE

This report provides an update on the successful discussions with the Province regarding the Region's new growth-related Annual Repayment Limit ("ARL") for long-term debt and other financial obligations. It also presents an amended Capital Financing and Debt Policy that meets the requirements of the amended regulation. Section 4 of the report itself is intended to serve as the Long-Term Debt Management Plan for 2011 as required by the regulation.

3. BACKGROUND

The Region's capital program requires substantial debt financing, much of it to be repaid from development charges

York Region is delivering a major capital infrastructure program to accommodate its projected population growth from 611,000 in 1996 to 1.5 million by 2031.

The 2011 Ten Year Capital Budget contemplates $8.0 billion of expenditures, of which approximately $3.9 billion will need to be debt financed. Of this amount, $2.8 billion (72%) will be for growth-related projects and therefore repaid mainly through the use of development charges.

As municipalities must pay for infrastructure when it is built but can only collect development charges and property taxes over many years as growth occurs, there is a significant amount of up-front debt financing required.

The Region was approaching its provincially-mandated debt limit

Municipalities[1] are regulated by the Province with respect to the amount of long-term debt and other financial obligations they can incur through Ontario Regulation 403/02.

This regulation, commonly referred to as the ARL Regulation, specifies that a council of a municipality can only authorize projects for which the annual cost of servicing its committed long-term debt and financial obligations does not exceed 25% of its own source revenue, a limit that is referred to as the ARL and that is calculated annually by the Province. For those capital projects that would cause it to exceed its updated ARL, a municipality must first seek Ontario Municipal Board (OMB) approval before it proceeds.

Own source revenue includes property tax, water and wastewater revenues, transit fares, fees provided for police services, public housing rents, and fees from services provided to other municipalities.

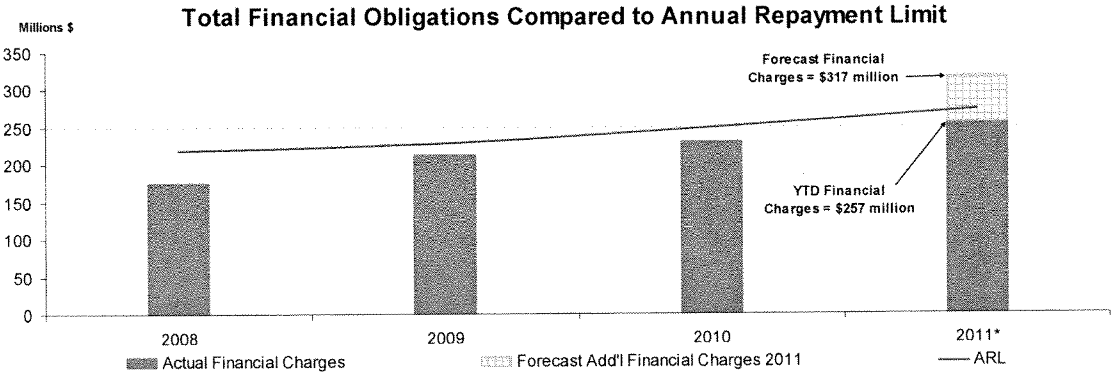
Historically, development charge collections have not been included in the own source revenue used to determine the ARL, notwithstanding the fact that it is the major source of funding used to repay growth-related debt. Excluding development charge collections from the ARL calculation has meant that the Region's ability to take on debt for growth-related infrastructure has been artificially constrained. The cost of servicing York Region's long-term financial obligations has grown at a much faster pace than the provincially-mandated ARL to a point where it would have exceeded the ARL in 2011 in the absence of any change in the ARL Regulation.

[1] Other than the City of Toronto

In determining whether a municipality is within its ARL, the following financial obligations must be included in the calculation:

- Principal repayments on debt;
- Interest payments on debt;
- Annual long-term lease payments; and
- Annual payments associated with long-term commitments to school boards and hospitals.

Chart 1
Total Financial Obligations Compared to Annual Repayment Limit



*Debt issued year-to-date 2011 = $250 million with current year debt obligation of $18.7 million

At July 1, 2011, the Region's updated ARL stood at $273 million. Of this amount, $257 million was committed for servicing its existing debenture, lease and hospital payments, leaving about $16 million of payment room – the equivalent of about $200 million of long-term debt at current interest rates – available for future long-term financial commitments.

As a consequence, the Southeast Collector project was at risk of being delayed because the cost of servicing the $470 million of long-term debt financing that was needed would have caused the Region to exceed its ARL.

As a result of negotiations with the Province, an amendment to the ARL Regulation now allows York to include a substantial portion of development charge collections in its debt limit

At its May 19, 2011 meeting, Council passed a resolution asking the Province to consider revising the ARL Regulation as it applies to York Region to allow development charge collections to be included in the calculation.

While staff negotiated with the Province to obtain an amendment to the ARL Regulation, a submission to the OMB to authorize the financing of capital projects (including the Southeast Collector) was also prepared in case the Province did not grant Council's request on a timely basis.

Recognizing that without an amendment the ARL Regulation could impede York Region's ability to finance its capital plan, the Province enacted Ontario Regulation 289/11 to the *Municipal Act* on June 24, 2011, attached as *Council Attachment 1* to this report. The attached regulation amended the ARL Regulation 403/02 to allow York to add to its ARL, as a cost supplement to service growth-related long-term debt, 80 per cent of the average of its last three fiscal years of development charge collections. York Region's new limit is referred to as its growth-related ARL.

Based on actual development charge collections over the past three fiscal years, York Region's growth-related ARL has increased by the debt equivalent of approximately $1.7 billion for 2011. The debt limit in future years will be dependent on future development charge collections and growth in own-source revenue.

As a result of the amended regulation, the Southeast Collector and other major capital projects were able to proceed without delay.

The amended regulation requires annual Council approval of a Debt Management Plan

The amended regulation contains two significant new requirements with respect to York Region's management of its debt.

First, it requires that the Region maintain an AA low (or equivalent) credit rating. The Region's credit rating has been AAA for over ten years.

Second, as part of its budget deliberations each year, Council must adopt or affirm a Long-Term Debt and Financial Obligations Management Plan, which will be referred to as the Debt Management Plan in this report.

The content of the Debt Management Plan is not prescribed in the regulation, but Council must consider the following matters before adopting or affirming the plan:

- The Region's needs for its long-term debt and financial obligations over a multi-year period;
- Projections of its growth-related ARL for each year of the multi-year period compared to its existing and proposed long-term debt-related payments;
- The prudent and cost–effective management of its existing and projected long-term debt and other financial obligations;
- Risk and mitigation strategies associated with the Region's long-term debt strategy, including interest rate risk and foreign currency exposure;
- Estimated needs of the Region in the fiscal year for temporary borrowing; and
- The Region's long-term debt and financial obligation policies and compliance with those policies.

Beginning in 2012, the previous year's outcomes and projections must be evaluated and compared, and Council must consider whether the plan needs to be amended for the current fiscal year.

4. ANALYSIS AND OPTIONS

The amended ARL Regulation requires a 2011 Debt Management Plan

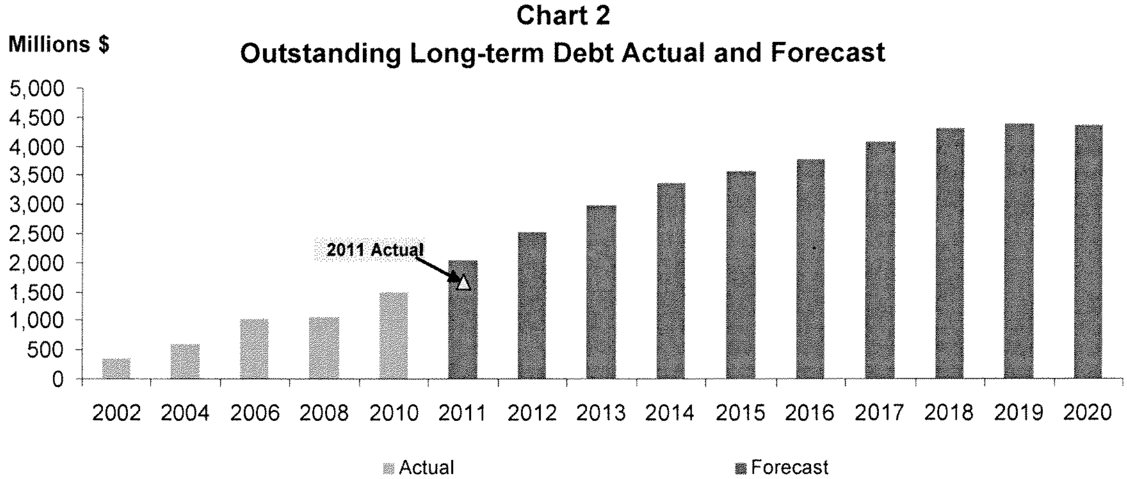
This section of the report constitutes the Debt Management Plan for 2011, based on information and forecasts presented as part of the 2011 Budget approved by Council.

The 2011 Debt Management Plan is a preliminary plan. It will be replaced with a revised plan in future years.

The Region currently has $1.65 billion of outstanding long-term debt and debt levels that will grow significantly over the next ten years

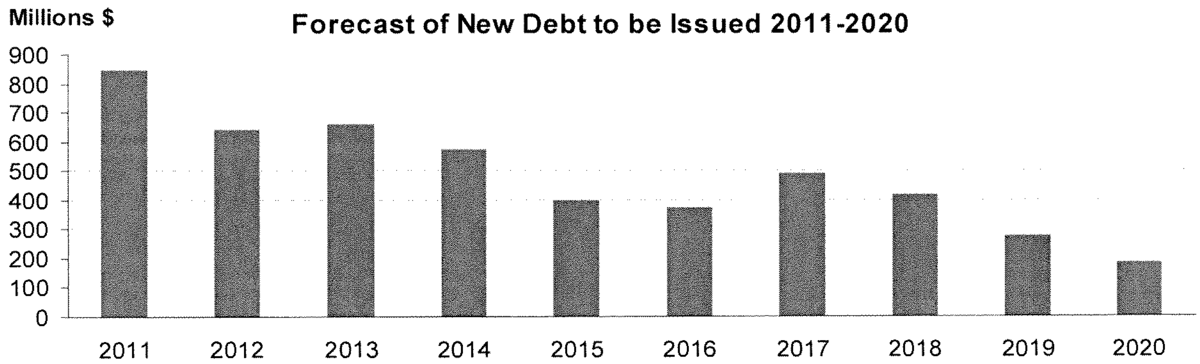
York Region's debt levels have been rising steadily as the infrastructure needed for growth is delivered and financed. By the end of 2011, the budget assumes that the outstanding debt will be approximately $2.0 billion.

Chart 2
Outstanding Long-term Debt Actual and Forecast



Notes on Forecast:
1. It is assumed that debt to be refinanced in 2019 and 2020 will be for an additional 10-year term resulting in a total amortization period of 20 years.

