Council Working Session

Long Range Fiscal Plan and Forecast
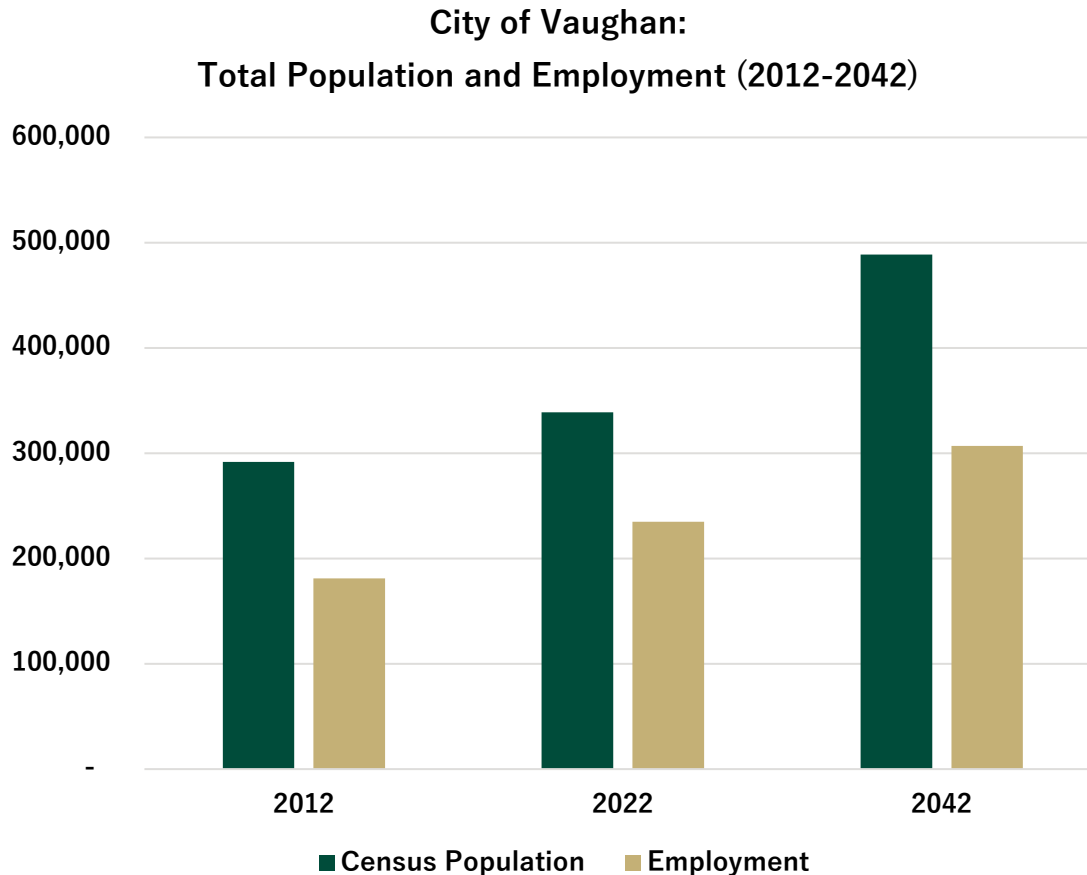
Topics for Discussion

- Growth in the City of Vaughan

- Purpose, Deliverables and Key Outputs of the LRFP

- Key Findings of the LRFP

- Recommendations

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The City Continues to Grow

City of Vaughan:
Total Population and Employment (2012-2042)

- Census Population
- Employment

Source: 2022 DC Study.

- Strong population growth and development across the City

  - Census population growth of 16% since 2012

- Employment growth of 30% has occurred since 2012

- By 2042 population expected to grow to 489,000 persons and 307,000 employees

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Why is the City Developing a Long Range Fiscal Plan (LRFP)?

