

CITY OF VAUGHAN

EXTRACT FROM COUNCIL MEETING MINUTES OF NOVEMBER 17, 2020

Item 3, Report No. 54, of the Committee of the Whole, which was adopted without amendment by the Council of the City of Vaughan on November 17, 2020.

3. CITY OF VAUGHAN'S FINANCIAL CONDITION ASSESSMENT

The Committee of the Whole recommends approval of the recommendation contained in the following report of the Deputy City Manager, Corporate Services and Chief Financial Officer, dated November 10, 2020:

Recommendation

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

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

Prepared by

Kelly Sutton, Senior Financial Analyst, Financial Sustainability, ext. 8252

Approved by



Michael Coroneos, Chief Financial Officer

Reviewed by



Jim Harnum, City Manager



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.

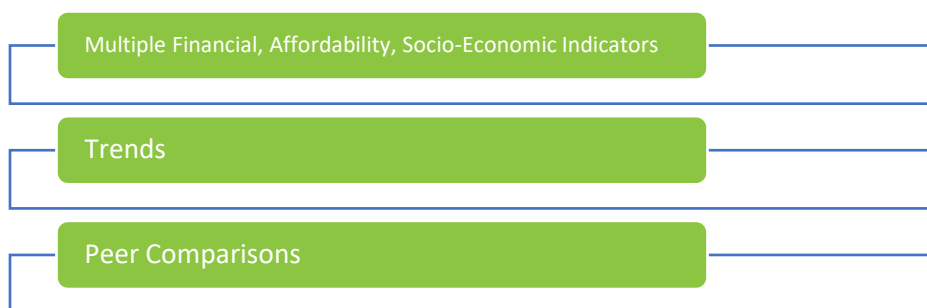
At that time, numerous industry-recognized financial and socio-economic indicators and factors were reviewed to assess the City's financial health, including trend analysis, review against best practices, and peer municipalities. This report applies a similar approach to show how the City's performance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

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

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
Vaughan	330,523	274	1,208

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 8th 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%
Vaughan	288,301	306,233	6.2%	330,523	7.9%

Source: BMA Municipal Studies

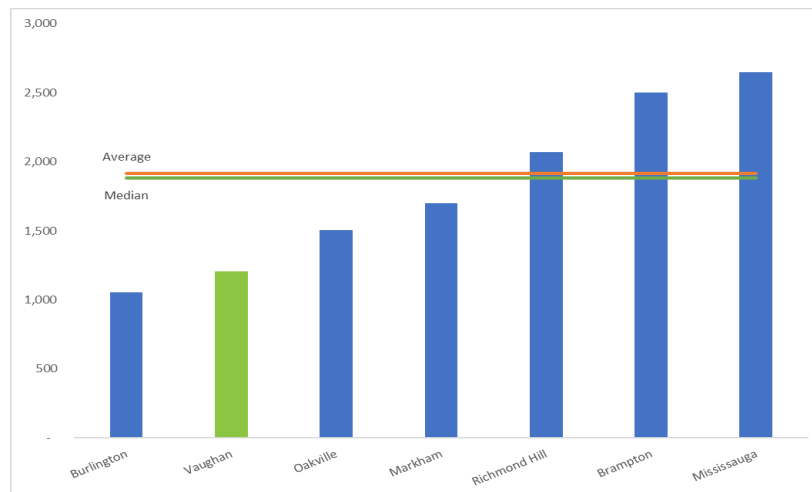
Since 2011, Vaughan's population growth was third highest compared to peer municipalities, and above the GTA and Province.

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 patterns¹.

Figure 3 – Population Density per km² – Peer Municipalities



Source: BMA Municipal Studies

- Among the peer group, Vaughan has the 6th highest population density per km² (8th 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.

¹ 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.

