Committee of the Whole (Working Session) Report

DATE: Wednesday, December 7, 2022 **WARD(S):** ALL

TITLE: CITY OF VAUGHAN LONG-RANGE FISCAL PLAN

FROM:
Michael Coroneos, Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer

ACTION: FOR INFORMATION

Purpose
To present the results of the long-range fiscal planning work undertaken by Hemson Consulting Inc. including an overview of the 20-year outlook for the City's infrastructure funding requirements.

Report Highlights

- The City retained Hemson Consulting Ltd. (Hemson) to develop a Long-Range Fiscal Plan, including a Fiscal Impact Model to evaluate reserve balances, debt levels, tax-levy funding requirements, and forecast the City's financial position over the next 20 years (to 2042) for the tax-supported services. This report presents the findings of the Fiscal Impact Model.
- Hemson will provide a final Long-Range Fiscal Plan Report that includes an overview of the City's current fiscal position, a 20-year forecast, key findings from the fiscal impact model, and policy directions in early 2023.
- The Fiscal Impact Model is a living document and serves as a tool for testing various funding scenarios. The Fiscal Impact Model does not replace the City's annual budget process or budget system; rather, it is an internal tool to assist City staff with long-range financial planning analysis, fiscal policies, budget directions, and inform the decision-making process.

Recommendation
1. That this report be received for information.

Background

In 2021, Hemson was retained to develop a Long-Range Fiscal Plan, including a Fiscal Impact Model to evaluate reserve balances, debt levels, tax-levy funding requirements, and forecast the City's financial position over the next 20 years (to 2042) for tax-supported operations.

The Long-Range Fiscal Plan (LRFP) project plan was presented to Council on November 9, 2021. The project comprises of two key deliverables: a Fiscal Impact Model and a Long-Range Fiscal Plan Report.

The Fiscal Impact Model (the model) is a centralized excel-based model that contains key financial data and macro-economic and demographic assumptions to develop a long-term outlook (to 2042) for the City of Vaughan. Key financial data includes growth forecasts from the Development Charge Background Study (DCBS), the most recent operating and capital budgets, and Asset Management Plans (AMPs) to identify overall operating and capital needs. Using this information, staff can undertake sensitivity analysis on key fiscal measures such as reserve balances, debt levels, and tax-levy increases. The model can be used to evaluate various scenarios and develop long-term outlook recommendations to inform budget directions and policy recommendations. The project plan included a presentation of key findings of the model pending completion of several critical studies in 2022.

The LRFP Report will provide an overview of the 20-year forecast (to 2042) including the City's overall financial position, capital infrastructure forecasts, and key assumptions used in the Model. The LRFP Report will include key findings related to taxation, operating and capital expenditure forecasts, non-tax revenues, capital reserves, and debt management along with policy recommendations to aid staff with prescribing a City of Vaughan Fiscal Strategy.

Previous Reports/Authority

City of Vaughan Long Range Fiscal Plan, Item 2, Report No. 52, of the Committee of the Whole, November 16, 2021.

Financial Sustainability Program and Fiscal Framework Guiding Principles, Item 3, Report No. 1 of the Finance, Administration and Audit Committee, January 24, 2017.

Analysis and Options

The sensitivity analysis performed by Hemson in the Fiscal Impact Model for tax supported services extends 20 years to 2042 and includes forecasts of macro-economic and demographic factors such as population, employment, and residential and nonresidential growth. The Model also includes key information from a series of studies and plans the City recently completed, including the 2022 Development Charges Background Study, Parkland Acquisition/Cash-in-Lieu analysis, Community Benefit Charges Strategy, Asset Management Plans for core assets (approved by Council) and non-core assets, as well as the 2022 operating and capital budgets. The analysis generated key findings with recommendations and strategies to support the City's overall long-term financial sustainability. (All values are expressed in 2022 constant dollars).

Key Findings of the Fiscal Impact Model

The City of Vaughan continues to growth.

