

Council Workshop (Finance Policies)

Monday, April 30, 2018 at 10:00 AM
Council Chambers

Notice

In accordance with the Town's Procedure By-law, no decisions are to be made but rather this meeting is an opportunity for Council to have informal discussion regarding various matters.

Declarations of Pecuniary Interest

Items

- 1. Development Charges Council Information Session Presentation** Pg. 1

Mr. Jason Bevan and Mr. Craig Binning, Hemson Consulting will be in attendance to present on the matter.

Note: The following report has been included for information purposes.
 - Development Charges Background Study Update Information Report 2018-17 Pg. 26

- 2. Financial Sustainability Presentation** Pg. 29

The Director of Financial Services/Town Treasurer and the Senior Financial Analyst will be in attendance to present on the matter.

Note: The following reports have only been included for information purposes, and will be considered at the April 30, 2018 Committee of the Whole meeting.
 - Policies for Financial Sustainability Report 2018-11 Pg. 55
 - Asset Replacement Fund Strategy Report 2018-12 Pg. 77

3. Service Pricing Policy Presentation

Pg. 86

The Director of Financial Services/Town Treasurer will be in attendance to present on the matter.

Note: The following report has been included for information purposes.

- Service Pricing Policy Update Information Report 2018-20

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Adjournment

Town of Newmarket Development Charges Council Information Session



Monday, April 30th, 2018

HEMSON
Consulting Ltd.



Today we will discuss...

- What are Development Charges (DCs)?
- Overview of *Development Charges Act*
- Summary of Ineligible & Eligible Services
- DCs in Newmarket
- Overview of DC Background Study Process
- DC Policy Considerations
- Proposed Project Timeline
- Questions

Background

- The Town passed DC By-law 2014-42 in July 2014
- By-law 2014-42 expires on September 2, 2019.
- The Town must pass a new by-law before expiry in order to continue collecting DCs
- A DC Background Study must be completed and the Town must hold at least one public meeting

What Are Development Charges (DCs)?

- Fees imposed on new development to finance “development-related” capital costs
- Pays for new infrastructure and facilities to maintain service levels
- Principle is “growth pays for growth” so that financial burden is not borne by existing tax/rate payers
- In reality, development charges cannot fully fund growth due to statutory limitations

Other Municipal Revenue Sources

- Direct Developer Contributions
 - Infrastructure required as part of a subdivision agreement
 - i.e. internal roads, sidewalks, streetlights, small water/sewer mains, park elements etc.
- Property Taxes and Utility Rates
 - Long-term repair and replacement of infrastructure
 - Statutory and non-statutory reductions on DCs
 - Ineligible infrastructure
- Federal and Provincial grants

Overview of the *DC Act*

- Requirements of legislation:
 - A background study and public process are required
 - A by-law must be enacted and has a maximum life of 5 years
 - Restriction on services that can be included and the level of growth-related capital costs recovered
 - Charges can be municipal-wide and/or area-specific
 - Dedicated reserve funds are required
 - Credit and “front-ending” agreements are permitted

Overview of the DC Act: *Ineligible Services*

- Service exclusions:
 - Cultural and entertainment facilities, including museums, theatres and art galleries
 - Tourism facilities including convention centres
 - Parkland acquisition
 - Hospitals
 - Headquarters for general administration of municipalities and local boards
 - Landfill sites and solid waste incineration facilities*

Overview of the DC Act:

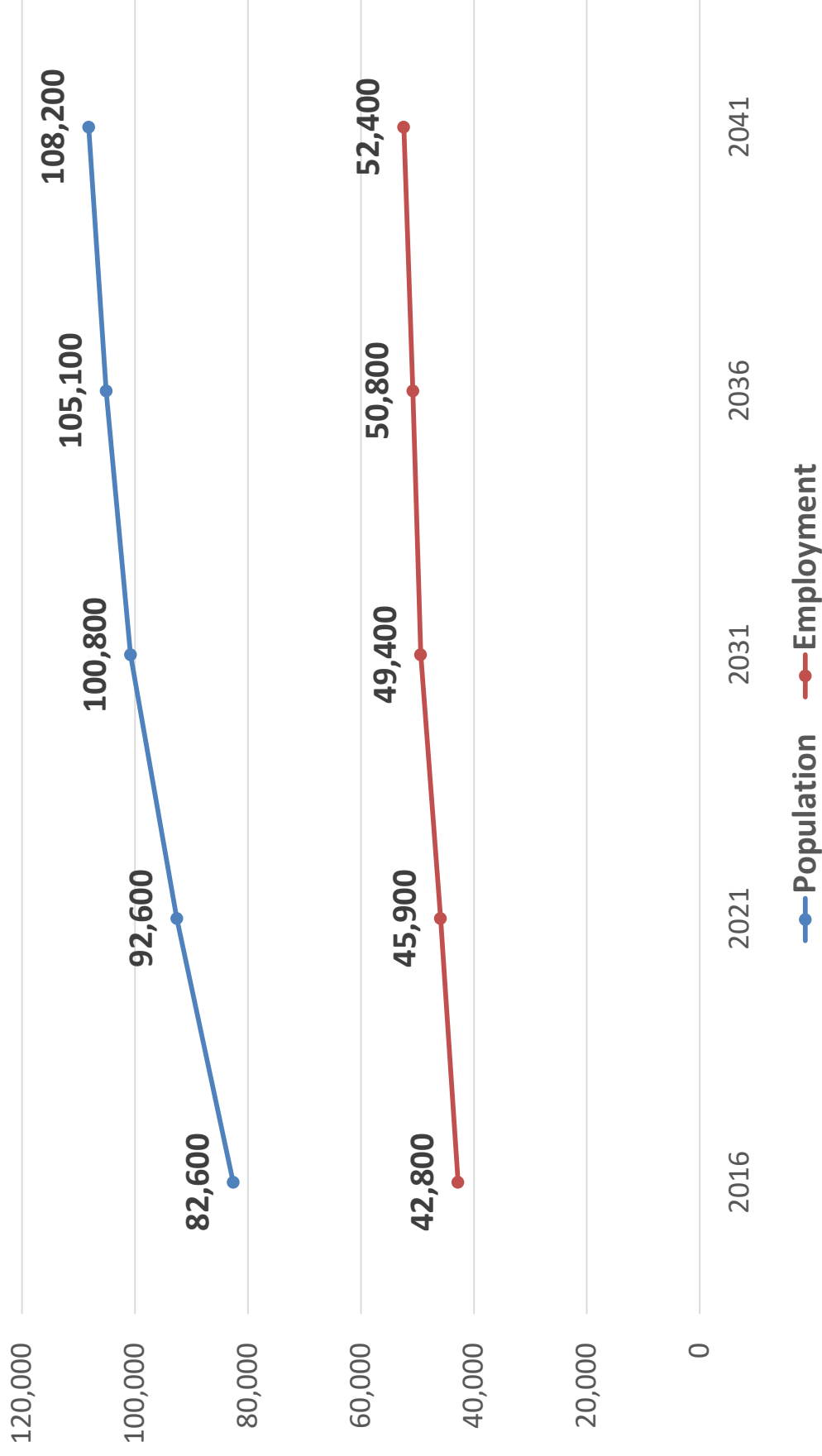
Eligible Projects

- Eligible capital costs:
 - Costs to acquire and improve land
 - Building and structure costs
 - Rolling stock with a useful life of 7 years or more
 - Furniture and equipment, excluding computer equipment
 - Development-related studies
 - Engineering fees, contingencies
 - Past expenditures that still need to be funded through future DCs (i.e. debentures)
 - Interest and financing costs