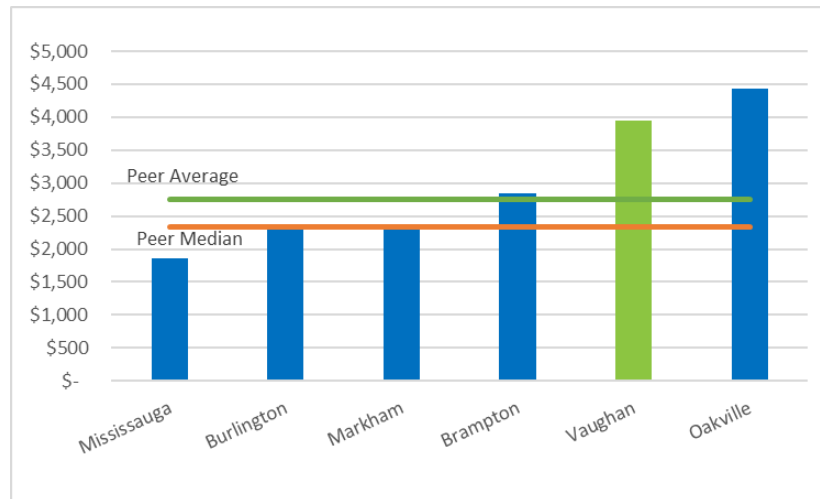
Figure 6 – Labour Force Indicators

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.

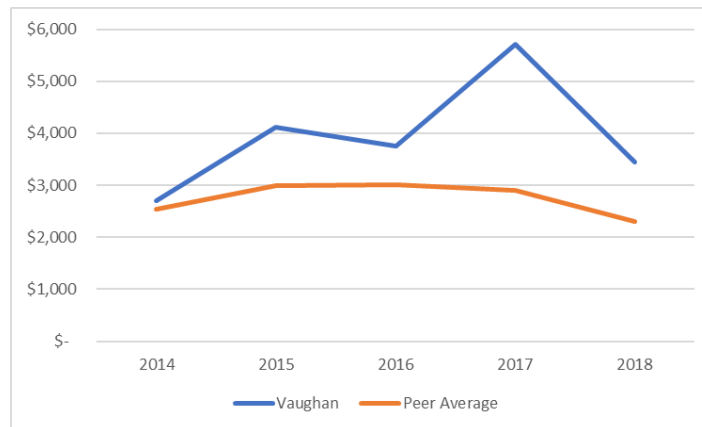
Figure 7 – Construction Activity Per Capita – Peer Municipal Comparators – 5 Year Average



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.

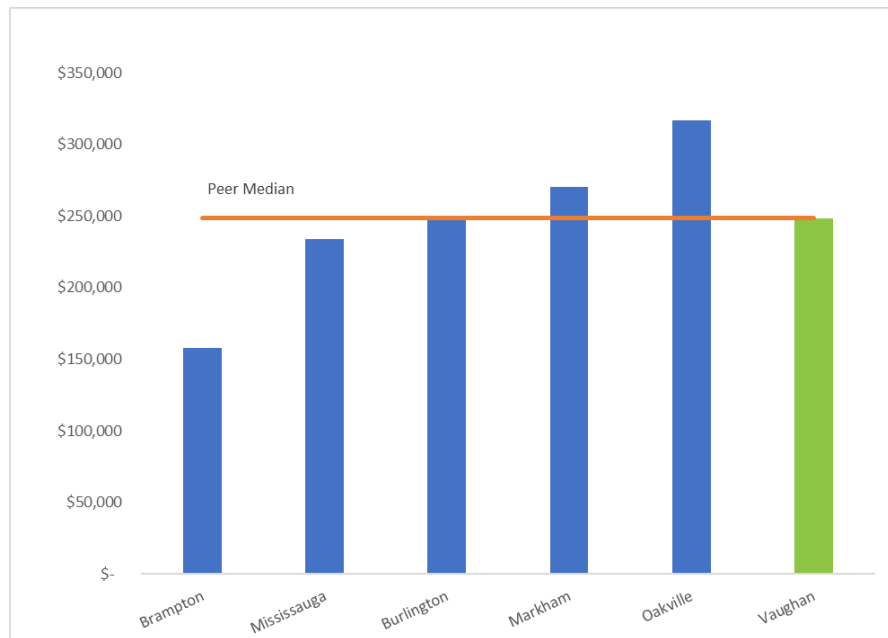
Figure 9 – 2019 Unweighted Assessment Composition %

	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.

