

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Report No. 8, of the Finance, Administration and Audit Committee, which was adopted without amendment by the Council of the City of Vaughan on June 24, 2014.

4

PLANNING FOR THE FUTURE 2015-2018 FINANCIAL PLANNING & BUSINESS PLANNING GUIDELINES

The Finance, Administration and Audit Committee recommends approval of the recommendation contained in the following report of the Commissioner of Finance & City Treasurer, dated June 16, 2014:

Recommendation

The Commissioner of Finance & City Treasurer in consultation with the Senior Management Team, the Senior Manager of Corporate Financial Planning & Analysis and the Manager of Financial Planning & Analysis recommend:

1. That the Financial Planning & Business Planning Guidelines, summarized in this report be approved; and
2. That the annual process timetable be approved.

Contribution to Sustainability

Sustainability by definition focuses on the ability to maintain an activity over an extended time horizon. Financial planning is the process of allocating limited resources to achieve the City's objectives and established priorities. Responsible financial planning allocates resources in a way that balances needs and aspirations of the present without compromising the ability to meet those of the future. The proposed approach seeks to minimize the current year funding pressures, while meeting the requirements of sustainability.

Economic Impact

The economic impact of the 2015-2018 Financial Plan will be fully determined after receipt of the City's submissions and once the draft plan is developed and presented to the Finance, Administration and Audit Committee.

Detailed below are the recognized levy forecasts presented as part of the 2014-2017 plan. This is expected to change as the City is faced with the challenge of balancing new pressures, existing priorities and maintaining service levels.

Components	2015			2016			2017		
	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
Operating Budget									
Base Budget	3.17%	5.23	\$40.16	2.05%	3.70	\$27.68	1.50%	2.93	\$21.19
ARR	3.53%	5.81	\$44.73	2.37%	4.28	\$31.99	2.72%	5.30	\$38.36
Total	6.70%	11.04	\$ 84.89	4.41%	7.98	\$59.67	4.22%	8.23	\$59.55
Total Capital Budget									
		\$75.11			\$129.71			\$153.87	

It should be recognized the above figures do not incorporate emerging pressures the City is facing that will required further consideration, such as Office Incentives, Land Acquisition Strategy, ITM strategy, potential York University expansion, etc.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 2

For the upcoming process, it is intended for the water and wastewater budget timing to align with the City's financial planning process. These budgets have always followed the City's financial planning practices and policies making the transition relatively seamless and increasing transparency.

Communications Plan

Departments will receive the financial planning guidelines, instruction packages and timetable in June; shortly after the City's financial planning guidelines are approved by Council. In addition, department working/training sessions will be offered to departments to assist in preparing their financial plans.

As part of the financial planning process and integral to building the financial plan, opportunities for public engagement, consultation and input will be available, with appropriate notice provided. These opportunities consist of the following:

- Financial information posted on the City website
- Use of social media to get interact with citizens
- Education items on the City's financial pressures and processes
- Public Committee/Council meetings held throughout the process
- A public input meeting prior to final financial plan approval

In addition to the above, the City of Vaughan is undertaking a number of strategic initiatives which incorporate significant public engagement. Although separate processes, public feedback obtained at these events migrate into the financial planning decision making process.

Purpose

The purpose of this report is to obtain the Finance, Administration and Audit Committee's approval for the City's financial planning & business planning guidelines and timetable. The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services is increasing, while at the same time the City has limited resources.

Background - Analysis and Options

Financial Sustainability: Always a Key Priority

As a result of the City's long standing dedication to financial management through progressive best practices and prudent policies, the City is in a strong financial position. The City has always considered increasing taxes as a last resort. Through prudent policies, tight financial planning guidelines and strong leadership, the City has provided residents tremendous value by offering some of the lowest property tax rates in York Region and the Greater Toronto Area, while providing high quality services to the community. As illustrated below, Vaughan has had the third lowest tax rate increase over the last four years when compared to similar neighbouring municipal comparators:

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 3

2011 - 2014 Municipal Tax Rate Increase Comparison

Municipality	4 yr total	2014	2013	2012	2011	Average
Caledon	26.32%	4.98%	5.70%	5.24%	10.40%	6.6%
Mississauga	26.30%	6.10%	7.00%	7.40%	5.80%	6.6%
King	20.57%	2.59%	3.42%	8.90%	5.66%	5.1%
Oakville	17.60%	2.11%	3.01%	6.55%	5.93%	4.4%
Brampton	16.80%	2.90%	4.90%	4.90%	4.10%	4.2%
Newmarket	16.30%	2.72%	3.74%	3.95%	5.89%	4.1%
Barrie	15.43%	2.03%	3.30%	3.60%	6.50%	3.9%
Milton	15.09%	3.63%	3.00%	3.60%	4.86%	3.8%
Aurora	13.88%	3.75%	3.42%	4.77%	1.94%	3.5%
Burlington	12.15%	3.50%	4.46%	3.29%	0.90%	3.0%
Vaughan	10.09%	2.50%	2.69%	2.95%	1.95%	2.5%
Richmond Hill	9.94%	2.04%	2.50%	2.45%	2.95%	2.5%
Markham	5.49%	2.49%	1.50%	1.50%	0.00%	1.4%
Average	15.84%	3.18%	3.74%	4.55%	4.38%	4.0%

As the City moves forward, financial sustainability must continue as one of Vaughan's key priorities. Over the next decade, the City of Vaughan is expected to undergo a tremendous transformation fueled by sustained high growth rates, provincially driven intensification, increasing legislative requirements, mounting infrastructure renewal costs, and a number of vision based master plans reflecting important community needs. As the City becomes increasingly more sophisticated, it will also face increasing financial pressure beyond the many factors currently placing significant strain on the property tax rate and reserve balances to maintain existing service levels. These pressures are permanent and often require continuous funding solutions, typically taxation.

Economic Update – Optimistic About Future Growth

According to the TD Economics March 20th and April 9th reports, the Canadian economy is forecasted to improve. Below is a brief summary of the highlights:

- Canada's economy fared better than anticipated in 2013; attributable to the accelerating US economy helping to lift Canada's Gross Domestic Product trajectory from 2.0% in 2013 to an anticipated 2.3% in 2014 and 2.5% in 2015; in Ontario, the Gross Domestic Product growth is forecast for 2.2% in 2014 and 2.7% in 2015, attributable to the US markets' demand for the province's exports
- Consumers continue to exercise prudence when it comes to debt accumulation, and spending is forecast to remain modest in line with income growth
- Inflation is low, around 1.4%, and is expected to grind only gradually higher, reaching the 2% target by the end of 2015; as such the Bank of Canada should be leaving interest rates unchanged until the second half of 2015

The above information is relatively global and is intended to provide a general economic context, which may change over time and may not reflect Vaughan's micro economic situation.

Planning for the Future

The Financial Planning Guidelines continue to incorporate a future focus to provide citizens with more certainty about the direction of City services, finances, and tax levels at the same time recognizing the challenges that lay ahead and building on the financial planning efforts. The City's

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 4

rigorous financial planning process has focused on containing costs and implementing best practices, with the goal of developing realistic and responsible financial plans. The Financial planning guidelines consist of the following principles:

The Financial Planning Objective

“To balance the pressures of maintaining existing services and growth requirements against available future funding/City resources necessary to undertake and manage operations and corporate initiatives”

Managing our future

1. Resourcing our Vision “Corporate Planning Process”
2. Looking to the future with multi-year financial plans
3. Managing operations through business planning

Managing tax increases

4. Exploring opportunities through public service renewal and operational reviews
5. Financial control through specific guidelines
6. A thorough multi-layer review process

In addition to the above, sections are provided regarding the following:

- Financial planning process highlights
- Continued process improvements
- Process Timetable

Further details with respect to each of the actions are provided in the following sections.

1. RESOURCING OUR VISION “The Corporate Planning Process”

Building on previous year’s efforts, the Corporate Planning Process continues to integrate strategic planning and financial planning processes. The primary benefits of this step are numerous:

- ✓ To ensure an achievable and resourced strategic plan
- ✓ To ensure resource allocation is guided by the City’s vision and strategic themes
- ✓ To better communicate the City’s direction and focus

There were 14 Key Strategic Initiatives approved in April of 2013:

1. Develop the Plan required to build a dynamic VMC
2. Further Evolve Performance Measures
3. Develop and Implement a Corporate Wide Asset Management System
4. Additional Operational / Business Reviews
5. Conduct a five-year review of the OP as part of the GMS
6. Work towards the implementation of key links of the Transportation Master Plan
7. Develop a corporate Information Technology Strategy
8. Review the Corporate performance management process as part of a quality of work environment
9. Identify and develop a leadership development program
10. Provide continued support for a hospital in Vaughan

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 5

11. Work with other levels of Government to continue to support the expansion of the GO System and public/rapid transit
12. Develop an Integrated Risk Management System
13. Review and redesign a communication strategy
14. Ensure citizen-focused communication initiatives

These initiatives are at various stages of implementation. A future report to Priorities & Key Initiatives Committee is planned for June that will identify the priority for these initiatives with respect to resource requirements. Results from this review will be incorporated into the 2015-2018 financial planning process. It should also be noted, there are some new emerging initiatives that will require consideration during the financial planning process, such as Office incentives, land acquisition strategy, Public Sector Renewal, York University expansion, GTA west and 427 extension, etc. These strategic items will be further reviewed in 2015 to ensure they still align with the City's overall themes.

2. LOOKING TO THE FUTURE WITH MULTI-YEAR FINANCIAL PLANS

The City will continue with its 4 year financial planning process. This action provides decision makers with added foresight and the ability to proactively grasp future opportunities, address future challenges, and reduce blind spots by understanding the longer-term financial implications of present and past decisions. This is a very strategic approach intended to generate discussion on where the City's future resources should be focused to best support the City's vision, operationalize strategies, generate public value and address pertinent challenges. It is also a critical component of the Corporate Planning Process discussed in the prior section.

