

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 20, 2012

Item 1, Report No. 11, of the Finance and Administration Committee, which was adopted without amendment by the Council of the City of Vaughan on November 20, 2012.

1 FINANCIAL MASTER PLAN (FMP)

The Finance and Administration Committee recommends:

- 1) That the recommendation contained in the following report of the Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, dated October 29, 2012, be approved;**
- 2) That staff continue to review the recommendations in the body of the report and report back to a future Committee of the Whole meeting;**
- 3) That any recommendation being implemented include budget and tax implications and that public consultation be part of the process; and**
- 4) That the presentation by Mr. Jim Bruzzese, Bruzzese Minshull & Associates Inc. (BMA) and the Director of Budgeting & Financial Planning, and C1, presentation material, be received.**

Recommendation

The Commissioner of Finance & City Treasurer and the Director of Budgeting & Financial Planning, in consultation with the Senior Management Team recommends:

1. That the report and presentation on the Financial Master Plan be received; and
2. That recommendations relating to the following "A" priorities underway:
 - Performance Measurement
 - Asset Management Strategiesbe reconfirmed, and the implementation plans and progress on these priorities continue and be reported back to Council; and
3. That a prioritization framework and methodology be developed to focus the City's efforts and that an implementation plan be reported back to Council in early 2013; and
4. That a public education, awareness and consultation program be developed around the need for additional Infrastructure Financing, which will be followed by further recommendations.

Contribution to Sustainability

Financial sustainability is defined as the enduring ability of the City to ensure that it can deliver the level and types of programs and services to the community, while proactively assessing and managing associated risks, at acceptable levels of taxation and fees. This report and attached Financial Master Plan aims to address the above noted and contribute to sustainability by:

- Providing insight into the City's financial health
- Aiding in determining the extent of financial challenges
- Reconfirming the key financial goals that guide the City
- Evaluating progress towards financial sustainability.
- Providing recommendations to maintain financial sustainability

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Economic Impact

The financial implications associated with the Financial Master Plan will vary depending on the choices and decisions of Council.

- The most significant financial implication is related to financing the recommended infrastructure gap financing strategies, approximately \$2m per year equivalent to a 1.3% increase on the City's levy. The strategies are developed to be customised to the City's financial needs. Options to implement these strategies will be provided in a report to Council in the first quarter of 2013.
- A number of recommendations are classified as a "priority underway" and some resources have been secured. The recommended "A priorities" and implementation steps, excluding the above financial strategy are in the range of \$1.3m to \$3.5m over 3 to 4 years.
- To assist decision makers understand the nature of the recommendation and effort involved, within the Financial Master Plan Document, each recommendation is accompanied with suggested steps to implement. These steps are intended as a starting point and reference piece to support future discussion and review on a more detailed and specific implementation plan. Parameters are assigned to each suggested step to provide a clearer indication of the associated priority, duration, complexity, and cost.

Communication Plan

A public education, awareness and consultation program will be developed around the need to maintain the City's infrastructure and how maintaining the City's infrastructure is important to maintaining service levels, and ensuring a safe, healthy environment. A news release will be issued highlighting this important milestone, the Financial Master Plan, which is yet another step in the City's commitment to long-term financial management and builds on the significant work that has already been undertaken by the City over the past 15 plus years. There are very few municipalities that have endeavoured to develop a financial master plan and long-range forecast. Not only does this action demonstrate Vaughan's commitment to financial stewardship, the document highlights many positive results and Vaughan's progressive actions to date.

Purpose

The purpose of this report is to provide Council with a Financial Master Plan (FMP) document and presentation, obtain Council direction regarding the Infrastructure Funding Strategy, and have "A priority recommendations" endorsed, sponsors determined, and direction provided to have more thorough implementation plans developed.

Background – Analysis and Options

The City's Environment

The next 25 years will see the City of Vaughan begin the transition from a growing suburban municipality to a fully urban space. The City of Vaughan is one of Canada's fastest growing cities, with a population of over 300,000. It is projected that the number of residents will increase to 430,000 by 2031. In addition, the City has the largest supply of new employment lands in the Greater Toronto Area and it is projected the number of employees will increase to 278,000 by 2031. Supporting this transition are a variety of master plans and strategies in various stages of development, which lay out various initiatives, service needs and requirements for the short, medium, and long-term. This type of progress will require long-term thinking about how best to accommodate changes and make the most of new opportunities, while ensuring the resource commitment is viable.