Chart 3
Forecast of New Debt to be Issued 2011-2020



Notes on Forecast:

1. Additional debt is included to maintain Development Charge reserve balance at a minimum of one year principal and interest payment.

These forecasts will be significantly revised and updated in 2012 and 2013 as capital budgeting processes and financial systems are improved.

In addition to the long-term debt identified above, there is a temporary borrowing requirement of up to $185 million to fund in-year operational needs until tax levy receipts are received and up to $300 million to fund capital projects until long-term financing is issued. However, it has always been the Region's practice to use, where possible, reserves to meet these requirements and no third-party debt for these purposes is expected to be incurred during 2011.

The Region's new 2011 growth-related ARL permits up to approximately $1.9 billion of new debt to be issued

The Region's 2011 growth-related ARL under the amended regulation will add approximately $1.7 billion of new debt room at current interest rates. In addition, there is about $200 million of debt room available from the original ARL calculation for a total of $1.9 billion of debt room to fund additional capital infrastructure commitments.

Table 1
Region's 2011 Annual Repayment Limit
(Millions $)

2011 Annual Repayment	Original ARL	York ARL Cost Supplement	Total (Growth-Related ARL)
2011 Annual Repayment Limit	273	136	409
Debt Payment and Financing Obligation	257		257
Remaining ARL Room	16	136	152
Equivalent Remaining Debt Room	200	1700	1900

Note 1: Assumes every $1 million in debt payment services $8 million in new debt based on current rates and a 20 year repayment term.

Note 2: ARL Cost Supplement for 2011 is based on 80% of 3-year rolling average of DC collections of 152M for 2008, 120M for 2009, and 239M for 2010.

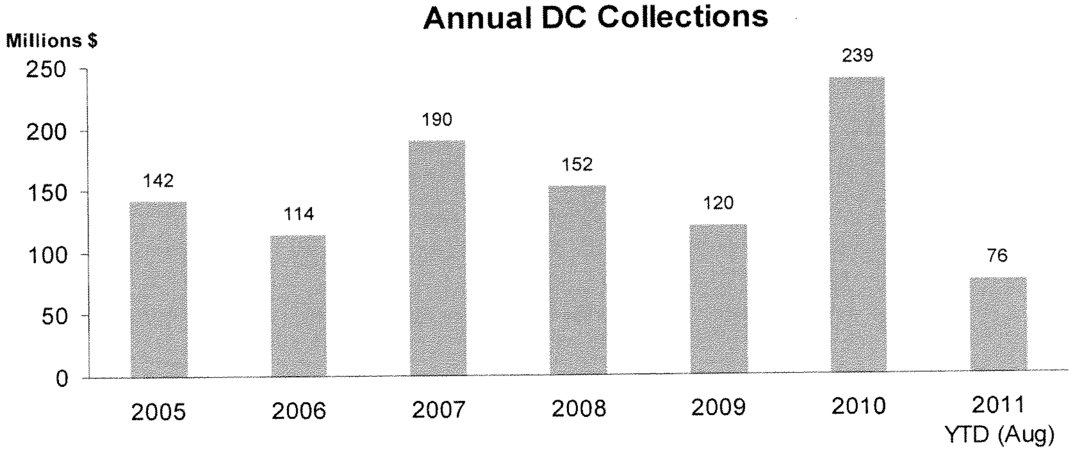
Note 3: Original ARL includes the servicing cost for $250 million of debt issued in June 2011.

Development charge revenue will affect the Growth-Related ARL in the future

The additional limit is dependent on the collection of development charges, which can be very sensitive to economic conditions. As indicated in Chart 4, the level of collections has typically been higher than average in years such as 2007 and 2010 when rate increases took effect, as developers made pre-payments ahead of the increases. Collections were significantly lower in 2008 and 2009 due to the recession.

The impact of the new limit is also sensitive to interest rates and the average term to maturity of the debenture portfolio. For example, a 1% increase in financing costs would translate into a $1 million increase in servicing costs for every $100 million in debt. Alternatively, changing the amortization term to maturity from the current 20 year average to a 30 year average could save up to $1 million in servicing costs each year for every $100 million of debt (but would add an additional $34 million in total interest to the cost of financing).

Chart 4
Annual DC Collections



A future economic downturn could have a direct impact on the amount of debt the Region is able to issue. To partially mitigate this possibility, it is proposed that, as a matter of normal practice, the Region forecasts its growth-related ARL using only 70% of the average of the last three years of development charge collections, unless specific Council approval is obtained to do otherwise.

The Region is within its ARL for 2011, using a "contractual commitment" basis of calculation

The Region's debt payments (principal and interest) and other financial obligations for existing and committed projects are within its ARL.

The ARL Regulation requires that the municipality's treasurer calculate an updated limit before council authorizes spending on a capital project. As part of the calculation, the treasurer must update the ARL by subtracting from the ARL the estimated amount payable each year with respect to any project approved by Council or the Ontario Municipal Board, as the case may be, for any long-term debt or other financial obligation required.

Historically, because of the size of its available reserves and other sources of revenue that could be used as an alternative to debt, as well as known delays in executing the capital program, the Region has viewed Council's commitment to a financial obligation as taking place at the time of a new debt issue. However, the requirement in the new York-specific regulatory amendment to have a Debt Management Plan means that this approach will need to be revised.

The most reasonable basis for determining when a project has been approved by Council would be Total Project Budget Authority (TPBA). TPBA provides Council's authorization for departments to proceed with capital projects. The concept was not, however, designed with the growth-related ARL in mind, so it would be premature to use TPBA for calculating the growth-related ARL until Council has had an opportunity to review the capital plan in the 2012 (and possibly the 2013) budget process.

In the meantime, the use of contractual commitments to Council-approved capital projects is recommended for calculating the amount of new debt available under the growth-related ARL. Contractual commitments are defined as long-term legal arrangements entered into by the Region to perform work or provide services with respect to a capital project, excluding agreements with other municipalities to jointly undertake future capital projects. In the case of inter-municipal contracts, only the portion of work or services for which a contract has been awarded or is about to be awarded will be considered as a current contractual commitment.

Operating departments have indicated that the Region currently has contractual commitments requiring approximately $1.2 billion of debt financing. This is well within the room provided by the 2011 ARL of $1.9 billion.

Projected growth-related ARLs and a calculation of the Region's existing and proposed long-term debt payments for the ten-year capital plan will be developed as part of the 2012 Budget process. TPBA will be used to calculate whether the Region is within its ARL. It is anticipated that the existing TPBA for certain projects may need to be reduced or otherwise amended in order to comply with the amended ARL Regulation.

The Region has a plan to repay its debt

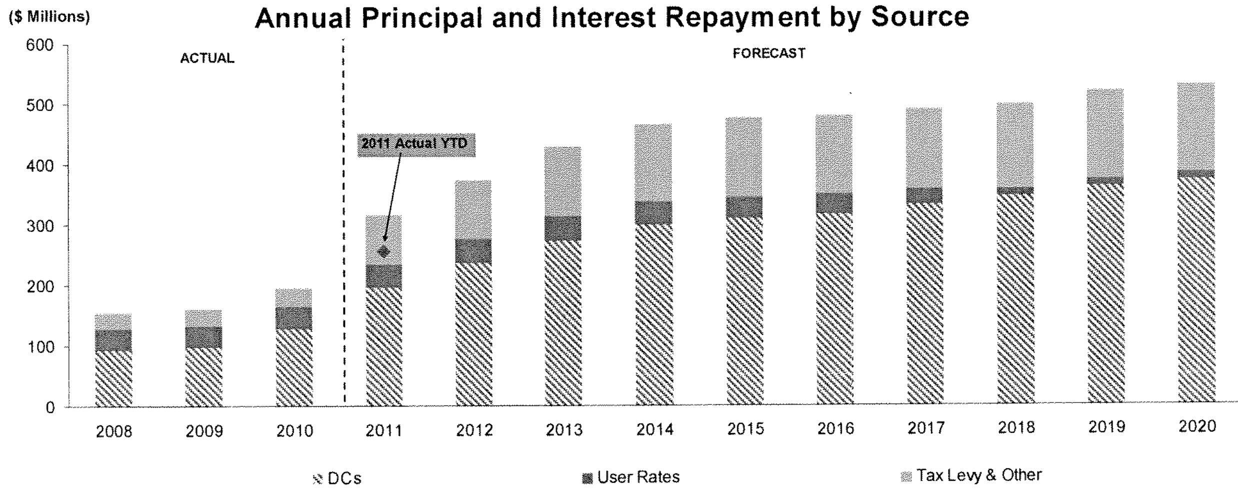
The Region's long-term debt, and therefore the amount of its annual debt repayment, is expected to grow substantially from its current level, as indicated in Chart 5. Principal repayment and financing costs are covered from three sources: development charges; the tax levy; and user rates.

Given the need for capital investment to support growth, development charges have historically been the major source for debt repayment and will continue to be the major source into the future.

In addition, capital projects will be subject to a prioritization review in 2012 and subsequent years to ensure debt financing is available for the highest priority projects. Capital projects will also be reviewed to determine if they can be phased-in with appropriate off-ramps.

The Finance Department will be revising its development charge revenue forecast as part of the 2012 development charge by-law update.

Chart 5
Annual Principal and Interest Repayment by Source



Note 1: Actual payments are based on partial principal and interest in year of debt issuance whereas forecast assumes full principal and interest payments in year of debt issuance.

Note 2: Forecasts to be revised.

The Region already has a sophisticated Capital Financing and Debt Policy in place

The Region already has a practice of effectively dealing with its estimated needs in the year for temporary borrowing.

The Capital Financing and Debt Policy approved by Council in 2006 already has many risk mitigation measures intended to ensure the prudent and cost effective management of its existing and projected long-term debt and other financial obligations, including:

- Financing terms that do not exceed the useful life of the underlying asset;
- Use of standard form debt instruments with clear costs of financing;
- As a usual practice, issuing debt denominated only in Canadian dollars with an interest rate fixed over the term, and limits on any variable interest debt issued;
- Maintenance of minimum credit ratings;
- A requirement to determine whether leasing or buying is more effective;
- The ability to use bond forwarding agreements in a measured fashion to lock in interest rates if deemed to be favourable;
- Establishment of a Sinking Fund Committee to ensure adequate funds are on hand at the time of sinking fund debenture maturity to retire the debt;
- Guidelines to determine sinking fund contributions at the time of sinking fund debt issuance;

- Use of an underwriting syndicate to ensure that debt is issued at the lowest possible cost in the marketplace;
- Analysis of leases to mitigate contingent losses, guarantees and indemnities unfavourable to the Region;
- Minimum requirements related to the issuance of construction financing and entering into of bond forward agreements;
- A requirement to obtain outside advice when needed for complex financing transactions; and
- A requirement that staff are fully qualified to issue and manage the debt and financial obligations identified in the policy.