- City's budget process continues to be robust and always evolving

- LRFP to complement the budget process by providing a long-term outlook

- As City grows, a long-term cost outlook helps identify fiscal pressures before they occur

  - Develop fiscal strategies in advance of cost pressures

- Evaluate fiscal effects of changes in City's financial policies

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The LRFP is Made Up of Two Key Deliverables
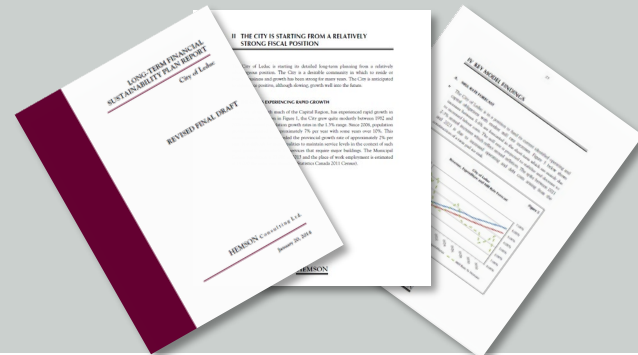
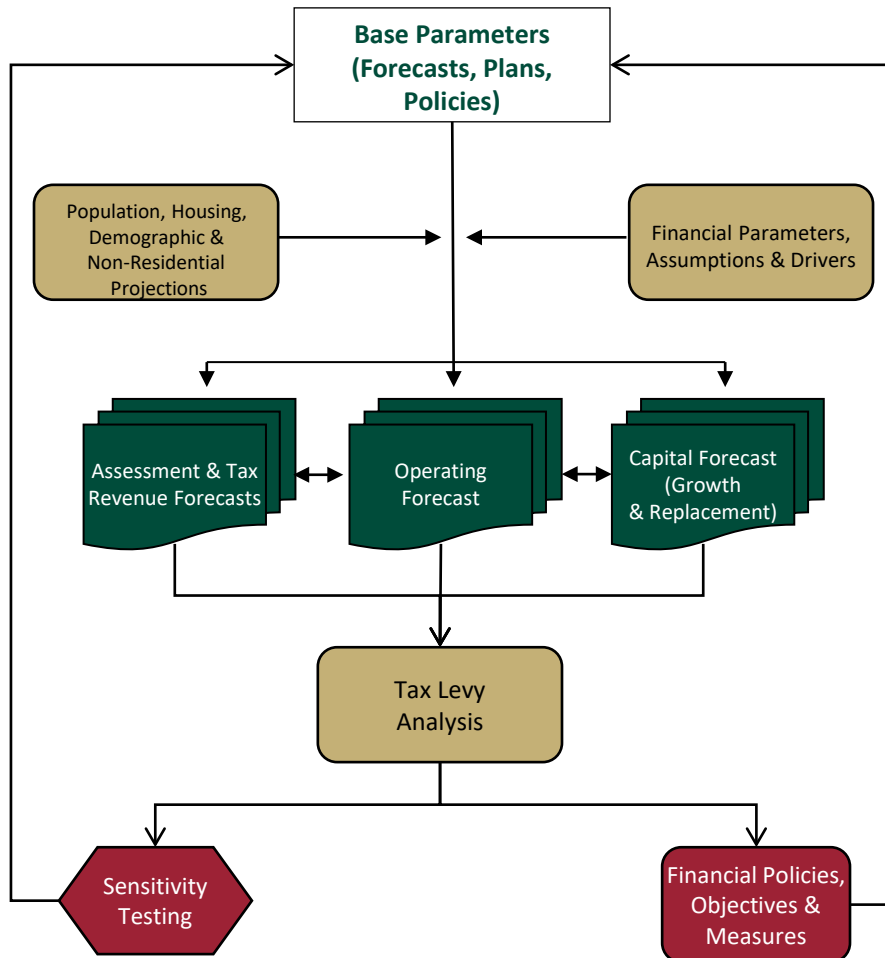| Fiscal Impact Model	LRFP Report
• Forecast the future financial position of the City over the next 20 years (to 2042) • Identify overall capital and operating needs • Undertake sensitivity testing on key fiscal measures such as: reserve balances, debt levels, tax levy increases, etc. • Centralized Excel based model that contains key financial data to develop long-term outlook	• Overview of 20-year forecast (to 2042) • Focus on financial viability, management, flexibility and sustainability • Identification of risks, challenges and opportunities • Key directions and policy recommendations to be presented to Council • Report expected in Early 2023

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Fiscal Model Structure


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                    ┌─────────────────────┐
                    │  Base Parameters    │
        ┌───────────┤ (Forecasts, Plans,  ├───────────┐
        │           │     Policies)       │           │
        │           └──────────┬──────────┘           │
        │                      │                      │
   ┌────┴──────────┐           │         ┌────────────┴──────┐
   │ Population,   │           │         │ Financial         │
   │ Housing,      │──────────►│◄────────│ Parameters,       │
   │ Demographic & │           │         │ Assumptions &     │
   │ Non-Residential│          │         │ Drivers           │
   │ Projections   │           │         └───────────────────┘
   └───────────────┘           │
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- Assessment & Tax Revenue Forecasts
- Operating Forecast
- Capital Forecast (Growth & Replacement)
- Tax Levy Analysis
- Sensitivity Testing
- Financial Policies, Objectives & Measures

Note: Water/wastewater/stormwater services to be addressed in future phase of the LRFP.

