

## **CITY OF VAUGHAN**

### **EXTRACT FROM COUNCIL MEETING MINUTES OF DECEMBER 13, 2022**

Item 2, Report No. 45, of the Committee of the Whole (Working Session), which was adopted without amendment by the Council of the City of Vaughan on December 13, 2022.

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#### **2. CITY OF VAUGHAN LONG-RANGE FISCAL PLAN**

**The Committee of the Whole (Working Session) recommends:**

- 1) That the recommendation contained in the report of the Deputy City Manager, Corporate Services, City Treasurer and Chief Financial Officer dated December 7, 2022, be approved; and**
- 2) That the presentation by Craig Binning, Partner, Hemson Consulting Ltd., Toronto, and C2, presentation material be received.**

#### **Recommendation**

- 1. That this report be received for information.**

## Committee of the Whole (Working Session) Report

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**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

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**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 non-

residential 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 grow.**

Vaughan continues to experience strong population growth and development:

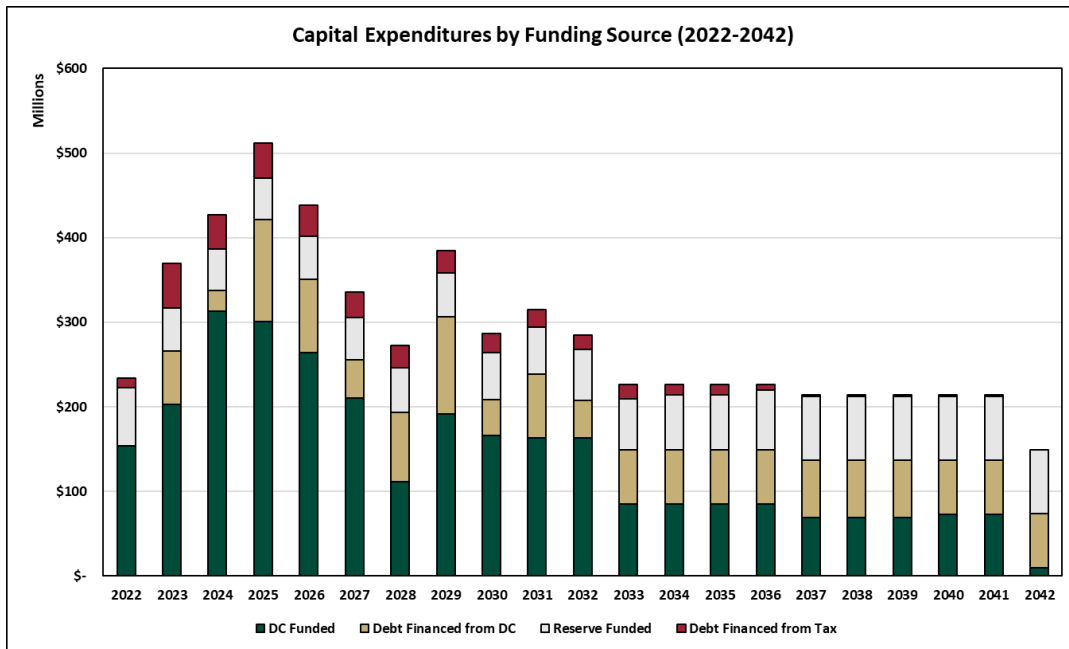
- The City of Vaughan's census population has grown 16% since 2012;
- Employment has grown 30% since 2012; and
- By 2042 the City is expected to grow to approximately 489,000 people and 307,000 employees.

#### **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.



**Key Finding #2: Property taxes continue to be the City’s main source of revenue.**

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.

**Key Finding #3: Infrastructure reserves and debt financing are important fiscal tools.**

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.

### **Legislative changes could result in additional long-term fiscal pressures.**

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:

Michael Marchetti, Director of Financial Planning & Development Finance, ext. 8271; or  
Kenneth Quan, Manager, Corporate Financial Planning & Analysis, ext. 8029.

**Attachment**

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

**Prepared by**

Kelly Sutton, Supervisor, Fiscal Planning & Policies, ext. 8252.