These risk mitigation measures more than satisfy the Region's obligations under the amended ARL Regulation.

Some changes to the Capital Financing and Debt Policy are needed as a result of the amended regulation

Some amendments to the Region's Capital Financing and Debt policy are recommended in response to the amended regulation:

- Council must adopt or affirm a Debt Management Plan for each fiscal year in respect of which Council must consider the relevant matters set out in the amended ARL Regulation;
- The prioritization of capital projects as part of the annual capital budget development;
- Optimizing financing terms to more closely match the lesser of the useful life of the asset, or in the case of growth-related infrastructure, the collection of development charges associated with the underlying asset;
- A commitment to maintain an overall positive Development Charge Reserve balance in an amount at least equal to the projected annual growth-related debt repayments in the fiscal year;
- Limitations on the use of refunding debt in order to reduce refinancing risk;
- Measures to be considered when market conditions are unfavourable for debt issuance; and
- Diversification of the term structure of the debt portfolio.

Additional negotiations with the Province may be needed in the future

In the coming months, staff will undertake a detailed assessment of whether the amended regulation provides sufficient room to support the Region's capital program in the long-term.

During the recent discussions with the Province, staff had asked for a made-in-York solution that would treat York in the same manner as the City of Toronto, which can determine its own debt limit, subject to maintaining an acceptable credit rating. This would allow for a market-determined rather than a regulatory approach to the limit. It is recommended that staff be authorized to proceed with further discussions with the Province, at an appropriate time, to develop a more stable, permanent solution for the Region's long-term debt management.

5. FINANCIAL IMPLICATIONS

The main financial implications of the amended ARL Regulation are:

1. The Region has more debt capacity to fund infrastructure projects;
2. The Region will need a Debt Management Plan and will have to carefully manage its debt; and
3. The introduction of development charge collections as part of the underlying calculation has introduced a greater degree of volatility to the growth-related ARL and therefore to the management of the capital plan.

6. LOCAL MUNICIPAL IMPACT

There is no impact to local municipalities arising from this report.

7. CONCLUSION

The Province has approved a regulatory amendment increasing the Region's ARL. The increase provides significant additional financing capacity to support the Region's large capital program. However, in order to immediately use the additional financing capacity, the amended regulation requires that the Region adopt or affirm a Debt Management Plan for 2011 and for each succeeding year.

A more comprehensive debt management plan will be implemented over time to both meet the requirements of amended regulation and to ensure the Region stays at the forefront of best practice.

The current Capital Financing and Debt Policy requires changes to accommodate the provisions of the amended regulation (see appendix).

For more information on this report, please contact Ed Hankins, Director, Policy, Risk and Treasury at Ext.1644.

The Senior Management Group has reviewed this report.

(The two attachments referred to in this clause are attached to this report.)

York Region

Update to Annual Repayment Limit and Capital Financing and Debt Policy

Presentation to Finance & Administration Committee

Ed Hankins

November 3, 2011

Overview

- Background
- Amended Regulation 403/02
- 2011 Long-term Debt Management Plan
- Capital Financing and Debt Policy
- Next Steps

Issuance of Long-term Debt is Regulated

- Historically, OMB approval was required for all new debt
- Since mid 90's, municipal councils could authorize the issuance of debt provided they were still within ARL
- ARL based on 25% of Own Source Revenues (OSR) - O.Reg. 403/02
- OSR does not include Development Charges

York Region

Finance & Administration Committee November 3, 2011

Slide 3

Additional Debt Room Required to Allow Capital Program to Proceed as Planned

- Debt for infrastructure has grown faster than ARL over the last decade
- Region would have hit limit in 2011 and new projects would have required OMB approval to proceed
- 10-year Capital Budget shows need for an additional $3.9 billion of debt to fund an $8.0 billion capital program.

York Region

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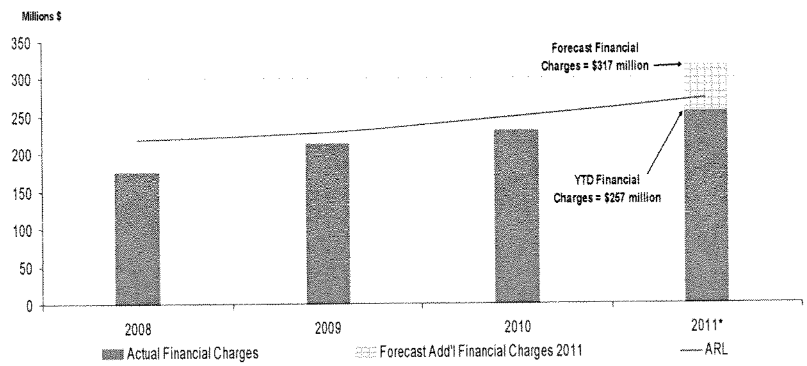
Slide 4

York Region Was Running Out of Debt Room

Total Financial Obligations Compared to Annual Repayment Limit



*Debt issued year-to-date 2011 = $250 million with current year debt obligation of $18.7 million

The Province Enacted Amended ARL Regulation in July

- Gives Region additional debt room
- Growth-related "Cost Supplement" calculated as 80% of the average of previous 3 years DC collections adds about $1.7 billion of new debt room
- Council must annually adopt or affirm Long-Term Debt Management Plan
- Region must maintain a minimum AA (low) credit rating
- Regulation is only an interim measure

Annual Repayment Limit Calculation 2011

Own Source Revenues	$ Millions	
Property Taxes/PIL's	764	
User Rates - Sewage/Water/Solid Waste	148	
Transportation User Fees	43	
Other User Fees (Protection, Health, Recreation, etc.)	28	
Provincial Fines	15	
Other Revenue (Investment Income, Recoveries, etc.)	95	
Total - Own Source Revenues	1,093	
25% of Own Source Revenues	273	
Less: Existing Debt Obligations (Full Commitment)	257	
Remaining ARL Room	17	
Equivalent Debt Room Remaining*	**199**	(A)
DC Cost Supplement (80% of 3-year rolling avg. DC Coll.)	136	
Equivalent Additional Debt Room*	**1,692**	(B)
Total Equivalent Debt Room Remaining	**1,891**	(A) + (B)

*Assumes debt issued for 20 years @ 5% interest rate

York Region

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Slide 7

Council Considerations When Adopting or Affirming Long-Term Debt Management Plan

- Long-term debt needs over multi-year period compared to the growth-related ARL for each year
- Risk and mitigation strategies associated with Long-Term Debt Management Plan
- Estimated needs during the fiscal year for temporary borrowing
- Does it comply with Region's long-term debt policies?

York Region

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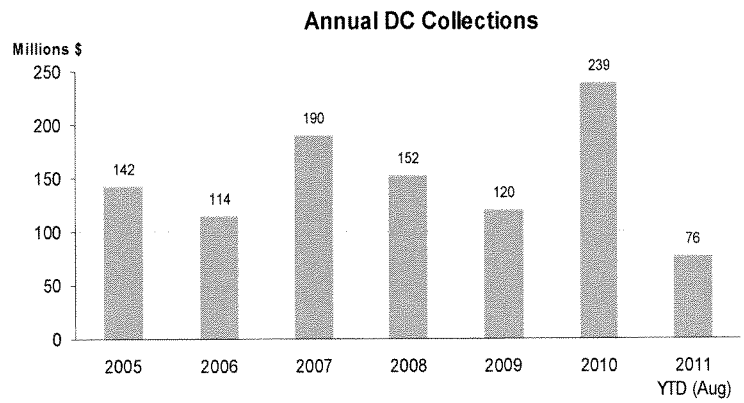
Slide 8

Variability in DC Collections Could Cause Future Debt Limits to Fluctuate Significantly



York Region

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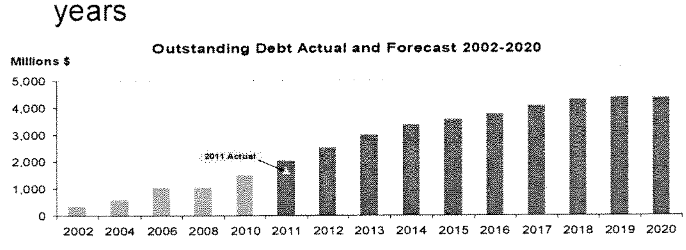
Slide 9

2011 Long-Term Debt Management Plan

- Required to be adopted or affirmed in order to access growth-related cost supplement component of the ARL
- Based on information in 2011 Budget
- Will be replaced with revised Plan in future years



York Region

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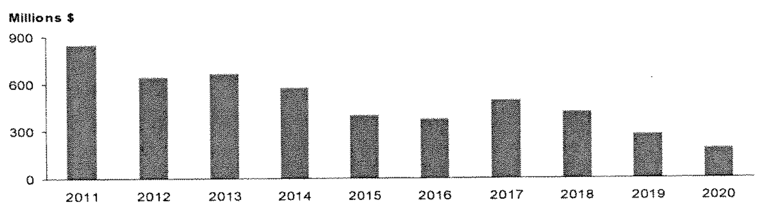
Slide 10

2011 Long-Term Debt Management Plan

Forecast of New Debt



- Approximately $3.9 billion of new debt needed over next 10 years
- In addition, there are temporary borrowing requirements of up to $485 million each year

2011 Long-Term Debt Management Plan

- Risks
  - Volatility of Development Charge Collections
  - Interest Rates
  - Ability to access financial markets
  - Capital costs higher than planned
- Mitigation Strategies
  - Mostly found in Capital Financing and Debt Policy

2011 Long-Term Debt Management Plan

The Region is well within 2011 debt limit on a contractual debt obligation basis:

- Contractual obligations of the Region estimated to be approximately $1.2 billion compared to the debt allowed by growth-related ARL of about $1.9 billion
- Future Plans will use the debt approved in the TPBA to determine financial obligation
- Will be refining the methods used for forecasting DC collections and financing requirements

York Region

Finance & Administration Committee November 3, 2011

Slide 13

Changes to Capital Financing & Debt Policy Needed to Conform to the Amended Regulation

- Requirement for Long-Term Debt Management Plan to be part of Annual Budget
- Prioritization of capital projects
- Using 70% (vs. 80%) of average DC collections for forecasts
- Minimum reserve balances
- Limitations on refunding debt
- Optimization of debt terms

York Region

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Slide 14

Next Steps

- 2012 and subsequent annual budgets will be prepared in a manner that meets the amended regulation
- At the appropriate time, staff conduct further negotiations with the Province for a longer term, more stable solution

York Region

Finance & Administration Committee November 3, 2011

Slide 15

Municipal Act, 2001
Loi de 2001 sur les municipalités

ONTARIO REGULATION 403/02

DEBT AND FINANCIAL OBLIGATION LIMITS

Consolidation Period: From June 24, 2011 to the e-Laws currency date.

Last amendment: O. Reg. 289/11.

This Regulation is made in English only.