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The ability to understand and summarize key future financial trends and identify long term implications and their aggregated effects on debt service levels, reserves, and the tax rate enables decision makers to identify issues and test a variety of financial approaches. It also provides a framework in which to develop progressive fiscally prudent policies and strategies, which compliment Vaughan's vision, initiatives and guide important financial decisions.

Financial Planning History

The City has a long standing dedication to financial management through progressive best practices and prudent financial policies. The need for a long-range financial plan with supporting policies was recognized by the City as early as 1994. Since then, the City has implemented fiscal performance indicators, multi-year budgets and a number of financial policies designed to guide the municipality towards financial sustainability. Recognizing the need to dynamically manage the ever changing environment, the City with the assistance, support, and cooperation of all departments, built a comprehensive long-term financial planning model, with the next steps being the development of a Financial Master Plan.

Scope & Engagement

To meet this need the City engaged BMA Management Consulting Inc. to assist in developing the City's Financial Master Plan. BMA is a leading municipal finance consulting firm in the GTA with experience on numerous municipal projects, including the annual municipal study, long term financial planning, public policy development, development charges, PSAB implementation and many other studies.

The scope of this engagement was to:

- Perform a financial condition assessment
- Validate the City's long-range forecast and outcomes
- Provide progressive fiscally prudent recommendations
- Develop the FMP document and present findings.

Scope limitations are:

- Water & Wastewater budgetary components are excluded from this project, as they are rate based and subject to a separate forecast review.
- The City's Development Charges (DC) Background Study and By-law are currently being updated and therefore forecasting these reserves are also excluded from the project. However, the timing of growth related infrastructure illustrated within this document significantly contributes to the financial forecast.
- Give the complexity of the subject matter and its dependency on available information and decisions, the intention is to report on forecasted outcomes and provide recommendations for Council consideration. Further development of the FMP will depend on the implementation actions chosen.

City's Financial Overview

The Financial Master Plan is based on a financial health assessment and a sophisticated long-range financial planning model developed using a significant amount of data and numerous drivers, assumptions, and analysis. Although complex by the activity's very nature, the "Financial Big Picture" can be summarized by discussing the following four main questions:

1. Can the City continue to pay for the services currently provided?
2. Is there sufficient financial flexibility to address uncertainty and liabilities?

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3. Is the City's infrastructure network sustainable and adequately funded?
4. Can the City's vision and corporate initiatives be achieved financially?

The following sections will discuss the results of the Financial Master Plan by using the above question framework.

1. Can the City continue to pay for the services currently provided?

The City has a strong assessment base upon which to raise taxes and is experiencing an excellent balance of residential and non-residential development. The average income levels are relatively high in Vaughan and property taxes in relation to income are within GTA averages. In addition municipal property taxes for a comparable dwelling are within the GTA average.

Municipality	2011 Average Dwelling Value	2011 Municipal Property Taxes	2011 Disposable Income	2011 Municipal Taxes as a % of Disposable Income	2011 Municipal Taxes as a % of Average Dwelling Value
Brampton	\$ 429,288	\$ 4,082	\$ 71,900	5.7%	1.0%
Burlington	\$ 553,639	\$ 4,236	\$ 81,100	5.2%	0.8%
Markham	\$ 607,067	\$ 4,256	\$ 84,600	5.0%	0.7%
Mississauga	\$ 536,115	\$ 3,922	\$ 75,500	5.2%	0.7%
Oakville	\$ 575,979	\$ 4,187	\$ 103,900	4.0%	0.7%
Richmond Hill	\$ 552,250	\$ 4,000	\$ 83,400	4.8%	0.7%
Group Average	\$ 542,390	\$ 4,114	\$ 83,400	5.0%	0.8%
Group Median	\$ 552,944	\$ 4,134	\$ 82,250	5.1%	0.7%
Vaughan	\$ 569,124	\$ 4,103	\$ 90,900	4.5%	0.7%

Note: Above chart is based on a 3,000 square foot home

All indicators reflect that Vaughan is an attractive place to live and invest which ensures that the City has a strong assessment base upon which to pay for services provided.

