

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JANUARY 24, 2017

Item 3, Report No. 1, of the Finance, Administration and Audit Committee, which was adopted, as amended, by the Council of the City of Vaughan on January 24, 2017, as follows:

By approving the following in accordance with Communication C1, from the Director of Internal Audit, dated January 20, 2017:

- 1. That the Financial Planning & Budget Process audit, currently scheduled for 2017 as part of the 2015 – 2018 Internal Audit Risk Based Work Plan, be deferred until the completion of the Financial Sustainability Program and Fiscal Framework Guiding Principles project.***

3 FINANCIAL SUSTAINABILITY PROGRAM AND FISCAL FRAMEWORK GUIDING PRINCIPLES

The Finance, Administration and Audit Committee recommends:

- 1) That the recommendation contained in the following report of the Chief Financial Officer and City Treasurer and Director of Financial Planning & Development Finance and Deputy City Treasurer, dated January 16, 2017, be approved; and**
- 2) That Communication C3, presentation material, entitled, “*Financial Sustainability Program and Fiscal Framework Guiding Principles*”, dated January 16, 2017, be received.**

Recommendation

The Chief Financial Officer and City Treasurer and Director of Financial Planning & Development Finance and Deputy City Treasurer, in consultation with the Corporate Management Team, the Fiscal Framework Senior Management Advisory Team and the Development Charge By-law Review Senior Management Advisory Team recommend:

1. That the Financial Sustainability Program work plan be received; and
2. That the Fiscal Framework Guiding Principles be endorsed.

Contribution to Sustainability

This report and attached guiding principles provide a basis for sustainability by providing an overarching framework under which new policies related to financial sustainability may be developed and fiscally sound decisions may be made.

Economic Impact

All funding required for the Financial Sustainability Program has been approved within the Financial Planning and Development Finance Department's capital budget (Projects BU-0011-16 and DI-0075-15). Additional funding required for the growth forecasting component of work required by the development charge consultants will be funded through the Policy Planning and Environmental Sustainability Department's capital project PL-9550-16.

The outcome of this program will impact the entire corporation as the Fiscal Framework and 2018 Development Charge Background Study and By-laws will be used in future fiscal planning and decision making. The Fiscal Framework and related policy work are intended to provide guidance to several aspects of the corporation's processes such as preparation of operating and capital budgets, management of reserves and debts, use of property tax vs. non-tax revenue and long range fiscal planning.

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Communications Plan

As the Financial Sustainability program is of corporate significance and the individual projects are complex with the need for multi-disciplinary teams, it is important to ensure appropriate representation from stakeholders across the City. Therefore several cross functional teams have been identified and a governance model has been developed to align departmental expertise and interests to enable effective project management and collaboration throughout the duration of the projects.

Change management will be critical to the success of the program

The Financial Sustainability program will result in several changes to the way that staff approach financial planning. The intent of the Financial Sustainability Program is to create a series of documents that staff are able to easily access, understand and actively use in their decision making. To ensure the success of the program, staff across all levels of the organization will need to be engaged. The development of project teams was a first step towards fostering engagement across the organization. Additionally, a communications plan to roll out various elements of the program has also been prepared. Tactics will include frequent messaging on the online portal along with regular management updates. The Financial Sustainability program will also be included as a topic at the next Managers and Supervisors Forum to show active and visible executive sponsorship and to effectively communicate the changes to all levels of staff.

In addition to this comprehensive communications plan, the Office of the City Manager has committed to a semi-annual progress report on the Term of Council Service Excellence Strategy Map (2014-2018). This report will provide a status update on the key activities supporting the Term of Council Priorities and Service Excellence Strategic Initiatives which includes the key activities identified in this report.

Purpose

The purpose of this report is to present the Finance, Audit and Administration Committee with the work plan for the Financial Sustainability Program. The workplan is presented in the following parts:

- PART A: Introduction to Financial Sustainability Program
- PART B: Fiscal Framework
- PART C: 2018 Development Charge By-law Review

Background - Analysis and Options

On September 30, 2015, as a part of the City's commitment to a renewed focus on Service Excellence, Council approved the Term of Council Service Excellence Strategy Map that provided a focused set of priorities for the corporation to deliver upon during the 2014-2018 Council term. As a part of this process Financial Sustainability was identified as a Service Excellence Strategic Initiative with the development of a sustainable Fiscal Framework being an initiative that would support the operational performance of the City.