Vaughan continues to experience strong population growth and development:

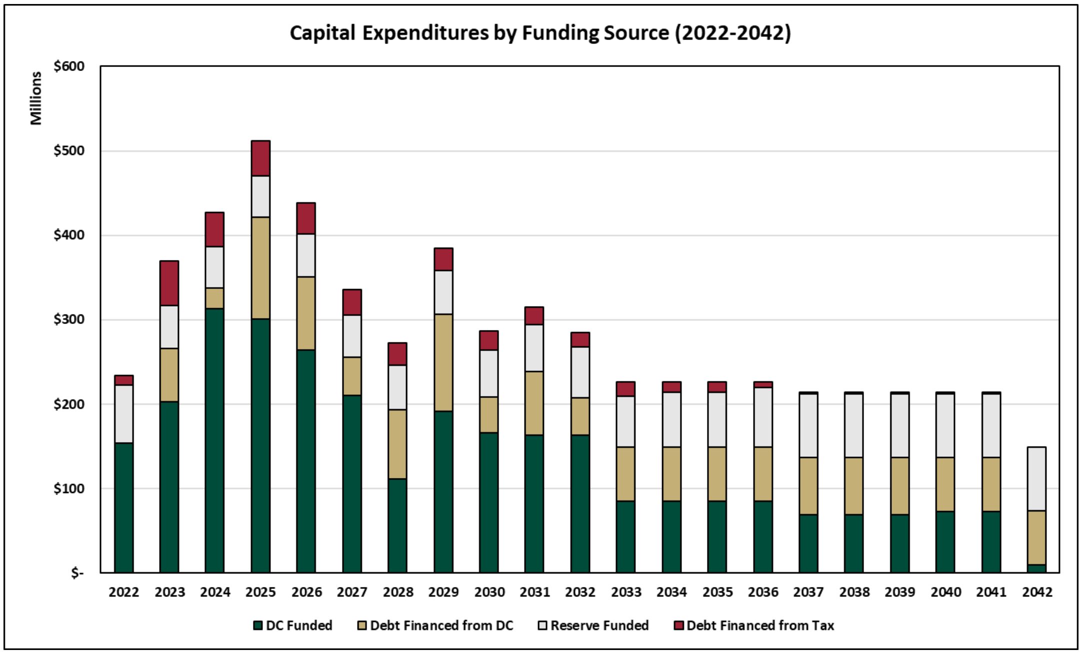
- The City of Vaughan's census population has grown 16% since 2012;
- Employment has grown 30% since 2012; and
- By 2042 the City is expected to grow to approximately 489,000 people and 307,000 employees.

Key Finding #1: The City will need to plan for tax-levy pressures over the short-term while balancing capital commitments over the long-term.

For the past several years, the City has maintained annual property tax rate increases at or below 3%. In 2021, Council approved an operating budget with a 0% tax rate increase, and an increase of 2% in 2022. However, significant capital induced operating impacts from existing commitments, new growth infrastructure creates significant upward pressures in the short-term attributed to reserve contributions for the future repair and replacement of the City's infrastructure.

Twenty-year capital expenditure forecast (excluding rate supported capital) totals $6.3 Billion.

The Fiscal Impact Model incorporates the latest economic assumptions and key data from the Development Charges Background Study, Asset Management Plans and 2022 Budgets. The City's capital needs are significant; forecast at $6.3 billion over the next twenty years, as illustrated in the chart below.



<u>Key Finding #2: Property taxes continue to be the City's main source of revenue.</u>

Property taxes will continue to be the City's primary means to raise "own source" revenue; However, if status-quo tax rate increases are maintained, fiscal pressures will occur.

The Fiscal Impact Model forecasts a tax levy requirement of approximately $454 million by 2042, an increase from the 2022 tax levy of $220 million. Current tax rates would not be sufficient to fund the City's long-term financial obligations associated with the capital requirements of the LRFP. Over the long-term, this could result in the need to defer capital projects which could negatively impact levels of service. Given that the *Municipal Act* prohibits municipalities from running budget deficits, the City's options for fiscal sustainability are limited to tax levy increases, service cuts, and use of available reserves.

<u>Key Finding #3: Infrastructure reserves and debt financing are important fiscal tools.</u>

Capital infrastructure reserves and debt financing are important fiscal tools to help the City with *state of good repair* and growth capital infrastructure moving forward.

The forecasted 20-year cumulative infrastructure need is $2.7 Billion.

