



# FINANCIAL CONDITION ASSESSMENT

November 2020

## Abstract

Drawing on multiple Financial, Affordability, and Socio-Economic Indicators, Trends, and Peer Comparisons from BMA Management Consulting Inc.'s Municipal Study – 2019



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## Executive Summary

In 2012, the City retained BMA Consultants to develop a Financial Master Plan (FMP) for the City of Vaughan to guide the City towards financial sustainability. In 2012, the City's overall financial position was healthy and achieved its target for all financial indicators.

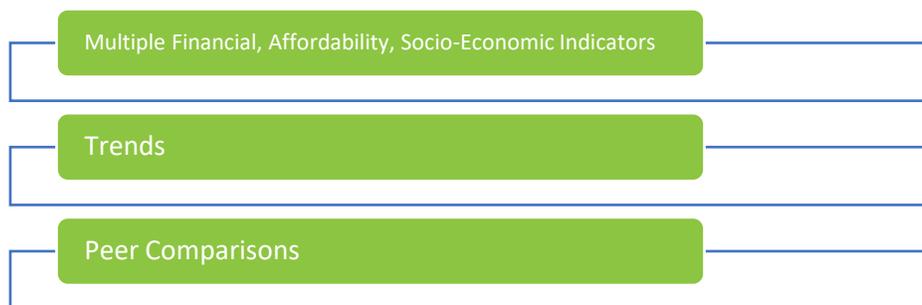
At that time, numerous industry-recognized financial and socio-economic indicators and factors were reviewed to assess the City's financial health, including trend analysis, review against best practices, and peer municipalities. This report applies a similar approach to show how the City's performance has changed in the last five years.

The results of this assessment will be an essential component of developing the City's Long-Range Financial Model and Fiscal Plan. The analysis excludes Water and Wastewater, which is undergoing its own review, and focuses on tax funding.

A variety of factors, including growth rate, infrastructure age, City policy and delivery of programs and services, contribute to the assessment of a municipality's financial health.

- This **Financial Condition Assessment** includes multiple indicators that should be viewed together, rather than viewing them in isolation.
- **Trends** are an important consideration, rather than a single point in time, to help provide interpretive and meaningful context.
- Comparing **indicators** to peer municipalities provide additional context to put the City's financial condition into perspective.

This Financial Condition Assessment report includes:



## Socio-Economic Indicators

Socio-economic indicators provide information on a municipality's ability to generate revenue and the municipality's demographic and economic characteristics that may influence programs and services' demand.

Several positive socio-economic indicators reflect Vaughan's strong local economy.

A cautionary note: In terms of demographics, the population of Vaughan is aging, which is consistent with trends across Ontario. Changing demographics can necessitate shifts in municipal service priorities.

### Summary of Findings

- ✓ From 2011-2016, Vaughan's population increased by 6.2%, and an estimated increase of 7.9% from 2016-2019
- ✓ Increasing density and intensification continues in Vaughan
- ✓ The City is experiencing similar aging population patterns experienced across Ontario
- ✓ Relatively low unemployment and high employment rates
- ✓ Construction activity in the City of Vaughan continues to exceed that of peer municipalities
- ✓ Assessment on a per capita basis is above the average of peer municipalities
- ✓ Average household income in Vaughan is higher than peer municipalities, the GTA and Ontario averages

## Financial Indicators

Financial indicators assist the municipality in evaluating its financial condition. Financial indicator trends monitor changes in financial conditions and alert to future problems.

Industry recognized indicators include:

### Sustainability

- The ability to provide and maintain service and infrastructure levels without resorting to unplanned increases in rates or cuts to services

### Vulnerability

- Addresses a municipality's vulnerability to external sources of funding that it cannot control and its exposure to risks

### Flexibility

- The ability to issue debt responsibly without impacting the credit rating. Also, the ability to generate required revenues.

### Summary of Findings

- Vaughan's 2018 **net financial position** is in a favourable position and remains relatively stable
- Vaughan's **assets** are relatively new, indicating it does not face significant infrastructure challenges in the near term
- The 5-year trend of Vaughan's **tax receivables** has varied but has been higher than the GTA median and peer average
- **Debt** levels are well below the City's policy limits as well as Provincial limits
- **Reserves and Reserve Funds** will be a critical component of the City's Long-Term Financial Plan, is currently being developed.

## Levy and Affordability Indicators

**Property taxes** were reviewed by levy per capita, per \$100,000 of assessment and in relation to household income to indicate the affordability of services in the City of Vaughan.

### *Summary of Findings*

- ✓ In comparison with the City's peer group, Vaughan's 2019 **Municipal Levy per Capita** is the 2nd highest; however, the levy per \$100,000 of assessment is below the peer average and peer median, reflecting a strong assessment base upon which to levy taxes
- ✓ Vaughan's property taxes as a **Percentage of Household Income** is slightly below the peer average and peer median
- ✓ **Non-residential Tax Ratios** are below the peer average and median
- ✓ Reviewing annual tax ratios helps to ensure competitive tax positioning

## Introduction

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Since 2000, BMA Consultants Inc. (BMA) has completed an annual municipal comparative study on behalf of participating municipalities in Ontario. The **2019 Municipal Study**, released in December 2019 included 110 Ontario municipalities, representing over 85% of the population.

This assessment intends to update the City's financial condition and provide to Hemson Consulting (Hemson), who is engaged to assist in developing the City's Long-Range Fiscal Model and Long-Range Financial Plan.

Regular and timely financial condition assessments can provide early indicators of potential financial problems and information to take corrective action. The following sections summarize reviews in the BMA Municipal Study – 2019 of how the City of Vaughan measures against these indicators and relative to its peer municipalities.

## Ensuring Financial Sustainability

### *Prudent Financial Policies*

The City of Vaughan's financial policies helped guide corporate decisions, including annual budget development, apparent through recognition of the City's budgeting process through the Government Finance Officers Associations (GFOA) *Distinguished Budget Presentation Award*.

As part of the City's Fiscal Framework and Financial Master Plan 2012, the City has continued to refine and develop financial policies to guide financial sustainability.

### *Financial Condition Assessment – Key Indicators*

Key indicators used to assess the City's financial condition and to identify future challenges and opportunities include:

Growth & Socio-Economic Indicators	Financial Position Indicators	Municipal Levy, Property Taxes & Affordability Indicators
<ul style="list-style-type: none"><li>• Population</li><li>• Employment Statistics</li><li>• Construction Activity</li><li>• Property Assessment</li><li>• Household Income</li></ul>	<ul style="list-style-type: none"><li>• Reserves &amp; Reserve Funds</li><li>• Debt</li><li>• Financial Position</li><li>• Taxes Receivable</li></ul>	<ul style="list-style-type: none"><li>• Municipal Levy</li><li>• Comparison of Relative Taxes</li><li>• Municipal Property Taxes as a % of Income</li><li>• Non-Residential Taxes</li><li>• Tax Ratios</li></ul>

Financial sustainability ensures that the City can deliver the level and types of programs and services to the community, while proactively assessing and managing associated risks, at fair taxation and fee levels.