Debt and financial obligation limit

1. (1) The annual debt and financial obligation limit for municipalities shall be determined under this Regulation. O. Reg. 403/02, s. 1 (1).

(2) The Ministry shall annually determine the limit using the formula described in section 3 based on the financial information supplied to the Ministry by each municipality under the Act and under the *Municipal Affairs Act*. O. Reg. 403/02, s. 1 (2).

(3) The Ministry shall inform the treasurer of the municipality in writing of the limit. O. Reg. 403/02, s. 1 (3).

Determination as to whether OMB approval required

2. A municipality shall use the most recent limit provided to it by the Ministry to determine whether Ontario Municipal Board approval is required in respect of the following categories of debt or financial obligation:

1. Long-term debt assumed by a municipality for which repayment will be required beyond the term for which the council was elected.
2. Other financial commitments, liabilities and contractual obligations, for which payment may or will be required beyond the term for which the council was elected, including, without being limited to,
   - i. lease agreements,
   - ii. financial commitments to hospitals and universities. O. Reg. 403/02, s. 2.

Determination of limit

3. The Ministry shall determine the debt and financial obligation limit of a municipality as follows:

1. Calculate the revenues for a past fiscal year, excluding, whether or not they are revenues, amounts received in the year,
   - i. as grants from the Government of Ontario or Canada or from another municipality,
   - ii. as proceeds from the sale of real property,
   - iii. as a contribution or transfer from a reserve fund or reserve,
   - iv. under agreement with the Government of Ontario, for the purpose of repaying the principal and interest of long-term debt or meeting financial obligations of the municipality,
   - v. from another municipality or a school board for the repayment of the principal and interest of long-term debt of the municipality borrowed for the exclusive purposes of the other municipality or school board,
   - vi. as revenues from electrical, telephone and gas service, and
   - vii. as revenues for the purpose of repaying the principal and interest of debt under the *Tile Drainage Act* or the *Shoreline Property Assistance Act*,
   - viii. REVOKED: O. Reg. 294/09, s. 1 (3).
2. Multiply the amount obtained in paragraph 1 by 25 per cent.
3. Subtract from the amount obtained in paragraph 2 the total payments in the fiscal year related to the long-term debt of the municipality less,
   - i. the payments in that year for long-term debt or financial obligations for which the Government of Ontario has agreed to provide to the municipality the amounts required by the municipality to repay the principal and interest of the debt or to meet the financial obligations,
   - ii. payments in that year from another municipality or a school board for the repayment of the principal and interest of long-term debt of the municipality borrowed for the exclusive purposes of the other municipality or school board,

iii. the payments for electrical, telephone and gas service provided by the municipality for which revenues are received by the municipality in that year, and

iv. the payments for shoreline assistance and tile drainage in that year,

v. REVOKED: O. Reg. 294/09, s. 1 (4).

4. Subtract from the amount obtained in paragraph 3,

i. payments made in the fiscal year in respect of the financial commitments, obligations and liabilities described in paragraph 2 of section 2, and

ii. for any fiscal year in a construction period during which amounts of principal, interest or both are not payable in respect of debenture debt for an undertaking authorized by the municipality for its purposes through a by-law under clause 408 (4) (d) of the Act, an amount equal to the estimated average annual amount of principal and interest that will be payable by the municipality in respect of the debt during the period when those debt payments are to be actually made. O. Reg. 403/02, s. 3; O. Reg. 294/09, s. 1.

Updated limit

4. (1) Before authorizing any specific work or class of work or any increase in expenditure for a previously authorized specific work or class of work that would require a long-term debt or financial obligation described in section 2, the council of the municipality shall have its treasurer calculate an updated limit using the most recent debt and financial obligation limit determined by the Ministry. O. Reg. 403/02, s. 4 (1).

(2) The treasurer shall update the most recent limit determined by the Ministry as follows:

1. Adjust the limit in respect of the estimated annual amount payable for any long-term debt or financial obligation described in section 2 assumed or discharged by the municipality since the last day of the past fiscal year for which the limit was calculated.

2. Subtract from the amount obtained in paragraph 1, the estimated annual amount payable in respect of any project approved by the Ontario Municipal Board or the council, as the case may be, to be financed by long-term debt or financial obligation described in section 2 but not as yet assumed unless council has, by resolution, indicated that it will not proceed with that project.

3. Subtract from the amount obtained in paragraph 1, for any fiscal year in a construction period during which amounts of principal, interest or both are not payable in respect of debenture debt for an undertaking authorized by the municipality for its purposes through a by-law under clause 408 (4) (d) of the Act, an amount equal to the estimated average annual amount of principal and interest that will be payable by the municipality in respect of the debt during the period when those debt payments are to be actually made.

4. Subtract from the amount obtained in paragraph 1 any amount recognized by the treasurer as annually payable or as payable in the year in respect of a financial obligation described in paragraph 2 of section 2.

5. Add to the amount obtained in paragraph 1 the estimated amount annually payable for any long-term debt or financial obligation described in section 2 in respect of the owner's share of the cost of a work undertaken as a local improvement under Ontario Regulation 586/06 (Local Improvement Charges — Priority Lien Status) made under the Act. O. Reg. 403/02, s. 4 (2); O. Reg. 294/09, s. 2 (1).

(3) The treasurer shall calculate the estimated annual amount payable by the municipality in respect of the work or class of work. O. Reg. 403/02, s. 4 (3).

(4) The treasurer shall not include in the update under subsection (2) or the calculation under subsection (3) any amounts payable by the municipality for the following categories of long-term debt or financial obligation:

1. Debt or financial obligation for which the Government of Ontario has agreed to pay to the municipality the amounts required by the municipality to repay the principal and interest of the debt or to meet the financial obligation.

2. Debt under the *Tile Drainage Act* or the *Shoreline Property Assistance Act*.

3. Debt or financial obligation in respect of electrical, telephone and gas service provided by the municipality for which revenues are received by the municipality.

4. REVOKED: O. Reg. 294/09, s. 2 (2).

O. Reg. 403/02, s. 4 (4); O. Reg. 294/09, s. 2 (2).

(5) The treasurer is not required to include in the update under subsection (2) or the calculation under subsection (3) any amounts recognized by the treasurer as expenses in the current year that are, or are payable under, any of the following:

1. Arrangements to provide pensions.

2. Agreements with a municipality or local body under section 20 of the Act.

3. Agreements with a First Nation under section 21 of the Act.

4. Agreements with the Province of Ontario under section 22 of the Act.

5. Agreements under the *Police Services Act* respecting policing of the whole or any part of a municipality by the Ontario Provincial Police.
6. Agreements respecting matters of employment of officers and employees of the municipality or a local board of the municipality.
7. Agreements for sharing the cost of services of officers and employees of municipalities or local boards.
8. Agreements respecting long-term care homes under Part VIII of the *Long-Term Care Homes Act, 2007*.
9. Agreements respecting bus franchises.
10. Agreements for insurance and reciprocal contracts of indemnity or inter-insurance, including premium notes given for fire insurance.
11. Any other agreement with any person for the provision of a service. O. Reg. 403/02, s. 4 (5); O. Reg. 294/09, s. 2 (3); O. Reg. 89/10, s. 1.

(6) Subsection (5) does not apply to,

(a) agreements to borrow money or sell debt prescribed under section 305 of the Act payable to the municipality;

(b) agreements to incur debt without borrowing money for the purpose of obtaining long-term financing of any capital work of the municipality, including lease agreements; or

(c) agreements for the purpose of minimizing costs or financial risk associated with the incurring of debt. O. Reg. 403/02, s. 4 (6); O. Reg. 294/09, s. 2 (4).

(7) The council of any municipality that borrows money or issues debentures for the exclusive purposes of one or more other municipalities or school boards is not required to have its treasurer update its debt and financial obligation limit in respect of the borrowing or issuance. O. Reg. 403/02, s. 4 (7).

(8) If a council does not require the treasurer to calculate an updated limit under subsection (7), the treasurer shall not include any amount in respect of the borrowing, issuance or authorization in an update under subsection (2) or a calculation under subsection (3). O. Reg. 403/02, s. 4 (8).

(9) If the amount calculated under subsection (3) exceeds the amount updated under subsection (2), the council must obtain the approval of the Ontario Municipal Board before authorizing the work or class of work. O. Reg. 403/02, s. 4 (9).

York Region

4.1 (1) The treasurer of York Region shall in each fiscal year calculate a cost supplement for the municipality for the servicing of growth-related debt, as follows:

1. For each of the preceding three fiscal years, estimate the total amount paid to York Region under the *Development Charges Act, 1997*.
2. Find the average of the three amounts determined under paragraph 1.
3. Take 80 per cent of the amount determined under paragraph 2. O. Reg. 289/11, s. 1.

(2) The treasurer of York Region shall in each fiscal year calculate a growth-related debt and financial obligation limit for the municipality by finding the sum of,

(a) the cost supplement determined for the municipality under subsection (1); and

(b) the most recent debt and financial obligation limit for the municipality determined by the Ministry under section 3. O. Reg. 289/11, s. 1.

(3) Despite subsection 4 (1), if the conditions listed in subsection (7) are met, before authorizing any specific work or class of work or any increase in expenditure for a previously authorized specific work or class of work that would require a long-term debt or financial obligation described in section 2, the council of York Region shall have its treasurer calculate an updated limit in the manner described in subsection (4). O. Reg. 289/11, s. 1.

(4) The treasurer shall update the limit in accordance with subsections 4 (2) to (6), using the most recent growth-related debt and financial obligation limit in place of the most recent debt and financial obligation limit determined by the Ministry. O. Reg. 289/11, s. 1.

(5) If the council of York Region borrows money or issues debentures for the exclusive purposes of one or more other municipalities or school boards, the council is not required to have its treasurer update its growth-related debt and financial obligation limit in respect of the borrowing or issuance, and subsection 4 (8) applies to the treasurer in respect of the borrowing, issuance or authorization. O. Reg. 289/11, s. 1.

(6) If, after an update under subsection (4), the amount calculated under subsection 4 (3) exceeds the amount updated under subsection 4 (2), the council of York Region must obtain the approval of the Ontario Municipal Board before authorizing the work or class of work. O. Reg. 289/11, s. 1.

(7) The conditions referred to in subsection (3) are as follows:

1. York Region's credit rating is,
    i. "AA(low)" or higher, as determined by Dominion Bond Rating Service Limited,
    ii. "AA–" or higher, as determined by Fitch Ratings,
    iii. "Aa3" or higher, as determined by Moody's Investors Services Inc., or
    iv. "AA–" or higher, as determined by Standard and Poor's.
2. York Region has not had, at any time in the current or previous fiscal year, a credit rating from a securities rating service listed in subparagraphs 1 i to iv that is lower than the rating set out in the subparagraph.
3. The council of York Region, as part of the preparation of its budget for the fiscal year, adopted or affirmed a plan for the fiscal year for the management of its long-term debt and financial obligations. O. Reg. 289/11, s. 1.