Departments are well positioned for this task as a result of internal developments in business planning, master planning, long-range forecasting, multi-year financial planning, automation etc. Multi-year financial planning is becoming easier, as the base forecasts have been substantially developed only requiring review and adjustment. It is recognized that assumptions, estimates and uncertainties are commonplace when predicting future plans and these factors may change as new information becomes available. For this reason, it is suggested that Council continue with the practice of approving the current year financial plan and recognize future forecasts. With an established four year financial planning process, financial planning decisions are becoming easier and flowing more naturally as future requirements are discussed and adjusted over multiple processes before current year approval. Detailed below are the recognized levy forecasts presented as part of the 2014-2017 plan. The 2015 plan was initially in the 4-5% tax rate increase range, but pressures transferred from 2014 exceled the rate to 6.7%. Further work is required to review the preliminary 2015 plan. Forecasted 2016 -2017 rates are in the 4% range, which is consistent with comparable municipal benchmark averages illustrated earlier in the tax rate comparison chart.

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These figures are expected to change as estimates are refined based on new information. The 2018 levy forecasts will be determined during the 2015-2018 Financial Planning process.

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 6

3. MANAGING OPERATIONS THROUGH BUSINESS PLANNING

Business Plans will continue as part of the corporate planning process to help establish and reinforce connections between corporate priorities, operational plans and resources. Business plans will continue to align with the multi-year financial planning timeframe in order to align department objectives, measures and pressures. This information is vital to the financial planning process as it sets the stage to assess the departments' requirements and associated resource adequacy. For example, resource gaps might exist to maintain service levels, achieve operational objectives or deliver on corporate initiatives. This information also plays a critical role during financial planning deliberations by providing a platform to better understand department pressures and an objective basis for allocating funding.

The Senior Manager of Strategic Planning is leading the business planning process and assisting departments with business plan updates and refinements. The Financial Planning and Analytics' portfolio analysts are providing a supporting role in this activity. Business Plan reviews were initiated last year to develop a more comprehensive planning process, including brainstorming of key business issues and aligning key business outcomes, objectives and initiatives. This year the Senior Manager of Strategic Planning met with departments to refine and develop performance measures to better report on the ability of the department to meet department and corporate objectives.

4. EXPLORING OPPORTUNITIES THROUGH OPERATIONAL REVIEWS

As previously mentioned in this report, the City of Vaughan is undergoing a tremendous transformation fueled by sustained high growth rates, increasing requirements, fiscal pressures, and citizens' rising expectations for better and faster services delivered at a lower cost. The City must anticipate and prepare for the evolving future needs of the City. To accomplish this, and continue with the City's progress, opportunities must be explored to enhance capacity and deliver effective services. To assist in this regard Operational Reviews have been implemented. The results of this initiative will feed into the financial planning process.

Operational Reviews

The Innovation and Continuous Improvement Department is the primary lead in conducting Operational Reviews. Operational reviews are currently underway and any costs or associated benefits anticipated from implementing recommendations associated with these reviews will be reflected to the extent possible in the upcoming financial plan preparation.

Operational Reviews help ensure that program and service expectation (of all stakeholders, including residents, businesses, Council and regulators) are being addressed by programs that are effective (i.e., focused on delivering the right level of services) and efficient (i.e., supported by processes that do things right) and economic (i.e., utilize resources appropriately). Reviews provide opportunities to identify any gaps, issues or challenges in these areas and to develop realistic options for addressing them by considering changes to processes, organization (e.g., skills, capabilities, accountabilities) and technology utilizing a consistent approach in developing a case for change.

Operational reviews of programs are expected to provide recommendations relating to service delivery models, levels of service, impacts on residents, key processes, organizational structure, enabling technologies and identify program costs together with implementation approaches, risks and mitigation.

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 7

5. FINANCIAL PLANNING CONTROL THROUGH SPECIFIC GUIDELINES

The preparation of the operating financial plan will require a number of issues to be taken into consideration. Pressures associated to price increases, new initiatives, and growth requirements will need to be balanced against available funding. The objective of the City is to provide the lowest possible tax increase while maintaining the City's service levels and safeguarding assets. Below are actions in place to achieve this outcome.

Specific Operating Plan Guidelines

- A. Controlling financial pressures
- B. Strict process to evaluate funding requests
- C. User fee reviews to reduce the tax burden
- D. Zero impact adjustments
- E. Exploring opportunities through operational reviews

There is no across the board cost increase for inflation and no automatic increase for new staffing. All new funding requests require business cases and thorough review.

A) Controlling financial pressures

- i. For the 2015-2018 Financial Planning process, all account budgets will remain at prior year levels with the exception of established commitments and pre-defined external pressures. This action will limit the base increase to the following items:
 - Council approved employment agreements;
 - Full year impact of prior year decisions;
 - Council authorized recommendations;
 - Supported external service contract commitments;
 - Established utility & insurance increases, where justified;
 - Debenture obligations;
 - Defined corporate contingency items;
 - Reserve contributions in accordance with approved policy.

Under these actions, departments are only permitted to include very specific increases, typically related to predetermined agreements, contracts or Council approvals.

- ii. To ensure that all financial requests are captured and assessed within the approved process, all items containing an economic impact during the annual process are to be submitted to the Finance, Administration and Audit Committee for review and recommendation before Council consideration.

B) Strict process to evaluate funding requests

Under the above guidelines, departments are only permitted to include very specific predetermined increases in their Financial Plan. To the extent a department requires additional resources, a separate business case must be submitted detailing strategic links, costs & benefits, implications & consequences, success indicators, timelines, capital implications and project references, etc. These are referred to as **Additional Resource Requests (ARR)**. This action separates the Operating Plan into the following two classifications:

- o Base Plan – determined through approved guidelines = Minimal tax increase.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 8

- Additional Resource Requests – Essential funding requests not permitted through the base plan guidelines requiring Council review and approval. Council approval is specifically required for new staff resources, a change in service level, or new initiatives. Requests are limited to items with a gross cost in excess of \$10,000, which can have a net neutral or positive overall impact. If needed items can be combined to meet this threshold. Where applicable corporate requests maybe put forward that benefit the City as a whole.

The objective of the above action is to separate basic operating obligations from items that may require further discussion and decisions.

Determining which resource requests move forward is a very difficult and challenging task as all departments are experiencing challenges associated with maintaining service levels, meeting legislative requirements, and implementing initiatives to move the City forward. Recognizing the value of requests greatly exceeds the amount of available limited resources; requests are evaluated and prioritized based on a blend of associated municipal value and risk criteria. The initial prioritization action is based on ARR content; the Director's Working Group (DWG) will be leveraged earlier in this process to assist in the assessment of priorities. The Senior Management Team (SMT) will vet all requests to determine the prioritized list for recommendation to Committee. This action integrates staff's experience, shares the challenges associated with prioritization and enhances corporate knowledge. Only Council approved requests are included in the annual financial plan.

As a result of implementing multi-year financial plans many requests are currently included in future years, termed "recognized". To avoid confusion, these requests are to remain at the rating and year previously assigned by Senior Management/Council. During the draft financial plan development ARRs will only be advanced to earlier years if justified by the department and authorized by the Commissioner of Finance & City Treasurer and the City Manager.

C) User fee reviews to reduce the tax burden

Another opportunity to minimize tax pressures is to maximize revenue generation through user fees and service charges. Most of the City's fees/charges are based on existing studies and multi-year by-laws and with the emergence of multi-year planning and varying by-law intervals/expiry dates, it is of great benefit to coordinate and consolidate the planning of these by-laws for review, update and approval under one common process and 4 year term (i.e. Planning, Engineering, Building standards, Licensing, etc.).

It is important to emphasize that any reduction in a user fee or service charge cost recovery ratio will have a corresponding direct impact on the City's levy. Therefore to minimize any impact on the City's tax rate, it is important to sustain or improve revenue/cost relationships. In addition to adjusting base plan revenues for anticipated changes in activity, departments will be required to review user fees and service charges and perform the following:

- ❖ Increase fees and charges in relation to related annual cost increases
- ❖ Incorporate a net full cost benefit in fees set for external inter-municipal services
- ❖ Submit new user fees and service charges opportunities

As a default, it is anticipated that department user fees & service charges will increase at minimum, by the rate of inflation, in scheduled increments, unless justification for no increase is otherwise specified. The Statistics Canada Ontario core inflation rate increased 1.4% for the 12 month period ending April 2014. However, Bank of Canada predicts that there will be inflationary pressures in 2014. It is recommended that an increase of 2% be applied to existing user fees and

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 9

service charges. The above actions will be submitted for Senior Management review and Council approval.

D) Zero impact adjustments

Reclassifications and reallocations in *non-labour* related accounts are only permitted if they result in a zero impact on the financial plan. Furthermore, these adjustments are limited to better reflecting the true nature of the expense or more accurately aligning account budgets. There are no impacts associated with these adjustments and the intent is to refine departmental plans. As part of the process, reallocations/reclassifications will be reported, demonstrating a neutral impact.

Specific Capital Plan Guidelines

The preparation of the Capital Plan will require a number of issues to be taken into consideration. The pressures of new initiatives, maintaining existing infrastructure and growth requirements will need to be balanced against available funding, the impact on future operating plans and the staff resources to undertake and manage capital projects.