The City of Vaughan provides a vast array of programs and services to its residents and has instituted a number of initiatives to provide high quality efficient and effective services. The majority of residents believe that they receive good value for their tax dollars, however, a significant proportion of residents would like to see the City hold the line on property taxes and user fee increases even if it means a reduction in services. While the City has kept property tax increases below the Municipal Price Index (MPI) and maintained service levels, the ability to sustain this practice will prove challenging.

Assuming no growth, new initiatives, or service level changes, the City will experience price escalation pressures on cost components such as labour, contracts, utilities, materials, capital projects, etc. These pressures are unavoidable and due to their nature have escalated in price faster than the general rate of inflation. This becomes very apparent in the City's long-range forecast.

Total Net Expenditures (000s)	2012	2013	2014	2015	2016
Existing Service Levels & Growth	146,243	157,498	168,291	177,221	188,427
Master Plan Propositions/City Building Initiatives		669	1,703	5,244	8,066
Total Forecast Net Levy	146,243	158,167	169,994	182,465	196,493
Assessment Growth Revenues	4,812	4,307	4,564	4,850	5,523
Net Levy After Growth	141,431	153,860	165,430	177,615	190,970
% Change in Tax Rates		5.20%	4.60%	4.50%	4.70%

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Notes:

- Fiscal impacts of many vision initiatives/master plans are not available.
- Figures are forecasted estimations based on assumptions and will vary from the City Budget.

Over the next 20 years, Vaughan's population is expected to grow by an additional 38%. The cost of adding new facilities, parks, and transportation networks create additional pressure to the City's operating and capital plans. This includes sufficient resources to support growth which are not fully funded through development charges or assessment growth, for example development co-funding, future infrastructure renewal funding or service level changes.

An additional pressure facing Vaughan is that an increased portion of future residential growth will occur as intensification within the existing urban boundary. This change in development adds another layer of sophistication, which will require changes to business activities and higher levels of upfront infrastructure investment to support this transition e.g. storm drainage, streetscapes, etc.

Going forward, the City will need to set priorities and make choices in light of future budget challenges, in order to balance these items with the community's willingness to pay.

2. Is there sufficient financial flexibility to address uncertainty and future liabilities?

The City of Vaughan utilizes a number of financial tools to help smooth the impact of unexpected events, uncertainty and future liabilities. There are a number of indicators, which reflect a strong level of financial flexibility.

- The policy of maintaining a Discretionary Reserve balance of 50% of own source revenues provides financial flexibility to address unexpected events such as an economic recession.
- Working capital, tax rate stabilization, and other sustainability reserves exist to improve flexibility. These reserves are in a very healthy position and exceed industry standards.
- The City's debt levels are below policy limits and substantially below the Province's maximum target, providing access to emergency funds.

Overall corporate liabilities are adequately funded, with the exception of post employment benefits. Further consideration will be needed to assess existing reserve balances, future contributions and the timing of expected liability requirements.

3. Is the City's infrastructure network sustainable and adequately funded?

The City of Vaughan has over a billion dollars in infrastructure, excluding land and water/wastewater infrastructure, which will require eventual replacement to sustain the community's overall quality of life and the economic health for future generations. As illustrated below, the FMP includes the replacement of \$208.7 million of existing infrastructure over the next 10 years, plus the existing backlog of projects estimated at \$42m. This figure is based on replacing assets as they reach their theoretical useful life.

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<i>Infrastructure Category (\$,000)</i>	<i>Backlog</i>	<i>10 year Requirement</i>	<i>Sub-total</i>	<i>10 year Contributions</i>	<i>Funding Gap 1</i>	<i>Reserves \$</i>	<i>* Funding Gap 2</i>
Building and Facilities	13,189	35,801	48,990	36,085	(12,905)	13,515	610
Parks	15,257	24,752	40,009	13,245	(26,764)	207	(26,557)
Fleet Vehicles	6,005	13,119	19,124	1,851	(17,273)	2,658	(14,615)
Artificial Turf	-	1,388	1,388	1,675	287	316	603
Fire	3,963	10,191	14,154	15,977	1,823	3,491.0	5,314
Streetscape	2,317	2,259	4,576	13,952	9,376	325.0	9,701
Heritage	797	2,281	3,078	2,344	(734)	475.0	(259)
City Playhouse	80	53	133	174	41	30.0	71
Uplands	763	279	1,042	1,500	458	(1,132)	(674)
Sub-total Reserve Funded	42,372	90,123	132,495	86,803	(45,692)	19,886.4	(25,805)
Roads		90,000	90,000	90,000	-		-
Non- reserved items		28,567	28,567	28,567	-		-
Sub-total Non-reserve Funded	-	118,567	118,567	118,567	-	-	-
Combined Total	42,372	208,690	251,062	205,370	(45,692)	19,886	(25,805)

The table above illustrates that Vaughan's infrastructure funding contributions are not adequate to sustain future requirements. The gap is reduced to \$25 million by applying infrastructure reserve funds. However, full application of the reserve balance is not recommended as these funds also support the City's discretionary reserve policy.

