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COMMUNICATION
F&A - Oct 29/12
ITEM - 1

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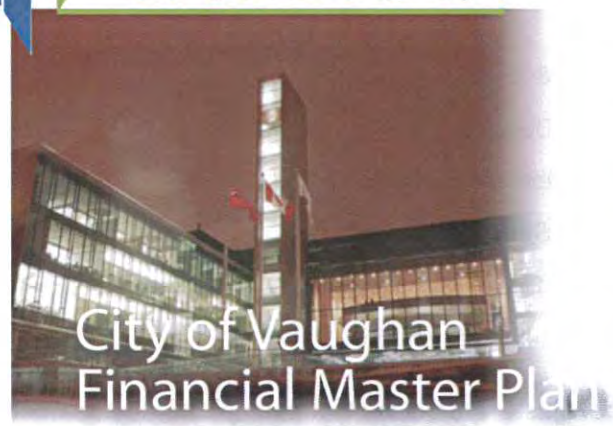

City of Vaughan Financial Master Plan

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Vaughan's Current Environment

- Significant population/employment growth up to 2031
- Transitioning to an intensified urban space
- Many strategic initiatives/Master Plans underway

As a result, Vaughan is experiencing many pressures

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COMMUNICATION
ITEM -

Dedication to Financial Management

The City takes the management and stewardship of public funds very seriously and continues to demonstrate financial leadership ensuring residents receive value.

For example:

- Corporate & Business Planning
- Multi-year Budgets
- Program/Operational Reviews
- Corporate Structure Review
- Ipsos Reid Citizen Survey
- Numerous financial policies

The Financial Master Plan is another example of Financial Leadership

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Financial Master Plan (FMP)

- The FMP builds on the significant work that has already been undertaken over the past decades by the City
- Leverages operational assumptions to predict outcomes
- It examines the City's financial situation over the long-term and presents findings for education and discussion

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FMP Benefits

- Stimulates long-term thinking and awareness
- Provides insight into the City's financial health
- Identifies fiscal issues and opportunities
- Reconfirms the key financial goals that govern the City
- Evaluates progress towards and provides recommendations to maintain financial sustainability

Financial Sustainability: the enduring ability of the City to ensure that it can deliver the level and types of programs and services to the community at acceptable levels of taxation

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FMP Engagement & Scope

- BMA Management Consulting Inc. engaged to assist with the development of the FMP
- Project Scope:
  - ✓ Perform financial condition assessment
  - ✓ Validate long-range forecast
  - ✓ Develop progressive recommendations
  - ✓ Develop FMP document
- Scope Exclusions: DC's/Water & Wastewater
- The FMP is based on the financial condition assessment and comprehensive forecast

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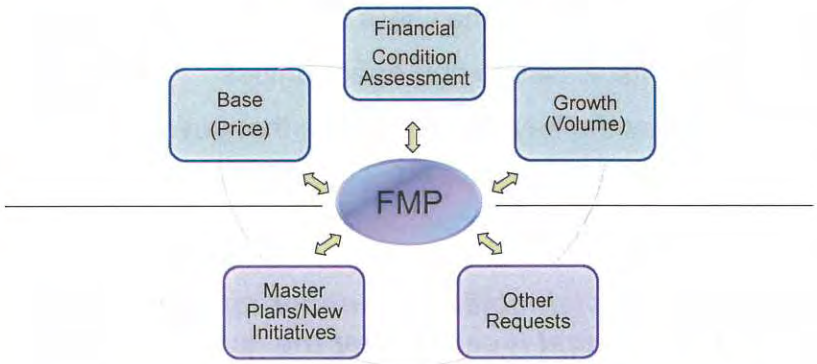
Approach to the FMP

Service Levels & Growth



Master Plan Propositions & City Building Initiatives

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FMP Overview

- The financial detail is large and complex
- Easiest to summarize based on the following questions:

1. Can the City continue to pay for the services currently provided?
2. Is there sufficient financial flexibility to address uncertainty and liabilities?
3. Is the City's infrastructure network sustainable and adequately funded?
4. Can the City's vision an corporate initiatives be achieved financially?