A prevailing theme throughout the years has repeatedly been the need to address the funding component for infrastructure renewal. The challenge of funding the significantly growing costs of infrastructure renewal is a paramount concern for most municipalities across Canada and stems from new construction being primarily funded by the development industry, leaving the municipalities across Ontario to fund future replacement costs from the municipality's limited tax base. The danger of not doing so could create a situation where the funding shortfall will continue to slowly build until a point in the future where a wave of facility, park, fire and other replacement projects come on board without available funding. A number of corporate initiatives have been initiated to address this concern, listed below, but further work is needed to address the shortfall:

- Continued Implementation of an Asset Management Strategy
- Implemented Life Cycle asset contributions
- Realigned reserves to ensure asset funding equity

A recent emerging theme is the mounting pressure associated with a number of value added corporate initiatives. The City has determined 14 high profile strategic initiatives with the potential of more being added. All of these initiatives, although valid and warranted, compete for limited capital funding, not only with each other but also with existing requirements to maintain the City's services and assets.

Recognizing the above illustrated challenges, the objective of the guidelines is to build a responsible Capital Plan that allocates resources in a way that balances needs and aspirations of the present while meeting the requirements of longer term sustainability. The Capital Plan Guideline components are:

- A. Capital project definition
- B. Identifying funding sources
- C. Guiding decisions through policies
- D. Specific actions to manage the Capital Plan

A) Capital Project Definition:

- A gross cost exceeding \$20,000; and
 - For the purpose of constructing, acquiring or improving lands, buildings, engineering services, machinery and equipment or furniture and fixtures. The project must be

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 10

undertaken for the purpose of providing municipal services, have a lasting benefit beyond one year and/or extend the life of the asset. Projects should incorporate all costs associated with getting the project ready for its intended use (i.e. license costs, survey costs, etc). Expenditures for regular repair or maintenance designed to maintain an asset in its original state are not a capital expenditure; or

- A non-capital expenditure that is related to planning for growth (i.e. planning studies, master plans, etc); or
- In special circumstances, an item of operating nature intended to avoid or smooth significant short-term spikes in the general levy. These items are typically classified as transfers, but can be projects, and authorized by the Commissioner of Finance & City Treasurer.

B) Identifying Funding Sources

Capital projects are funded from the following five main sources:

Development/Special Area Charges Reserves: This funding source is based on legislation which imposes charges on new development in the City to pay for growth related net capital costs of servicing new development. The intent of the legislation is to maintain existing capital service levels and fund hard service growth requirements. On May 14th Council adopted the 2013 Development Charge Background Study. This study outlines capital initiatives to support future growth within the City and should therefore be used to assist departments with their Capital Project Planning. Development Charge Reserve collections are dependent on the economy and therefore future capital plans may require adjustments and could be different from the initial development charge document forecast.

Discretionary Reserves: This funding source is derived from dedicated operating budget contributions or allocations of accumulated net revenue for a particular purpose. The City has established a number of reserves to help manage municipal finances and protect against the potential need to reduce service levels or raise taxes due to temporary shortfalls or unexpected expenditure increases. These reserves are broken into the following categories:

- Sustainability - to protect against risk and uncertainty (i.e. winter, tax rate stabilization, etc.)
- Infrastructure Renewal - to fund the future costs of infrastructure renewal
- Corporate Reserves - to administer future liabilities and operational requirements (i.e. election)
- Special Purpose – to administer funds for which there is a specific purpose (i.e. cemetery)

The *Consolidated Reserve Policy* (Policy# 05.4.01) provides reserve fund guidance and supports financial sustainability.

Grants and Other Financing: This source of funding is provided by Federal/Provincial/Regional levels, specific contributions and requests. Typically these funding sources have very prescribed requirements and criteria.

NEW - There is a new Gas Tax Agreement for the period 2014-2024. In this agreement, the following relevant categories have been approved:

1. Local roads and bridges – i.e. roads, bridges, tunnels, highways and active transportation infrastructure (active transportation refers to investments that support active methods of travel. This can include: cycling lanes and paths, sidewalks, hiking and walking trails).
2. Drinking Water – i.e. drinking water conservation, collection, treatment and distribution systems.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 11

3. Wastewater – i.e. wastewater and storm water collection, treatment and management systems.
4. Solid waste – i.e. solid waste management systems including the collection, diversion and disposal of recyclables, compostable materials and garbage.
5. Community energy systems – i.e. infrastructure that generates or increases the efficient usage of energy.
6. Capacity building - i.e. investments related to strengthening the ability of Municipalities to develop long-term planning practices.
7. Broadband connectivity – i.e. infrastructure that provides internet access to residents, businesses, and/or institutions in Canadian communities.
8. Brownfield Redevelopment i.e. remediation or decontamination and redevelopment of a brownfield site within municipal boundaries, where the redevelopment includes:
 - a. *the construction of public infrastructure as identified in the context of any other eligible category referred to in this Schedule, and/or;*
 - b. *the construction of municipal use public parks and publicly-owned social housing.*
9. Sport Infrastructure – i.e. amateur sport infrastructure (excludes facilities, including arenas, which would be used as the home of professional sports teams or major junior hockey teams (e.g. Junior A)).
10. Recreational Infrastructure - i.e. recreational facilities or networks.
11. Cultural Infrastructure – i.e. infrastructure that supports arts, humanities, and heritage.
12. Tourism Infrastructure – i.e. infrastructure that attracts travelers for recreation, leisure, business or other purposes.
13. Disaster mitigation – i.e. infrastructure that reduces or eliminates long-term impacts and risks associated with natural disasters.

Note: Investments in health infrastructure e.g. (hospitals, senior centres, etc.) are ineligible.

More information pertaining to the new agreement is provided in a separate report to Committee: *New Municipal Funding Agreement for Transfer of Federal Gas Tax Fund* (June 16 2014).

Debenture Financing: Debenture Funding is primarily utilized for the City's road and bridge replacement program, due to the overall substantial asset value and lengthy life cycles. Plans are based on the "Pavement & Bridge Management Program Study".

Capital from Taxation: Projects identified from taxation funding are primarily non-growth related projects that have no other source of financing, such as technology initiatives, new initiatives etc. In addition, the Development Charges Act 10% co-funding requirement for growth related soft services is also funded from this source.

C) Guiding Decisions through Policies

Over time, the City has developed a series of guiding financial policies and targets to assist in developing the Capital Plan, which have a positive impact on the financial stability of the City. They are listed as follows:

- A. A long standing City practice is "only capital projects with secured available funding sources are accepted", otherwise specific Council approval is required.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 12

- B. Discretionary reserve ratio > 50% own source revenue. Discretionary reserves provide the City with financial flexibility in order to safeguard against economic downturns and finance operations internally. This ratio is a strong indicator of Vaughan's financial health.
- C. Working capital ratio > 10% own source revenue. Working capital funds provide in-year cash flow requirements.
- D. Debt level ratio < 10% own source revenue. The Debt Policy sets limitations on the use of debt in order to retain financial flexibility by avoiding long-term commitments and the high cost of interest. Limited to a maximum of 10% of total own source revenue, which is significantly lower than the Province's 25% maximum. If an initiative is internally funded, the interest costs of borrowing are not charged to the capital project (i.e. Vaughan Hospital Precinct Development).
- E. A 3% administration recovery charge will be applied to capital projects, with the exception of most grant funded projects. These funds are transferred to the Operating Plan and intended to generally offset internal project administration costs.
- F. The inclusion of the 1.76% HST component that is not recoverable should be included as part of the cost of the capital project. Some exceptions may exist, such as for permit-able parks for which no HST is included in the cost, and these will be dealt with on an as-need basis.
- G. A Contingency Matrix was recently developed to assist departments in determining general project risk and a contingency budget amount. This will be shown as a separate cost for the capital project.
- H. The following guidelines relate to Development Charge projects:
 - 1) Positive reserve balances should not be placed into a pre-financing position, with exception for management studies incurred in advance of growth;
 - 2) Pre-financing should not be increased;
 - 3) Commit no more than 50% of revenues in the program year for any development charge service area that is pre-financed; and
 - 4) Development charges will be applied to the full extent permitted by legislation.

D) Specific Actions to Manage Capital Plans

Actively Closing Projects

Continuing with past practice, staff together with departments will review all active projects to determine if projects can be closed. Any remaining project budget balance will be returned to the original funding source and made available during the 2015-2018 financial planning process.

New – Review of Open Capital Projects

Staff will review all open projects to assess the ability to complete existing projects before requesting the approval of new projects. Departments will assess the relevancy and timing of these open projects; potentially proposing the closing of some open projects. For those projects that remain, comments as to the timing of project activity and project closure will be noted and reported on in a future report to Committee during the financial planning process. More specific project detail will be provided for those projects older than 3 years with limited cost activity.

Greater Collaboration

Recognizing that there are numerous department independencies and in the interest of better information, capital projects and ARRs will be circulated to key areas for comment, such as Building and Facilities, Fleet, HR, ITM, etc.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 13

Leveraging Grant and Subsidy Funding

To support local municipal initiatives, Federal, Provincial, Regional and local agencies deliver grant programs, partnerships, and subsidies which focus primarily on the following categories:

- Environmental Sustainability
- Infrastructure
- Economic Development
- Culture

Competition for these resources is high and as such applicants are required to prepare detailed submissions consisting of project plans, financial detail, timelines, justification, etc. Successful submissions may also be required to meet strict compliance reporting and conditions. To assist the City in developing external funding opportunities, the City's Grant Specialist will participate in the financial planning process and review capital submissions to uncover opportunities and assist departments through the application process. Since implementing the External Grant Procurement Policy and Procedures in June 2009 the City has been very successful in receiving over \$71M, which have assisted in reducing costs associated with projects that may have otherwise been cancelled, delayed or placed increased pressure on the financial plan.

Forecasting Reserve Balances

In line with multi-year financial planning, reserve balances will also be forecasted to provide future visibility regarding funding availability and potential challenges. To accomplish this action assumptions will be required regarding reserve revenue streams, especially those that are dependent on external factors i.e. development charges, etc. Therefore, forecasted capital revenue assumptions will be conservatively estimated and future capital plans may require adjustments to account for potential changes in information i.e. upswings or downward trends.