New Amendments to the DCA and Associated Regulations

- Effective as of January 1, 2016:
 - Ineligible services to be prescribed by *Regulations*
 - Transit services are no longer subject to a 10% reduction and based on a “*planned*” level of service
 - Waste collection and treatment are now eligible
 - Asset Management Plan (AMP) must demonstrate that assets are “*financially sustainable*” over their full lifecycle
 - Longer consultation period – DC Background Study made available 60 days prior to the passage of a DC By-law
 - Additional reporting requirements

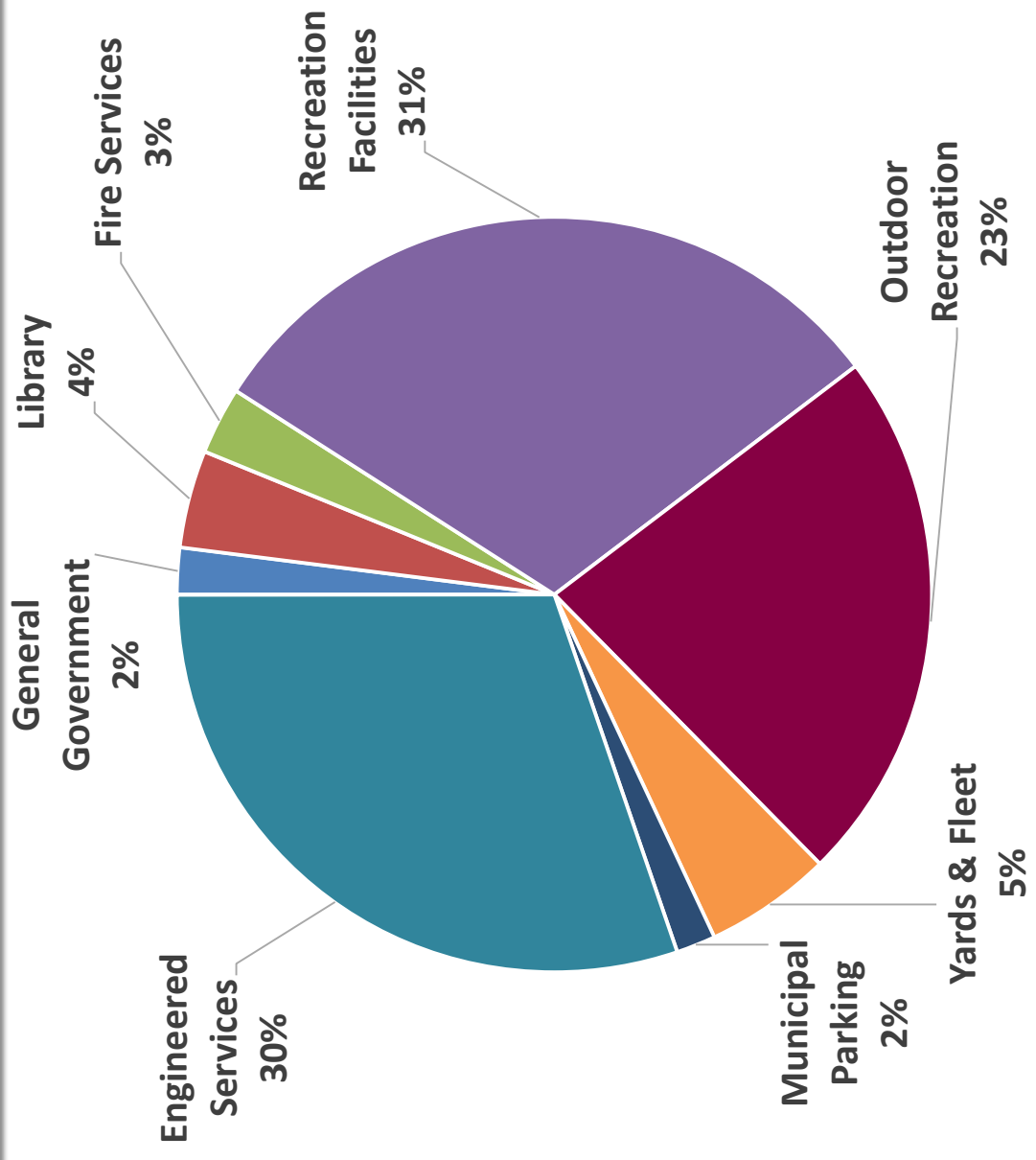
Growth Forecast (York 45% Intensification Scenario)