- Forecast extends 20-years to 2042 and deals with all tax funded services

- Capital forecast developed from various City sources
  - 2022 capital budget, 2022 DC Study, current core and non-core AMPs

- City's 2022 budget used as basis for operating forecast
  - Subsequent years based on series of volume and capital induced drivers
  - Can be adjusted to reflect changes in development forecast, capital, reserves, etc.

- All values expressed in constant 2022 dollars

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The LRFP is a Living Document

- Earlier in 2022 the City completed a series of study updates - DC Study, Parkland Acquisition/CIL analysis, and CBC Strategy

  - *Recent Provincial legislative changes, Bill 23, have significant impact on these studies which are not reflected in the current LRFP model*

- Core-AMPs approved by Council in 2021

  - City has met the requirements of O.Reg. 588/17

- Ongoing updates will be necessary

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Key Outputs the City will Consider through LRFP

| Output Name	Description
Operating	• Operating cost fiscal impacts associated to maintaining levels of service • As the City grows, how much do our expenditures increase by over a longer time period?
Capital Contributions	• LRFP to develop scenarios of capital contribution levels based on findings of core and non-core asset management plans
Infrastructure Reserves	• Reserve levels can be forecasted given capital commitments • Are reserve levels adequate today and in the future to undertake City capital obligations?
Debt Levels	• Model has been developed to track City debt levels over a 20-year period • Tracks debt levels relative to City 10% limit of own source revenues
Tax Levy	• Tax levy increases that may be needed to undertake both operating and capital obligations

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What the LRFP is not:

- Land-use plan

- Master servicing plan
  (requires engineering data)

- Replacement of corporate budget software

- Analysis of staffing requirements

- Model for public use

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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

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Historical vs Forecasted Tax Levy Increase

Historical vs Forecast General Tax Levy Increase (2018-2042)
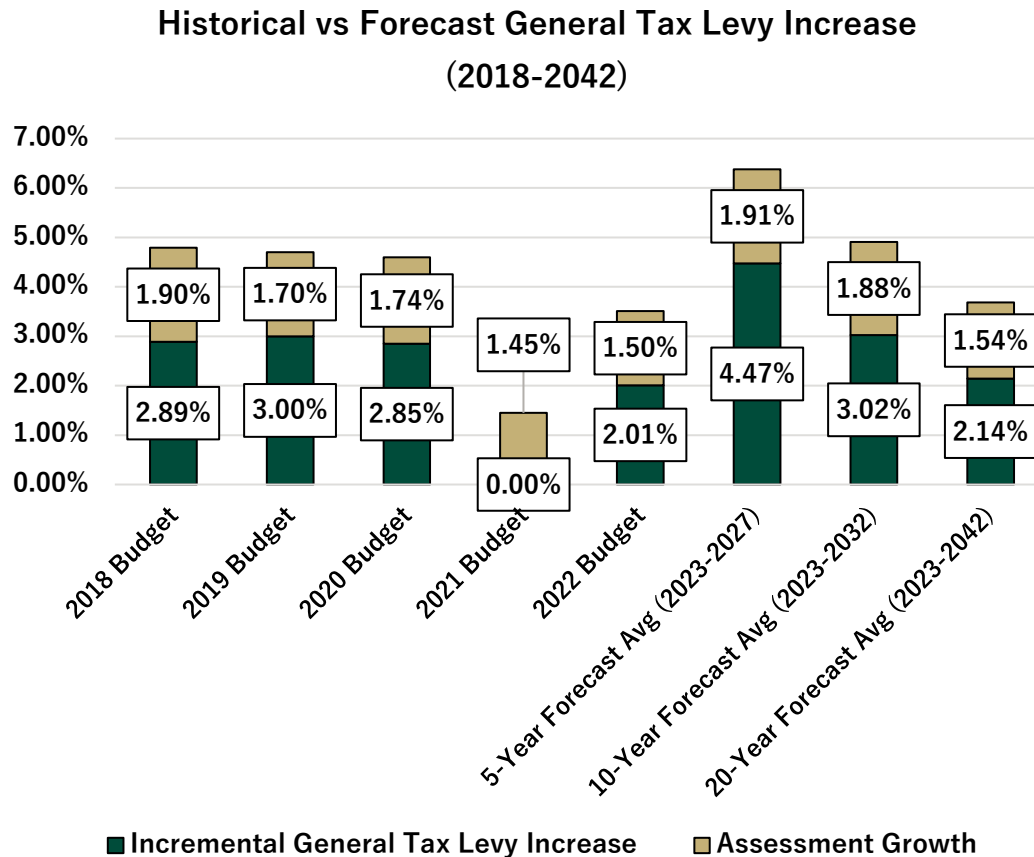
Note: Forecast is in constant 2022 dollars.