These industry-recognized indicators are used by credit rating agencies and recommended by the Government Finance Officers’ Association (GFOA) as best practices. Trends in these key indicators are analyzed to assess the City’s financial health. Peer analysis assists in gaining perspective in relation to other GTA municipalities.

*Trend Analysis*

Fiscal challenges do not happen overnight; they develop slowly such that potential problems are unnoticed. Analyzing trends of key indicators is beneficial for many reasons, including:

- Information on changes in the City’s financial health, indicating current trends;
- The pace at which a trend is changing;
- Provides a basis on which to forecast; and
- Builds awareness of the need to act on existing policies or new strategies.

Indicators must be monitored regularly and assessed to ensure informed and financially responsible decision making.

*Peer Analysis*

Peer comparisons provide an additional perspective on the City’s financial health. Figure 1 summarizes municipalities considered suitable comparators in terms of growth patterns, proximity and financial management.

**Figure 1 – Peer Municipal Comparator Group**

Municipality	Est. 2019 Population	Land Area (sq. km)	Density per sq. km.
Burlington	195,621	186	1,054
Richmond Hill	209,139	101	2,068
Oakville	209,187	139	1,506
Markham	360,792	212	1,699
Brampton	666,347	266	2,502
Mississauga	775,000	292	2,650
Average	402,681	199	1,913
Median	284,990	199	1,884
<b>Vaughan</b>	<b>330,523</b>	<b>274</b>	<b>1,208</b>

Note - Richmond Hill is excluded from peer comparison because it did not participate in the 2019 BMA Municipal Study.

## Section 1: Growth & Socio-Economic Assessment

Socio-economic indicators provide insight into a municipality’s “collective ability to generate revenue relative to the community’s demand for public services.” Standard & Poor’s notes, “demographic characteristics factor heavily into economic analysis.”

These indicators are mainly out of the municipality’s control but essential to understand from a planning and financial forecasting perspective. From growth and socio-economic perspectives, Vaughan continues to experience significant growth and positive trends.

### Population Changes

Strong population growth drives economic health and creates an environment for business. It also provides the labor force that the business community relies on to produce goods and services. Population changes directly impact both revenues (assessment base) and expenditures (service demand).

- Vaughan’s population has grown from 288,301 in 2011 to 306,233 in 2016, or growth of 6.2%, or annual growth of approximately 1.2%.
- Vaughan’s population is estimated at 330,523 in 2019 (BMA) and forecast to grow to approximately 414,600 by 2031 (Hemson) and 497,400 by 2041 (York Region).
- Vaughan is the 8<sup>th</sup> largest (by population) among BMA participating municipalities.

#### Peer Municipal Comparisons – Population Growth

- From 2011-2016, Vaughan’s population increased by 6.2%, and an estimated 7.9% increase from 2016-2019.

**Figure 2 - 2011-2016 Population Changes – Peer Municipalities**

Peer Municipalities	2011 Population	2016 Population	% change 2011-2016	est. 2019 Population	% change 2016-2019
Burlington	175,779	183,314	4.3%	195,621	6.7%
Oakville	182,520	193,832	6.2%	209,187	7.9%
Markham	301,709	328,966	9.0%	360,792	9.7%
Brampton	523,911	593,638	13.3%	666,347	12.2%
Mississauga	713,443	721,599	1.1%	775,000	7.4%
Peer Average			6.8%		8.8%
<b>Vaughan</b>	<b>288,301</b>	<b>306,233</b>	<b>6.2%</b>	<b>330,523</b>	<b>7.9%</b>

Source: BMA Municipal Studies

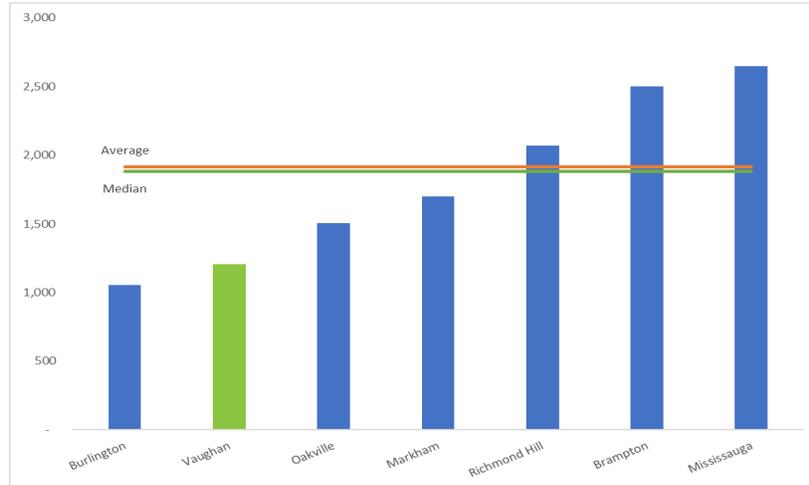
Since 2011, Vaughan’s population growth was third highest compared to peer municipalities, and above the GTA and Province.

#### Population Density

Population density can lend insight into the age of a city, growth patterns, zoning practices, new development opportunities and the level of multi-family unit housing.

Intensification is developing a municipal area at a higher density than currently exists through development, redevelopment, infill and expansion or conversion of existing buildings. Intensification has several benefits, including reducing carbon footprint, improving access to public transit, using land, buildings and infrastructure effectively, enhancing community identity, and creating active streets that promote healthier activity patterns<sup>1</sup>.

Figure 3 – Population Density per km<sup>2</sup> – Peer Municipalities



Source: BMA Municipal Studies

- Among the peer group, Vaughan has the 6<sup>th</sup> highest population density per km<sup>2</sup> (8<sup>th</sup> highest in the GTA).

## Age Demographics

The age profile of a population impacts spending plans, especially around the type and level of services required. The needs of residents shift over the course of their lives.

- The City's **age profile** is close to the Province's average; however, there are some notable differences. The City has a lower percentage of residents over the age of 65 and a higher percentage under the age of 14 compared with the Ontario average.
- From 2011-2016, there was an increase in the proportion of residents in the age group 45 and older in Vaughan, reflecting a similar aging population pattern across Ontario.

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<sup>1</sup> Assessment pre-COVID 19 pandemic; post-pandemic effects are largely unknown.