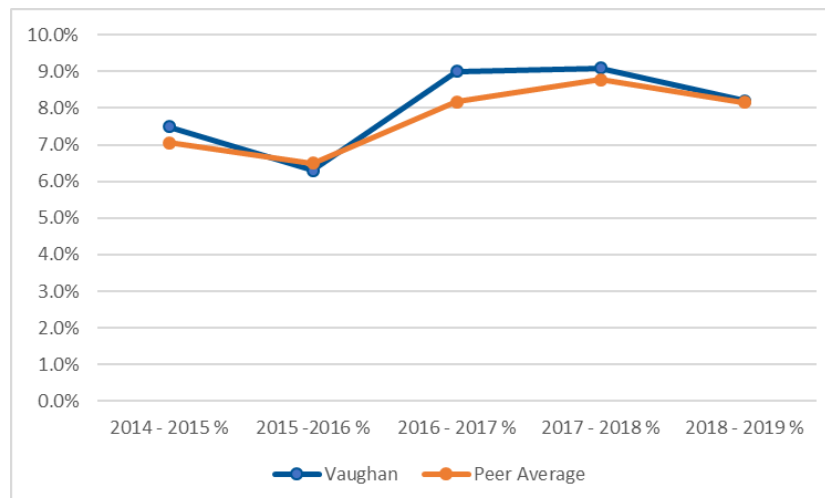
Figure 10 – 2019 Weighted Assessment Per Capita



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



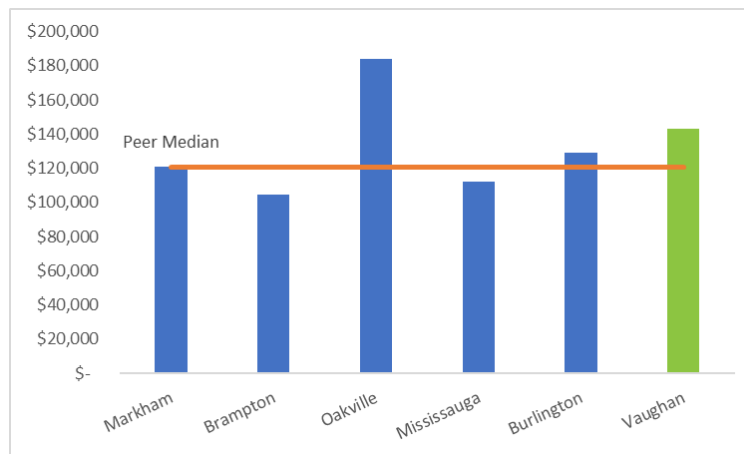
Source: BMA Municipal Studies

- 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

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.

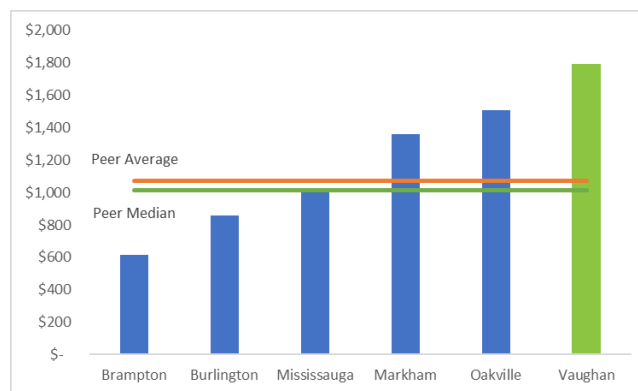
Figure 13 – City of Vaughan – Financial Position

(000s)	2014	2018	% change
Assets			
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%
Total Assets	\$ 932,925,417	\$ 1,546,840,052	65.8%
Liabilities			
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	-	-	-
Total Liabilities	\$ 594,213,933	\$ 955,108,700	60.7%
Net Financial Position	\$ 338,711,484	\$ 591,731,352	74.7%