PART A: Introduction to Financial Sustainability Program

Two key activities were identified under the Financial Sustainability Program

On April 4, 2016 staff presented a series of key activities that were in alignment with the Term of Council Priorities with a commitment to advancing these initiatives by 2018. Within these key activities, two projects were identified as a part of the Financial Sustainability Program:

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1. The development of a Fiscal Framework; and
2. The update of the City-Wide and Area Specific Development Charge By-laws.

Dedicated teams have been established to ensure the successful delivery of the Program

A governance model was established to ensure appropriate oversight and expertise will be given to the two projects under this program. A Senior Management Advisory Team has been identified for each of the projects within the program to ensure active engagement across relevant Departments across the organization. The Senior Management Advisory Teams are comprised of Directors/Managers that either hold specific interests in the outcome of each of the identified projects or represent a cross section of the organization that will provide valuable insight into the project material.

A Technical Committee of Subject Matter Experts across all staff levels of the corporation has also been identified to provide support on various elements for each project. This will encourage a sense of ownership of the projects across the corporation and will ensure the appropriate expertise is sought when needed.

PART B: Fiscal Framework

The first key activity identified in the Financial Sustainability Program was the development of a Fiscal Framework that would consider the recommendations established in the 2012 Financial Master Plan while taking a renewed conceptual approach. The intention of the Fiscal Framework is to provide a conceptual and principle based approach to ensuring that decision making in the organization is carried out in a manner that is mindful of the City's ability to financially sustain the impacts of decisions in both the short and long terms. Much of the framework is intuitive in nature, simple to follow and is likely already being practiced by much of the organization. Many concepts equate to common business sense and sound fiscal approaches.

As a part of this project, three main deliverables were identified as the creation of guiding principles that would act as the foundation of the framework, the development of fiscal policies that would support staff to make decisions in a financially sustainable manner, and the development of a Long Range Fiscal Model and Forecast which would help to identify and manage pressures related to the timing of growth and development within the City.

The Guiding Principles' conceptual framework mirrors the types of cost pressures identified in the City's 2016 and 2017 Budget Books

The foundation of the fiscal framework is to provide a set of Guiding Principles that represent responsible fiscal management. These guiding fiscal principles are intended to be high level in nature, easily understood by Council, staff, and residents, and create general parameters within which financial decisions may occur.

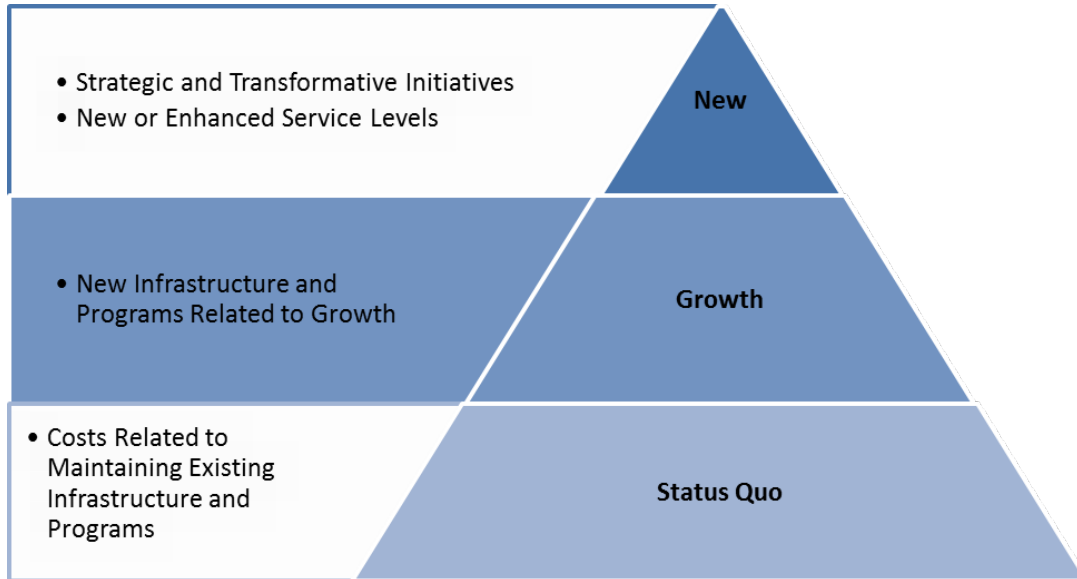
Below is an outline of the methodology used to prepare the Guiding Principles whereas the Guiding Principles table and supporting detail may be found in Attachments 1 and 2.