Figure 4 – Age Profile Trend

Age Profile	Vaughan			Ontario		
	2011	2016	% change	2011	2016	% change
Age 0-14	58,460	57,525	-1.6%	2,180,770	2,207,970	1.2%
Age 15-19	20,685	21,280	2.9%	863,635	811,670	-6.0%
Age 20-44	99,535	96,990	-2.6%	4,236,805	4,347,865	2.6%
Age 45-54	45,895	49,920	8.8%	2,062,015	1,993,730	-3.3%
Age 55-64	31,540	37,055	17.5%	1,630,275	1,835,605	12.6%
Age 65+	32,190	43,470	35.0%	1,878,320	2,251,655	19.9%
Total	288,305	306,240	6.2%	12,851,820	13,448,495	4.6%

Source: Stats Canada

Figure 5 – Age Profile Comparison

Age Profile	Vaughan 2016	Ontario 2016
Age 0-14	18.8%	16.4%
Age 15-19	6.9%	6.0%
Age 20-44	31.7%	32.3%
Age 45-54	16.3%	14.8%
Age 55-64	12.1%	13.6%
Age 65+	14.2%	16.7%
Total	100.0%	100.0%

Source: Stats Canada

- The City’s proportion of residents below the age of 14 is higher than the average for Ontario. The trend has been declining since 2006, compared with the increasing trend for the Ontario average. This age profile provides insight into the potential needs for recreation programs and services.

## Employment and Labour Force Indicators

Labour force statistics are an important measure of the economy’s potential. The larger the percentage of the population that enters the labour force; the larger the potential output and standard of living. Growth in the labour force implies expanding potential. The employment rate of the community’s citizens is a measure of and an influence on the community’s ability to support its local business sector. Municipalities with higher employment rates are likely to have higher standards of living, other things being equal. A decline in the employment base or higher than average unemployment rates, can be a warning signal that overall economic activity may decline.

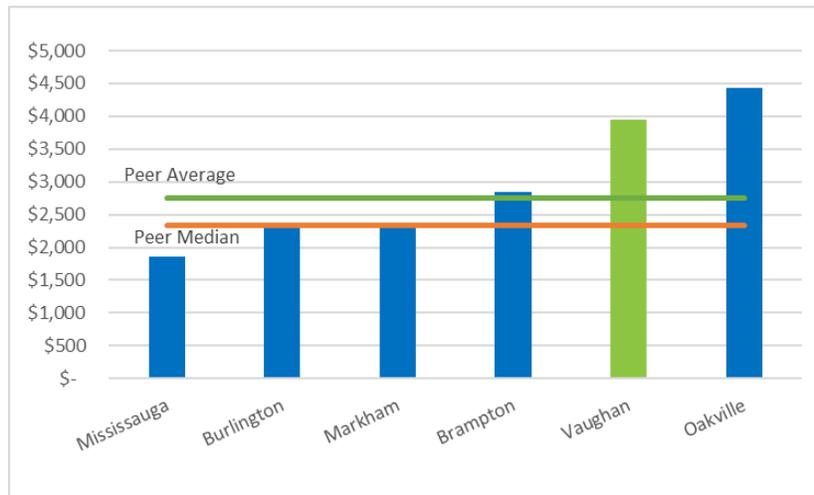
Figure 6 – Labour Force Indicators

Labour Force	2011			2016		
	Vaughan	Ontario	Difference	Vaughan	Ontario	Difference
Participation Rate	76.1%	67.3%	8.8%	68.6%	64.7%	3.9%
Unemployment Rate	7.5%	8.3%	-0.8%	5.8%	7.4%	-1.6%
Employment Rate	70.4%	61.7%	8.7%	64.6%	59.9%	4.7%

## Construction Activity

Another growth-related indicator is the construction activity within a municipality which provides information on residential and non-residential development. Changes in building activity impact other factors such as the employment base, income and property values.

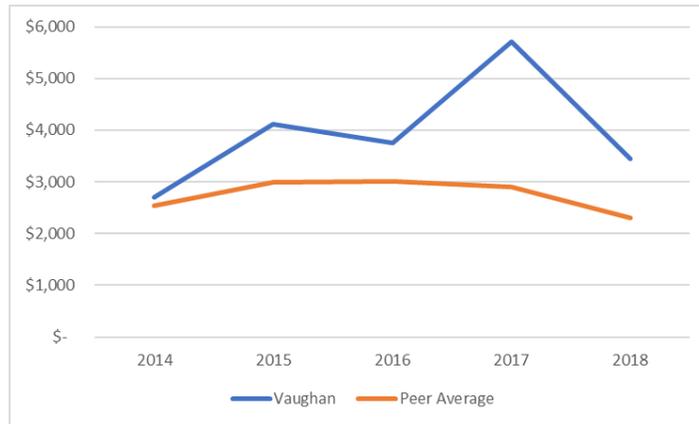
Figure 7 – Construction Activity Per Capita – Peer Municipal Comparators – 5 Year Average



Source: BMA Municipal Studies

- **Building permit value per capita** is an indicator of the relative construction activity within each peer municipality. The average building permit value per capita from 2014-2018 in Vaughan is the second-highest in the municipal comparator group and exceeds the GTA average.
- Over the five-year period 2014 – 2018, **Building Construction Value per capita** in Vaughan has exceeded the peer average, as illustrated in Figure 8.

**Figure 8 – Annual Building Construction Value per Capita**



Source: BMA Municipal Studies

## Assessment

Property assessment is the basis upon which the City raises taxes. Assessment growth, the richness of the assessment base and assessment composition, is an important indicator of fiscal strength.

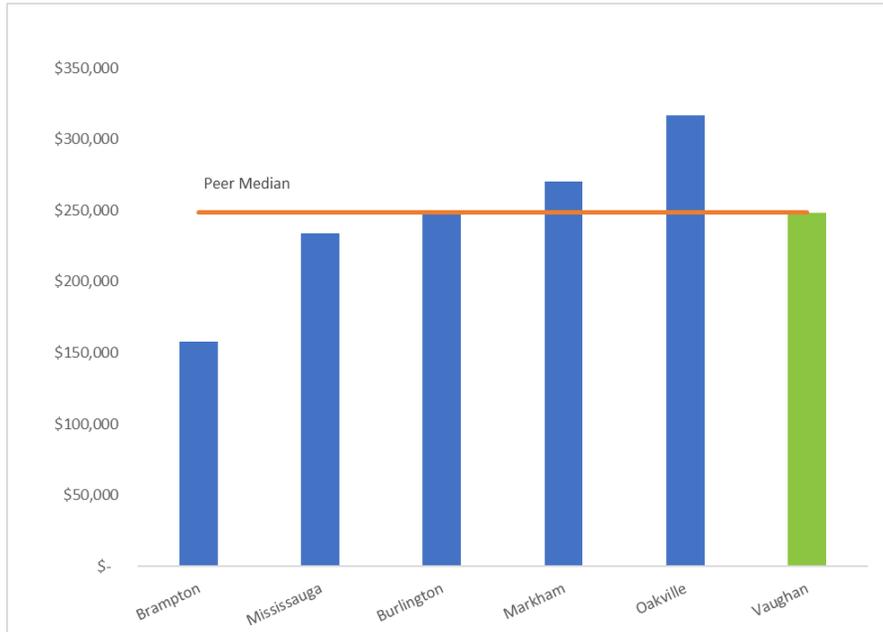
**Figure 9 – 2019 Unweighted Assessment Composition %**

