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MEMORANDUM

CONFIDENTIAL DISCUSSION DRAFT (April 30, 2019)

Re: Regional Governance Review - City of Vaughan and York Region Fiscal Impact Analysis

A. BACKGROUND

The Province of Ontario is currently undertaking a Regional Government Review of Ontario's eight regional municipalities (Halton, York, Durham, Waterloo, Niagara, Peel, Muskoka District, and Oxford County), in addition to Simcoe County and all respective lower-tier municipalities. The purpose of the review is to ensure that the upper- and lower-tier municipalities in these geographic areas are efficient and accountable to their residents and businesses. The City of Vaughan is currently preparing all background information necessary to submit comments on the review to York Region and the Province.

The City has identified 3 potential scenarios that may affect the governance structure in the City of Vaughan and York Region. This document focuses on a high level assessment of the financial impact of changes to select services currently delivered by the City and Region under each of the 3 scenarios.

The financial impacts under each of the 3 scenarios have been determined with reference to past experience in Ontario. The analysis also takes into account the impact on net costs, both at the City and Regional level, to changes to service delivery. The financial impacts are intended to be an order of magnitude analysis to provide supporting commentary to help inform the City's submission to York Region and the Province.

Scenario 1: Amalgamation – Creation of One Single-Tier Municipality for all of York Region

1. Significant service disruption for services currently provided by the lower-tier municipalities would be expected.
2. Based on experience in Ontario, in the short-term, it is anticipated that there will be an upward pressure on costs. Amalgamation service standards/levels tend to move to the highest levels provided in the existing lower-tier municipalities. This has capital and operating impacts on infrastructure.
3. Experience also shows that municipal amalgamations result in compensation levels (salaries, wages and benefits) moving to the higher levels of the existing municipal compensation scales rather than the average or lowest.
4. These upward cost pressures can be offset, in part, by rationalization of staff, co-ordination of service delivery (fewer facilities) and economies of scale (larger purchasing and contracting powers resulting from larger size), however these often take time to achieve.
5. The analysis would suggest the potential to achieve cost savings over the medium to long term, for the following services:
 - i. Significant cost saving areas: Water/Wastewater, Fire Services and Roads;
 - ii. Less significant and more limited potential savings: Library, Parks/Recreation and Solid Waste Management;
 - iii. Low expenditure areas and minimum potential cost savings: Planning, Economic Development, Emergency Planning and Tax Collection;
6. Other fiscal comments and considerations:
 - i. Amalgamation is likely to put downward pressure on development charge recoveries. The higher historical service levels of the southern municipalities, in particular, the Cities of Vaughan, Richmond Hill and Markham, will be weighed down by the lower service levels elsewhere and result in lower maximum permissible DC funding envelopes and funding capabilities. The result is either a decline in service levels, if the growth-related capital programs are reduced, or the need to fund lost DC revenue potential from the property tax base.
 - ii. Potential need for additional long-term debt financing for growth-related infrastructure.

- iii. Infrastructure deficits and asset management lifecycle works needed in an amalgamated Region will continue to be in line with current needs (sum of all municipalities and Region). Consideration for long-term lifecycle costs will need to continue, however some efficiencies may be possible through consolidation of administrative functions or centralized purchasing and contracting.
 - iv. Total debt in an amalgamated Region is a combination of existing debt obligations of all lower-tier municipalities and may cause pressure on debt capacity in the short term.
7. Impact on rate payers - given Vaughan's relatively high assessment base (compared to rest of York Region), a shift to an amalgamated municipality may result in relatively higher taxes paid by Vaughan residents.

