

Committee of the Whole (2) Report

DATE: Tuesday, November 10, 2020

WARD(S): ALL

TITLE: CITY OF VAUGHAN'S FINANCIAL CONDITION ASSESSMENT

FROM:

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

ACTION: FOR INFORMATION

Purpose

To provide Council with a summary of the City's financial condition based on findings from the BMA Municipal Study – 2019, and to provide an update and to reconfirm commitment to the Long-Range Fiscal Planning project.

Report Highlights

- Financial Sustainability was identified as a Service Excellence Strategic Initiative, which included the development of a sustainable Fiscal Framework.
- One of the main deliverables of the Fiscal Framework project was the development of a Long-Range Fiscal Model and Forecast that would help identify and manage pressures related to the timing of growth and development within the City.
- The Financial Condition Assessment provides updates to key inputs related to population and employment assumptions, as well as the City's financial health.

Recommendation

1. That the report and Financial Condition Assessment attached be received.

Background

Financial Sustainability was identified as a Service Excellence Strategic Initiative related to Operational Performance. One of the key activities of the City's Financial Sustainability Program was the development of a Fiscal Framework. The City's Fiscal Framework includes Guiding Principles, Long-Range Fiscal Modelling, and Financial Policies. Council approved the Financial Sustainability Guiding Principles in 2017.

The City retained Hemson Consulting to conduct the updated 2018 Development Charge Background Study and Bylaw and develop the Long-Range Fiscal Model and Forecast. Development of the Fiscal Model and Forecast would begin upon the conclusion of the DC Background Study.

The consultants worked with City staff to collect and process data, conduct a SWOT analysis and engage with the City's project steering committee throughout the first half of 2019. During this time, there were several staffing changes within the department, including Leadership changes and staff vacancies in the Fiscal Sustainability Program. A change in project consultants at Hemson also occurred. Staff suspended the project temporarily due to significant changes in leadership and staffing.

The Long-Range Fiscal Planning project restarted in July 2020 when staff vacancies were filled. A review of the information and work completed on the project was initiated in August 2020.

Previous Reports/Authority

Council received and approved the Financial Sustainability Program's work plan and the Fiscal Framework Guiding Principles at its January 24, 2017 meeting.

Analysis and Options

Financial Condition Assessment

Conducting a Financial Condition Assessment provides updated information and analysis, which will help develop the Financial Model, a vital component of the Long-Range Fiscal Plan. The goal is an excel-based tool for use in future budget planning processes, allowing staff to assess the current and future financial position of the City. Model outputs will emphasize the impacts of development approvals and related growth assessment increases and evaluate tax rate stabilization requirements, infrastructure replacement reserve requirements and the optimal financial timing for the replacement of infrastructure and new services.

Initial data to develop the Fiscal Model came from the 2012 Financial Master Plan and 2018 Development Charge Background Study update. Given the changes that occurred from the project's outset and opportunities, the project team began collecting current data to provide updated information to the Consultant. Updated data included 2019 approved Operating and Capital Budget, 2019 Year-End Financial Results, and the BMA 2019 Municipal Study.

The City received the 2019 Municipal Study from BMA Management Consultants in December 2019. BMA Consulting Inc. has completed the annual municipal comparative study on behalf of participating Ontario municipalities for over eighteen years. The comprehensive report pulls together a variety of indicators that provide an overall snapshot for each municipality. The 2019 Study used the most recent information available, including:

- 2019 current value assessment
- 2019 tax policies
- 2019 levy by-laws
- 2019 development charges
- 2019 water/sewer rates
- 2018 FIRs (as available)
- 2019 user fees
- Economic development programs

The study identifies key indicators and factors to consider when evaluating a municipality's financial condition. The 2019 survey includes 110 municipalities, which allows additional context when comparing the City against other municipalities. Information and data contained in the study are consistent with approaches used by credit rating agencies and the International City/County Management Association (ICMA). The data helps analyze and interpret financial, economic and demographic trends.

Peer comparison provides additional perspective on the City's financial health. The municipal peer group includes Burlington, Oakville, Markham, Brampton and Mississauga. Richmond Hill is also a relevant peer comparator; however, the City is excluded from the municipal peer group because it did not participate in the 2019 BMA Municipal Study. Information on the peer group is found on page 6 of the Financial Condition Assessment (*Attachment 1*).

The City's Financial Condition

The City's Financial Condition Assessment, *Attachment 1*, reports on multiple industry-recognized financial and socio-economic indicators, including trend analysis, review against best practices and peer municipalities.

