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Additional Reduction Options for the 2019 Tax-supported Operating Budget

At the Committee of the Whole meeting on January 14, 2019, the following direction was given with regards to the 2019 preliminary draft budget:

That staff be directed to provide further budget reduction options in advance of the Special Committee of the Whole meeting on February 4, 2019 regarding the 2019 operating budgets. These options to provide for at least an additional \$300,000 in reductions to the 2019 tax levy requirement without directly affecting service levels or the infrastructure levy. Any potential risk is to be identified and assessed.

The following options will be submitted for discussion at the Special Committee of the Whole on February 4, 2019:

Revenue options:

- Supplementary taxes
- Investment income

Wages and benefits options:

- Provision for vacancies – “gapping”
- Provision for casual wage increases

None of these options, as set out, directly affect service levels or the infrastructure levy. They had been previously reviewed and not recommended on the basis of sustainability, meaning that they would only defer costs to a future budget. However, some circumstances have changed since the initial assessment, and there may now be acceptable levels of risk.

Revenue Options

Supplementary taxes

Supplementary taxes are billed to properties that have undergone recent development and have not yet been assessed. They are added to the tax roll in a future year. It is these “back taxes” that are referred to as ‘supplementary’ and they cover the period from occupancy to the present. These revenues fluctuate subject to construction and

real estate activity combined with the MPAC processing time. These factors make it difficult to accurately project the amount on an annual basis.

Over the last 10 years, these revenues have varied from a low of \$400,000 (2012 & 2016) to over \$1,200,000 (2013). In 2018, \$800,000 in supplementary taxes were billed compared to a budget of \$550,000. The final supplementary billings were completed after the 2019 budget was prepared and were therefore not factored in. The suggested budget remained unchanged for 2019 at \$550,000.

Option 1: Increase the supplementary tax budget by up to \$150,000 to align with the 10-year average.

Risk – short term:

For individual years, the revenue is difficult to predict. In years where there is a positive budget variance (i.e., above average revenue), the surplus amount will need to be set aside in a reserve to offset future negative variances.

Risk – medium to long term:

As MPAC becomes more efficient, the backlog and its related revenue will likely be reduced, which may result in a negative budget variance (i.e., below average revenue). Similarly, when growth slows, there will be a negative budget variance.

Evaluation:

If the budget is increased, there could be a shortfall in 2019, which would be corrected in future years. This can be mitigated by setting up an initial reserve from the 2018 surplus.

Investment income

The Town earns interest on the cash in its operating bank account at the prime rate less 1.5% (currently 2.45%). This is considered to be the Town's passive investment. As this rate is variable, revenue increases when interest rates increase. Revenue also increases when there is more idle cash. An example is the Mulock Farm debenture funds, which were received early and generated an additional \$100,000 in investment income for 2018.

The Town also has active investments in short and medium term money market instruments. These earn a better rate for the Town's reserve fund cash; however, the rate is generally locked in. Staff use a 'benchmark' that the return must exceed the rate being paid in the passive investments. The income generated above the passive rate, is referred to as 'incremental income'. A portion of the incremental income (the return in excess of the benchmark), is assigned to the operating fund during the budget process to relieve budget pressures.

Therefore, when interest rates increase, passive investment income also increases; and incremental income earned on active investments (with locked in rates) decreases.

Compared to the budget in 2018, the Town will earn an additional \$600,000 in bank interest and, of that, \$100,000 will be transferred to the Mulock Farm reserve. This transfer will mean that the potential \$100,000 in incremental income will no longer be available to the Town.

Option 2: Increase the budget by up to \$400,000 to recognize the impact of increased interest rates.

Risk – short term:

Interest rate hikes are expected so that should not be an issue.

Risk – medium to long term:

Interest rates will fluctuate over time. When they do drop there will be a negative budget impact.

Evaluation:

A policy of having the budget closely follow rate hikes will eventually cause issues at some point in the future when rates decrease. Partial implementation can mitigate this by leaving a buffer for future reversals.

Wages and Benefits Options

Provision for vacancies – “gapping”

The period of time that a position is left vacant is known as “gapping” This is the period of time between recruitment and filling the vacancy. There may be some backfilling but there is generally a net savings in wages and benefits.

The Town has been conservative in budgeting for gapping increases when positions remain vacant. Service levels can be impacted by this practice.

Option 3: Increase the budget by up to \$300,000 to align with the 10-year average.

Risks:

The reduction target of \$300,000 may be difficult to achieve if the budget does not create new positions and/or there is insufficient turnover (i.e., vacancies). To meet the target, it may require managing the budget through intentional hiring delays.

Recognizing that the Town has forecasted higher levels of retirement in 2019 and 2020, and the level at which these will occur, there is an additional need for transitional overlap to provide for an effective knowledge transfer process. As well, it is important to consider the availability and quality of candidates for critical risk and hot spot

occupations and the impact of gapping. The gapping provision creates a financial challenge to this.

Evaluation:

Leaving positions vacant to achieve the target is counter to good operational management by the Town, and would negatively impact service levels.

Provision for casual wage increases

The casual wage scale uses the minimum wage as its base, which is adjusted when the minimum wage increases. No increase is expected in 2019 but a provision of \$120,000 is included in the 2019 budget. This is an inflationary allowance to phase-in the budget impact of the eventual increase in the wage scale.

Option 4: Eliminate or reduce the \$120,000 provision.

Risk:

When the casual wage scale is adjusted in the future the Town will have to account for an increase beyond the annual inflation rate. Eliminating or reducing the provision will likely compound the problem in the future.

Although an increase is not expected in 2019, it is always a possibility for later in the year.

Evaluation:

The savings are temporary and not sustainable.

Next Steps

Chart, tables and further information will be provided on these options as part of the presentation to Committee of the Whole on February 4.

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