	GTA Avg	Peer Avg	Vaughan
Residential	82.91	81.69	79.29
Multi-Residential	1.78	2.35	0.31
Commercial	10.62	13.24	15.03
Industrial	2.08	2.42	5.01
Other	2.60	0.30	0.36
Total	100.00	100.00	100.00

Source: BMA Municipal Studies

- Assessment composition provides an understanding of the mix of assessment. Compared to the peer municipalities and the GTA average, Vaughan’s **assessment composition** represents a balance between residential and non-residential; notwithstanding, the proportion of assessment in the commercial class in Vaughan has been decreasing since 2014. Vaughan’s residential/non-residential assessment split of 80/20 is in line with the peer average. It is more desirable to have a larger share of non-residential assessment as the municipal cost of service is generally lower than residential.

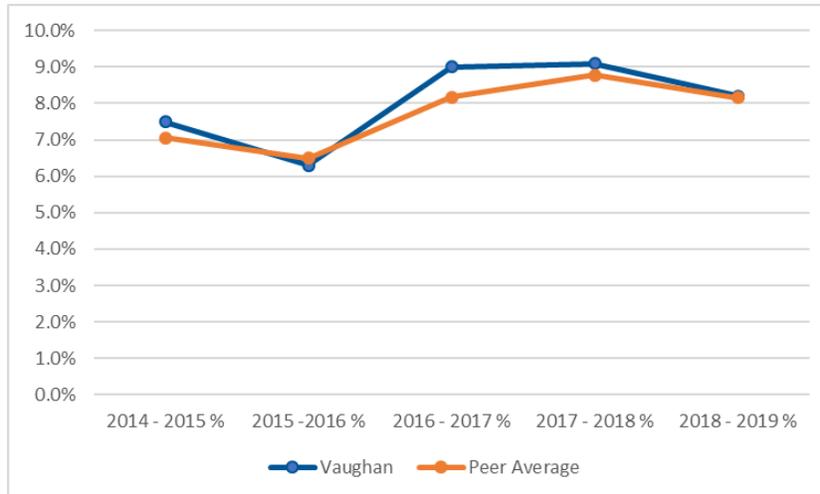
Figure 10 – 2019 Weighted Assessment Per Capita



Source: BMA Municipal Studies

- Comparing assessment per capita statistics indicates the “richness” of the assessment base in each municipality and changes in assessment from year to year. Vaughan’s **assessment base per capita** is equal to the median of the peer group, reflecting a strong assessment base upon which to raise taxes

Figure 11 – Changes in Unweighted Assessment



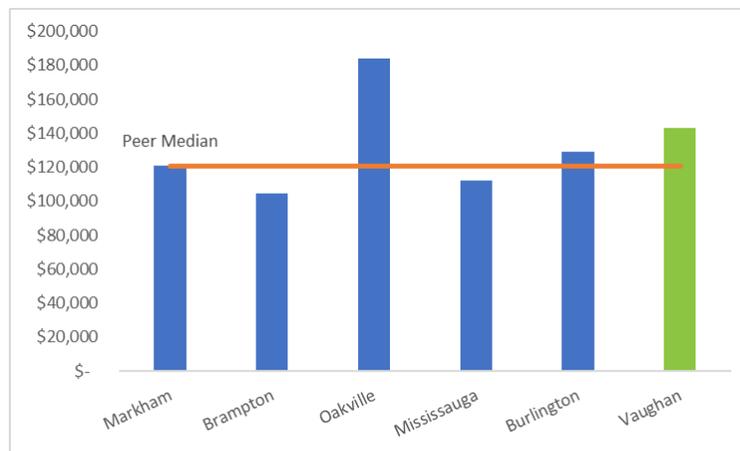
Source: BMA Municipal Studies

- From 2014-2019, Vaughan’s increase in assessment has generally been in line with the peer municipal and GTA average. However, the assessment increase includes changes in assessment-related growth and changes in the market value of existing properties (which does not generate additional revenues).

## Household Income

Household income is one measure of a community’s ability to pay. Higher relative gross income is a positive indicator of the overall local economy. It tends to lead to greater expectations for quality programs (i.e. streetscapes, artificial soccer turfs), which impacts the cost of municipal programs and services and can lead to additional challenges in balancing desired service levels with a willingness to pay for services.

Figure 12 – 2019 Average Household Income



Source: BMA Municipal Studies

- The **average household income** in Vaughan is higher than the peer municipal, GTA and Ontario average. Higher income levels provide an increased potential ability to pay for municipal services. The estimated 2019 average household income in Vaughan was \$143,086, compared with the peer average of \$130,141, GTA average of \$131,495 and Ontario average of \$109,660

## Growth & Socio-Economic Evaluation

In summary, the City has many positive indicators that support the community's ability to pay for services, including:

- One of the primary growth engines in York Region and the GTA;
- Strong employment and growth with low unemployment rates;
- Rich, diversified and growing assessment base (non-residential assessment represents 20% of the total assessment);
- An inclining tax base to support the community's ability to pay for municipal services; and,
- Construction activity continues to exceed most peer municipalities, reflecting the local economy and Vaughan's desirability as a place to invest.

As growth continues in Vaughan, the City should assess the proportion of the assessment growth in the non-residential sector as the municipal cost of service is generally lower for non-residential than residential development. When BMA conducted the Financial Master Plan assessment in 2012, the proportion of assessment was 75/25. In 2019 the ratio was 80/20, demonstrating a slight shift away from non-residential. While the City can afford the services currently provided, there will be a need to expand the services to sustain the same level of service to a broader community in a high growth environment. Since 2012, the rate of growth has tapered off. The City must also manage expectations for quality programs, the need for new recreational and other programs and services to support growth and to align with demographic changes. Further, intensification requires the City to rethink its approach to traditional policies.

To continue to be able to pay for services currently provided, the City must ensure that:

- There is a recognition that many of the City's costs are increasing at a rate greater than inflation;
- There are enough financial, technical and human resources available to meet growth pressures and the costs associated with new corporate initiatives;
- It continues to stay on its path toward financial sustainability and resiliency through well planned and executed growth-related strategies; and,
- There is alignment between the programs and services provided, shifts in demographics and the community's willingness to pay for services.

## Section 2: Vaughan's Financial Position

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Industry recognized indicators used by credit rating agencies and recommended by the Government Finance Officers Association (GFOA) and the Ministry of Municipal Affairs and Housing and the Canadian Institute of Charter Accountants (CICA) defined financial condition of a municipality's financial health to include:

### SUSTAINABILITY

- **Financial Position per Capita** of a municipality is important to consider as this takes into consideration the municipality's total financial assets and liabilities.
- **Asset Consumption Ratio** highlights the relative age of the assets and the potential timing of asset replacements.