- Front-ended forecast pressure associated to operating impact from new infrastructure

- Largely associated to new road construction and new facilities

- Long-term pressure associated to contributions to reserves for future repair/replacement of assets

- Important to recognize outputs reflect best available information

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Capital Expenditure Forecast Totals $6.3 Billion (2022-2042)

Capital Expenditures (Excluding Rate Supported Capital) by Funding Source (2022-2042)

North Maple Regional Park Development (2022-2026)
Black Creek Channel Renewal (2022-2025)
Fire Station 7-12 (2023-2027)
Fire Station 7-11 (2025-2027)
Block 41 CC (2025-2029)

20-Year growth-related roads program = $2.5 Billion

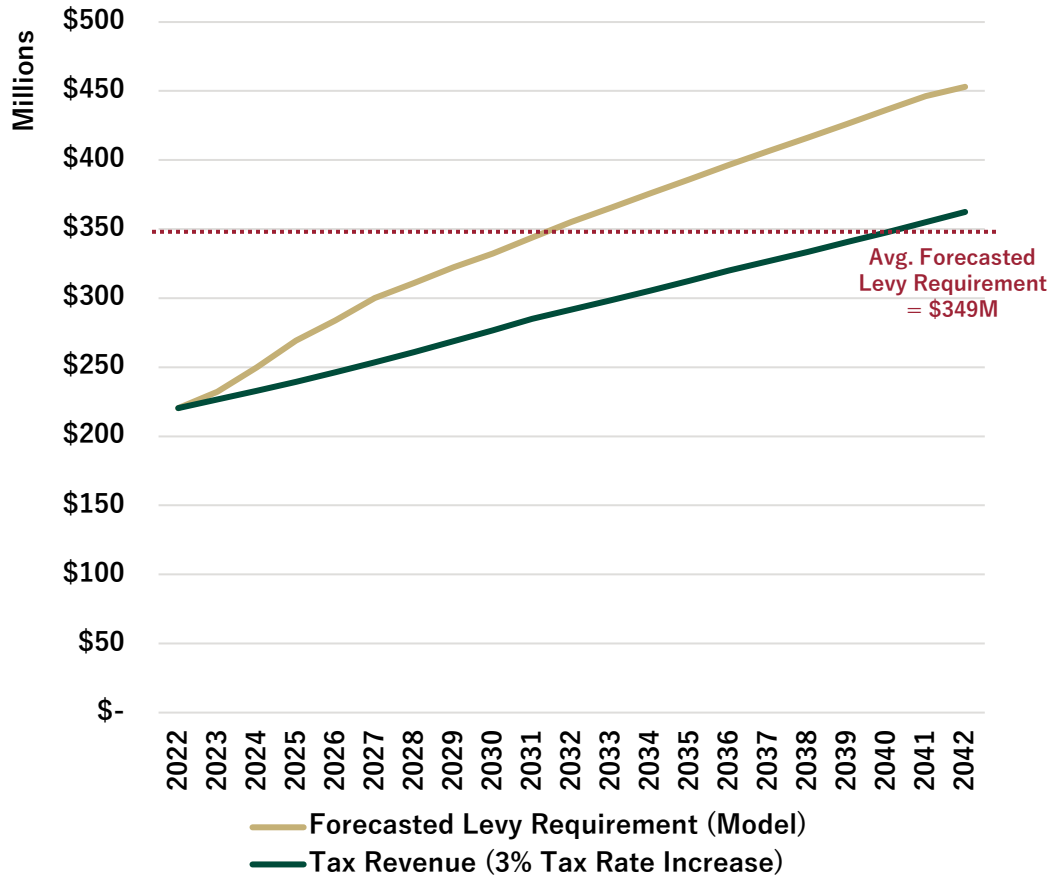Legend: DC Funded · Debt Financed from DC · Reserve Funded · Debt Financed from Tax

Note: In constant 2022 dollars. Excludes CBC funded capital.