(8) The council of York Region shall consider the following matters before adopting or affirming a plan referred to in paragraph 3 of subsection (7):

1. The municipality's needs for its long-term debt and financial obligations over a multi-year period.
2. Projections for each year of the multi-year period for,
    i. the annual amount payable by the municipality for any existing or proposed long-term debt or financial obligations described in section 2, and
    ii. the amount of the growth-related debt and financial obligation limit.
3. How to manage the municipality's long-term debt and financial obligations in a prudent and cost-effective manner.
4. How to manage, in a prudent and cost-effective manner, the estimated,
    i. periods for the repayment of long-term debt and periods for completing the payments required by other long-term financial obligations,
    ii. total interest and other costs of long-term debt and other financial obligations, and
    iii. total levels of the principal due on long-term debt and total levels of other long-term financial obligations.
5. How to manage the risks associated with undertaking the planned long-term debts and financial obligations.
6. How to manage interest rate risk and foreign currency exposure.
7. Mitigation strategies for adverse contingencies.
8. The estimated needs of the municipality in the fiscal year for temporary borrowing until the taxes are collected and other revenues are received.
9. The municipality's long-term debt and financial obligation policies and the municipality's compliance with them.
10. For the 2012 fiscal year and subsequent fiscal years,
    i. an evaluation of the actual outcomes in the previous year with respect to the matters in paragraphs 1 to 7,
    ii. a comparison of the outcomes to the previous year's projections for those matters, and
    iii. whether the plan needs amendment for the current fiscal year. O. Reg. 289/11, s. 1.

(9) In the 2011 fiscal year, the council of York Region may adopt or affirm a plan referred to in paragraph 3 of subsection (7) at any time during the fiscal year. O. Reg. 289/11, s. 1.

(10) In this section,

"York Region" means The Regional Municipality of York. O. Reg. 289/11, s. 1.

(11) This section is revoked on December 31, 2021. O. Reg. 289/11, s. 1.

Transitional limit

5. (1) The Ministry shall calculate a transitional debt and financial obligation limit for a municipality in respect of any fiscal year in which the following conditions are met:

1. The municipality has been erected, incorporated or created by statute or has had a boundary alteration within the past five years.
2. The financial information necessary for the Ministry to determine a debt and financial obligation for the municipality under section 3 is not available. O. Reg. 403/02, s. 5 (1).

(2) Despite sections 1 and 3, the Ministry may determine a transitional debt limit by estimating the revenues for the year and by using relevant financial information obtained from any municipality or from any fiscal year. O. Reg. 403/02, s. 5 (2); O. Reg. 294/09, s. 3.

(3) Despite section 4, the treasurer may update a transitional debt limit using relevant financial information from any fiscal year. O. Reg. 403/02, s. 5 (3).

6. OMITTED (REVOKES OTHER REGULATIONS). O. Reg. 403/02, s. 6.

7. OMITTED (PROVIDES FOR COMING INTO FORCE OF PROVISIONS OF THIS REGULATION). O. Reg. 403/02, s. 7.

York Region

STATUS: Final
Council Approved: Y
CAO Approved: N/A

TITLE: Capital Financing and Debt Policy	Edocs No.: Original Approval Date: January 23, 2003 Policy Last Updated: October 14, 2011 Posted on Portal: pending

POLICY STATEMENT:

A policy governing the use and administration of capital financing and debt.

APPLICATION:

All financial obligations including related agreements and capital financing leases that are entered into by the Corporation, its boards and subsidiaries as well as those employees responsible for the control, administration or management of capital financing and debt issuance activities.

PURPOSE:

This policy establishes objectives, standards of care, authorized financing instruments, reporting requirements and responsibilities for the prudent financing of the Corporation's operating and infrastructure needs.

DEFINITIONS:

Amortizing Debentures: Debentures for which the total annual payment (principal and interest) is approximately even throughout the life of the debenture issue.

Annual Repayment Limit: For the purpose of this Policy it has the same meaning as the Debt and Financial Obligation Limit

Area Municipality: Any municipality located within the Region of York.

Banker's Acceptance: A short-term credit obligation created by a non-financial firm such as the Corporation and guaranteed by a bank as to payment.

Bond Forward Agreement: A financial contract with an eligible Schedule I, II or III bank used to hedge future interest rates by short selling a particular Government of Canada or Province of Ontario bond and repurchase the same bond at a predetermined future settlement date. A settlement payment may be required by either the issuer or the bank if there is a difference between the price at which the government debt instruments are sold and the price at which they are bought back on the settlement date.

Bought Deal: A financing transaction, such as a debenture issue, in which an individual underwriter or underwriting group purchases the entire amount in order to resell to investors.

Capital Financing: A generic term for the financing of capital assets using debt, financing leases, swaps and other derivatives.

Construction Financing: A form of debt financing in which the issuer does not pay any principal and/or interest for a period up to 5 years during the construction or rehabilitation of the facility from which a revenue stream is expected to be generated.

Corporation: Refers to the Corporation of the Regional Municipality of York.

Cross-Border Lease: A lease in which the lessor and lessee are located in different countries, and where the holder of legal title to the asset can claim tax benefits in its home country, while the tax laws of the asset user treat it as owner for tax purposes in its own country.

Debenture: A formal written obligation to repay specific sums on certain dates. In the case of a municipality debentures are typically unsecured.

Debenture Committee: A committee established by Regional Council on September 23, 2010 through enactment of Bylaw No. 2010-69 which has the authority to enact Debenture Bylaws under the Terms of Reference contained in that bylaw.

Debt and Financial Obligation Limit: A calculation provided annually to a municipality by the Ministry of Municipal Affairs and Housing that determines the maximum amount of new annual debt servicing costs that a municipality can undertake or guarantee without seeking the approval of the Ontario Municipal Board. **For purposes of this Policy it has the same meaning as the Annual Repayment Limit.**

Debt: Any obligation for the payment of money. For Ontario municipalities, debt would normally consist of debentures as well as either notes or cash loans from financial institutions but could also include loans from reserves. Debentures issued to Infrastructure Ontario are also considered as debt.

Financial Guarantee: An agreement whereby the Corporation will take responsibility for the payment of debt in the event that the primary liable fails to perform.

Foreign Currency Debentures: Debentures that are denominated or payable in a foreign currency. In Ontario a municipality is permitted to issue debentures denominated in United States dollars, Pound Sterling, Japanese Yen and Euros.

Foreign Currency Exchange Agreements: An agreement entered into with a financial institution to fix the rate of exchange for future payments made in a foreign currency.

Growth-related Cost Supplement: A Supplement to the Debt and Financial Obligation Limit equal to 80 per cent of the average of the previous three calendar years of development charge collections.

Growth-related Debt and Financial Obligation Limit: The limit imposed by the Province with respect to the Corporation's debt and financial obligation payments comprised of the total of the Debt and Financial Obligation Limit and the Growth- related Cost Supplement.

Hedging: A strategy used to offset or mitigate currency and/or interest rate risk.

Infrastructure Ontario (IO) or its successor organizations: An entity established by the Province of Ontario to provide Ontario municipalities, universities and hospitals access to alternative financing service for longer-term fixed rate loans for the building and renewal of public infrastructure.

Installment (Serial) Debentures: Debentures of which a portion of the principal matures each year throughout the life of the debenture issue.

Interest Rate Exchange Agreements: An agreement entered into with a financial institution to fix the future rate of interest paid on a variable rate debenture or long-term bank loan.

Joint and Several: An obligation that may be enforced against all obligators jointly or against any one of them separately.

Lease Financing Agreements: A lease allowing for the provision of Municipal Capital Facilities if the lease may or will require payment by the Corporation beyond the current term of Council.

Long-Term Bank Loan: Long-term debt provided by a bank or a syndicate (group) of banks.

Long-Term Debt: Any debt for which the repayment of any portion of the principal is due beyond one year.

Long-Term Debt and Financial Obligation Management Plan: A plan to be completed and affirmed by Regional Council as part of the Corporation's annual budget to comply with Ontario Regulation 403/02 in order to access the Growth-related Cost Supplement.

Municipal Capital Facilities: Includes land, as defined in the *Assessment Act*, works, equipment, machinery and related systems and infrastructures.

Non-Material Leases: A class of financing leases in which the annual payment for individual leases will be less than $250,000 and as a class does not exceed one percent (1%) of the Corporation's net tax levy; or the net present value of the annual payments is less than $2 million for the term of the lease agreement, including possible extensions or renewals for which approval to extend or renew has been delegated to an officer of the Corporation.

Project Financing: Financing in which principal and interest payments are structured so as to more closely match the revenues or cost savings of a specific project. Also includes financing for which the lender, in the case of default, would have no or limited recourse to the issuer beyond the assets purchased with the proceeds of the financing.

Refunding: As applied to debentures, describes the process of retiring existing debt by issuing new securities to either reduce the interest rate or extend the maturity date or both.

Rent: A payment made by the Region in respect of property which will be used for the Region's purposes and for which a formal ownership transaction does not take place. Rent includes all payments made to the owner of the property.

Retirement Fund Debentures: Debentures for which money is accumulated on a regular basis, commencing several years after the issuance of the debentures, in a separate custodial account that is used to redeem the debentures.

Rolling Stock: Equipment that moves on wheels used for transportation and/or transit purposes. Examples include subway cars, trucks, buses and tractor trailers.

School Board: Any school board which has jurisdiction within the Region of York.

Short-Term Debt: Any debt for which the repayment of all the principal is due within one year.

Sinking Fund Committee: A committee consisting of the Corporation's Commissioner of Finance and Treasurer and other persons appointed by Council who are responsible for the management of the sinking and/or retirement funds.

Sinking Fund Debentures: Debentures for which money is accumulated on a regular basis in a separate custodial account that when combined with interest earned is used to redeem the debentures.

Syndicated Bank Loans: A loan between the Corporation and a bank listed in Schedule I, II or III of the *Bank Act (Canada)*, a loan corporation registered under the *Loan and Trust Corporations Act* or a credit union to which the *Credit Unions and Liaison Popalaires Act, 1994* applies where the financing to the loan is obtained through a financing agreement in which each of the institutions that is a party of the term agreement agrees to contribute a portion of the loan.

Tender: A process whereby formal bids are submitted to acquire debt securities or to provide a lease.

Term Debentures: Debentures that are comprised of a combination of installment and sinking fund debentures.

Tile Drainage Debentures: Debentures issued to finance the construction of a tile drainage system for agricultural land.

Underwriter(s): An individual or group of investment bankers appointed for the purpose of purchasing and reselling new debentures issued by the Corporation at a negotiated price.

Variable Interest Rate Debentures: Debentures that provide for one or more variations in the rate of interest payable on the principal during the term of the debenture.

DESCRIPTION:

A) Philosophy For Capital Financing And Debt Issuance

Council may, where it is deemed to be in the best interest of its taxpayers, approve the issuance of debt for its own purposes, or those of its municipal business corporations, area municipalities and/or school boards.