### VULNERABILITY

- **Taxes Receivable as a percentage of Taxes Levied** is an indicator of the economic health of the community.
- **Rates Coverage Ratio** provides a measure of a municipality's ability to cover its costs through its own-source revenue.

### FLEXIBILITY

- **Reserves/Reserve Funds** are established by Council to assist with long-term financial sustainability and financial planning. Credit rating agencies consider municipalities with higher reserves more advanced in their financial planning.
- **Debt** is an essential indicator of the municipality's financial health. Debt is an appropriate way of cash flowing longer life items; however, when debt levels get too high, it compromises the municipality's flexibility to fund programs and services.

## Sustainability Indicators

### FINANCIAL POSITION

A municipality's financial position is the total fund balances, including equity in business government enterprises less the amount recovered in future years associated with long-term liabilities.

Figure 13 helps to explain the City's change in financial position from 2014-2018.

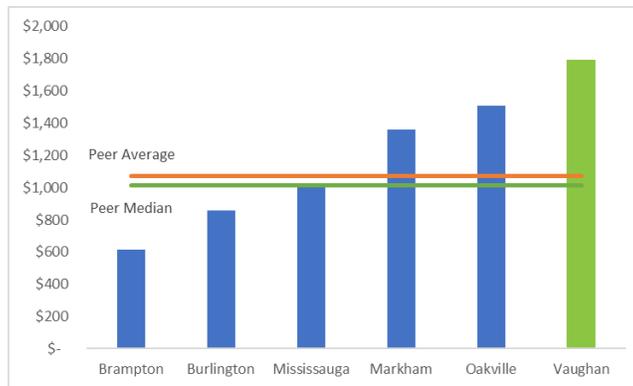
**Figure 13 – City of Vaughan – Financial Position**

(000s)	2014	2018	% change
<b>Assets</b>			
Cash & Investments	850,600,074	1,453,598,360	70.9%
Receivables	82,253,511	93,212,076	13.3%
Other	71,832	29,616	-58.8%
<b>Total Assets</b>	<b>\$ 932,925,417</b>	<b>\$ 1,546,840,052</b>	<b>65.8%</b>
<b>Liabilities</b>			
Accounts Payable	119,668,069	101,486,929	-15.2%
Deferred Revenue	310,773,430	657,037,760	111.4%
Temporary Loans	-	-	-
Long Term Liabilities	71,072,284	62,365,255	-12.3%
Solid Waste Management Facility Liabilities	-	-	-
Post Employment Benefits	92,700,150	134,218,756	44.8%
Liability for contaminated sites	-	-	-
<b>Total Liabilities</b>	<b>\$ 594,213,933</b>	<b>\$ 955,108,700</b>	<b>60.7%</b>
<b>Net Financial Position</b>	<b>\$ 338,711,484</b>	<b>\$ 591,731,352</b>	<b>74.7%</b>

Source: Financial Information Returns

- Vaughan’s **financial position** has trended upward since 2014.
- From 2014 to 2018, the City’s reserves, investments and receivable revenues increased, resulting in an improved overall financial position.
- The City’s net financial position increased by \$253 million from 2014-2018, primarily from investments and cash.
- Debt has decreased \$8.7 million, and post-employment benefits increased by \$41.5 million.
- The City needs to understand what is driving this indicator and monitor its trend.

**Figure 14 – Financial Position per Capita**



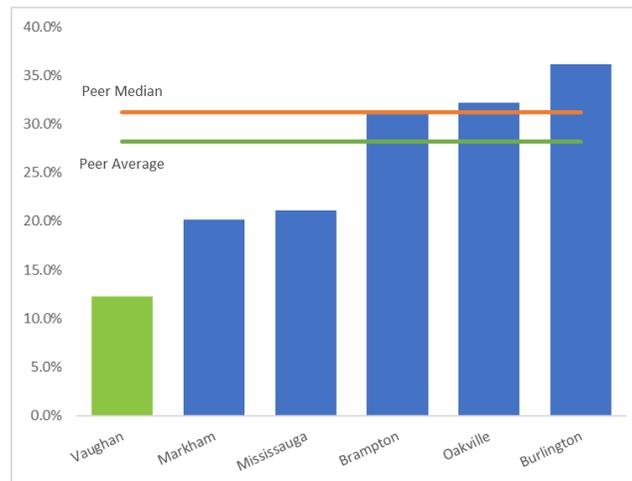
Source: BMA Municipal Studies

- Compared with peers, the City of Vaughan’s **financial position per capita** is the highest among the peer group.

## ASSET CONSUMPTION RATIOS

- The **asset consumption ratio** shows the tangible capital assets' written down value relative to their historical costs. This ratio highlights the relative age of the assets and the potential timing of asset replacements.
- As shown in Figure 15, the City's asset consumption ratios are lower than the peer average and median, reflecting lower replacement needs in short to mid-term than other municipalities. This ratio supports the need to continue investing in future infrastructure renewal and fund the asset management plan to ensure sustainable future replacement requirements.

Figure 15 – 2018 Tax Asset Consumption Ratio



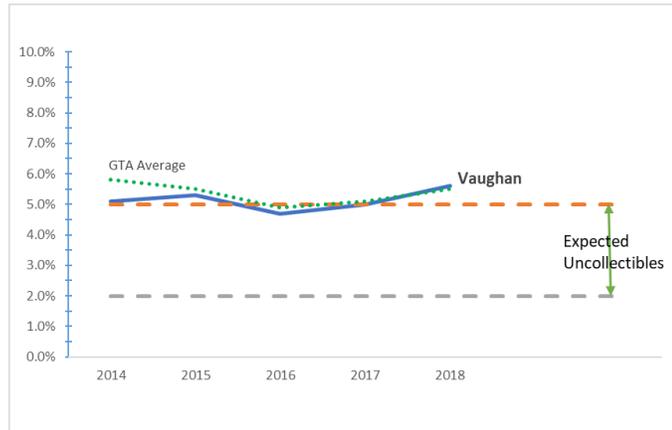
Source: BMA Studies

## Vulnerability and Flexibility Ratios

### TAXES RECEIVABLE

Every year, a percentage of property owners are unable to pay property taxes. If this percentage increases over time, it may indicate an overall decline in the municipality's economic health. Credit rating agencies assume that municipalities usually will not collect 2-5% of their property taxes within the year that taxes are due.