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



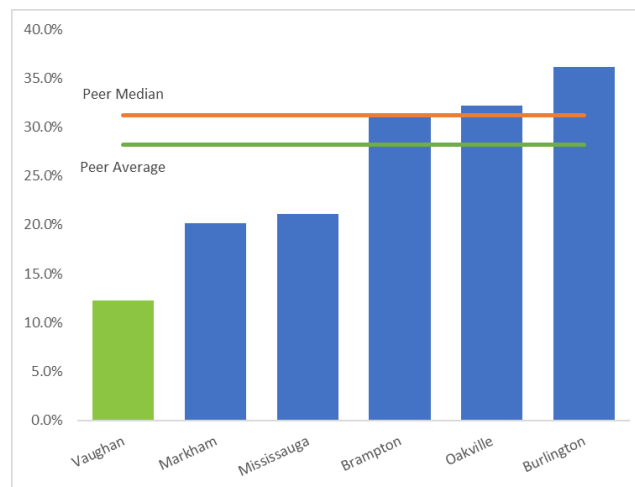
Source: BMA Municipal Studies

- 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



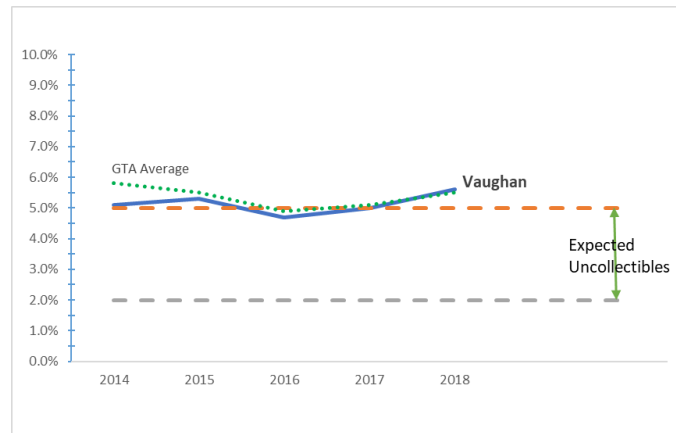
Source: BMA Studies

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.

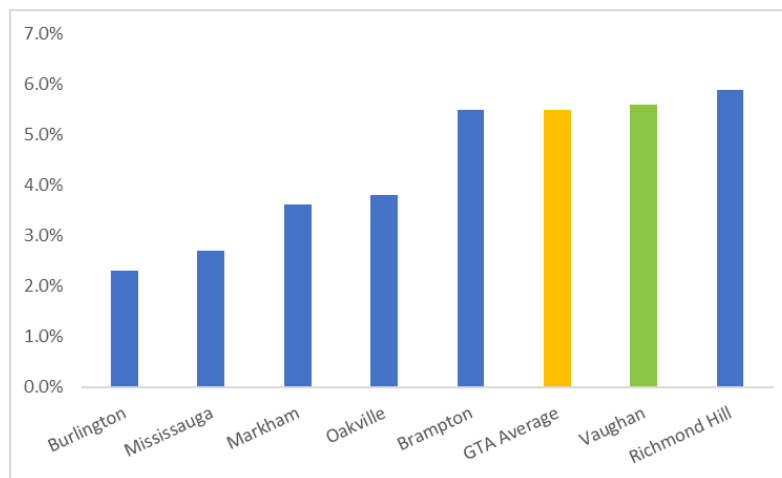
Figure 16 – City of Vaughan - Taxes Receivable as a % of Taxes Levied



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



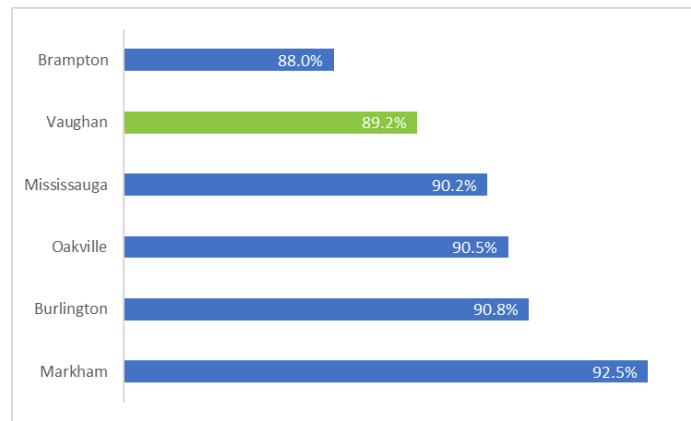
Source: BMA Municipal Studies and FIRs

- 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.