"Best interest" will be consistent with the philosophy of the Corporation's *Financial Mission Statement*, adopted by Council in 1999, which includes the following key financial principle with respect to capital financing and debt practices:

> *"Capital financing and debenture practices will be responsive and fair to the needs of both current and future taxpayers and will be reflective of the underlying life cycle and the nature of the expenditure."*

This philosophy will be met through the objectives outlined below.

B) Primary Objectives Of The Capital Financing And Debt Program

The primary objectives for the Corporation's capital financing and debt program, in priority order, shall be:

- Adhere to statutory requirements;
- Maintain a superior credit rating;
- Ensure long term financial flexibility;
- Limit financial risk exposure;
- Minimize long-term cost of financing; and
- Match the term of the capital financing to the lesser of the useful life of the related asset or the period over which third party funding for the retirement of the debt will be received.

1) Adhere to Statutory Requirements

Capital financing may only be undertaken if and when it is in compliance with the relevant sections of the *Municipal Act*, the *Local Improvement Act*, or the *Tile Drainage Act*, and their related regulations. Requirements include but are not limited to the following:

a) The term of temporary or short-term debt for operating purposes will not exceed the current fiscal year;

b) The term of the capital financing will not exceed the lesser of 40 years or the useful life of the underlying asset;

c) Long-term debt will only be issued for capital projects;

d) The total annual financing charges cannot exceed the Growth-related Debt and Financial Obligation Limit or the Debt and Financial Obligation Limit, as applicable, for the municipality responsible for incurring the debt unless otherwise approved by the Ontario Municipal Board;

e) Council has adopted or affirmed a Long-Term Debt and Financial Obligations Management Plan for each fiscal year that a Growth-related Cost Supplement is required;

f) Prior to entering into a lease financing agreement, an analysis will be prepared that assesses the costs as well as the financial and other risks associated with the proposed lease with other methods of financing;

g) Prior to passing a debenture by-law which provides that installments of principal or interest, or both, are not payable during the period of construction of an undertaking, Council will have considered all financial and other risks related to the proposed construction financing;

h) A credit rating of AA - (or equivalent) will be maintained for the year and the prior year that a Growth-related Cost Supplement is required; and

i) Long-term debt will be the joint and several obligations of the Corporation and its area municipalities.

Furthermore, the awarding of any contract under this Policy, unless otherwise authorized by Council, will follow the procedures and authorities set out in the Corporation's Purchasing By-law.

2) Maintain a Superior Credit Rating

Maintaining a superior credit rating is a key factor in minimizing the cost of debt and accessing capital markets in an efficient manner. Also, as noted elsewhere, a credit rating of a least AA - (or equivalent) will be needed by the Corporation to meet the statutory requirements for entering into certain types of capital financing contemplated by this Policy.

Successfully fulfilling the primary objectives identified above is important for maintaining high credit ratings from the Standard and Poor's Ratings Services and Moody's Investors Service. However, it is recognized that some factors may be out of the Corporation's direct control, such as the performance of the economy, that could inhibit the growing and stable source of revenue desired by the rating agencies. In part to mitigate this concern, the Corporation has a Reserve and Reserve Fund Policy that ensures its ability to pay operational and financial obligations even if the economy suffers setbacks or other contingencies arise.

Development charges, which are a major source of funding to repay growth-related debt, are particularly sensitive to the underlying economic conditions. Having an adequate Development Charge Reserve balance demonstrates to the rating agencies an ability to meet growth-related debt obligations even during periods when collections may temporarily decline.

Therefore, it will be the Corporation's practice to maintain a cash balance in its Development Charge Reserves equal to at least the projected annual principal and interest payments during the fiscal year for growth-related debt.

3) Ensure Long-Term Financial Flexibility

The capital financing program will be managed in a manner consistent with other long-term planning, financial and management objectives.

Prior to the issuance of any new capital financing, consideration will be given to its impact on future ratepayers in order to achieve an appropriate balance between capital financing and other forms of funding.

To the extent practicable, replacement assets as well as regular and/or ongoing capital expenditures will be recovered on a "pay as you go" basis through rates, tax levy, user fees and/or reserve fund monies. It is recognized that adequate reserves must be developed and maintained for all capital assets owned by the Corporation to ensure long-term financial flexibility. However, where long-term financing is required, due consideration will be paid to all forms of financing including debentures, construction financing long-term bank loans and lease financing agreements.

4) Limit Financial Risk Exposure

The capital financing program will be managed in a manner to limit, where practicable, financial risk exposure. As a result, it will be the Corporation's normal practice to issue debt that is only denominated in Canadian dollars with an interest rate that will be fixed over its term.

Notwithstanding, if a situation arises where there is a material financial advantage and/or it is deemed prudent for the Corporation to issue debt that is subject to fluctuations, in foreign currency and/or interest rates, a hedging strategy will be considered to either reduce or eliminate the risk.

This strategy would include the following:

a) For debentures that are not denominated in Canadian currency, the rate of exchange will be fixed for the term of the obligation (both principal and interest payments) on or before the date of issuance.

b) For variable interest rate debentures with a term exceeding one year, the interest rate will be fixed within six months of the issuance date.

However, long-term bank loans for which the interest rate may vary will not be fixed if prevailing market conditions are such that in the opinion of the Commissioner of Finance it is in the Corporation's best interests to allow the rate to float where such debt, in addition to any other outstanding variable rate loans or debentures, do not exceed fifteen percent (15%) of the total outstanding debt of the Corporation as authorized by O.Reg 276/02 s(2).

Finally, it is recognized that financing leases have different financial and other risks than traditional debt that must be considered, and where practicable mitigated prior to its use, including; contingent payment obligations for items such as; lease termination provisions; equipment loss; equipment replacement options; guarantees and indemnities. These risks will be identified prior to entering into any material financing lease.

(Refer to Section E of this Policy – Financing Risk Identification and Mitigation Strategies.)

5) Minimize Long-Term Cost of Financing

The timing, type and term of financing for each capital asset will be determined with a view to minimize both its and the Corporation's overall long-term cost of financing.

Factors to be considered will include: current versus future interest rates; shape of the interest rate curve, the availability of related reserve fund monies; the pattern of anticipated revenues or costs savings attributable to the project or purpose; the applicability of using bond forward agreements to hedge interest costs; and, all costs related to the financing of the project whether by debenture, construction financing or financing lease.

6) Match the Term of the Capital Financing to the Lesser of the Useful Life of the Underlying Asset or the Period over which Third Party Funding for the Retirement of the Debt will be Received

The Corporation's normal practice will be to issue long-term debt for contractual terms that will be well received in the financial market place, typically 5, 10 or 30 years. However, the amortization period over which the debt will be retired may be longer, necessitating that part of the debt will need to be refinanced for an additional term (i.e., term debentures with a refunding provision). However, the maximum term over which a capital asset shall be financed will be set out in Appendix 1, unless otherwise specifically approved by Council. In no case shall the term of financing exceed the lesser of the anticipated useful life of the underlying asset or in the case of financing that will be repaid from third party funding (e.g., development charges), the period over which the funding will be received.

C) Standard Of Care

All officers and employees responsible for capital financing and debt activities will follow the standard of care identified in this Policy.

1) Ethics and Conflicts of Interest

Officers and employees involved in the capital financing process are expected to abide by the Corporation's Code of Conduct.

In particular they shall:

a) Refrain from personal business activity that could conflict with the proper execution and management of the capital financing program, or that could impair their ability to make impartial decisions;

b) Disclose any material interests in financial institutions with which they conduct business;

c) Disclose any personal financial/investment positions that could be related to the performance of their capital financing duties; and

d) Not undertake personal financial transactions with the same individual with whom business is conducted on behalf of the Region.

2) Delegation of Authority

The Commissioner of Finance and Treasurer will have the overall responsibility for the capital financing program of the Corporation. However, the Director of Policy, Risk and

Treasury will have responsibility for directing/implementing the activities of the capital financing program as well as the establishment of procedures consistent with this Policy. Such procedures shall include explicit delegation of authority to persons responsible for capital financing activities. No person shall be permitted to engage in a capital financing activity except as provided for under the terms of this Policy. The Director will be responsible for all activities undertaken, and shall establish a system of controls to regulate the activities of subordinate officials and exercise control over that staff.

Notwithstanding, the Chief Administrative Officer, as authorized by the Purchasing By-law, may approve non-material financing leases as previously defined.

3) Requirement for Outside Advice

The Corporation's staff will be expected to have sufficient knowledge to prudently evaluate standard financing transactions. However, should in their opinion the appropriate level of knowledge does not exist for instances such as capital financing transactions that are unusually complicated or non-standard, or as otherwise directed, outside financial and/or legal advice will be obtained.

D) Suitable and Authorized Financing Instruments

The form of financing that meets the objectives listed above will be dependent in part upon its term and the type of asset to be financed.

1) Short-Term – Under One (1) Year

Financing of operational needs for a period of less than one (1) year pending the receipt of taxes and other revenues, or interim financing for capital assets pending long-term capital financing may be from one or more of the following sources:

a) Reserves and reserve funds. (This may be used as the primary source of short-term financing provided that interest is paid at the prevailing market rate);

b) Bank line of credit;

c) Short-term promissory notes issued to aforementioned institutions; and

d) Bankers' Acceptances; and

e) IO (or its successor organizations) short-term advances pending issuance of long-term debentures.

2) Long-Term – Greater than One (1) Year

Financing of assets for a period of greater than one year may be from any of the following sources:

a) Debentures (including those issued to IO or its successor organizations), which may be in the following form or a combination thereof:

- Installment

- Sinking Fund
- Term (including those with a refunding provision)
- Amortizing
- Variable Interest Rate
- Foreign Currency
- Retirement Fund

b) Reserves and Reserve Funds

These may be used for both interim and medium-term for a period of no greater than five-year financing, if deemed cost effective or otherwise necessary. It is recognized, however, that reserves and reserve funds are for a defined purpose and must be available when that purpose occurs or requires them. Notwithstanding this policy, intrafund borrowing between development charge reserve accounts for a longer period of time is permitted if the funds are available.

c) Long-Term Bank Loans (including Syndicated Bank Loans)

These may be used if deemed cost effective or otherwise necessary. These loans may be either fixed or variable interest rate loans as determined by the Commissioner of Finance and Treasurer.

d) Construction Financing

May be used for a period up to five (5) years during construction or rehabilitation of certain facilities from which a revenue stream is expected to be generated (e.g., water plant) upon its completion.

e) Lease Financing Agreements (Capital Financing Leases)

May be used when it provides material and measurable benefits compared with other forms of financing. Capital financing leases may include cross-border and rolling stock leases.

f) Tile Drainage Debentures

These will be used to finance the construction of tile drainage systems for agriculture and for those individual farmers who apply and are accepted for financing.