Scenario 2: Elimination of the Region and Vaughan as a Single-Tier City

1. This scenario raises questions and issues related to how the existing Regional services will be delivered and funded:
 - i. Would all nine lower-tier municipalities continue to exist and become nine single-tier municipalities or would there be some amalgamations?
 - ii. Would "regional service boards" be created to deliver all or some regional services?
 - iii. How would existing assets and liabilities be apportioned among the resulting single-tier municipalities?
 - iv. It is important to note, that there are no historical examples to support this scenario.
2. It is assumed that services currently delivered by the City of Vaughan would not be impacted by this governance change.
3. The analysis would suggest potential fiscal impacts, over the medium to long-term, for the following services:
 - i. Consolidated Water and Wastewater services delivered by a single Region-wide servicing board could have possible cost savings.
 - ii. The delivery and funding of "Community & Health Services", currently a Region of York responsibility, is more complicated and may result in higher administration costs. Furthermore, service delivery of Community & Health Services may have a negative fiscal impact on Vaughan given the relative "wealth" of Vaughan when compared to other York Region

municipalities. However, this will depend on the approach used to allocate costs (including liabilities).

- iii. Creation of single-tier municipalities will allow for consolidation of services that now have joint delivery responsibility:
 - Roads is a high expenditure service area that includes both upper and lower- tier service delivery. The resulting shift of Vaughan being responsible for Regional roads located within the City will result in higher local costs but likely not significantly different than the City's allocated share of Regional road costs. Assume this will be largely cost neutral to Vaughan, but may provide planning and service delivery benefits that may result in some savings overtime.
 - Low expenditure areas and minimum potential cost savings: Planning, Economic Development, Emergency Planning and Tax Collection
- iv. Assumed that the delivery of current City of Vaughan services is not impacted – with the exception of those items noted, in particular Water and Wastewater services.

4. Other fiscal comments:

- i. Creation of a single-tier City of Vaughan is unlikely to impact development charge funding shares for those services delivered directly by the new City. Services delivered by regional servicing boards will require additional analysis including legal questions, but it is assumed development charge funding levels would be largely the same.
- ii. Potential need for additional long-term debt financing for growth-related infrastructure.
- iii. Apportionment of infrastructure assets under this scenario is unclear. Cost savings over the long-term could be achieved under a regional servicing board structure, however there could be upward pressure on the infrastructure deficit if the City were to acquire additional assets.
- iv. Responsibilities of existing debt obligations are also unclear and may have short-term pressure on debt capacity if Vaughan were to take on liabilities. Changes to debt obligations will likely mean refinancing agreements with creditors.

Scenario 3: Service Reform Through Consolidation of Selected Service Areas

- 1. The City of Vaughan, Region of York and the other lower-tier municipalities, are constantly reviewing opportunities to achieve efficiencies and cost savings in the

delivery of municipal services. This scenario assumes the current two-tier governance structure remains unchanged while examining opportunities for further service reform where efficiencies and cost savings are likely to be achieved. It is noted that many of these opportunities would have occurred even without the Provincial Regional Governance Review and could be considered a status-quo improvement scenario.

2. It is assumed that services currently delivered by the Region would not be impacted.
3. The analysis would suggest potential fiscal impacts over the medium to long-term, for the following services:
 - i. Consolidated Water and Wastewater services delivered entirely by the Region could have possible cost savings.
 - ii. There are opportunities to explore changes to the delivery of fire services. Aurora and Newmarket currently have a joint-fire service. Vaughan has had initial discussions with Markham and Richmond Hill on opportunities to leverage joint purchasing, joint training and an option of combining a communication centre. These options may produce cost savings.
 - iii. The Region and the lower-tier municipalities have examined opportunities to change specific road jurisdiction and responsibilities to achieve efficiencies. Continuing this practice could result in efficiencies and costs savings overtime.
 - iv. Less significant potential savings: Planning and Solid Waste Management.
4. Other fiscal comments:
 - i. Service reform in this scenario is unlikely to impact development charge revenues. In the case of fire services, development charge recoveries may be lower as prevailing lower service levels in some parts of the Region will reduce historical service levels. Lower DC revenues are less likely under a 3-city scenario versus a Region-wide delivery service.
 - ii. The need for long-term debt will likely remain similar to current needs and current levels.
 - iii. Infrastructure deficits and asset management lifecycle works will continue to be in line with current needs. Some efficiencies can be gained in some service areas such as fire and water/wastewater if they were consolidated.
 - iv. Debt capacity would continue to be in line with current levels as services are largely unchanged.