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Key Finding #2:

Property taxes will continue to be the City's main source of revenue, however fiscal pressures can occur if status quo tax rate increases are maintained

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Forecasted Levy vs. Status Quo Tax Rate Increases

Millions

$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$-

2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042

Avg. Forecasted Levy Requirement = $349M

— Forecasted Levy Requirement (Model)
— Tax Revenue (3% Tax Rate Increase)

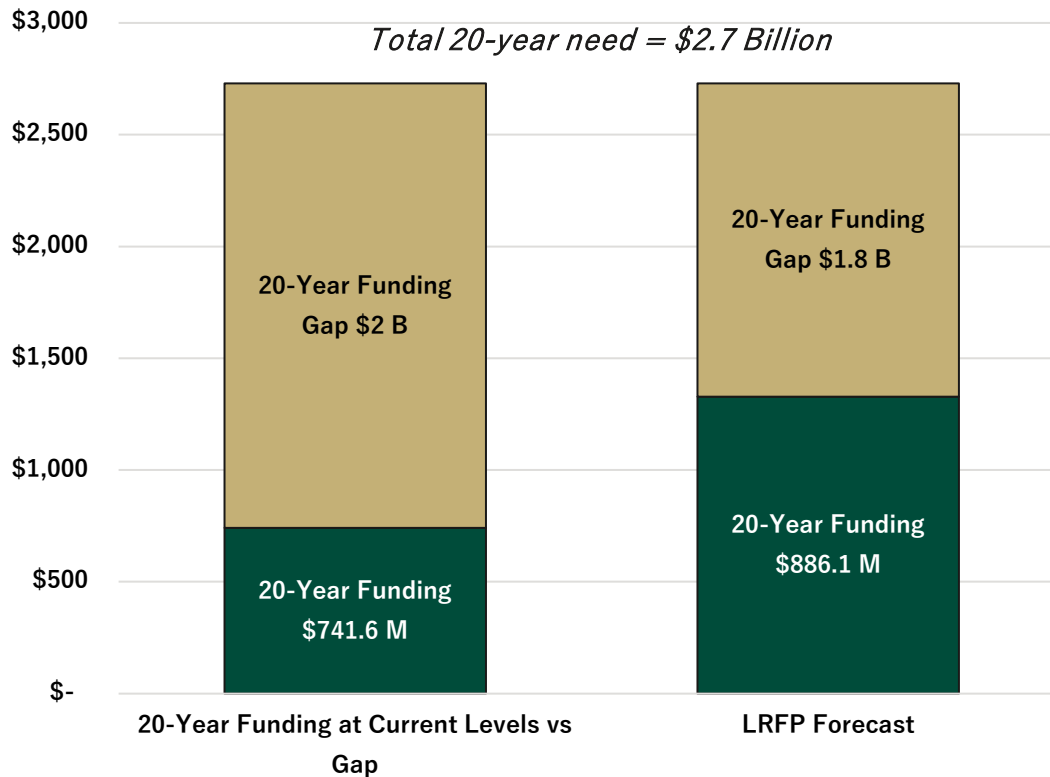*Note: Forecast is in constant 2022 dollars.*

- Current tax rates would not be sufficient to fund long-term obligations

- Over the long-term can result in:
  - Deferral of capital
  - Impacts to levels of service

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Key Finding #3:

Infrastructure reserves and debt financing are important fiscal tools that will help the City moving forward