New – 10 year forecasts will be developed for development related (DC/CIL) and infrastructure reserves. These forecasts will help illustrate reserve levels and potential gaps; assisting staff to assess funding available to complete planned works. The 10 year capital reserve forecast will be based on the four year detailed plan + six year forecast. Departments can leverage the 2013 Development Charge Background Study, Master Plans, Department strategies, and PSAB lifecycle data to assist with this endeavour. The information that will arise from the undertaking of the Asset Management Strategy will be rolled into these forecasts at the time the information is available.

New – Staff will engage an actuary to undertake a review of post-retirement benefit requirements. Recommendations that arise from this review will be incorporated into the financial plan and separately reported to Committee during the financial planning process.

Capital Project Prioritization

The value of projects approved will not only depend on the amount of funds available in a particular funding source, but also the impact on the City's overall resources i.e. available capital and operating funding, available resourcing capacity, established financial policies, etc.

The criteria used to prioritize projects within a funding source include, but are not limited to consideration of the following:

- Pre-Budget approval obtained
- Funds required to complete previously approved projects
- Legal or Regulatory requirements (including financial commitments)
- Net revenue generating, cost savings or efficiency improvement projects
- Growth related projects

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 14

- Infrastructure repair projects
- Equipment replacement projects
- New service levels

Based on the above endorsed guidelines, each department will prioritize the capital projects within their dedicated funding sources. For funding sources with multiple department stakeholders (i.e. capital from taxation, gas tax funds) the Director's Working Group (DWG) will be leveraged to assist in the assessment of priorities. Concurrently, Financial Planning and Analytics staff will assess funding availability within policy guidelines and establish multi-year funding availability lines for each funding source. As mentioned above, consideration will also be given to operating plan and staff capacity implications, which could result in prioritization adjustments. The Senior Management Team (SMT) will vet all requests to determine the prioritized list for recommendation to Committee. As a result of implementing multi-year plans many requests are currently recognized. To avoid confusion, these requests are to remain in the year previously assigned by Senior Management, unless authorized by the Commissioner of Finance & City Treasurer and the City Manager.

6. THOROUGH MULTI- LAYER REVIEW PROCESS

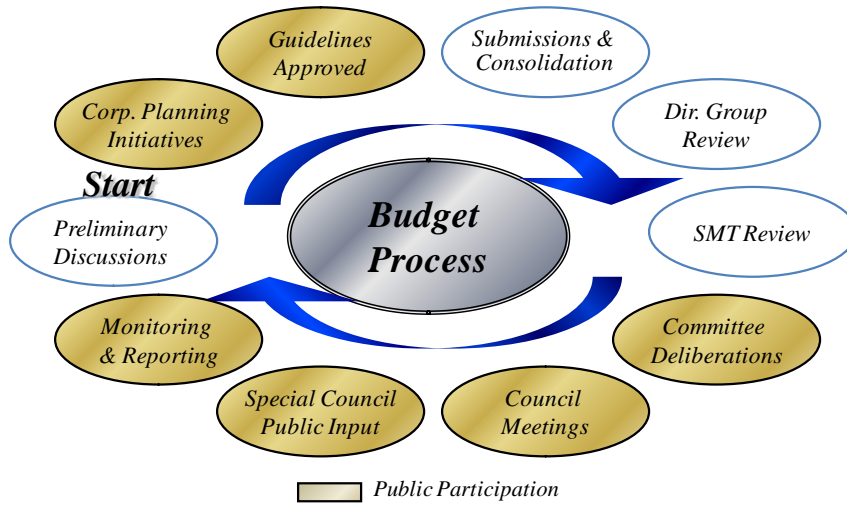
The financial planning process has a very thorough review process and the final financial plan will consist of many decisions resulting from a variety of review sessions and open public sessions. Illustrated below are the various layers of review that occur and areas involved within Vaughan's process.



The opportunity for public involvement throughout the financial planning process is a key process element. Illustrated below are the touch point opportunities for public participation in the financial planning process.

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 15



CONTINUED PROCESS IMPROVEMENTS

The Financial Planning and Analytics Department strives to continuously improve the financial planning process. A strong emphasis is placed on reviewing processes and creating refinements that add value by making the process easier and more informative. Many of these improvements lead to greater efficiencies and reporting, thereby allowing management and front line staff to focus more on core operations, planning, review and decision making. To that end, some of the more recent significant process improvements for the financial planning process include:

- **New** – The recent re-alignment of the Financial Planning & Analytics group into a corporate consolidation team and two portfolio teams responsible for all financial planning for their assigned clients; this step fully integrates processes and leverages synergies.
- **New** – Alignment of Water and Wastewater Budget timing with the City's financial planning process
- **New** - The Capital Project Financial Administration and Reporting Policy provides guidance and control related to capital project governance and assurance; including regular reporting on high profile capital projects
- **New** – A review of general ledger accounts has been conducted to provide definitions of the types of revenues/expenses that are captured in the account. During the review, accounts will be consolidated that capture the same expense/revenue information.
- Integrated strategy & financial planning through the Corporate Planning Process.
- Financial Master Plan Development - discusses the long-term financial pressures facing the City and provides a number of progressive recommendations.
- The Reserve Policy Update resulted in a consolidated framework, improved guidance, development of new reserves to meet emerging needs and a realignment of balances to ensure equitable funding.
- The *Reserve Contribution Policy* for tangible capital assets is intended to ensure the community's infrastructure remains sustainable, supporting the numerous programs and services offered.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 16

- o The Contingency Matrix assists departments determine general project risk and a contingency budget amount
- o Consolidated City's quarterly reporting process into a single simplified report (Operating, Capital, and Water Waste Water). This action was intended for stakeholders to have a more fulsome and complete view of the City's financial results.

FINANCIAL PLAN TIMETABLE

The upcoming October 2014 Municipal Election and its impact on the timing of presenting the financial plan results to Committee must be incorporated into the timetable. Staff anticipate bringing forward the first draft of the 2015-2018 Financial Plan to the Finance, Administration and Audit Committee in early January with the intent of a Finance, Administration and Audit Committee recommendation early March 2015 and Council approval in late March 2015. Every effort will be made to adhere to the timeline, but issues raised during the process could potentially impact the presented timeline.

The submission process will occur in three steps. The overall intent is to layer the submission process and allocate time for departments to focus on specific process components. This in turn will allow adequate time for submission review and feedback. The submission process stages are as follows

1. End of June - Submit business plans to the Strategic Planning Area
2. Early August – Validate and submit base plans
3. End of Aug – submit ARRs and capital requests

Developing a Business Plan is the initial step in the process and will help identify resourcing pressures, opportunities and objective alignment. The final submission stage requires departments to articulate Additional Resource and Capital Requests, which should be aligned with dept. business plans. This process is designed to build the department financial plan in a systematic and logical manner. Assigned portfolio groups will be actively involved with departments to provide assistance with financial plan development.

City of Vaughan 2015 - 2018 Financial Plan Timetable	
Dates	Activity
16-Jun-14	Financial Planning Guidelines
24-Jun-14	Financial Planning Instructions Issued To Depts.
27-Jun-14	Business Plan Submissions to Strategic Planning Dept.
6-Aug-14	Base Operating Financial Plan Submissions
July – Aug 2014	SMT Preliminary 2015-2018 Financial Plan Review
Aug 11-15, 2014	Commissioner Review of Proposed ARRs
22-Aug-14	Capital Project Submissions and Operating ARR's
Sep-14	- <i>Director Working Group (DWG) Prioritization</i> - <i>Submission Review, Analysis, & Consolidation</i>
Oct-14	SMT Deliberations
Dec-14	Draft Financial Plan and Presentation Finalization
Jan2015 -Mar2015	Finance, Administration & Audit Committee Deliberations
Mar-15	Public Input Meeting/Council Approval (14 day notice req.)

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with Vaughan Vision 2020's long term goal of financial stability through the design of guidelines intended to produce a responsible financial plan. The necessary resources have not yet been approved and will be addressed throughout future deliberations.

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF JUNE 24, 2014

Item 4, Finance Report No. 8 – Page 17

Regional Implications

N/A

Conclusion

The enclosed Guidelines are presented to provide the lowest possible tax rate increase while maintaining service levels and supporting Vaughan's vision. Due to the upcoming election the 2015-2018 Timetable and Guidelines plans for the Finance, Administration and Audit Committee to provide a recommendation to Council in early March 2015 and a public meeting be held late March 2015, followed by Council approval.

Attachments

N/A

Report prepared by:

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Howard Balter, CGA
Manager of Financial Planning & Analysis (x8338)

PLANNING FOR THE FUTURE**2015-2018 FINANCIAL PLANNING & BUSINESS PLANNING GUIDELINES****Recommendation**

The Commissioner of Finance & City Treasurer in consultation with the Senior Management Team, the Senior Manager of Corporate Financial Planning & Analysis and the Manager of Financial Planning & Analysis recommend:

1. That the Financial Planning & Business Planning Guidelines, summarized in this report be approved; and
2. That the annual process timetable be approved.

Contribution to Sustainability

Sustainability by definition focuses on the ability to maintain an activity over an extended time horizon. Financial planning is the process of allocating limited resources to achieve the City's objectives and established priorities. Responsible financial planning allocates resources in a way that balances needs and aspirations of the present without compromising the ability to meet those of the future. The proposed approach seeks to minimize the current year funding pressures, while meeting the requirements of sustainability.

Economic Impact

The economic impact of the 2015-2018 Financial Plan will be fully determined after receipt of the City's submissions and once the draft plan is developed and presented to the Finance, Administration and Audit Committee.