Newmarket DC Rate Structure

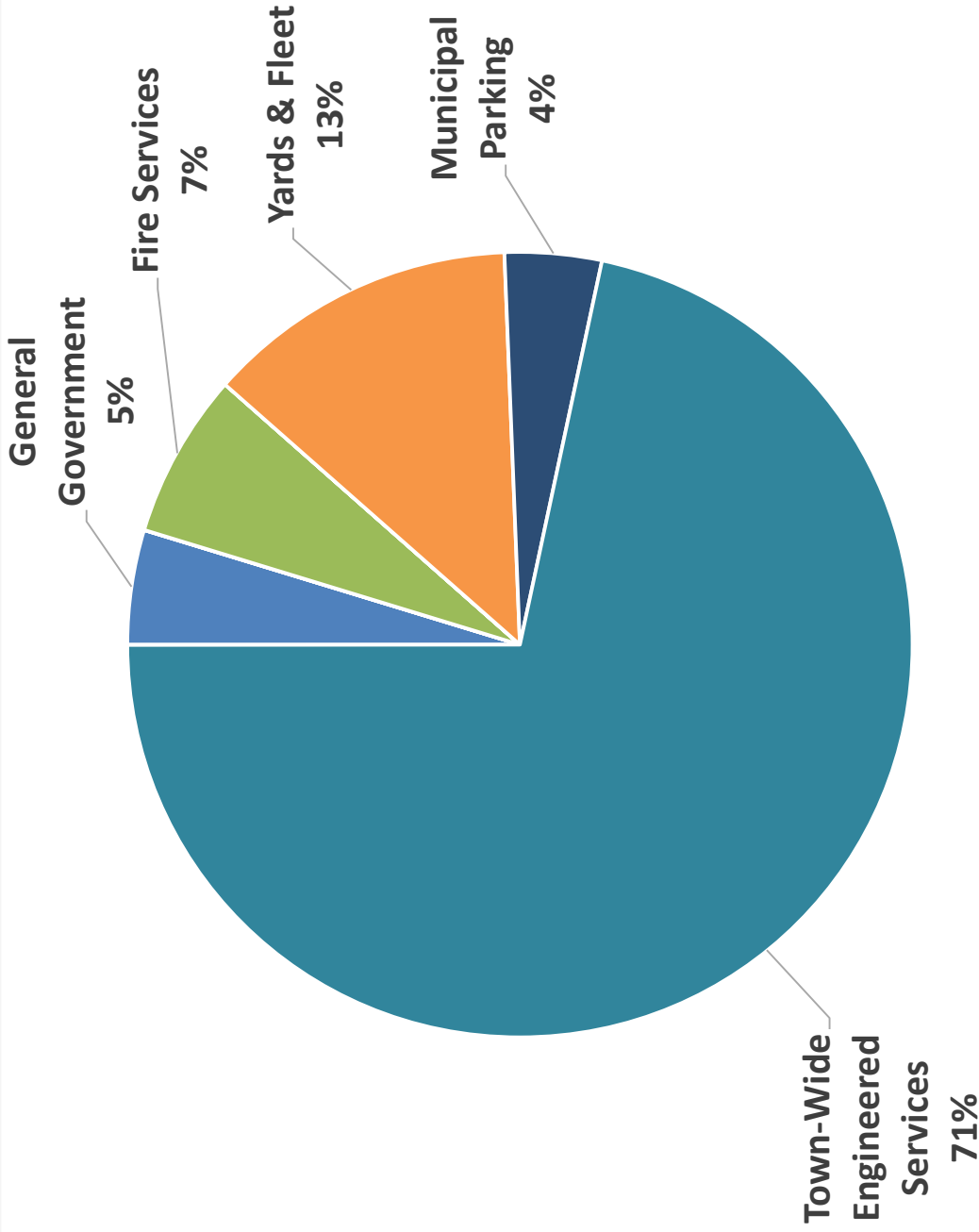
Service	Statutory Maximum DC Cost Recovery	Statutory Maximum Planning Period	Planning Period Identified in 2014 DC Study
General Government	90%	10 years	10 years
Library	90%	10 years	10 years
Fire Services	100%	Unlimited	10 years
Recreation	90%	10 years	10 years
Outdoor Recreation	90%	10 years	10 years
Yards & Public Works Fleet	100%	Unlimited	10 years
Parking	90%	10 years	10 years
Engineered Services	100%	Unlimited	To 2031
Waste Collection	90%	10 years	Was not eligible