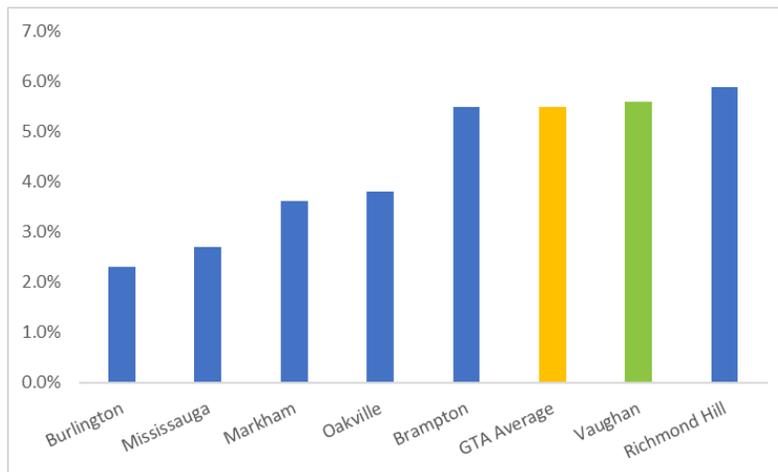
**Figure 16 – City of Vaughan - Taxes Receivable as a % of Taxes Levied**



Source: BMA Municipal Studies

- The City has remained around the top-end of the expected uncollectible range, and close to the GTA average each year.

**Figure 17 – 2018 Taxes Receivable Ratio**



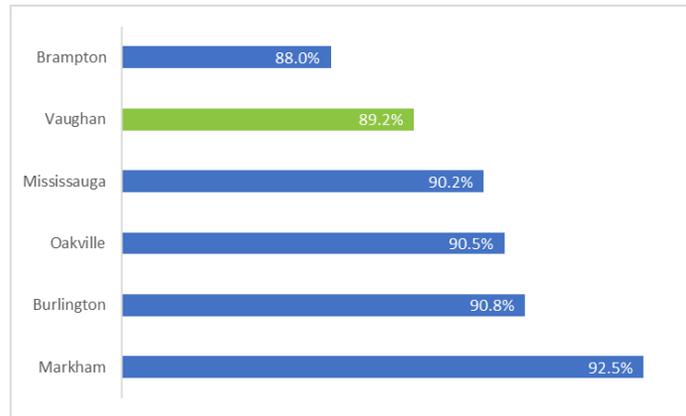
Source: BMA Municipal Studies and FIRs

- In 2018, Vaughan’s **taxes receivable ratio** was 5.6% compared with the GTA survey average of 5.5%. It is worth noting that Vaughan and Richmond Hill are at the upper end of the comparison group.

**RATES COVERAGE RATIO**

The rates coverage ratio is a measure of a municipality’s ability to cover its costs through its own-source revenue. According to the Ministry of Municipal Affairs and Housing, a basic target is 40%-60%; and intermediate target is 60%-90%, and an advanced target is 90% or greater.

**Figure 18 – 2018 Rates Coverage Ratio**



Source: BMA Municipal Studies

- The City’s 2018 rates coverage ratio of 89.2% is at the top end of the intermediate target range.

**RESERVES & RESERVE FUNDS**

Reserves are a critical component of a long-term financial plan:

- Trends in the City’s **discretionary reserves/reserve funds** as a percentage of taxation were evaluated and in relation to peer municipalities. This analysis excludes obligatory reserve funds.
- For benchmarking purposes, Financial Information Returns (FIRs) were used to compare discretionary reserves as a percentage of taxation.
- As shown in Figure 19 below, the City’s tax-supported discretionary reserves as a percentage of taxation are average and have experienced variability over the five-year period.

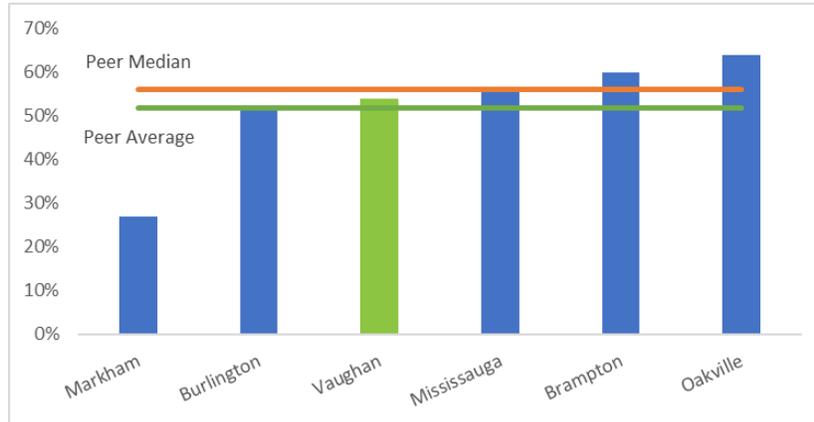
**Figure 19 - Tax Reserves/Reserve Funds as a % of Taxation**

Municipality	2014	2015	2016	2017	2018	Trend
Markham	111%	99%	80%	29%	45%	Decreasing
Brampton	71%	73%	76%	83%	85%	Increasing
Oakville	132%	113%	112%	104%	91%	Decreasing
Mississauga	79%	80%	85%	81%	91%	Increasing
Burlington	78%	80%	84%	84%	74%	Decreasing
Peer Average	94%	89%	87%	76%	77%	
Peer Median	79%	80%	84%	83%	85%	
<b>Vaughan</b>	<b>79%</b>	<b>70%</b>	<b>102%</b>	<b>83%</b>	<b>82%</b>	<b>Decreasing</b>

Source: BMA Municipal Studies

- As shown in Figure 20, the tax reserves as a % of own-source revenues for the City is between the peer average and median; and third lowest in the peer group.

Figure 20 – 2018 Tax Reserves as % of Own-Source Revenues



Source: BMA Studies

Figure 21 – Reserves/Reserve Funds 2015-2019 Balances – Major Classifications

Reserve & Reserve Fund Balances	2015	2016	2017	2018	2019	5 year Change %	2019 Uncommitted Balance
Financial Reserves	\$ 27,113	\$ 21,246	\$ 23,399	\$ 23,696	\$ 25,863	-5%	\$ 25,344
Corporate Reserves	\$ 30,817	\$ 30,316	\$ 33,158	\$ 36,007	\$ 41,263	34%	\$ 41,094
Infrastructure Reserves	\$ 56,073	\$ 72,389	\$ 68,944	\$ 70,988	\$ 76,245	36%	\$ 29,592
Special Purpose Reserves	\$ 8,664	\$ 8,814	\$ 8,729	\$ 8,230	\$ 9,228	7%	\$ (4,030)
<b>Tax Supported TOTAL</b>	<b>\$ 122,667</b>	<b>\$ 132,765</b>	<b>\$ 134,230</b>	<b>\$ 138,921</b>	<b>\$ 152,599</b>	<b>24%</b>	<b>\$ 92,000</b>
WWw Reserves	\$ 94,331	\$ 113,886	\$ 140,155	\$ 163,280	\$ 168,077	78%	\$ 148,880
<b>Rate Supported TOTAL</b>	<b>\$ 94,331</b>	<b>\$ 113,886</b>	<b>\$ 140,155</b>	<b>\$ 163,280</b>	<b>\$ 168,077</b>	<b>78%</b>	<b>\$ 148,880</b>
Corporate Obligatory Reserves	\$ 89,991	\$ 95,487	\$ 91,200	\$ 93,813	\$ 99,995	11%	\$ 95,777
Restricted Grant Reserves	\$ 25,368	\$ 27,117	\$ 27,809	\$ 30,149	\$ 36,668	45%	\$ 1,985
Development Charges	\$ 193,819	\$ 249,043	\$ 289,867	\$ 493,044	\$ 482,520	149%	\$ 299,219
<b>Obligatory TOTAL</b>	<b>\$ 309,178</b>	<b>\$ 371,647</b>	<b>\$ 408,876</b>	<b>\$ 617,006</b>	<b>\$ 619,183</b>	<b>100%</b>	<b>\$ 396,981</b>
<b>GRAND TOTAL</b>	<b>\$ 526,176</b>	<b>\$ 618,298</b>	<b>\$ 683,261</b>	<b>\$ 919,207</b>	<b>\$ 939,859</b>	<b>79%</b>	<b>\$ 637,861</b>