Detailed below are the recognized levy forecasts presented as part of the 2014-2017 plan. This is expected to change as the City is faced with the challenge of balancing new pressures, existing priorities and maintaining service levels.

Components	2015			2016			2017		
	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
Operating Budget									
Base Budget	3.17%	5.23	\$40.16	2.05%	3.70	\$27.68	1.50%	2.93	\$21.19
ARR	3.53%	5.81	\$44.73	2.37%	4.28	\$31.99	2.72%	5.30	\$38.36
Total	6.70%	11.04	\$ 84.89	4.41%	7.98	\$59.67	4.22%	8.23	\$59.55
Total Capital Budget									
		\$75.11			\$129.71			\$153.87	

It should be recognized the above figures do not incorporate emerging pressures the City is facing that will required further consideration, such as Office Incentives, Land Acquisition Strategy, ITM strategy, potential York University expansion, etc.

For the upcoming process, it is intended for the water and wastewater budget timing to align with the City's financial planning process. These budgets have always followed the City's financial planning practices and policies making the transition relatively seamless and increasing transparency.

Communications Plan

Departments will receive the financial planning guidelines, instruction packages and timetable in June; shortly after the City's financial planning guidelines are approved by Council. In addition, department working/training sessions will be offered to departments to assist in preparing their financial plans.

As part of the financial planning process and integral to building the financial plan, opportunities for public engagement, consultation and input will be available, with appropriate notice provided. These opportunities consist of the following:

- Financial information posted on the City website
- Use of social media to get interact with citizens
- Education items on the City's financial pressures and processes
- Public Committee/Council meetings held throughout the process
- A public input meeting prior to final financial plan approval

In addition to the above, the City of Vaughan is undertaking a number of strategic initiatives which incorporate significant public engagement. Although separate processes, public feedback obtained at these events migrate into the financial planning decision making process.

Purpose

The purpose of this report is to obtain the Finance, Administration and Audit Committee's approval for the City's financial planning & business planning guidelines and timetable. *The City over time has moved away from annual budget practices to a more strategic and proactive financial planning four year approach, which includes the annual budget as defined in the Municipal Act.* The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services is increasing, while at the same time the City has limited resources.

Background - Analysis and Options

Financial Sustainability: Always a Key Priority

As a result of the City's long standing dedication to financial management through progressive best practices and prudent policies, the City is in a strong financial position. The City has always considered increasing taxes as a last resort. Through prudent policies, tight financial planning guidelines and strong leadership, the City has provided residents tremendous value by offering some of the lowest property tax rates in York Region and the Greater Toronto Area, while providing high quality services to the community. As illustrated below, Vaughan has had the third lowest tax rate increase over the last four years when compared to similar neighbouring municipal comparators:

2011 - 2014 Municipal Tax Rate Increase Comparison

Municipality	4 yr total	2014	2013	2012	2011	Average
Caledon	26.32%	4.98%	5.70%	5.24%	10.40%	6.6%
Mississauga	26.30%	6.10%	7.00%	7.40%	5.80%	6.6%
King	20.57%	2.59%	3.42%	8.90%	5.66%	5.1%
Oakville	17.60%	2.11%	3.01%	6.55%	5.93%	4.4%
Brampton	16.80%	2.90%	4.90%	4.90%	4.10%	4.2%
Newmarket	16.30%	2.72%	3.74%	3.95%	5.89%	4.1%
Barrie	15.43%	2.03%	3.30%	3.60%	6.50%	3.9%
Milton	15.09%	3.63%	3.00%	3.60%	4.86%	3.8%
Aurora	13.88%	3.75%	3.42%	4.77%	1.94%	3.5%
Burlington	12.15%	3.50%	4.46%	3.29%	0.90%	3.0%
Vaughan	10.09%	2.50%	2.69%	2.95%	1.95%	2.5%
Richmond Hill	9.94%	2.04%	2.50%	2.45%	2.95%	2.5%
Markham	5.49%	2.49%	1.50%	1.50%	0.00%	1.4%
Average	15.84%	3.18%	3.74%	4.55%	4.38%	4.0%

As the City moves forward, financial sustainability must continue as one of Vaughan's key priorities. Over the next decade, the City of Vaughan is expected to undergo a tremendous transformation fueled by sustained high growth rates, provincially driven intensification, increasing legislative requirements, mounting infrastructure renewal costs, and a number of vision based master plans reflecting important community needs. As the City becomes increasingly more sophisticated, it will also face increasing financial pressure beyond the many factors currently placing significant strain on the property tax rate and reserve balances to maintain existing service levels. These pressures are permanent and often require continuous funding solutions, typically taxation.

Economic Update – Optimistic About Future Growth

According to the TD Economics March 20th and April 9th reports, the Canadian economy is forecasted to improve. Below is a brief summary of the highlights:

- Canada's economy fared better than anticipated in 2013; attributable to the accelerating US economy helping to lift Canada's Gross Domestic Product trajectory from 2.0% in 2013 to an anticipated 2.3% in 2014 and 2.5% in 2015; in Ontario, the Gross Domestic Product growth is forecast for 2.2% in 2014 and 2.7% in 2015, attributable to the US markets' demand for the province's exports
- Consumers continue to exercise prudence when it comes to debt accumulation, and spending is forecast to remain modest in line with income growth
- Inflation is low, around 1.4%, and is expected to grind only gradually higher, reaching the 2% target by the end of 2015; as such the Bank of Canada should be leaving interest rates unchanged until the second half of 2015

The above information is relatively global and is intended to provide a general economic context, which may change over time and may not reflect Vaughan's micro economic situation.

Planning for the Future

The Financial Planning Guidelines continue to incorporate a future focus to provide citizens with more certainty about the direction of City services, finances, and tax levels at the same time recognizing the challenges that lay ahead and building on the financial planning efforts. The City's rigorous financial planning process has focused on containing costs and implementing best practices, with the goal of developing realistic and responsible financial plans. The Financial planning guidelines consist of the following principles:

The Financial Planning Objective

"To balance the pressures of maintaining existing services and growth requirements against available future funding/City resources necessary to undertake and manage operations and corporate initiatives"

Managing our future

1. Resourcing our Vision "Corporate Planning Process"
2. Looking to the future with multi-year financial plans
3. Managing operations through business planning

Managing tax increases

4. Exploring opportunities through public service renewal and operational reviews
5. Financial control through specific guidelines
6. A thorough multi-layer review process

In addition to the above, sections are provided regarding the following:

- Financial planning process highlights
- Continued process improvements
- Process Timetable

Further details with respect to each of the actions are provided in the following sections.

1. RESOURCING OUR VISION "The Corporate Planning Process"

Building on previous year's efforts, the Corporate Planning Process continues to integrate strategic planning and financial planning processes. The primary benefits of this step are numerous:

- ✓ To ensure an achievable and resourced strategic plan
- ✓ To ensure resource allocation is guided by the City's vision and strategic themes
- ✓ To better communicate the City's direction and focus

There were 14 Key Strategic Initiatives approved in April of 2013:

1. Develop the Plan required to build a dynamic VMC
2. Further Evolve Performance Measures
3. Develop and Implement a Corporate Wide Asset Management System
4. Additional Operational / Business Reviews
5. Conduct a five-year review of the OP as part of the GMS
6. Work towards the implementation of key links of the Transportation Master Plan
7. Develop a corporate Information Technology Strategy
8. Review the Corporate performance management process as part of a quality of work environment

9. Identify and develop a leadership development program
10. Provide continued support for a hospital in Vaughan
11. Work with other levels of Government to continue to support the expansion of the GO System and public/rapid transit
12. Develop an Integrated Risk Management System
13. Review and redesign a communication strategy
14. Ensure citizen-focused communication initiatives

These initiatives are at various stages of implementation. A future report to Priorities & Key Initiatives Committee is planned for June that will identify the priority for these initiatives with respect to resource requirements. Results from this review will be incorporated into the 2015-2018 financial planning process. It should also be noted, there are some new emerging initiatives that will require consideration during the financial planning process, such as Office incentives, land acquisition strategy, Public Sector Renewal, York University expansion, GTA west and 427 extension, etc. These strategic items will be further reviewed in 2015 to ensure they still align with the City's overall themes.

2. LOOKING TO THE FUTURE WITH MULTI-YEAR FINANCIAL PLANS

The City will continue with its 4 year financial planning process. This action provides decision makers with added foresight and the ability to proactively grasp future opportunities, address future challenges, and reduce blind spots by understanding the longer-term financial implications of present and past decisions. This is a very strategic approach intended to generate discussion on where the City's future resources should be focused to best support the City's vision, operationalize strategies, generate public value and address pertinent challenges. It is also a critical component of the Corporate Planning Process discussed in the prior section.

Departments are well positioned for this task as a result of internal developments in business planning, master planning, long-range forecasting, multi-year financial planning, automation etc. Multi-year financial planning is becoming easier, as the base forecasts have been substantially developed only requiring review and adjustment. It is recognized that assumptions, estimates and uncertainties are commonplace when predicting future plans and these factors may change as new information becomes available. For this reason, it is suggested that Council continue with the practice of approving the current year financial plan and recognize future forecasts. With an established four year financial planning process, financial planning decisions are becoming easier and flowing more naturally as future requirements are discussed and adjusted over multiple processes before current year approval. Detailed below are the recognized levy forecasts presented as part of the 2014-2017 plan. The 2015 plan was initially in the 4-5% tax rate increase range, but pressures transferred from 2014 exceled the rate to 6.7%. Further work is required to review the preliminary 2015 plan. Forecasted 2016 -2017 rates are in the 4% range, which is consistent with comparable municipal benchmark averages illustrated earlier in the tax rate comparison chart.