What Do Residential DCs Fund in Newmarket?



Residential Charges Per Unit*
Singles/Semis \$21,529
Rows/Multiples \$17,078
Apartments: 650 sq.ft. or greater \$13,331
Apartments: under 650 sq. ft. \$10,821

What Do Non-Residential DCs Fund in Newmarket?



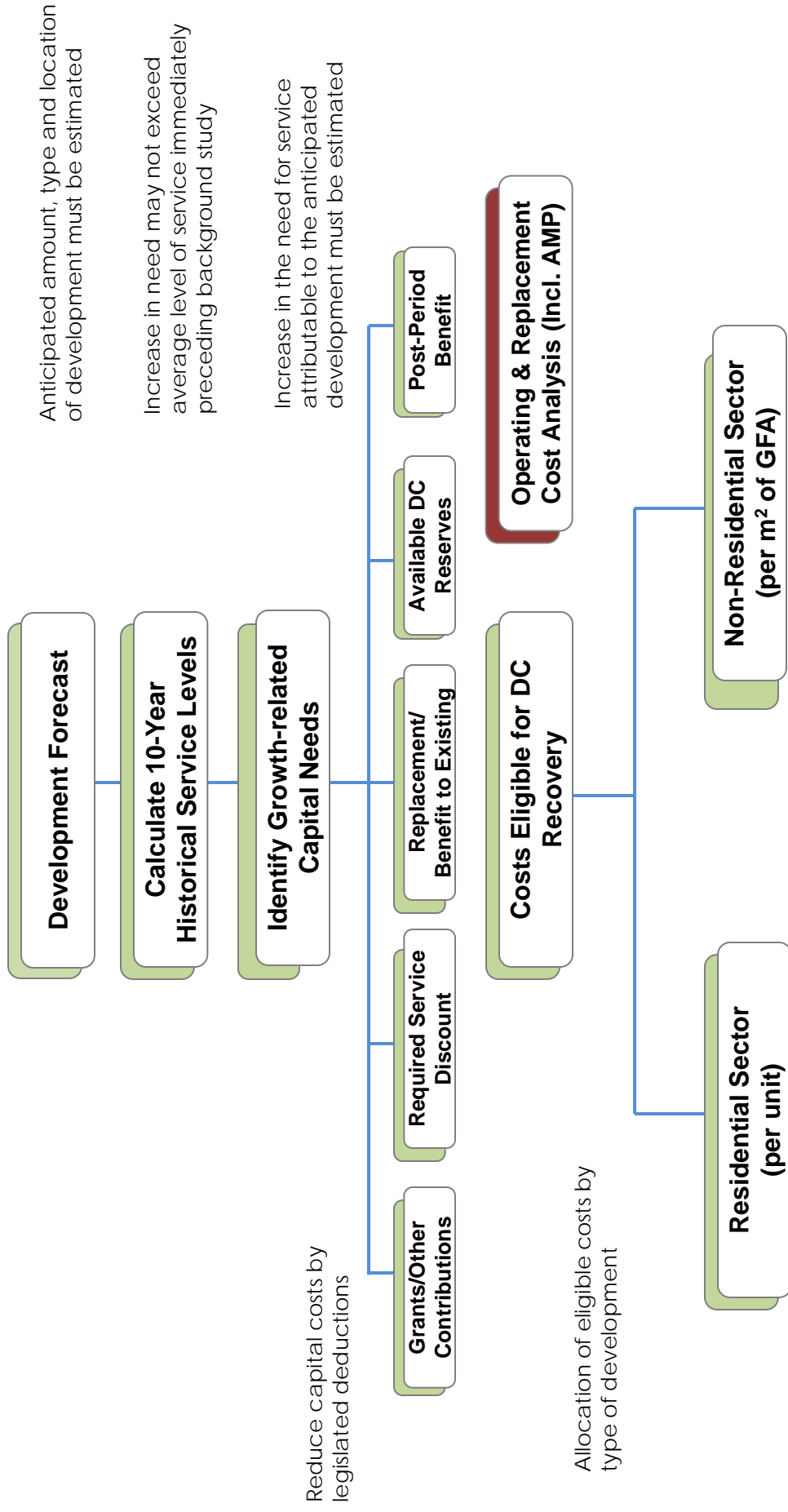
Non-Residential Charges Per Sq. Metre*	\$56.98
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Northwest Quadrant Development Area DC Rates