Source: Reserve Continuity Schedules

As shown above in Figure 21, the City's total reserves/reserve funds increased by 79% since 2015. The last column reflects the uncommitted 2019 year-end balances.

- **Tax Supported Reserves** have increased by 24% since 2015.
- **Rate Supported Reserves** have increased by 78% since 2015.
- **Obligatory Reserves** have doubled since 2015.

## DEBT MANAGEMENT

There are limited options for raising funds to support municipal programs and services. When used strategically, debt is a useful way to fund cash flow for capital expenditures. Virtually all Ontario municipalities are facing increasing infrastructure backlogs, funding gaps, and growing financial pressures in infrastructure management; Vaughan is not unique in this regard.

Debt is frequently issued and considered a standard practice in municipalities for new capital projects long-term in nature and benefit future taxpayers, thereby spreading the costs across the coming years. Under the most favourable circumstances, the City's debt should be proportionate in size and growth to

its tax base. It should not extend past the useful life of the assets which it finances. Its use should not balance the operating budget. And, should not require repayment schedules that put excessive burdens on operating expenditures. A debt management policy is vital in establishing a sustainable long-term program that supports financial discipline and stability.

*Excerpts from the City’s 2020 Budget*

- Debt financing is a mechanism to fund growth, replacement and enhancement-related capital projects.
- The City’s current practice requests a debt issuance once a project is substantially complete and there is an accumulation of substantially completed projects to warrant the issue.

**Figure 22 – Total Debt Outstanding (000s)**

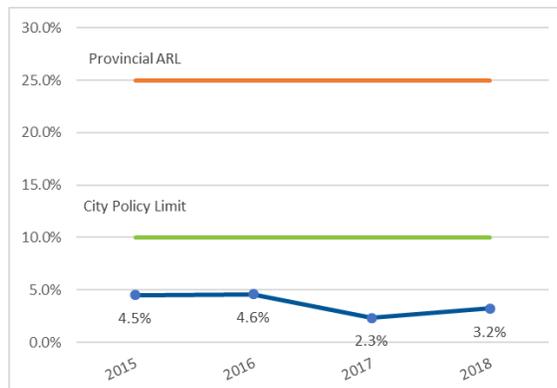
2019 Debt Outstanding (000s)	
General Government	\$ 3,750
Roads	\$ 18,119
Recreation	\$ 1,074
Water	\$ -
Sewer	\$ -
<b>Total</b>	<b>\$ 22,943</b>

Source: City of Vaughan Debenture Continuity Schedule

*Debt Service Cost to Net Revenue*

- The Province regulates the debt that municipalities issue by setting an **Annual Repayment Limit** for each municipality. The limit is 25% of a municipality’s own-source revenues and the maximum amount by which a municipality may increase its debt. Reaching the limit severely constrains future operating budgets, and taxes would increase significantly. The City’s financial policies set limitations on the use of debt to retain financial flexibility by avoiding long-term commitments for interest payments. The City’s policy limits debt to a maximum of 10% of own-source revenue, significantly lower than the Province’s 25% maximum.

**Figure 23 – Total Debt Charges as a % of Own-Source Revenues**



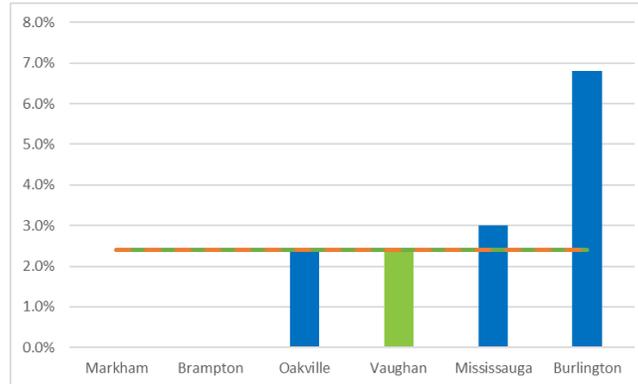
Source: Financial Information Returns

- The City has low debt levels and is well below its Debt Policy Limit of 10% of own-source revenues.

#### *Tax Debt Charges as a % of Own-Source Revenues*

- Figure 24 provides a comparison of **tax debt charges as a percentage of own-source revenues** in 2018 against peer municipalities.

**Figure 24 – Tax Debt Charges as a % of Own-Source Revenues**



Source: BMA Municipal Studies

- As shown above, the City's tax debt charges as a percentage of own-source revenues are equal to the peer group average and median.

## **Financial Position Evaluation**

At the beginning of 2020, the City was in a good financial position; however, the City's response to the unexpected global pandemic has impacted the City financially. Additional policies and strategies may be required to recover and strengthen the City's overall financial position in the post-pandemic economy.

- **Reserves/Reserve Funds** are critical to the long-term financial stability and financial planning of the City. The City of Vaughan's discretionary reserves as a percentage of taxation is around the peer group median, although decreasing.
- The City's **asset consumption** ratio is the lowest in the peer group, reflecting newer infrastructure to the peer average.
- **Debt** is an important indicator of financial health and an appropriate mechanism for financing longer-life infrastructure assets.
- The City has a low level of outstanding debt and is well below its self-imposed debt repayment limit of 10% of own-source revenues.
- The City's **financial position** is an important consideration as it considers the City's assets and liabilities.
- The City's financial position has been trending upward since 2014 and is the highest in the municipal peer group.
- **Taxes Receivable** are within the acceptable range.

## Section 3: Levy and Affordability

This section helps provide an overview of the cost of the City’s municipal services relative to peer municipalities. Property taxes in relation to household income indicate the affordability of services compared to other municipalities.