Components	2015			2016			2017		
	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.	Rate Incr.	\$ (m)	Bill Incr.
Operating Budget									
Base Budget	3.17%	5.23	\$40.16	2.05%	3.70	\$27.68	1.50%	2.93	\$21.19
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Total	6.70%	11.04	\$ 84.89	4.41%	7.98	\$59.67	4.22%	8.23	\$59.55
Total Capital Budget		\$75.11			\$129.71			\$153.87	

These figures are expected to change as estimates are refined based on new information. The 2018 levy forecasts will be determined during the 2015-2018 Financial Planning process.

3. MANAGING OPERATIONS THROUGH BUSINESS PLANNING

Business Plans will continue as part of the corporate planning process to help establish and reinforce connections between corporate priorities, operational plans and resources. Business plans will continue to align with the multi-year financial planning timeframe in order to align department objectives, measures and pressures. This information is vital to the financial planning process as it sets the stage to assess the departments' requirements and associated resource adequacy. For example, resource gaps might exist to maintain service levels, achieve operational objectives or deliver on corporate initiatives. This information also plays a critical role during financial planning deliberations by providing a platform to better understand department pressures and an objective basis for allocating funding.

The Senior Manager of Strategic Planning is leading the business planning process and assisting departments with business plan updates and refinements. The Financial Planning and Analytics' portfolio analysts are providing a supporting role in this activity. Business Plan reviews were initiated last year to develop a more comprehensive planning process, including brainstorming of key business issues and aligning key business outcomes, objectives and initiatives. This year the Senior Manager of Strategic Planning met with departments to refine and develop performance measures to better report on the ability of the department to meet department and corporate objectives.

4. EXPLORING OPPORTUNITIES THROUGH OPERATIONAL REVIEWS

As previously mentioned in this report, the City of Vaughan is undergoing a tremendous transformation fueled by sustained high growth rates, increasing requirements, fiscal pressures, and citizens' rising expectations for better and faster services delivered at a lower cost. The City must anticipate and prepare for the evolving future needs of the City. To accomplish this, and continue with the City's progress, opportunities must be explored to enhance capacity and deliver effective services. To assist in this regard Operational Reviews have been implemented. The results of this initiative will feed into the financial planning process.

Operational Reviews

The Innovation and Continuous Improvement Department is the primary lead in conducting Operational Reviews. Operational reviews are currently underway and any costs or associated benefits anticipated from implementing recommendations associated with these reviews will be reflected to the extent possible in the upcoming financial plan preparation.

Operational Reviews help ensure that program and service expectation (of all stakeholders, including residents, businesses, Council and regulators) are being addressed by programs that are effective (i.e., focused on delivering the right level of services) and efficient (i.e., supported by processes that do things right) and economic (i.e., utilize resources appropriately). Reviews provide opportunities to identify any gaps, issues or challenges in these areas and to develop realistic options for addressing them by considering changes to processes, organization (e.g., skills, capabilities, accountabilities) and technology utilizing a consistent approach in developing a case for change.

Operational reviews of programs are expected to provide recommendations relating to service delivery models, levels of service, impacts on residents, key processes, organizational structure, enabling technologies and identify program costs together with implementation approaches, risks and mitigation.

5. FINANCIAL PLANNING CONTROL THROUGH SPECIFIC GUIDELINES

The preparation of the operating financial plan will require a number of issues to be taken into consideration. Pressures associated to price increases, new initiatives, and growth requirements will need to be balanced against available funding. The objective of the City is to provide the lowest possible tax increase while maintaining the City's service levels and safeguarding assets. Below are actions in place to achieve this outcome.

Specific Operating Plan Guidelines

- A. Controlling financial pressures
- B. Strict process to evaluate funding requests
- C. User fee reviews to reduce the tax burden
- D. Zero impact adjustments
- E. Exploring opportunities through operational reviews

There is no across the board cost increase for inflation and no automatic increase for new staffing. All new funding requests require business cases and thorough review.

A) Controlling financial pressures

i. For the 2015-2018 Financial Planning process, all account budgets will remain at prior year levels with the exception of established commitments and pre-defined external pressures. This action will limit the base increase to the following items:

- Council approved employment agreements;
- Full year impact of prior year decisions;
- Council authorized recommendations;
- Supported external service contract commitments;
- Established utility & insurance increases, where justified;
- Debenture obligations;
- Defined corporate contingency items;
- Reserve contributions in accordance with approved policy.

Under these actions, departments are only permitted to include very specific increases, typically related to predetermined agreements, contracts or Council approvals.

ii. To ensure that all financial requests are captured and assessed within the approved process, all items containing an economic impact during the annual process are to be submitted to the Finance, Administration and Audit Committee for review and recommendation before Council consideration.

B) Strict process to evaluate funding requests

Under the above guidelines, departments are only permitted to include very specific predetermined increases in their Financial Plan. To the extent a department requires additional resources, a separate business case must be submitted detailing strategic links, costs & benefits, implications & consequences, success indicators, timelines, capital implications and project references, etc. These are referred to as **Additional Resource Requests (ARR)**. This action separates the Operating Plan into the following two classifications:

- Base Plan – determined through approved guidelines = Minimal tax increase.
- Additional Resource Requests – Essential funding requests not permitted through the base plan guidelines requiring Council review and approval. Council approval is specifically required for new staff resources, a change in service level, or new initiatives. Requests are limited to items with a gross cost in excess of \$10,000, which can have a net neutral or positive overall impact. If needed items can be combined to meet this

threshold. Where applicable corporate requests maybe put forward that benefit the City as a whole.

The objective of the above action is to separate basic operating obligations from items that may require further discussion and decisions.

Determining which resource requests move forward is a very difficult and challenging task as all departments are experiencing challenges associated with maintaining service levels, meeting legislative requirements, and implementing initiatives to move the City forward. Recognizing the value of requests greatly exceeds the amount of available limited resources; requests are evaluated and prioritized based on a blend of associated municipal value and risk criteria. The initial prioritization action is based on ARR content; the Director's Working Group (DWG) will be leveraged earlier in this process to assist in the assessment of priorities. The Senior Management Team (SMT) will vet all requests to determine the prioritized list for recommendation to Committee. This action integrates staff's experience, shares the challenges associated with prioritization and enhances corporate knowledge. Only Council approved requests are included in the annual financial plan.

As a result of implementing multi-year financial plans many requests are currently included in future years, termed "recognized". To avoid confusion, these requests are to remain at the rating and year previously assigned by Senior Management/Council. During the draft financial plan development ARRs will only be advanced to earlier years if justified by the department and authorized by the Commissioner of Finance & City Treasurer and the City Manager.

C) User fee reviews to reduce the tax burden

Another opportunity to minimize tax pressures is to maximize revenue generation through user fees and service charges. Most of the City's fees/charges are based on existing studies and multi-year by-laws and with the emergence of multi-year planning and varying by-law intervals/expiry dates, it is of great benefit to coordinate and consolidate the planning of these by-laws for review, update and approval under one common process and 4 year term (i.e. Planning, Engineering, Building standards, Licensing, etc.).

It is important to emphasize that any reduction in a user fee or service charge cost recovery ratio will have a corresponding direct impact on the City's levy. Therefore to minimize any impact on the City's tax rate, it is important to sustain or improve revenue/cost relationships. In addition to adjusting base plan revenues for anticipated changes in activity, departments will be required to review user fees and service charges and perform the following:

- ❖ Increase fees and charges in relation to related annual cost increases
- ❖ Incorporate a net full cost benefit in fees set for external inter-municipal services
- ❖ Submit new user fees and service charges opportunities

As a default, it is anticipated that department user fees & service charges will increase at minimum, by the rate of inflation, in scheduled increments, unless justification for no increase is otherwise specified. The Statistics Canada Ontario core inflation rate increased 1.4% for the 12 month period ending April 2014. However, Bank of Canada predicts that there will be inflationary pressures in 2014. It is recommended that an increase of 2% be applied to existing user fees and service charges. The above actions will be submitted for Senior Management review and Council approval.

D) Zero impact adjustments

Reclassifications and reallocations in *non-labour* related accounts are only permitted if they result in a zero impact on the financial plan. Furthermore, these adjustments are limited to better reflecting the true nature of the expense or more accurately aligning account budgets. There are no impacts associated with these adjustments and the intent is to refine departmental plans. As part of the process, reallocations/reclassifications will be reported, demonstrating a neutral impact.

Specific Capital Plan Guidelines

The preparation of the Capital Plan will require a number of issues to be taken into consideration. The pressures of new initiatives, maintaining existing infrastructure and growth requirements will need to be balanced against available funding, the impact on future operating plans and the staff resources to undertake and manage capital projects.

A prevailing theme throughout the years has repeatedly been the need to address the funding component for infrastructure renewal. The challenge of funding the significantly growing costs of infrastructure renewal is a paramount concern for most municipalities across Canada and stems from new construction being primarily funded by the development industry, leaving the municipalities across Ontario to fund future replacement costs from the municipality's limited tax base. The danger of not doing so could create a situation where the funding shortfall will continue to slowly build until a point in the future where a wave of facility, park, fire and other replacement projects come on board without available funding. A number of corporate initiatives have been initiated to address this concern, listed below, but further work is needed to address the shortfall:

- Continued Implementation of an Asset Management Strategy
- Implemented Life Cycle asset contributions
- Realigned reserves to ensure asset funding equity

A recent emerging theme is the mounting pressure associated with a number of value added corporate initiatives. The City has determined 14 high profile strategic initiatives with the potential of more being added. All of these initiatives, although valid and warranted, compete for limited capital funding, not only with each other but also with existing requirements to maintain the City's services and assets.