In 2016 several significant positive changes were made to the City's Budget Book including the introduction of three categories of financial pressures that are being faced by the City, as illustrated below:

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Status Quo: Represents increases or decreases in costs associated with fluctuating revenues and costs to provide current services to the community.

Growth: Represents increases or decreases in costs associated with user fee volume and assessment growth and the operating costs associated with developer paid infrastructure (i.e. new community centres, libraries, roads, parks).

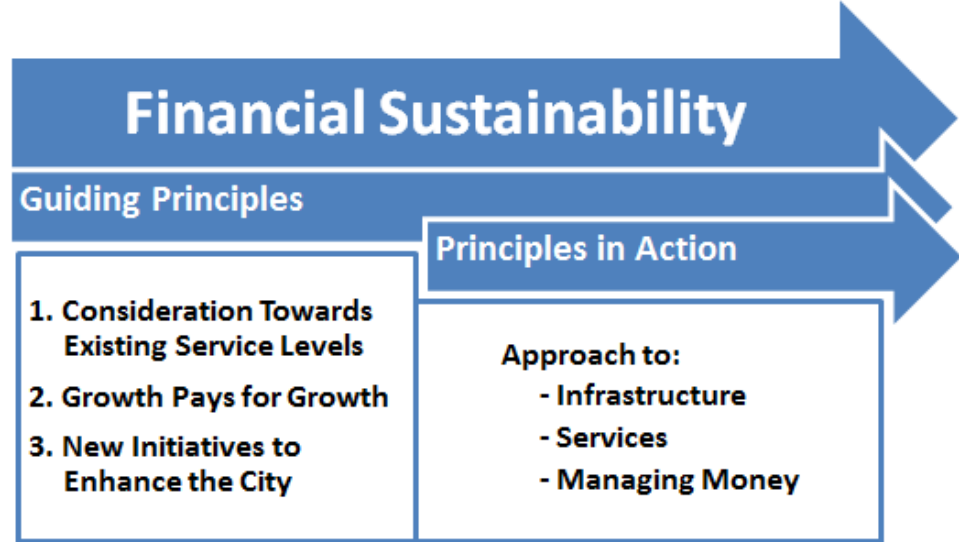
New: Represents increases or decreases in costs associated with strategic, transformational or new initiatives.

These financial pressures are prevalent in Vaughan due to the pace of growth that the City has experienced, and will continue to experience into the future. Provincial and Regional forecasts see Vaughan moving from an existing population of approximately 330,000 to 427,000 by 2031. At the 2036 and 2041 horizons the population is projected to increase to 463,000 and 497,000 respectively. Due to this rapid growth, it is expected that the City will continue to face the same types of challenges while making financial decisions into the future. It is therefore appropriate to mirror these pressures within the Guiding Principles as a part of the fiscal framework.

Using these three categories of financial pressures as the basis for the guiding principles a conceptual framework was developed as illustrated below:

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This conceptual framework includes three principle statements that provide some further insight to each principle:

Consideration Towards Existing Service Levels:

"The city will strive to maintain existing infrastructure and services in a climate of increasing costs by leveraging efficiencies and preparing for anticipated future needs through reserves and contingencies."

Growth Pays for Growth:

"Infrastructure and services that support new growth should be funded, to the fullest extent possible, through new property tax assessment and growth related revenues. New property tax assessment should not subsidize existing service levels."