- Net municipal **levy per capita** for 2019 in Vaughan is \$1,690; higher than average
- Net municipal levy per \$100,000 unweighted CVA is \$566, which is less than average
- Vaughan’s property taxes as a % of household income of 3.8% is equal to average

### Municipal Levy Comparison

To better understand the relative tax position for a municipality, it is worth looking at comparing net municipal levies on a per capita and per \$100,000 basis. This measure indicates the total net municipal levy needed to provide services to the municipality. It does not imply value for money or the effectiveness of meeting community objectives.

**Figure 25 - Municipal Levy per Capita and \$100,000 of Weighted Assessment Comparison**

2019 Net Municipal Levy Comparison	2019 Levy per Capita	2019 Net Levy per \$100,000 Weighted Assessment	2019 Levy per Capita Ranking	2019 Net Levy per \$100,000 Weighted Assessment Ranking
Markham	\$ 1,346	\$ 498	low	low
Brampton	\$ 1,328	\$ 843	low	low
Oakville	\$ 1,801	\$ 569	high	low
Mississauga	\$ 1,490	\$ 637	mid	low
Burlington	\$ 1,540	\$ 620	mid	low
Average	\$ 1,501	\$ 633		
Median	\$ 1,490	\$ 620		
<b>Vaughan</b>	<b>\$ 1,690</b>	<b>\$ 533</b>	<b>high</b>	<b>low</b>

Source: BMA Municipal Studies

The above analysis is not an “apples to apples” comparison of services. It has been included to provide insight into the net cost of providing municipal services within each municipality.

Net municipal expenditures per capita may vary as a result of:

- Different service levels
- Different methods of providing services
- Varying demands for service
- Demographic differences
- Urban/rural composition
- Age of infrastructure
- Variations in types of services
- Assessment composition
- Locational factors
- Socio-economic differences
- User fee policies
- Collection from rates vs property taxes

## Affordability

The following figure 26 compares total property taxes based on an average valued house in each of the municipalities using the MPAC database and the average household income to get an appreciation of the tax burden on a typical home in each municipality.

**Figure 26 – Affordability Comparisons**

Municipality	2019 Median Value of Dwelling	2019 Average Residential Taxes	2019 Average Household Income	Property Taxes as a % of Income
Markham	\$ 722,362	\$ 5,096	\$ 120,621	4.2%
Brampton	\$ 505,955	\$ 5,013	\$ 104,652	4.8%
Oakville	\$ 777,644	\$ 5,711	\$ 184,178	3.1%
Mississauga	\$ 566,616	\$ 4,541	\$ 112,392	4.0%
Burlington	\$ 539,870	\$ 4,231	\$ 128,863	3.3%
Average	\$ 622,489	\$ 4,918	\$ 130,141	3.9%
Median	\$ 566,616	\$ 5,013	\$ 120,621	4.0%
<b>Vaughan</b>	<b>\$ 789,698</b>	<b>\$ 5,497</b>	<b>\$ 143,086</b>	<b>3.8%</b>

Source: BMA Municipal Studies

- The median dwelling value in the City of Vaughan is above the average and median of peer municipalities.
- Property taxes on a typical dwelling in Vaughan are higher than the peer average and median.
- Property taxes as a percentage of household income in Vaughan is slightly below the peer average.

## Municipal Tax Ratios

Tax ratios define each property classes' rate of taxation in relation to the residential property class. The Province sets the **tax ratio** for the residential class at 1.00. The Regional Municipality of York is responsible for setting the tax ratios for all York Region municipalities, including the City of Vaughan. As shown below,

**Figure 27 – 2019 Tax Ratios**

Municipality	Multi-Residential	Commercial	Industrial
Halton Region	2.00	1.46	2.36
Brampton	1.71	1.30	1.47
Mississauga	1.35	1.50	1.63
<b>York Region</b>	<b>1.00</b>	<b>1.28</b>	<b>1.57</b>

Source: BMA Municipal Studies

- As shown in Figure 27, tax ratios in York Region are the lowest in relation to peer municipalities.
- Low commercial and industrial tax ratios in York Region support economic development by providing a low property tax environment for non-residential properties.

## Municipal Levy, Property Taxes and Affordability Evaluation

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- In relation to the assessment base, **Municipal Levies** reflects positively for the City of Vaughan, which is higher than average on a per capita basis, reflecting a relatively high assessment base upon which to raise taxes. The City's levy per \$100,000 of weighted assessment reflects that spending is below average. (note: this does not compare service levels)
- Average **municipal property taxes** paid in relation to household income in Vaughan is slightly below the peer average.
- Non-residential **tax ratios** are lower than peer average, supporting economic development in the City by providing a low property tax environment for non-residential properties. All things being equal, lower average tax ratios increases the burden on residential properties.

## Conclusion

The City of Vaughan's financial condition has been relatively healthy and stable. The City has many positive indicators and a relatively high assessment base upon which to levy taxes that support the community's ability to pay for services. However, consistent with other Ontario municipalities, the City faces challenges to provide service and plan for the replacement of infrastructure given increased demands and limited resources. To continue to operate in a fiscally sustainable manner, a Long-Range Financial Plan is required along with additional and updated policies and strategies to strengthen and enhance the City's overall financial position.

## Comparison Summary of Financial Condition Assessment Indicators

The following table summarizes the City of Vaughan's Financial Condition Assessment results, where available, for 2012 (the year BMA conducted a similar assessment as part of developing the City's Financial Master Plan), 2014 (the oldest Municipal Study data available from BMA), and 2019 (based on the BMA Municipal Study).

Figure 31 – Summary of Results

	2012	2014	2019
<b>Growth &amp; Socio-Economic Indicators</b>			
Population	288,301	329,234	330,523
Population Density per sq. km.	1,054	1,204	1,208
Building Construction Value per Capita	\$2,537	\$2,706	\$3,443
Unweighted Assessment - Residential	75%	77%	79%
Unweighted Assessment - Non-Residential	25%	23%	21%
Average Gross Household Income	\$123,000	\$124,268	\$143,086
<b>Sustainability Indicators</b>			
Financial Position per Capita	\$831	\$1,029	\$1,790
Asset Consumption Ratio		11.20%	12.30%
<b>Vulnerability &amp; Flexibility Indicators</b>			
Taxes Receivable as % of Taxes Levied	7.5%	5.1%	5.6%
Tax Debt Charges as % of Own Source Revenues	3.6%	5.1%	2.4%
Tax Reserves (less WWW) as % of Taxation		79%	82%
Tax Discretionary Reserves as % of Own Source Revenues		57%	54%
Total Reserve & Reserve Fund Balance	\$ 473,044,831	\$ 510,299,253	\$939,858,706
<b>Municipal Levy &amp; Affordability Indicators</b>			
Net Municipal Levy per Capita		\$1,399	\$1,690
Property Taxes as a % of Household Income		3.89%	3.80%

Source: BMA Municipal Studies and FIRs