Recognizing the above illustrated challenges, the objective of the guidelines is to build a responsible Capital Plan that allocates resources in a way that balances needs and aspirations of the present while meeting the requirements of longer term sustainability. The Capital Plan Guideline components are:

- A. Capital project definition
- B. Identifying funding sources
- C. Guiding decisions through policies
- D. Specific actions to manage the Capital Plan

A) Capital Project Definition:

- A gross cost exceeding \$20,000; and
- For the purpose of constructing, acquiring or improving lands, buildings, engineering services, machinery and equipment or furniture and fixtures. The project must be undertaken for the purpose of providing municipal services, have a lasting benefit beyond one year and/or extend the life of the asset. Projects should incorporate all costs associated with getting the project ready for its intended use (i.e. license costs, survey

costs, etc). Expenditures for regular repair or maintenance designed to maintain an asset in its original state are not a capital expenditure; or

- A non-capital expenditure that is related to planning for growth (i.e. planning studies, master plans, etc); or
- In special circumstances, an item of operating nature intended to avoid or smooth significant short-term spikes in the general levy. These items are typically classified as transfers, but can be projects, and authorized by the Commissioner of Finance & City Treasurer.

B) Identifying Funding Sources

Capital projects are funded from the following five main sources:

Development/Special Area Charges Reserves: This funding source is based on legislation which imposes charges on new development in the City to pay for growth related net capital costs of servicing new development. The intent of the legislation is to maintain existing capital service levels and fund hard service growth requirements. On May 14th Council adopted the 2013 Development Charge Background Study. This study outlines capital initiatives to support future growth within the City and should therefore be used to assist departments with their Capital Project Planning. Development Charge Reserve collections are dependent on the economy and therefore future capital plans may require adjustments and could be different from the initial development charge document forecast.

Discretionary Reserves: This funding source is derived from dedicated operating budget contributions or allocations of accumulated net revenue for a particular purpose. The City has established a number of reserves to help manage municipal finances and protect against the potential need to reduce service levels or raise taxes due to temporary shortfalls or unexpected expenditure increases. These reserves are broken into the following categories:

- Sustainability - to protect against risk and uncertainty (i.e. winter, tax rate stabilization, etc.)
- Infrastructure Renewal - to fund the future costs of infrastructure renewal
- Corporate Reserves - to administer future liabilities and operational requirements (i.e. election)
- Special Purpose – to administer funds for which there is a specific purpose (i.e. cemetery)

The *Consolidated Reserve Policy* (Policy# 05.4.01) provides reserve fund guidance and supports financial sustainability.

Grants and Other Financing: This source of funding is provided by Federal/Provincial/Regional levels, specific contributions and requests. Typically these funding sources have very prescribed requirements and criteria.

NEW - There is a new Gas Tax Agreement for the period 2014-2024. In this agreement, the following relevant categories have been approved:

1. Local roads and bridges – i.e. roads, bridges, tunnels, highways and active transportation infrastructure (active transportation refers to investments that support active methods of travel. This can include: cycling lanes and paths, sidewalks, hiking and walking trails).
2. Drinking Water – i.e. drinking water conservation, collection, treatment and distribution systems.
3. Wastewater – i.e. wastewater and storm water collection, treatment and management systems.
4. Solid waste – i.e. solid waste management systems including the collection, diversion and disposal of recyclables, compostable materials and garbage.

5. Community energy systems – i.e. infrastructure that generates or increases the efficient usage of energy.
6. Capacity building - i.e. investments related to strengthening the ability of Municipalities to develop long-term planning practices.
7. Broadband connectivity – i.e. infrastructure that provides internet access to residents, businesses, and/or institutions in Canadian communities.
8. Brownfield Redevelopment i.e. remediation or decontamination and redevelopment of a brownfield site within municipal boundaries, where the redevelopment includes:
 - a. *the construction of public infrastructure as identified in the context of any other eligible category referred to in this Schedule, and/or;*
 - b. *the construction of municipal use public parks and publicly-owned social housing.*
9. Sport Infrastructure – i.e. amateur sport infrastructure (excludes facilities, including arenas, which would be used as the home of professional sports teams or major junior hockey teams (e.g. Junior A)).
10. Recreational Infrastructure - i.e. recreational facilities or networks.
11. Cultural Infrastructure – i.e. infrastructure that supports arts, humanities, and heritage.
12. Tourism Infrastructure – i.e. infrastructure that attracts travelers for recreation, leisure, business or other purposes.
13. Disaster mitigation – i.e. infrastructure that reduces or eliminates long-term impacts and risks associated with natural disasters.

Note: Investments in health infrastructure e.g. (hospitals, senior centres, etc.) are ineligible.

More information pertaining to the new agreement is provided in a separate report to Committee: *New Municipal Funding Agreement for Transfer of Federal Gas Tax Fund* (June 16 2014).

Debenture Financing: Debenture Funding is primarily utilized for the City's road and bridge replacement program, due to the overall substantial asset value and lengthy life cycles. Plans are based on the "Pavement & Bridge Management Program Study".

Capital from Taxation: Projects identified from taxation funding are primarily non-growth related projects that have no other source of financing, such as technology initiatives, new initiatives etc. In addition, the Development Charges Act 10% co-funding requirement for growth related soft services is also funded from this source.

C) Guiding Decisions through Policies

Over time, the City has developed a series of guiding financial policies and targets to assist in developing the Capital Plan, which have a positive impact on the financial stability of the City. They are listed as follows:

- A. A long standing City practice is "only capital projects with secured available funding sources are accepted", otherwise specific Council approval is required.
- B. Discretionary reserve ratio > 50% own source revenue. Discretionary reserves provide the City with financial flexibility in order to safeguard against economic downturns and finance operations internally. This ratio is a strong indicator of Vaughan's financial health.
- C. Working capital ratio > 10% own source revenue. Working capital funds provide in-year cash flow requirements.
- D. Debt level ratio < 10% own source revenue. The Debt Policy sets limitations on the use of debt in order to retain financial flexibility by avoiding long-term commitments and the

high cost of interest. Limited to a maximum of 10% of total own source revenue, which is significantly lower than the Province's 25% maximum. If an initiative is internally funded, the interest costs of borrowing are not charged to the capital project (i.e. Vaughan Hospital Precinct Development).

- E. A 3% administration recovery charge will be applied to capital projects, with the exception of most grant funded projects. These funds are transferred to the Operating Plan and intended to generally offset internal project administration costs.
- F. The inclusion of the 1.76% HST component that is not recoverable should be included as part of the cost of the capital project. Some exceptions may exist, such as for permit-able parks for which no HST is included in the cost, and these will be dealt with on an as-need basis.
- G. A Contingency Matrix was recently developed to assist departments in determining general project risk and a contingency budget amount. This will be shown as a separate cost for the capital project.
- H. The following guidelines relate to Development Charge projects:
 - 1) Positive reserve balances should not be placed into a pre-financing position, with exception for management studies incurred in advance of growth;
 - 2) Pre-financing should not be increased;
 - 3) Commit no more than 50% of revenues in the program year for any development charge service area that is pre-financed; and
 - 4) Development charges will be applied to the full extent permitted by legislation.

D) Specific Actions to Manage Capital Plans

Actively Closing Projects

Continuing with past practice, staff together with departments will review all active projects to determine if projects can be closed. Any remaining project budget balance will be returned to the original funding source and made available during the 2015-2018 financial planning process.

New – Review of Open Capital Projects

Staff will review all open projects to assess the ability to complete existing projects before requesting the approval of new projects. Departments will assess the relevancy and timing of these open projects; potentially proposing the closing of some open projects. For those projects that remain, comments as to the timing of project activity and project closure will be noted and reported on in a future report to Committee during the financial planning process. More specific project detail will be provided for those projects older than 3 years with limited cost activity.

Greater Collaboration

Recognizing that there are numerous department independencies and in the interest of better information, capital projects and ARR's will be circulated to key areas for comment, such as Building and Facilities, Fleet, HR, ITM, etc.

Leveraging Grant and Subsidy Funding

To support local municipal initiatives, Federal, Provincial, Regional and local agencies deliver grant programs, partnerships, and subsidies which focus primarily on the following categories:

- Environmental Sustainability
- Infrastructure
- Economic Development
- Culture

Competition for these resources is high and as such applicants are required to prepare detailed submissions consisting of project plans, financial detail, timelines, justification, etc. Successful submissions may also be required to meet strict compliance reporting and conditions. To assist the City in developing external funding opportunities, the City's Grant Specialist will participate in the financial planning process and review capital submissions to uncover opportunities and assist departments through the application process. Since implementing the External Grant Procurement Policy and Procedures in June 2009 the City has been very successful in receiving over \$71M, which have assisted in reducing costs associated with projects that may have otherwise been cancelled, delayed or placed increased pressure on the financial plan.

Forecasting Reserve Balances

In line with multi-year financial planning, reserve balances will also be forecasted to provide future visibility regarding funding availability and potential challenges. To accomplish this action assumptions will be required regarding reserve revenue streams, especially those that are dependent on external factors i.e. development charges, etc. Therefore, forecasted capital revenue assumptions will be conservatively estimated and future capital plans may require adjustments to account for potential changes in information i.e. upswings or downward trends.

New – 10 year forecasts will be developed for development related (DC/CIL) and infrastructure reserves. These forecasts will help illustrate reserve levels and potential gaps; assisting staff to assess funding available to complete planned works. The 10 year capital reserve forecast will be based on the four year detailed plan + six year forecast. Departments can leverage the 2013 Development Charge Background Study, Master Plans, Department strategies, and PSAB lifecycle data to assist with this endeavour. The information that will arise from the undertaking of the Asset Management Strategy will be rolled into these forecasts at the time the information is available.

New – Staff will engage an actuary to undertake a review of post-retirement benefit requirements. Recommendations that arise from this review will be incorporated into the financial plan and separately reported to Committee during the financial planning process.