New Initiatives to Enhance the City:

"Investments in new initiatives should enhance service levels, improve efficiencies, mitigate risk, address new regulatory requirements, support service excellence or enhance the quality of life for residents while staying within the city's financial means"

These principle statements were then further built upon through the addition of the "Principles in Action" statements that are intended to assist in demonstrating the use of the guiding principles in the areas of infrastructure, services, and managing money as seen in Attachment 1 and 2. The Principles in Action statements are meant to be demonstrative of the principles, but are non-exhaustive in nature.

Principles will be used in operational decision making

Once approved, the Guiding Principles will be made available for use throughout the corporation. The intent is to have staff consider how their work fits into the overall context of the fiscal framework. The Guiding Principles will be a tool staff can use to make principle based decisions regarding the financial sustainability of proposed initiatives, whether it is operating or capital in nature. The guiding principles may be referenced in future staff reports within the economic impact section to help demonstrate to Council how an initiative fits into the City's framework.

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Fiscal policies will be developed to support financial sustainability

As a part of the Fiscal Framework project, several gaps in existing policy have been identified. In many cases revisions to new policy will be required, while in other areas entirely new policies must be drafted. It should be noted that distinction has been made between “fiscal” and “financial” policy. For the purposes of this framework only “fiscal” related policy (related to long term sustainability, budgeting and reserve management) will be reviewed, while “financial” policy (related to accounting controls, expense policies, financial statements) are out of scope for this project.

The broad categories of policies to be reviewed include:

- Capital and Operating Budget Policies
- Reserve Policies
- Investments, Cash and Debt Policies
- Development Finance Policies

Work has begun on the first phase of policy work which is planned for delivery to FAA in the second quarter of 2017. Subsequent policies will be delivered throughout the year (roughly every quarter) to mid-2018. The Guiding Principles form the foundation for the fiscal policies that will be prepared in the upcoming months. The Guiding Principles and policies will work hand in hand to create a fiscal framework that will help ensure decision making is inclusive of a financial sustainability mindset.

The development charge consultant will prepare the Long Range Fiscal Model and Forecast in order to leverage synergies

As a part of the work plan for the Fiscal Framework it has been identified that a Long Range Fiscal Model and Forecast should be prepared by an external consultant. Additionally, because the types of data to be used in the update of the Development Charge Background Study and Bylaw are similar in nature to the types of data that would be used in the Fiscal Model it is believed to be optimal to have an external consultant prepare both. The Fiscal Model and Development Background Study will share similar inputs related to development such as population and employment assumptions, residential unit assumptions and capital expenditure assumptions.

The goal of the Fiscal Model is to create an excel based tool that can be used in future budget processes that will allow staff to assess the current and future financial position of the City. The outputs of the model will place particular emphasis on the capital and operating impacts of development approvals and related growth assessment increases and may include an evaluation of tax rate stabilization requirements, infrastructure replacement reserve requirements and the optimal financial timing for the emplacement of infrastructure and new services.

PART C: 2018 Development Charge By-law Review

2018 Development Charge By-law Update

The Development Charges Act, 1997 requires that an update to the City's Development Charge By-laws be undertaken at least every five years. This means that the next City-Wide Development Charge By-law and Area Specific Development Charge By-laws (excluding the Black Creek ASDC) must be updated by September 2018. As this project determines the growth related infrastructure needs of the City, it is considered a key contributor towards long term financial sustainability and is therefore included as a part of the Financial Sustainability Program.

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This project will include the drafting of the 2018 Development Charge Background Study, Development Charge By-law policy changes and new development finance policies. This work will also include consultation with the development industry to allow for feedback on the project deliverables.

The Development Charges By-law Review is still in a project planning stage

As the City's Development Charge By-law expires in September 2018, the By-law review is still at a very early stage. The SMT Advisory Team has met and early discussions on the project have taken place. Staff have been regularly attending Regional staff meetings regarding the Regional Development Charge By-law update. Staff have also completed a Request for Proposal (RFP) for a Development Charge consultant, which closed on January 4, 2017. An evaluation of proposals is currently taking place and an award is expected for the March 2017 Finance, Administration and Audit Committee meeting. Soon after a consultant is retained, it is expected that the project will begin rapid and immediate progress.