The results of the City's financial health assessment will be a vital component of developing the City's Long-Range Financial Model and Fiscal Plan. Key highlights of the evaluation are noted below.

Growth & Socio-Economic Indicators (attachment 1 pp. 7-14)

Socio-economic indicators provide insight into the City's ability to generate revenue relative to the community's demand for public services. These indicators are mainly out of the City's control but are essential to understand from a planning and financial forecasting perspective.

Strong population growth drives economic health, creates a supportive environment for business and provides the labor force relied upon by the business community. Changes in population growth directly impact both the City's revenues (assessment base) and expenditures (service demand). The City's population age profile also affects spending plans and provides insight into the potential needs for recreation programs and services.

- The City of Vaughan is the 8th largest municipality, by population, among 2019 BMA participating municipalities, with annual growth of approximately 1.2% (2019).
- Vaughan has a higher percentage of residents under the age of 14 as compared with the Provincial average; however, the City's trend has been declining since 2006, as compared with the increasing trend in the Provincial average

Construction activity is another growth-related indicator that provides information on both residential and non-residential construction. Intensification, through development, redevelopment, infill, expansion or conversion of existing buildings is also beneficial to the City, including improving access to public transit, and effective use of resources such as land, facilities, and infrastructure.

- The average building permit value per capita from 2014-2018 in Vaughan is the second highest in the municipal peer group and exceeds the GTA average.
- The City ranked the 2nd lowest among its peer comparators in population density per km².

Vaughan's Financial Position (attachment 1 pp. 15-22)

The City's financial health is evaluated based on three measures:

- Sustainability – the ability to maintain services over an extended period
- Vulnerability – the level of resiliency to mitigate unexpected negative factors
- Flexibility – the ability to adapt to changing opportunities

The City of Vaughan's financial position has trended upward since 2014, primarily resulting from the changes in the City's reserves, investments and receivable revenues. From 2014 to 2018, the City's net financial position increased by \$253 million.

- In comparison with peers, the City has the strongest financial position per capita.

Every year, a percentage of property owners are unable to pay property taxes. Credit rating agencies assume that municipalities usually will not collect 2-5% of its property taxes within the year that taxes are due.

- Over the past five years, the City has been hovering around the high end of the range, with a low of 4.7% in 2016, and a high of 5.6% in 2018.
- In comparison, taxes receivable in Vaughan are higher than the peer average of 3.6%.

There are limited options for raising funds to support municipal programs and services. Debt is frequently issued and considered a standard practice in municipalities for new capital projects that are long-term in nature and benefit future taxpayers, thereby spreading the costs across future years.

- The City has low debt levels, well below the Provincial annual repayment limit (25% of own-source revenues) and its Debt Policy Limit (10% of own-source revenues).
- In 2018, the City's tax debt charges as a percentage of own-source revenues equaled the peer group average and median of 2.4%.

Levy and Affordability (attachment 1 pp. 23-25)

Understanding the cost of municipal services and affordability metrics ensures there is alignment between the cost of programs and services and taxpayer ability and willingness to support existing service levels.

- Vaughan's net levy per \$100,000 weighted assessment is below the peer median and average.
- Average municipal property taxes paid in relation to household income in Vaughan is below the peer average.

Next Steps

Development of the Long-Range Fiscal Model will continue through the first half of 2021 and intended to inform the 2022 Budget development. Council will receive the final consultant report and recommendations in the fall of 2021. Full implementation of the Long-Range Fiscal Model and Fiscal Plan will be available for the 2023-2026 Budget and Term of Council.

Financial Impact

There are no financial impacts associated with the Financial Condition Assessment report.

Broader Regional Impacts/Considerations

COVID-19 has had a significant impact on the City's residents and businesses, delivering the City's services and its operations. A full recovery will likely span several years. It is now more critical than ever to have a long-range fiscal plan that can accommodate different scenarios and provide options to manage and ensure long-term sustainability. The Financial Sustainability Program, which includes the development of the Fiscal Framework, Long-Range Fiscal Model and Long-Range Fiscal Planning, will ensure that adequate measures are put in place to guide the long-term financial sustainability of the City.

Conclusion

The Financial Condition Assessment will inform developments of the Long-Range Fiscal Model and Long-Range Fiscal Plan. The LRFP will enhance financially sustainable decision-making practices across the City and help identify and manage pressures and constraints and mitigate the impacts of unanticipated events in the future

For more information, please contact:

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Attachments

1. Financial Condition Assessment, November 2020

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Approved by



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Reviewed by



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