Capital Project Prioritization

The value of projects approved will not only depend on the amount of funds available in a particular funding source, but also the impact on the City's overall resources i.e. available capital and operating funding, available resourcing capacity, established financial policies, etc.

The criteria used to prioritize projects within a funding source include, but are not limited to consideration of the following:

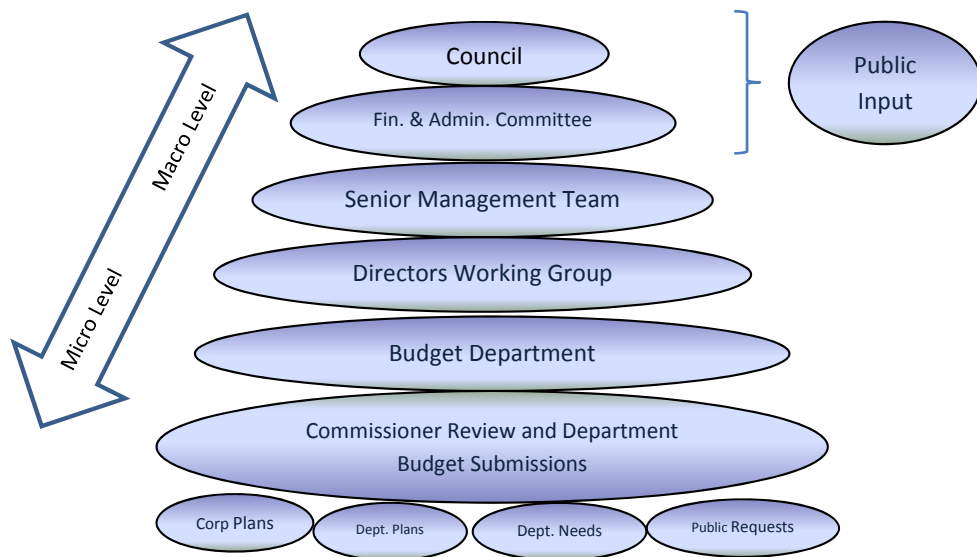
- Pre-Budget approval obtained
- Funds required to complete previously approved projects
- Legal or Regulatory requirements (including financial commitments)
- Net revenue generating, cost savings or efficiency improvement projects
- Growth related projects
- Infrastructure repair projects
- Equipment replacement projects
- New service levels

Based on the above endorsed guidelines, each department will prioritize the capital projects within their dedicated funding sources. For funding sources with multiple department stakeholders (i.e. capital from taxation, gas tax funds) the Director's Working Group (DWG) will be leveraged to assist in the assessment of priorities. Concurrently, Financial Planning and Analytics staff will assess funding availability within policy guidelines and establish multi-year funding availability lines for each funding source. As mentioned above, consideration will also be given to operating plan and staff capacity implications, which could result in prioritization adjustments. The Senior

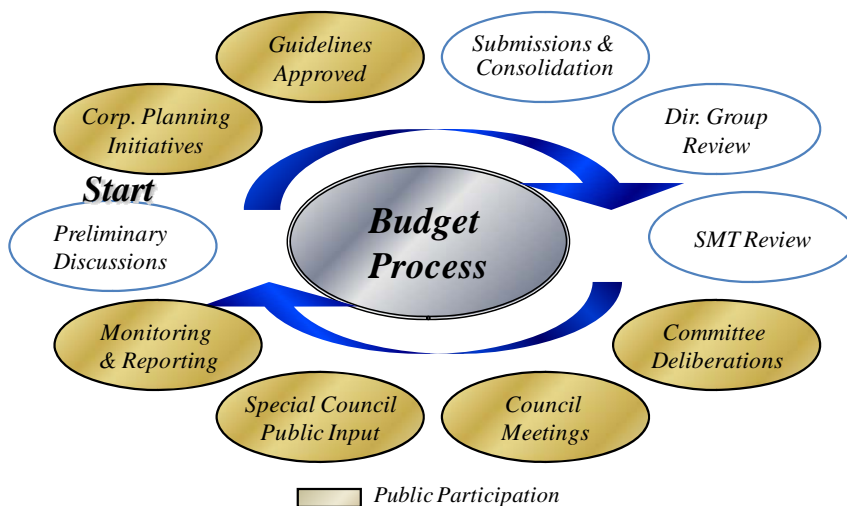
Management Team (SMT) will vet all requests to determine the prioritized list for recommendation to Committee. As a result of implementing multi-year plans many requests are currently recognized. To avoid confusion, these requests are to remain in the year previously assigned by Senior Management, unless authorized by the Commissioner of Finance & City Treasurer and the City Manager.

6. THOROUGH MULTI- LAYER REVIEW PROCESS

The financial planning process has a very thorough review process and the final financial plan will consist of many decisions resulting from a variety of review sessions and open public sessions. Illustrated below are the various layers of review that occur and areas involved within Vaughan's process.



The opportunity for public involvement throughout the financial planning process is a key process element. Illustrated below are the touch point opportunities for public participation in the financial planning process.



CONTINUED PROCESS IMPROVEMENTS

The Financial Planning and Analytics Department strives to continuously improve the financial planning process. A strong emphasis is placed on reviewing processes and creating refinements that add value by making the process easier and more informative. Many of these improvements lead to greater efficiencies and reporting, thereby allowing management and front line staff to focus more on core operations, planning, review and decision making. To that end, some of the more recent significant process improvements for the financial planning process include:

- **New** – The recent re-alignment of the Financial Planning & Analytics group into a corporate consolidation team and two portfolio teams responsible for all financial planning for their assigned clients; this step fully integrates processes and leverages synergies.
- **New** – Alignment of Water and Wastewater Budget timing with the City's financial planning process
- **New** - The Capital Project Financial Administration and Reporting Policy provides guidance and control related to capital project governance and assurance; including regular reporting on high profile capital projects
- **New** – A review of general ledger accounts has been conducted to provide definitions of the types of revenues/expenses that are captured in the account. During the review, accounts will be consolidated that capture the same expense/revenue information.
- Integrated strategy & financial planning through the Corporate Planning Process.
- Financial Master Plan Development - discusses the long-term financial pressures facing the City and provides a number of progressive recommendations.
- The Reserve Policy Update resulted in a consolidated framework, improved guidance, development of new reserves to meet emerging needs and a realignment of balances to ensure equitable funding.
- The *Reserve Contribution Policy* for tangible capital assets is intended to ensure the community's infrastructure remains sustainable, supporting the numerous programs and services offered.
- The Contingency Matrix assists departments determine general project risk and a contingency budget amount
- Consolidated City's quarterly reporting process into a single simplified report (Operating, Capital, and Water Waste Water). This action was intended for stakeholders to have a more fulsome and complete view of the City's financial results.

FINANCIAL PLAN TIMETABLE

The upcoming October 2014 Municipal Election and its impact on the timing of presenting the financial plan results to Committee must be incorporated into the timetable. Staff anticipate bringing forward the first draft of the 2015-2018 Financial Plan to the Finance, Administration and Audit Committee in early January with the intent of a Finance, Administration and Audit Committee recommendation early March 2015 and Council approval in late March 2015. Every effort will be made to adhere to the timeline, but issues raised during the process could potentially impact the presented timeline.

The submission process will occur in three steps. The overall intent is to layer the submission process and allocate time for departments to focus on specific process components. This in turn

will allow adequate time for submission review and feedback. The submission process stages are as follows

1. End of June - Submit business plans to the Strategic Planning Area
2. Early August – Validate and submit base plans
3. End of Aug – submit ARR's and capital requests

Developing a Business Plan is the initial step in the process and will help identify resourcing pressures, opportunities and objective alignment. The final submission stage requires departments to articulate Additional Resource and Capital Requests, which should be aligned with dept. business plans. This process is designed to build the department financial plan in a systematic and logical manner. Assigned portfolio groups will be actively involved with departments to provide assistance with financial plan development.

City of Vaughan 2015 - 2018 Financial Plan Timetable	
Dates	Activity
16-Jun-14	Financial Planning Guidelines
24-Jun-14	Financial Planning Instructions Issued To Depts.
27-Jun-14	Business Plan Submissions to Strategic Planning Dept.
6-Aug-14	Base Operating Financial Plan Submissions
July – Aug 2014	SMT Preliminary 2015-2018 Financial Plan Review
Aug 11-15, 2014	Commissioner Review of Proposed ARR's
22-Aug-14	Capital Project Submissions and Operating ARR's
Sep-14	- <i>Director Working Group (DWG) Prioritization</i> - <i>Submission Review, Analysis, & Consolidation</i>
Oct-14	SMT Deliberations
Dec-14	Draft Financial Plan and Presentation Finalization
Jan2015 -Mar2015	Finance, Administration & Audit Committee Deliberations
Mar-15	Public Input Meeting/Council Approval (14 day notice req.)

Relationship to Vaughan Vision 2020/Strategic Plan

This report is consistent with Vaughan Vision 2020's long term goal of financial stability through the design of guidelines intended to produce a responsible financial plan. The necessary resources have not yet been approved and will be addressed throughout future deliberations.

Regional Implications

N/A

Conclusion

The City over time has moved away from annual budget practices to a more strategic and proactive financial planning four year approach, which includes the annual budget as defined in the Municipal Act. The approach, guidelines and actions recommended represent prudent management practices and are appropriate given the demand for services is increasing, while at the same time the City has limited resources.

The enclosed Guidelines are presented to provide the lowest possible tax rate increase while maintaining service levels and supporting Vaughan's vision. Due to the upcoming election the 2015-2018 Timetable and Guidelines plans for the Finance, Administration and Audit Committee to provide a recommendation to Council in early March 2015 and a public meeting be held late March 2015, followed by Council approval.

Attachments

N/A

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Respectfully submitted,

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