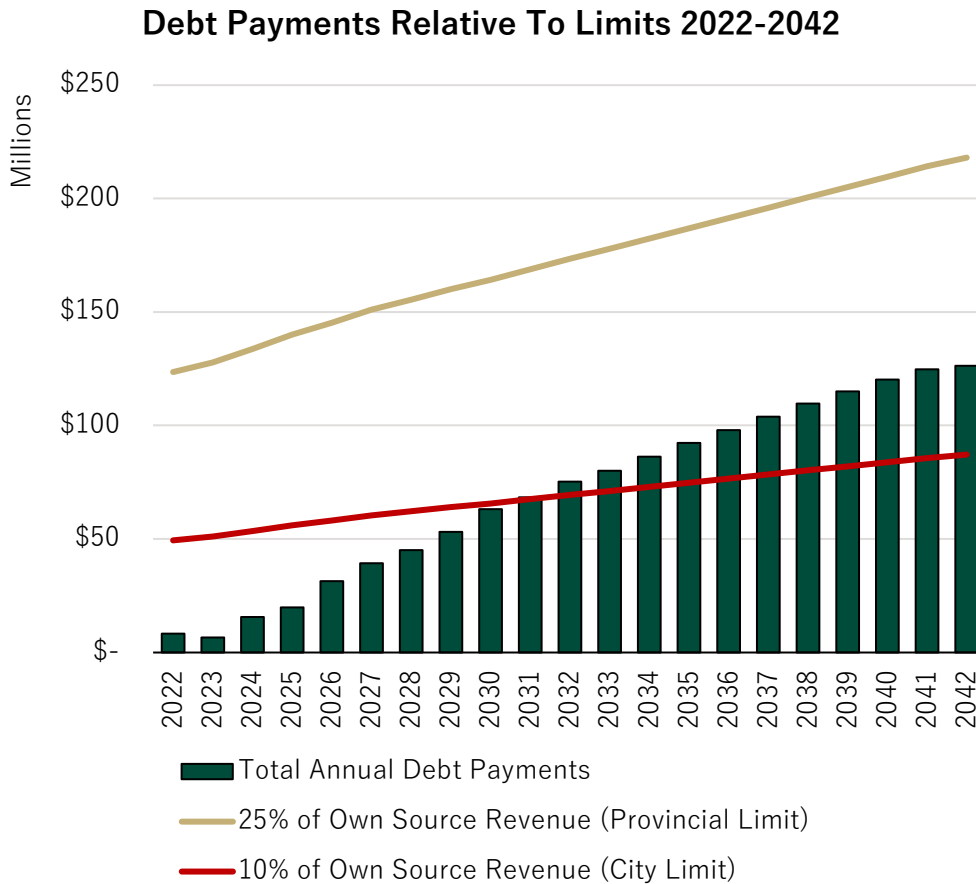**HEMSON**

Cumulative Infrastructure Gap

20-Year AMP Need vs Funding Scenarios

Total 20-year need = $2.7 Billion

- 20-Year Funding Gap $2 B
- 20-Year Funding $741.6 M
- 20-Year Funding Gap $1.8 B
- 20-Year Funding $886.1 M

20-Year Funding at Current Levels vs Gap

LRFP Forecast

- **Total need based on:**
  - AMP average needs over 20-year period
  - Future replacement of growth-related infrastructure
  - Future replacement of assumed infrastructure
- **Current funding levels assumed to include:**
  - Base contribution to capital reserves of $23.9 million held constant over 20-year period
  - LRFP forecast assumes an annual increase of about 5.7% to base contribution
  - CCBF annual funding (i.e. former Gas Tax funding)

Note: Cumulative gap expressed in constant 2022 dollars.

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Debt Policy Limits 2022-2042

Debt Payments Relative To Limits 2022-2042

- Total Annual Debt Payments
- 25% of Own Source Revenue (Provincial Limit)
- 10% of Own Source Revenue (City Limit)

Note: Includes water/wastewater debt assumed in City's water financial plan. Own source revenue includes tax and water/wastewater/storm rate revenue assumed to increase at 2% annually.

- City expected to experience significant debt pressures due to magnitude and timing of capital program

- About $1.5 billion in total debt funding (about 29% of total 20-year capital program)

- Additional pressures can occur due to rising interest rates over the short-term

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Key Recommendations to Improve LRFP

- City has begun developing a long-term capital plan (minimum of 10-years)

    - Capital plan should consider both growth and non-growth related infrastructure

- City may review key infrastructure reserve policies

    - Are reserve levels adequate?

- Explore tools available to help address infrastructure gap, such as debt, service levels, timing, or dedicated infrastructure reserve funding (i.e. infrastructure levy)

- City to continue to track debt levels in line with policy and consistent with budget and re-examine when necessary

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Next Steps

- LRFP Report – Will be available early 2023

- The City is encouraged to continue updating the Fiscal Impact Model to reflect current annual budgets and legislative changes

- Monitor policies alongside updates to the Fiscal Impact Model and use sensitivity testing to gauge impacts on long-term results

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