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Assessment of the City of Vaughan's Financial Health

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Financial Health

- Analyzing historic trends:
  - Provides insight on changes in the City's financial health
  - Shows how quickly a trend is changing
  - Provides a basis for future forecasting
  - Peer level municipal comparisons

Growth and Socio-Economic Indicators

Vaughan's Financial Position Indicators

Municipal Levy, Property Taxes

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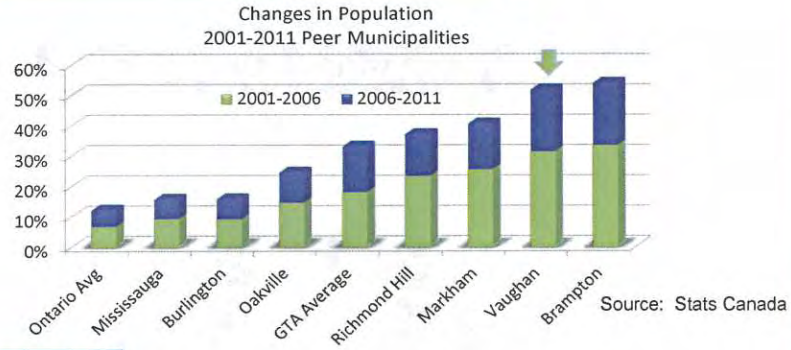
City Growth



Source: Stats Canada

Year	Vaughan's Employment
2011	183,445
2016	205,445
2021	226,445
2026	246,445
2031	266,100

- One of the fastest growing municipalities
- Largest supply of employment lands in the GTA
- Employment will increase by 83,000

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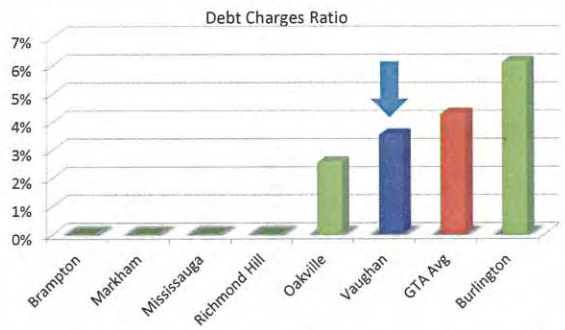
Debt Charges Ratio



- Policy is to maintain debt charges at 10% or lower of own source revenue which is consistent with credit rating agency guidelines
  - ***3.6%*** ***- well below the Provincial limit and the City's policy***
- ***Potential opportunity to address capital needs***

Source: BMA Study, FIRs

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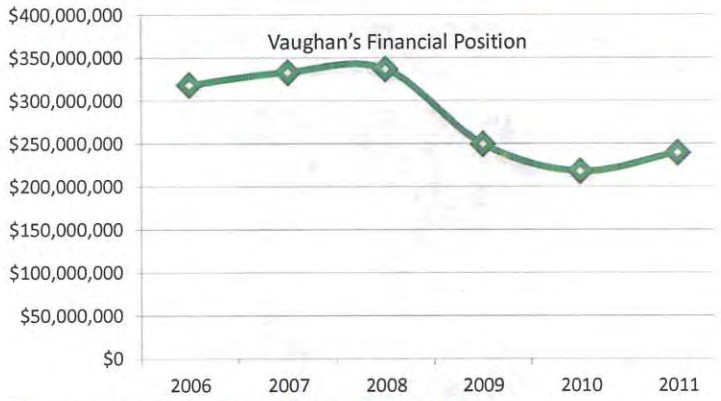
Financial Position (Financial Assets –Liabilities)



- City is currently in a strong financial position
- Decreased in 2009, used to fund acquisition of assets, e.g. $60 million investment in hospital lands
- Increased in 2011