**Approved by**



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

**Reviewed by**



Nick Spensieri, City Manager



Council Working Session

## Long Range Fiscal Plan and Forecast



CITY OF VAUGHAN

December 7, 2022

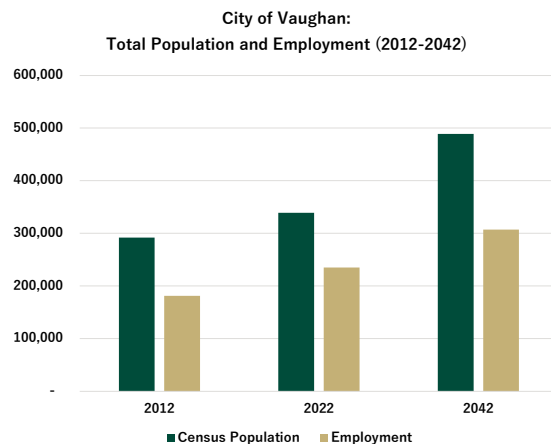
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### Topics for Discussion

- 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



Source: 2022 DC Study.

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- 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)?

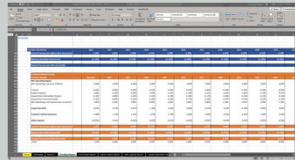
- City's budget process continues to be robust and always evolving
- LRFP to complement the budget process by providing a long-term outlook
- As City grows, a long-term cost outlook helps identify fiscal pressures before they occur
  - Develop fiscal strategies in advance of cost pressures
- Evaluate 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

- 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



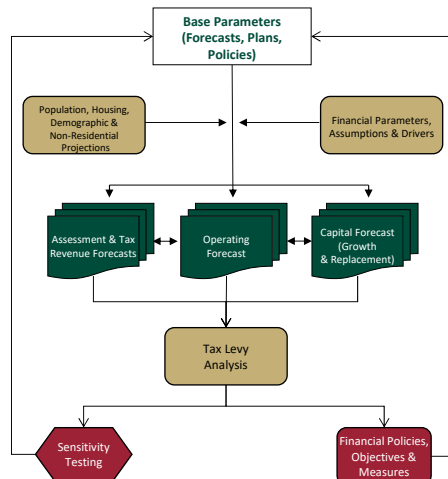
### LRFP Report

- 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



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

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- 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

## 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	<ul style="list-style-type: none"> <li>• Operating cost fiscal impacts associated to maintaining levels of service</li> <li>• As the City grows, how much do our expenditures increase by over a longer time period?</li> </ul>
Capital Contributions	<ul style="list-style-type: none"> <li>• LRFP to develop scenarios of capital contribution levels based on findings of core and non-core asset management plans</li> </ul>
Infrastructure Reserves	<ul style="list-style-type: none"> <li>• Reserve levels can be forecasted given capital commitments</li> <li>• Are reserve levels adequate today and in the future to undertake City capital obligations?</li> </ul>
Debt Levels	<ul style="list-style-type: none"> <li>• Model has been developed to track City debt levels over a 20-year period</li> <li>• Tracks debt levels relative to City 10% limit of own source revenues</li> </ul>
Tax Levy	<ul style="list-style-type: none"> <li>• Tax levy increases that may be needed to undertake both operating and capital obligations</li> </ul>

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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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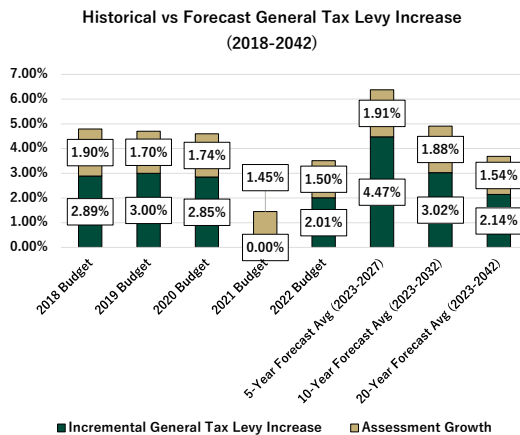
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### Key Finding #1:

**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

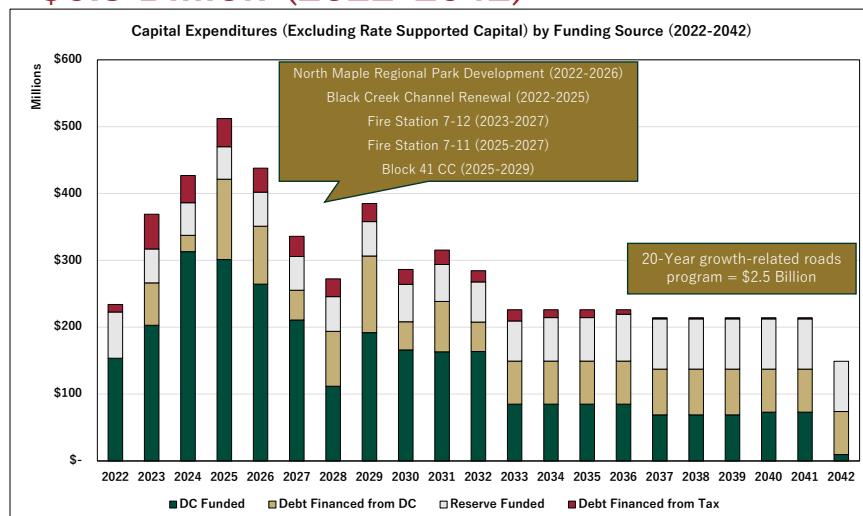


Note: Forecast is in constant 2022 dollars.

- 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)



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

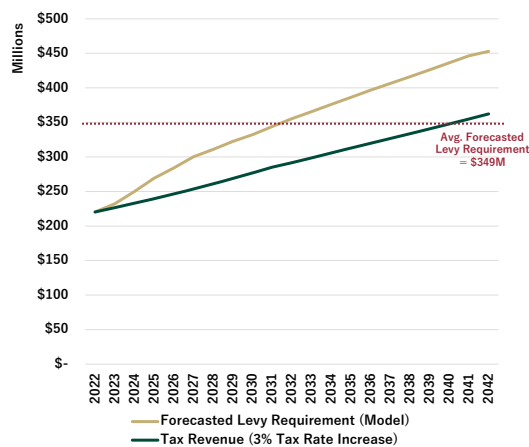
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## Key Finding #2:

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



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

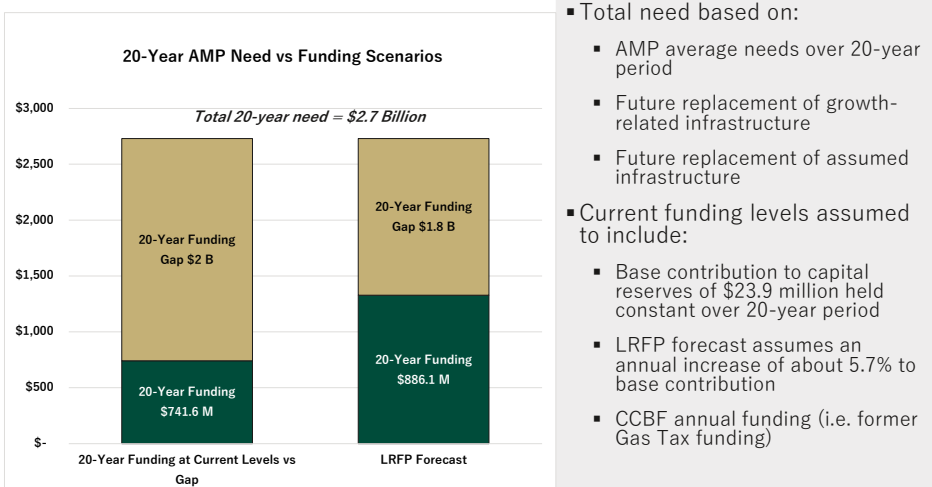
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### Key Finding #3:

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

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## Cumulative Infrastructure Gap

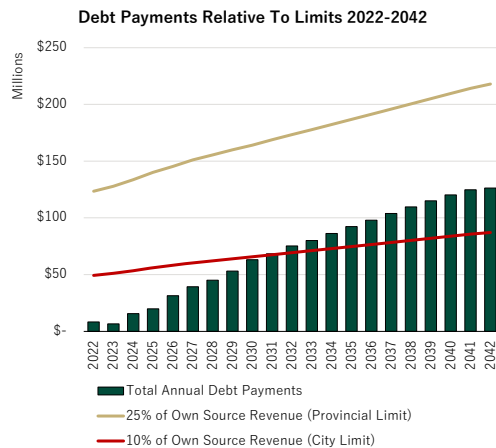


*Note: Cumulative gap expressed in constant 2022 dollars.*

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## Debt Policy Limits 2022-2042



*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