Furthermore, prudent asset management principles suggest that, at minimum, annual contributions to the capital program for asset replacement be at least equivalent to historical amortization expense, the annual consumption or utilization expense of an asset.

Component (\$,000)	2013	2014	2015	2016	2017	2022
Capital Contributions	9,742	7,403	11,461	11,810	12,519	15,937
Amortization	19,909	20,808	22,018	23,908	26,384	47,696
Gap	(10,167)	(13,405)	(10,557)	(12,098)	(13,865)	(31,759)
Accumulated Amortization	(151,401)	(161,568)	(174,973)	(185,530)	(197,628)	(295,661)
Cumulative Gap	(161,568)	(174,973)	(185,530)	(197,628)	(211,493)	(327,420)

The table above reflects a funding gap of \$151.4 million in 2012 (net of reserves), which consistently grows by 10 to 15 million/year to a total of \$327 million in 2022. This balance reflects the funding imbalance between funds on hand and the City's consumption of existing and new assets, which will need replacement in the future, likely beyond this forecast period. This is not a unique situation to Vaughan and is a factor that virtually all municipalities are faced with across Ontario.

Without additional infrastructure investment, there is a risk that Vaughan's infrastructure network will deteriorate, potentially compromising community health, safety, and service levels. Addressing the infrastructure replacement funding gap will take time and is a key consideration in the development to the Financial Master Plan.

4. Can the City's vision and corporate initiatives be achieved financially?

The City has undertaken a number of strategic activities, master plans, and planning studies to ensure the City is well positioned and prepared for the future changing municipal environment. In addition to discussing growth patterns and actions to address existing services, there are business propositions or corporate "City Building" recommendations over and above existing practises or service levels the City is looking to initiate. Most of these initiatives will require additional staff time, funds or other resources above and beyond the tax pressures quantified in this report. The resourcing implications for many of these initiatives have not been established, resulting in a trend to approve initiatives in principle. There is a need to strengthen and enhance the relationships between initiatives and resource planning to ensure financial sustainability.

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Per the Ipsos Ried residents' survey, it is also apparent that the community has indicated its wishes to hold the line regarding levy increases. Given the quantity of initiatives and community resistance to accept tax increases it will be challenging to meet these expectations. A greater focus on determining the financial and resourcing plans for these initiatives is an essential step to prioritizing what the City can practically achieve and resource.

Recommendations

Financial Sustainability must be a primary consideration in light of cost escalations, growth, infrastructure requirements, future liabilities and corporate initiatives. As a result of the Financial Master Planning effort undertaken, 22 recommendations organized into 4 classifications, Future Based Organization, Sustainability, Infrastructure and Post-Retirement Benefits, and Administration, were developed. These Recommendations are intended as high level principle actions the City should endorse and move towards.

To assist decision makers understand the nature of the recommendation and effort involved, within the Financial Master Plan Document, each recommendation is accompanied by Suggested Steps to Implement. These steps are intended as a starting point and reference piece to support future discussions needed to develop a more detailed and specific implementation plan. Parameters are assigned to each suggested step to provide a clearer indication of the associated priority, duration, complexity, and cost. Caution is advised, as assignments are estimates and intended to illustrate the order of magnitude and are not absolute factors.