Source: FIRs

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Property Tax Comparison

Municipality	2011 Two Storey Home	2011 Municipal Property Taxes	2011 Disposable Income	2011 Municipal Taxes as a % of Disposable Income	2011 Municipal Taxes as a % of Average Dwelling Value
Oakville	$575,979	$ 4,187	$ 103,900	4.0%	0.7%
Richmond Hill	$552,250	$ 4,000	$ 83,400	4.8%	0.7%
Markham	$607,067	$ 4,256	$ 84,600	5.0%	0.7%
Mississauga	$536,115	$ 3,922	$ 75,500	5.2%	0.7%
Burlington	$553,639	$ 4,236	$ 81,100	5.2%	0.8%
Brampton	$429,288	$ 4,082	$ 71,900	5.7%	1.0%
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%

- Vaughan's municipal taxes are within the peer average
- % of disposal income is 4.5% within GTA averages

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Understanding the "Financial Big Picture"

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

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City Pressures

Costs Escalating Faster Than Inflation

Unprecedented Growth and Intensification

Higher Level of Sophistication and Complexity

Underfunded Asset Renewal/Replacement Program

Inflexible Revenue Raising Tools

Shifting Demographics

Post-Employment Benefits

Resistance to Tax Increases

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Consolidated Operating Budget 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%

Notes:

- Fiscal impacts of many initiatives/master plans are not available
- Based on assumptions and will vary from the City budget

Going forward, City will need to set priorities in light of future budget challenges

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Community's Willingness to Pay

Positive indicators

- Strong assessment base
- Excellent balance of residential and non-residential development
- High average income levels
- Residents believe they receive good value for tax dollars

Challenges

- Significant portion of residents would like the City to hold line on taxes
- Ability to keep tax increases below municipal price index will prove challenging
- Cost of replacing old and adding new infrastructure creates additional pressures

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Understanding the "Financial Big Picture"

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

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Important Ratios

- Sustainability reserve ratio is higher than industry standard
  (27% vs. 5-15% of own source revenue)
- Discretionary reserve ratio is favorable
  (Above GTA avg. & exceeds internal policy)
- Tax supported debt ratio
  (Below Provincial and City policies)
- Financial assets exceed financial liabilities by 40%

All this means....

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The City is in a Strong Position

Strong Financial Position

+

Discretionary Reserve Balances over 50% of Own Source Revenues

+

Low debt levels

=

Significant Financial Flexibility

Potential to redistribute resources

- Caution - Post employment liabilities are rising, need for further actuarial study and financial strategy

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Understanding the "Financial Big Picture"

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

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City Infrastructure

- Over $1 billion in infrastructure

- Challenges
  - Need to replace $208+ million in next 10 years
  - Plus existing backlog of $42 million
  - Vaughan's infrastructure contributions are not adequate to sustain future requirements

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Infrastructure Gap

Infrastructure Category ($,000)	*Backlog*	*10 year Requirement*	*Sub-total*	*10 year Contributions*	*Funding Gap 1*	*Reserves $*	** Funding Gap 2*
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	(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)

$42 million of assets past their theoretical useful life

10 Year Capital requirements of $208.7 million

Depleting all Capital Reserves would still leave a funding gap of $25.8 million

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Infrastructure Gap

Capital Contributions to Replace Infrastructure (000s)	2013	2014	2015	2016	2017	2022
Capital Contributions	$ 9,742	$ 7,403	$ 11,461	$ 11,610	$ 12,519	$ 15,937
Amortization Expense	$ 19,909	$ 20,808	$ 22,018	$ 23,908	$ 26,384	$ 47,696
Accumulated Amortization (net of reserves)	$ (151,401)	$ (161,569)	$ (174,974)	$ (185,531)	$ (197,630)	$ (295,665)
Cumulative Funding Gap	$ (161,569)	$ (174,974)	$ (185,531)	$ (197,630)	$ (211,495)	$ (327,423)

- Prudent asset management suggests that at a minimum annual contributions be at least equivalent to historical amortization expense
- The cumulative funding gap grows from $151.4 million in 2012 to $327.4 million in 2022 (accumulated depreciation net of reserves)