3) Credit Rating Requirements for Issuing Certain Types of Debt

The Corporation may only issue foreign currency debentures, variable rate debentures, or variable rate long-term bank loans if its long-term debt obligations are rated by:

a) Dominion Bond Rating Service Limited as “AA (low)” or higher, or

b) Fitch Ratings as “AA-“ or higher, or

c) Moody's Investors Service, Inc. as "Aa3" or higher, or

d) Standard and Poor's as "AA-" or higher.

E) FINANCING RISK IDENTIFICATION AND MITIGATION STRATEGIES

It is explicitly recognized that there may be additional risks associated with certain types of financing. It is expected that these risks will be identified and considered prior to their use in relation to other forms of financing that would be available. Also, the mitigation strategies discussed below will be used to reduce the additional risk when deemed practicable.

1) Availability of Debt Capacity for Future Priority Projects

The Corporation could face the risk in any fiscal year of having insufficient debt capacity to fully execute its capital plan, based on its ARL or Growth-related Debt and Financial Obligation Limit. To manage this risk, the capital plan will show the amount of debt financing that will be required for each project and each year of the plan. Each project will also be prioritized on the basis of its impact on the Corporation's growth plan and/or any strategic plan approved by Council. Project prioritization would permit the most critical elements of the capital plan to proceed in an expeditious manner.

2) Refunding Risk

The Corporation may issue debentures for which the amortization to retirement period is longer than the contractual term of the debenture, similar to a home mortgage. For those debentures, the balance of the debt remaining at the end of the contractual term will need to be refinanced.

A risk to the Corporation would be that interest rates may be higher during the second financing period, resulting in higher than anticipated debt payments. For this reason the use of refunding debentures will not be a preferred method of financing by the Corporation whenever tax levy is the primary source of funding. However, there will be no restriction to the use of refunding debentures funded mainly from development charges or user rates which tend to be for longer periods and are better able to absorb increases (or decreases) to their cost of financing over time.

Further risk to the Corporation may arise if market conditions are unfavorable to financing at the end of the first contractual term of a refunding debenture. In those situations, several strategies will be employed, including pre-financing, short term borrowing from reserves, using variable rate debt and lines of credit, and making borrowing applications to government agencies such as Infrastructure Ontario.

3) Construction Financing

Construction financing may be used to "lock-in" the debt needed for a capital project that will eventually generate a revenue stream which could be used to make principal and interest payments (eg. water plant). Construction financing is unique in that the debt may be accrued in advance of the project's completion and the interest accrues and no payments are made during the building period.

The following risks compared to other forms of financing will be considered prior to the use of construction financing:

a) The financial risks include the following:

- The possibility that interest rates may fall from the time the rate for the construction loan is established and completion of construction. Should there be a high probability of this occurring, staff will consider the use of variable interest rate rather than fixed rate financing as a method to mitigate this risk; and
- The possibility that the final cost of construction could be materially less than initially forecasted and financed. Staff will consider whether or not to issue debt until a fixed rate contract has been awarded or to issue debt that does not exceed 75% of the projected cost as a method to mitigate this risk.

b) Other risks include that the construction project may not be able to proceed or is not completed for technical or other reasons. The mitigation option to be considered in this case will be not to issue long-term debt until all critical construction contracts have been awarded.

4) Financing Lease Agreements

Leases may be used to finance equipment, buildings, land or other assets that the Corporation does not have a long-term interest in or may not be able to acquire through other means.

The following risks compared to other forms of financing will be considered prior to the use of capital financing lease agreements.

a) The financial risks include the following:

- The ability for lease payment amounts to vary if based on changes in an underlying benchmark debt instrument (generally expressed as a particular Government of Canada Bond). This risk usually applies only to new assets being added to a leasing schedule and would be the same as new debt being issued from time to time;
- The ability for lease payment to vary based on changes in the assumed residual values of the asset being leased. Again, this risk usually applies only to new assets being added to a leasing schedule and would not be riskier than other forms of financing;
- Uncertainty over leasing costs if contract needs to be extended or renewed. The normal practice of the Corporation will be to negotiate these costs prior to the leasing agreement being executed; and

b) Other risks include the potential for the seizure and removal of leased equipment if the leasing company goes into default of its obligations to creditors, and its creditors have the legal right to seize assets of the leasing company. The practice of the Corporation will be to assess the financial strength of the normal leasing company prior to the leasing agreement being executed.

5) Variable Interest Rate Debenture and Long-Term Bank Loans

Variable rate debentures and long-term bank loans may be used when there is volatility in the financial market and/or there is an expectation of significantly lower interest rates occurring within a few months of their issue. In all cases, The interest rate will be fixed no later than 6 months after issue by means of a interest rate exchange (ie. hedging) agreement in order to mitigate the financial exposure.

The Corporation may only enter into interest rate exchange agreements as part of a variable rate debenture with an eligible institution whose credit ratings are equivalent to those cited in Section D(3) above.

6) Foreign Currency Debentures

Foreign currency debentures may be used when the "all in" cost of financing in a foreign market is cheaper or the market conditions are such that domestic financing is not practicable. The risk associated with foreign currency debentures is that the rate of exchange incurred for future interest and principal payments could significantly increase over the term of the debt, raising its overall cost.

The Corporation's practice with respect to foreign currency debentures will be to have the rate of exchange for all interest and principal payments fixed prior to their issue by means of foreign currency exchange or hedging agreement in order to mitigate the financial exposure.

The Corporation may only enter into a foreign currency exchange agreement with an institution whose credit ratings are equivalent to those cited in Section D(3) above.

Any foreign currency exchange agreement or agreements for a debenture will, when read together, provide for the reduction of currency risk with respect to the entire amount of principal and interest payable under the debenture and shall require any amount payable to any person under the agreement or agreements to be expressed as a Canadian currency amount.

The currencies set out in Appendix 2 are prescribed foreign currencies eligible under provincial regulation.

7) Bond Forward Agreements

The timing of the Corporation's debenture issue is very dependent upon market or economic conditions prevailing at the time of each issue. Market-out conditions can occur due to issuance calendars and in times of financial crisis. Bond forward agreements allow the Corporation to lock-in the underlying interest rate on a portion of a planned debt issue, facilitating the issuing process.

Bond forward agreements may only be used for the issue or the refinancing of debentures denominated in Canadian currency for which Council approval has already been given.

Furthermore, it will be the Corporation's normal practice to limit bond forward agreements to apply to no more than seventy-five percent (75%) of the principal amount of debentures to be issued. Bond forward agreements will have a settlement date which is not longer than 60 days after the day on which the agreement is executed.

It will be the Corporation's normal practice that counterparty payments resulting from the use of these agreements, if material, will be added to or deducted from the principal of the amount being financed.

Utilizing bond forward agreements exposes the Corporation to the following risks:

a) Credit risk to the counterparty (financial institution) in the event interest rates have risen and the counterparty cannot fulfill the terms of the agreement. Although this is considered a remote risk, credit exposure resulting from any or all outstanding bond forward agreements executed with any financial institution will be added to any outstanding investments held in the Corporation's investment portfolio and will be subject to the same limitation guidelines set out in Appendix 1 of the Investment Policy.

b) There will be an opportunity cost if interest rates fall and the Corporation has to pay the counterparty to the bond forward agreement. This is recognized, however the primary use of a bond forward agreement is to "lock-in" the anticipated borrowing rate associated with the future debenture issue and reduce or eliminate the risk of higher interest rates. The Corporation's practice of hedging less than 100% of the planned debenture issue would result in some of the savings still being achieved.

By not utilizing a bond forward agreement, the Corporation will be exposed to movements in interest rates that will be either beneficial or detrimental and will have less certainty about the cost of borrowing on a prospective debenture.

Before entering into a bond forward agreement, treasury staff and the Commissioner of Finance and Treasurer will analyze and provide:

a) The fixed costs and estimated costs to the Corporation resulting from the use of such agreements.

b) A detailed estimate of the expected results of using such agreements.

Bond forward agreement may only be entered into with a bank listed in Schedule I, II or III to the *Bank Act (Canada)* and only if the bank's long-term debt obligations on the day the agreement is entered are rated by:

a) Dominion Bond Rating Service as “A(high)” or higher; or

b) Fitch Ratings as “A+” or higher; or

c) Moody’s Investors Service Inc. as “A1” or higher; or

d) Standard and Poor’s as “A+” or higher.

F) METHODS OF MARKETING/SELLING DEBENTURE ISSUES

Debenture securities may be sold by the following means:

a) Underwriting Syndicate
The use of an underwriting syndicate will be the normal method by which debentures will be sold by the Corporation; or

b) Tender
A tender process may be used when and if significant savings could be expected when compared to issuing through an Underwriting Syndicate; or

c) Bought Deal/Private Placement
This may be appropriate for only "one off" or unusual financing structures when significant savings would be expected or when market conditions are volatile or otherwise difficult.

G) DEBT ISSUED ON BEHALF OF OTHER JURISDICTIONS

Council may approve the issuance of debentures for the purposes of its area municipalities and school boards provided:

a) They are used for capital projects approved by the Area Municipality and School Board;

b) The term of the financing is in excess of one (1) year but does not exceed the guidelines set out in Appendix 1;

c) It has received satisfactory evidence of approval authority and statutory compliance. Accordingly, the Financial Officers of the Area Municipalities must provide to the Corporation at the time of their financing request, an updated Debt and Financial Obligation Limit for their respective municipality and attest to the validity of the calculation in order to ensure compliance under the regulations of the Act. As well, mandated approvals from provincial ministries, if necessary, and the council of the Area Municipality will be required prior to Council granting financing approval;

d) The issuance and administrative costs attributable to borrowings on behalf of Area Municipalities and School Boards will be recovered. Costs not directly or specifically attributed to any one participant shall be allocated on a prorata basis to all participants. Conversely, costs incurred which are directly or specifically attributable to any one participant shall be allocated as such. Such costs may include, but are not limited to, the following: legal fees; commissions; cost of certificates; registration and re-registration charges; and courier charges.

H) Financial Guarantees And Letters Of Credit

Financial guarantees and/or letters of credit provided by the Corporation, its boards and subsidiaries will be considered as debt and will be governed by this Policy.

I) Sinking/Retirement Fund Debentures

A Sinking Fund Committee will be established whenever sinking and/or retirement fund debentures are outstanding anytime during a calendar year. The committee will meet at least annually and will be chaired by the Commissioner of Finance and Treasurer and will have at least two additional members appointed by Council. The committee will establish investment guidelines and ensure that adequate funds will be available to retire the debt at its maturity.

When setting the internal capitalization rate for new sinking/retirement fund debt at the time of its issue, the rate shall not exceed the lesser of the rate allowed in the Municipal Act, or the 5-year Government of Canada bond rate at time of issue.