A priority rating is applied to assist with managing the above recommendations. A's are the most important, followed by B's, C's and D's. It should also be noted the City is currently undertaking a number of corporate initiatives and where appropriate the term "underway" has been included. All recommendations are available in the document for consideration, but the highest priority items are illustrated below for immediate consideration:

1. Prioritization (A Priority): It is recommended that the City continue to develop a prioritization framework that can be fully integrated into the City's strategic, corporate, and departmental processes. Resources can then be allocated to services or initiatives based on value, through a blend of community importance, overall performance, and available long-term funding. A critical element is to ensure further engagement of elected officials, the public, senior staff and employees, to ensure that prioritization happens more and becomes the lens for decision making.
2. Performance Measurement (A Priority Underway): It is recommended that the City expand the use of performance measures for planning, accountability, budgeting, communication and management purposes. To best assess performance it is suggested that a range of financial and non-financial measures be used to evaluate and monitor new initiatives, budget results, and resource allocation. Furthermore, an effective performance measurement system includes a combination of output, outcome, and efficiency metrics which reflect various factors that contribute to performance. Of great importance is to relate inputs to outputs/outcomes in order to develop a sense of community return for taxpayer investment. This will help decision making, support prioritization and drive budgets and resource allocations. Incorporating logic models will assist in this endeavour. A logic model identifies the linkages between the activities of a program and the achievement of its outcomes. It succinctly clarifies the set of activities that make up the program and the sequence of outcomes that are expected to flow from these activities. As such, a logic model serves as a "roadmap", showing the chain of results connecting activities to the final outcomes and, thus, identifying the steps that would demonstrate progress toward their achievement.

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3. Asset Management Strategies (A Priority Underway): It is recommended to effectively maintain and manage the City's infrastructure and assets in a state of good repair by implementing life cycle costing and developing and maintaining:

- An Asset Management Framework and Systems
- An Asset Management Plan
- An Asset Management Funding Strategy

4. Infrastructure Financing (A Priority):

Given the need and benefit of further infrastructure investment in order to protect, sustain, and maximize the use of Vaughan's infrastructure assets, in addition to continuing existing practices the following six strategies are recommended:

- I. **Utilize a portion of Assessment Growth** – Utilizing a portion of assessment growth annually toward the replacement of capital infrastructure. For example, 10% would generate \$26.5 million over 10 years.
- II. **Recreation User Fee Surcharge** – Collect funding from groups utilizing the assets through a capital surcharge. For example, a 5% user surcharge could generate \$11.4 million over 10 years.
- III. **Special Infrastructure Levy** – Establish an infrastructure levy for the replacement of existing infrastructure. For example, a 1% annual levy increase could generate \$106m over 10 years.
- IV. **Reserve Reallocation** – There is an opportunity in the discretionary reserve group to redistribute balances in excess of targets to areas of greater need. Estimated at \$7-8m.
- V. **Rethinking Infrastructure** - Reduce infrastructure replacement costs through alternative capital replacement and service delivery options.
- VI. **Advocacy** - Advocate for the Federal and Provincial Government to institute increased permanent and sustainable funding.

The strategy presented to address the infrastructure gap can be modified and financial impacts will vary depending on the decisions of Council.

Relationship to Vaughan Vision 2020

This report is consistent with the Vaughan Vision organizational excellence goal, in that it supports the "Ensure Financial Sustainability" and "Manage Corporate Asset" themes by delivering on the "Financial Master Plan" strategic initiative.

Regional Implications

There are no Regional implications associated with this report.

Conclusion

The next 25 years will see the City of Vaughan begin the transition from a growing suburban municipality to a fully urban space. This type of progress will require long-term thinking about how best to accommodate and make the most of new opportunities, while ensuring the resourcing commitments are viable. To meet this need, the City engaged BMA Management Consulting Inc. to assist in developing the City's Financial Master Plan. The Financial Master Plan is based on a financial health assessment and a sophisticated long-range financial planning model. Although complex by the activity's very nature, the "Financial Big Picture" is summarized by discussing the following four main questions:

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1. Can the City continue to pay for the services currently provided?
2. Is there sufficient financial flexibility to address uncertainty and liabilities?
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Financial Sustainability must be a primary consideration in light of cost escalations, growth, infrastructure requirements, future liabilities and corporate initiatives. As a result of the Financial Master Planning effort undertaken a number of recommendations are provided. The highest priority recommendations for immediate consideration are:

- Prioritization
- Performance Measurement
- Asset Management
- Infrastructure Financing

Financial sustainability is defined as the enduring ability of the City to ensure that it can deliver the level and types of programs and services to the community, while proactively assessing and managing associated risks, at acceptable levels of taxation and fees. This report and attached Financial Master Plan aims to address financial sustainability.

Attachment

Attachment 1 – Financial Master Plan

Report prepared by:

John Henry, CMA
Director of Budgeting & Financial Planning
Ext. 8348

(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.)