The total 20-year infrastructure need of $2.7 billion is based on the average *state of good repair* infrastructure needs and the future replacement of both growth-related and assumed infrastructure assets. Based on existing capital funding assumptions (holding current capital reserve contributions constant and maintaining annual Canada Community-Building Fund allocations (*formerly gas tax*)), the total 20-year funding available is $741.6 million, resulting in a 20-year infrastructure funding gap of $2 billion. Increasing existing contributions to reserves by about 5.7% annually helps to narrow the funding gap to $1.8 billion.

The City's debt capacity will exceed 10% by 2042.

The City is expected to experience significant debt pressures due to the magnitude and timing of the capital program. Approximately $1.5 billion in total debt funding (or 29% of the total 20-year capital program) is projected, while rising interest rates in the short-term could create additional pressures related to debt. The Model forecasts the City will exceed its self-imposed 10% debt limit in 2032 but remain within the 25% of own source revenue legislated by the Province. Approximately 80% of the debt funded capital is growth-related.

Optimizing existing funding tools increases the City's capacity to close the infrastructure funding gap.

Revisiting the timing and scope of capital projects, optimizing the use of existing funding tools and revenue sources, such as debt and dedicated contributions to capital reserves, can help increase the City's capacity to begin to close the infrastructure funding gap.

Dedicating a percentage of the property tax levy to fund capital infrastructure projects and future repair and maintenance is an increasingly popular option for municipalities looking to build reserves over time to address infrastructure funding gaps. A variation of this approach is a special levy earmarked for capital infrastructure projects. The levy can be phased in or set at a flat rate. The yield can be set at a percentage of the base year or the current year. It can be brought forward through the budget process, or a separate by-law and it can be built into the tax rate or be broken out and passed separately, with revenues held separately. Property tax bills can also reflect a dedicated infrastructure levy in terms of the tax rate or tax owed.

<u>**Legislative changes could result in additional long-term fiscal pressures.**</u>

On October 25, 2022, the Provincial government introduced Bill 23, the *More Homes Built Faster Act*, 2022 which proposes significant legislative and regulatory changes to several acts including, but not limited to the *Planning Act*, and *Development Charges Act*. Many of the proposed changes need to be better understood; however, as it is understood currently, reductions in fees such as development charges, will shift the financial burden of growth-related infrastructure onto municipal taxpayers unless it is offset by other funding mechanisms. City staff will continue to monitor Bill 23, along with any other potential legislative changes that potentially impact the City's financial situation and incorporate them into the Long-Range Fiscal Plan and Fiscal Impact Model. However, currently the Model does not reflect Bill 23.

The Long-Range Fiscal Plan is a Living Document.

As the City grows and its infrastructure ages, the LRFP cost outlook will identify fiscal pressures before they occur, allowing staff to proactively develop fiscal strategies to address the pressures. The LRFP will also help identify where changes in financial policies may be required to support the long-term fiscal sustainability of the City. It is therefore prudent to regularly review and update the model as critical inputs change to support ongoing proactive decisions to maintain the financial health of the City and to gauge impacts on long-term results.

The City's budget process continues to be robust and always evolving. The Long-Range Fiscal Plan does not replace the City's annual budget process but is intended to complement it by providing a long-term outlook. Fiscal strategies arising from the LRFP can be implemented in the annual budget process.

Financial Impact

Costs associated with developing the Long-Range Fiscal Plan are included within the approved 2022 Capital Budget. Financial impacts associated with long-term fiscal strategies will be included as part of future annual budget processes, deliberations, and approvals.

Broader Regional Impacts/Considerations

There are no direct impacts to other governments/organizations that would result from this project.

Conclusion

As the City continues to grow and capital assets mature, the Long-Range Fiscal Plan and Fiscal Impact Model are strategic tools that will provide valuable information to support decisions, inform budget planning, and ensure the long-term fiscal sustainability of the City of Vaughan.

For more information, please contact:
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Kenneth Quan, Manager, Corporate Financial Planning & Analysis, ext. 8029.

Attachment

1. Long Range Fiscal Plan and Forecast presentation by Hemson Consulting, December 7, 2022.

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