J) Reporting Requirements

In addition to any information requested by Council or that the Commissioner of Finance and Treasurer considers appropriate, the following reports will be provided:

1) Annually, the Commissioner of Finance and Treasurer shall submit to Council a report or reports that:

   a) Requests authority for temporary borrowing up to a stipulated amount to meet day-to-day expenditures, pending receipt of tax levies, user fees and revenues anticipated during the year;

   b) Requests authority, if required, to finance certain capital items detailing for each type of item, the amount and the maximum term of financing;

c) States the sum, if any, that must be raised for sinking fund purposes in that year.

d) As part of the annual budget a Long-Term Debt and Financial Obligation Management Plan to be adopted or affirmed by Regional Council that will contain at least the following elements:

- Projections for each year over a multi-year period of estimated long term debt and financial obligations payments compared to the Growth-related Debt and Financial Obligation Limit;
- Strategies for prudently and cost effectively dealing with risks associated with planned long term debt and financial obligations and mitigation strategies for adverse contingencies which might arise;
- An evaluation of the outcomes of the previous year's Long-Term Debt and Financial Obligations Management Plan as well as a comparison to the current year's plan;
- A statement indicating the Plan is in compliance with this Policy.

2) As required, the Commissioner of Finance shall submit to Council, the following:

a) A report, before entering into a financing lease which is other than a non-material lease with a recommendation assessing the costs and financial and other risks associated with the proposed financing lease. This report shall include:

- A comparison between the fixed and estimated costs and the risks associated with the proposed lease and those associated with other methods of financing;
- A statement summarizing, as may be applicable, the effective rate or rates of financing for the lease, the ability for lease payment amounts to vary, and the methods or calculations, including possible financing rate changes, that may be used to establish that variance under the lease;
- A statement summarizing any contingent payment obligations under the lease that in his or her opinion would result in a material impact for the municipality, including lease termination provisions, equipment loss, equipment replacement options and guarantees and indemnities;
- A summary of the assumptions applicable to any possible variations in the lease payment and contingent payment obligations; and

b) Lists of any outstanding financing leases including the following details:

- Estimates of the proportion of financing leases to the Corporation's total long-term debt and provides a description of any change in that proportion since the previous year's report; and
- A statement that in his or her opinion all financing leases were made in accordance with the lease policy and goals as outlined in this Policy or as otherwise adopted by Council.

c) A statement before passing a by-law providing for construction financing, which shall consider:

- The fixed and estimated costs to the Corporation;
- Whether the costs of the proposed financing for the construction of the undertaking are lower than other methods of financing available;
- A detailed estimate with respect to the terms of the Corporation's expectations of revenue generation from the undertaking, once constructed;
- The risks to the Corporation if the undertaking is not constructed or completed within the period of construction as estimated by Council; and
- The financial and other risks for the Corporation.

d) A report detailing at least once in a fiscal year, any bond forward agreements in a fiscal year which the Corporation has entered into.

The report must contain the following information and documents:

- A statement comparing the expected and actual results of using bond forward agreements during the period of the report; and
- A statement indicating whether, in his or her opinion, all of the bond forward agreements entered during the period of the report are consistent with the bond forward policies and goals in this Policy or as otherwise adopted by Council.

e) A report detailing at least once in a fiscal year, any subsisting variable interest rate bank loan agreements and any subsisting interest rate exchange agreements applicable to them.

f) Lists any outstanding construction financing debentures including the following details:

- A description of the estimated proportion of the total debentures of the municipality issued to the total long-term debt of the municipality and a description of the change, if any, in that estimated proportion since the previous year's report;

- A statement as to whether, in his or her opinion, all debentures issued were made in accordance with this construction financing policy and goals outlined in this Policy or as otherwise adopted by Council;
- An update of the detailed estimate with respect to the terms of the municipality's expectations of revenue generation from the undertaking;
- A record of the date of the repayment of each installment of principal, interest or both principal and interest made during the period of construction of the undertaking for which the debentures were issued;
- A statement of the outstanding installments of principal, interest or both principal and interest repayable during the currency of the debentures issued that will be due and payable in each year; and

g) Details of all outstanding hedging instruments related to foreign exchange, interest and swap agreements, describing type, amount and purpose; and

h) A report detailing, at least once in a fiscal year, any outstanding variable interest rate debentures or foreign currency debenture and any subsisting interest rate or foreign currency exchange agreements applicable to them.

3) The Debenture Committee will report to Regional Council as required under the Region's Procedural Bylaw on each and every occasion it exercises its delegated authority.

RESPONSIBILITIES

Officers and staff of the Corporation complying with this Policy shall have the necessary authority to carry out the responsibilities and duties identified therein the Policy.

In addition, the following specific responsibilities are identified:

1) Commissioner of Finance and Treasurer and/or Director of Policy, Risk & Treasury:

- Reviews and recommends the type and term of financing for capital projects and operating requirements;
- Calculates the Growth-related Debt and Financial Obligation Limit for the Corporation as prescribed by the Municipal Act;
- In consultation with the lead underwriters, approves the timing and structure of debt issues;
- Coordinates the preparation of debt issue by-laws for Council or the Debenture Committee;
- May execute and sign documents on behalf of the Corporation and perform all other related acts with respect to the issuance of debt securities;

- Liaises and assists rating agencies in the evaluation of the credit worthiness of the Corporation's debt securities;
- Reviews and recommends to Council the financial and business aspects of any material lease agreements and transactions; and
- Ensures all reporting requirements identified within this Policy are met.
- Is a member of the Debenture Committee

2) Chair of Council

- May execute and sign documents on behalf of the Corporation with respect to the issuance of debt securities.
- Is a member and Chair of the Debenture Committee

3) Regional Clerk

The Regional Clerk may certify and sign documents on behalf of the Corporation with respect to the issuance of debt securities.

4) Chief Administrative Officer

- Is a member of the Debenture Committee

5) The Debenture Committee may exercise the authorities granted to it under Bylaw No. 2010-69 in terms of enacting bylaws authorizing the issuance of debentures.

REFERENCE:

Finance and Administration Committee Report 1, Clause 3 adopted by Council January 27, 2011

Finance and Administration Committee Report 7, Clause 6 adopted by Council September 23, 2010

Finance and Administration Committee Report 7, Clause 8 adopted by Council September 18, 2008

Replaces Finance and Administration Committee Report 1, Clause 2 adopted by Council January 23, 2003.

Municipal Act, 2001, S.O. 2001, c. 25 Sections 405(1), 407(1), 408(3,4), 409(2)
Local Improvement Act, R.S.O. 1990, c.L.26, Section 53(2)
Tile Drainage Act, R.S.O. 1990, c.T.8, Section 2(1)
Ontario Regulation 266/02 - Financing Leases for Municipal Capital Facilities
Ontario Regulation 403/02- Debt and Financial Obligation Limits
Ontario Regulation 278/02 - Construction Financing
Ontario Regulation 276/02 – Bank Loans

Ontario Regulation 653/05 – Debt Related Financial Instruments and Financial Agreements

CONTACT:

Manager, Treasury and Reserves – Policy, Risk and Treasury Branch, Finance Department

APPROVAL INFORMATION			
CAO Approval Date:	n/a		
Committee: Finance and Administration	**Clause:** 3	**Report No:** 1 Edocs No. 2987846	
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APPENDIX 1

Maximum Financing Term of an Asset

3 Years

- Computer software
- Police patrol vehicle

4 Years

- General purpose vehicle
- Personal computer and monitors

5 Years

- Mainframe computer/server and network equipment
- Radio and telecommunications system
- Office furnishings
- Audio and Video equipment
- Printers

10 Years

- Specialized vehicle/equipment
- Road, parking lot
- Public Works facility (depot, dome, etc.)
- Solid waste equipment
- Transit vehicle
- Park, recreational facility
- Dock, wharf, pier, breakwater
- Retaining wall, embankment, flood control
- Sidewalk, path
- Tile drainage
- Street lighting
- Underground wiring

15 Years

- Police and Emergency Medical Services stations
- Health clinic
- Library
- Fire station

20 Years

- Water main, hydrant, filtration plant, storage facility, pumping station
- Sanitary sewer, storm sewer, treatment plant, pumping station
- Solid waste landfill site
- Home for the aged
- School, other educational building
- Office building
- Hospital
- Dam, reservoir

Greater than 20 years

- Major infrastructure –only when term approved by Regional Council

30 Years

- Water and wastewater projects, subject to:
  a) the underlying assets having a useful life of at least 30 years; and
  b) the project being in receipt of dedicated revenues for a similar period.
- Housing projects, subject to:
  a) the underlying assets having a useful life of at least 30 years; and
  b) the project being in receipt of dedicated revenues for a similar period.

APPENDIX 2

Prescribed Foreign Exchange Currencies

1. Dollars of Australia.
2. Francs of France.
3. Marks of Germany.
4. Yen of Japan.
5. Guilder of the Netherlands.
6. Francs of Switzerland.
7. Sterling money of the United Kingdom.
8. Dollars of the United States of America.
9. The euro currency adopted by member states of the European Union.

O. Reg. 247/01, Sched.

Resolution to adopt the following schedule in accordance with Ontario Regulation 284/09

WHEREAS the province of Ontario has passed Ontario Regulation 284/09 that in preparing the budget for a year, a municipality may exclude from the estimated expenses described in paragraph 3 of subsection 289 (2) and in paragraph 3 of subsection 290 (2) of the Act all or a portion of the following:

1. Amortization expense.
2. Post-employment benefits expenses.
3. Solid waste landfill closure and post-closure expenses.

AND WHEREAS for 2011 and subsequent years, the municipality, before adopting a budget for the year that excludes any of the expenses listed in section 1,

(a) prepare a report about the excluded expenses; and
(b) adopt the report by resolution.

THEREFORE BE IT RESOLVED THAT Council adopt the attached table pursuant to Ontario Regulation 284/09.

Table 1
2012 Budget
PSAB 3150 Reconciliation

	$(000s)
Revenues	
Operating	1,616,706
Capital	1,177,826
Less:	
Transfer from other funds [1]	(251,981)
Proceeds on debenture issue [2]	(529,373)
Total Revenues	2,013,178
Expenses	
Operating	1,616,706
Non-tangible Capital	78,387
Capital	1,099,439
Less:	
Transfer to other funds [3]	(205,369)
Capital expenses	(1,099,439)
Debt principal payments [4]	(157,903)
Total expenses	1,331,821
Annual surplus; *before exclusions*	681,357
Exclusions:	
Amortization of tangible capital assets	144,000
Post-employment benefits	112,600
Solid waste landfill closure and post-closure	
Total exclusions	256,600
Annual surplus; *after exclusions*	424,757

(1) “transfer from other funds” represents transfers from reserves for expenditures and is therefore not considered a revenue source under accrual accounting
(2) “proceeds on debenture issues” is a debt financing decision and is therefore considered a liability and not a revenue source under accrual accounting
(3) “transfer to other funds” represents the contribution to reserves not considered an expense under accrual accounting
(4) “debt principal payments” are considered a repayment of a long term liability and not an expense under accrual accounting