The Development Charge By-law Review is expected to take approximately one year and engage several areas of the organization

The Development Charge By-law Review is expected to include the following elements, which are presented in a rough chronological order, but may overlap considerably:

1. Preparation of Growth Planning Scenarios
2. Start of consultation with Development Industry
3. Completion of Service Level Inventories
4. Inputs from various Master Plans (Transportation, Active Together, Fire)
5. Preparation/consolidation of long term capital plans
6. Determination of Development Charge Rates
7. Consideration of Asset Management Plans and Operating Impacts of new infrastructure
8. By-law administration and policy work
9. Consultation with Public at Large
10. Passage of new by-laws by Council in second quarter of 2018

The changes to the Provincial Growth Plan present challenges to timelines

In February 2015, the Province initiated a comprehensive review of all growth plans. As a part of this review the Province proposed changes to the Growth Plan including a change to the minimum residential intensification target from 40 percent to 60 percent of all new growth to be located in the existing built-up area and the minimum Designated Greenfield Area (DGA) density target increase from 50 to 80 residents and jobs per hectare. As these proposed changes are not anticipated to be finalized before the end of the year, this will have an effect on the ability of the City to update the Development Charge Background Study using the new targets.

The Region is required to complete an update to their Development Charge By-Law before the end of 2017. This update would typically be performed using growth data pulled from their finalized MCR, but because of the delay related to the Provincial amendments, the Region needed to take an alternate approach. As substantial work had already been completed by the Region using the 45 percent intensification scenario, it was determined that the best approach to updating their Development Charge Background Study would be:

- To use existing population projections out to 2031;
- To assume a 45 percent intensification target;

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- To exclude all infrastructure costs related to an expansion into the White Belt; and
- To use the projections from their newly endorsed Transportation Master Plan and Water/Wastewater Master Plans out to 2031

The Region has also committed to reopening their Development Charge By-law for re-review before the statutory five year period once the Province finalizes their amendments and the Region's MCR is complete. It is anticipated that this may take two years.

The City faces similar challenges regarding the update to the 2018 Development Charge Background Study and By-law as the Regional MCR informs the City's MCR and the City's MCR typically helps to inform the master plans that are used to update the Development Charge Background Study.

In order to manage the gaps in information, City staff have determined that the terms of reference for the Development Charge Background Study and By-law consultant should include growth forecasting as a part of the overall scope of the project. This will allow an opportunity for the City to incorporate the work done by the Region using the 45 percent intensification scenario along with sensitivity analysis. Additionally, if new information regarding the growth forecasts becomes available during the update it will allow the City's consultants to more effectively respond to and incorporate this new data. This growth analysis can then be used to update the other master plans in the City including the Transportation Master Plan.

Relationship to Term of Council Service Excellence Strategy Map (2014-2018)

This report is directly related to Financial Sustainability which is a Service Excellence Strategic Initiative related to Operational Performance.

Regional Implications

The Region is currently working on an update to their Development Charge By-law which is anticipated to be completed by June 2017. Throughout the process City staff have participated in regular meetings with Regional staff to receive updates and provide feedback on proposed by-law policy revisions. In addition to these meetings, City staff intend to engage Regional staff regularly during the City-Wide By-law update to ensure coordination and cohesiveness between the approach of the Region and the City.

Conclusion

The Financial Sustainability Program which includes the development of a Fiscal Framework and an Update to the Development Charge Background Study and By-law will ensure that effective measures are put into place to guide the long term financial sustainability of the City.

The Fiscal Framework will enhance the City's ability to develop financially sustainable decision making practices and to help identify and manage pressures and constraints now and in the long term. The first step in achieving this goal is to establish guiding principles to provide a foundation under which policies can be developed and operational decisions can be made regarding services and infrastructure with a financial sustainability mindset.

Attachments

Attachment 1: Guiding Principles Table
Attachment 2: Guiding Principles in Action

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Report prepared by:

Brianne Clace, Project Manager, Financial Sustainability, ext. 8284
Heidi Wong, Financial Analyst, Financial Sustainability, ext. 8724

(A copy of the attachments referred to in the foregoing have been forwarded to each Member of Council and a copy thereof is also on file in the office of the City Clerk.)