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Understanding the "Financial Big Picture"

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

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City Building and Value Propositions

- City has undertaken a number of strategic initiatives, master plans and planning studies to prepare for the future

Challenges

- Most initiatives will require additional staff, funds or other resources
- Resource implications for many initiatives have not been established
- Challenging to meet expectations give forecast
- Dependant on the Community's willingness to support

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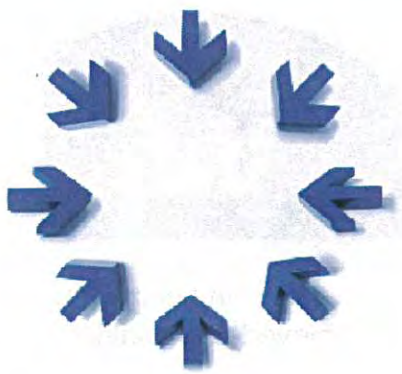
Recommendations



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Recommendations

- 22 recommendations organized into 4 classifications:
  - Future Based Organization
  - Sustainability
  - Infrastructure & Post-Retirement Benefits
  - Administration
- These recommendations are intended as high level principle actions the City should endorse and move towards

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Recommendations

- To assist decision makers, each recommendation is accompanied by Suggested Steps to Implement
  - Intended as a starting point to support future discussions
  - Parameters are assigned to each suggested step to provide a clearer indication of the associated, duration, complexity, and cost
  - Assignments are estimates and intended to illustrate the order of magnitude and are not absolute factors
- Priority ratings are assigned to assist in managing recommendations
  - **A** - Top Level Priorities
  - **B** - High Level Priorities
  - **C** - Medium Level Priorities
  - **D** - Low Level Priorities

(Focus should be Top Level priorities)

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Top Level Priorities (A)

- ***Prioritization***: Continue to develop a prioritization framework that can be fully integrated into the City's strategic, corporate, and departmental processes.
- ***Asset Management:*** Effectively maintain and manage the City's infrastructure and assets in a state of good repair by implementing life cycle costing and developing:
  - Asset Management Framework and Systems
  - Asset Management Plans
  - Asset Management Funding Strategies
- ***Performance Measurement:*** Expand the use of performance measures for planning, accountability, budgeting, communication and management purposes.

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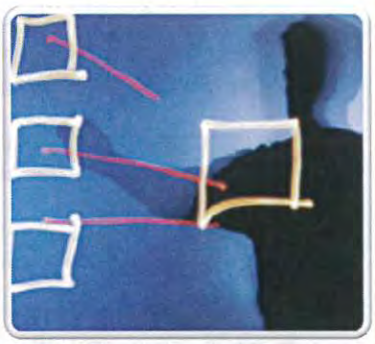
Top Level Priorities (A)

Infrastructure Financing:

- **Utilize a Portion of the Assessment Growth**
  10% allocation
  Est. $26.5 million over 10 years
- **Recreation User Fee Surcharge**
  5% user fee surcharge
  Est. $11.4 million over 10 years
- **Special Infrastructure Levy**
  1% special levy
  Est. $106 million over 10 years



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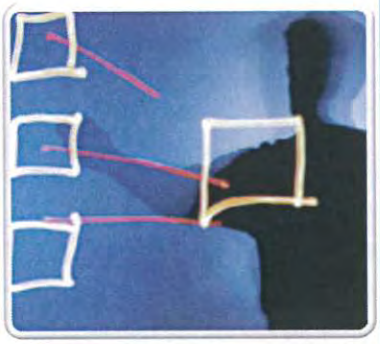
Top Level Priorities (A)

Infrastructure Financing Cont'd:

- **Reserve Reallocation**
  Discretionary reserve potential
  Est. - $5-10 million
- **Rethinking Infrastructure**
  Review capital service options
  Est. - dependant on decisions
- **Advocacy**
  Looking for sustainable Gov. funding
  Est. - dependant on external decisions



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Questions & Answers

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