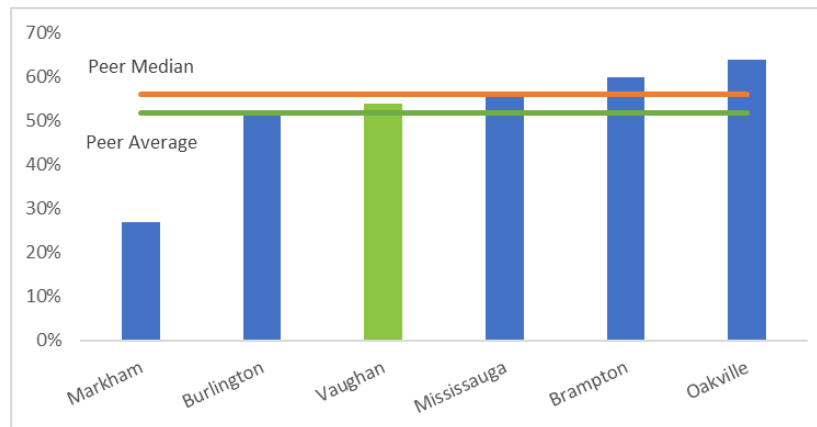
Figure 19 - Tax Reserves/Reserve Funds as a % of Taxation

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%	
Vaughan	79%	70%	102%	83%	82%	Decreasing

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/Reserves 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)
Tax Supported TOTAL	\$ 122,667	\$ 132,765	\$ 134,230	\$ 138,921	\$ 152,599	24%	\$ 92,000
WWw Reserves	\$ 94,331	\$ 113,886	\$ 140,155	\$ 163,280	\$ 168,077	78%	\$ 148,880
Rate Supported TOTAL	\$ 94,331	\$ 113,886	\$ 140,155	\$ 163,280	\$ 168,077	78%	\$ 148,880
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
Obligatory TOTAL	\$ 309,178	\$ 371,647	\$ 408,876	\$ 617,006	\$ 619,183	100%	\$ 396,981
GRAND TOTAL	\$ 526,176	\$ 618,298	\$ 683,261	\$ 919,207	\$ 939,859	79%	\$ 637,861

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 face 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)

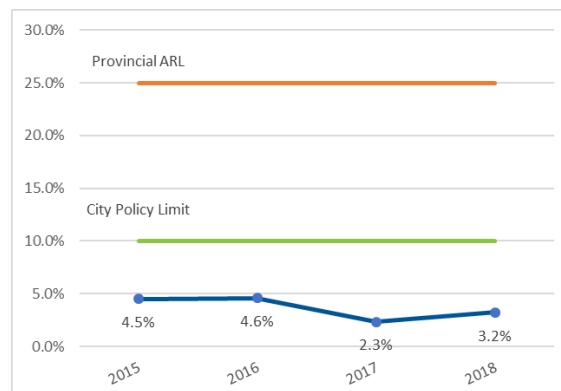
	2019 Debt Outstanding (000s)
General Government	\$ 3,750
Roads	\$ 18,119
Recreation	\$ 1,074
Water	\$ -
Sewer	\$ -
Total	\$ 22,943

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



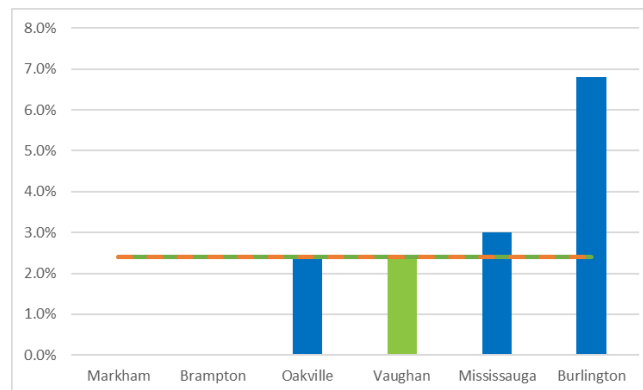
Source: Financial Information Returns

- 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		
Vaughan	\$ 1,690	\$ 533	high	low

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%
Vaughan	\$ 789,698	\$ 5,497	\$ 143,086	3.8%

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
York Region	1.00	1.28	1.57

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

- 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
Growth & Socio-Economic Indicators			
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
Sustainability Indicators			
Financial Position per Capita	\$831	\$1,029	\$1,790
Asset Consumption Ratio		11.20%	12.30%
Vulnerability & Flexibility Indicators			
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
Municipal Levy & Affordability Indicators			
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