Residential Charges Per Unit*
Singles/Semis \$20,696
Rows/Multiples \$16,418
Apartments: 650 sq.ft. or greater \$12,815
Apartments: under 650 sq. ft. \$10,404
Non-Residential Charges Per Sq. Metre \$54.57

Overview of Study Process

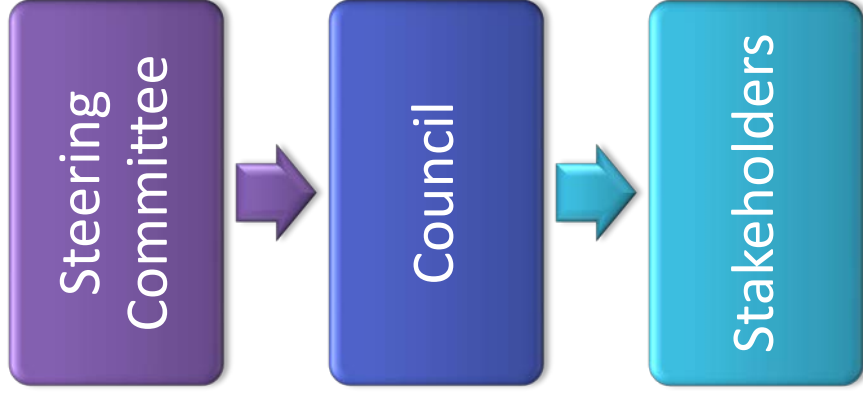


Need for Council Involvement

- Council must:
 - Give consideration to the use of “area-rating”
 - Adopt the capital forecast and the increase need for service attributable to development
 - Intend to undertake the capital forecast to ensure this need is met
 - Approve the DC rates and policies as identified in the proposed DC by-law

Stakeholder Consultation

- Meetings with industry stakeholders is proposed prior to the release of the 2019 DC Background Study
 - Provides opportunity to address issues/concerns early on in the process
 - Enhances communication and transparency
- Will be used to discuss key inputs of the DC Study (i.e. forecast, service levels, capital programs etc).
- These meetings will be in addition to the statutory public meeting



Current DC By-law Policies: Statutory Exemptions

- Exemptions required under the DCA:
 - Residential development permitting the creation of additional dwellings within an existing dwelling unit
 - Province has proposed an exemption for secondary units proposed in new units, currently awaiting regulations
 - Non-residential industrial development permitting the enlargement of gross floor area by 50% or less
 - Municipal buildings
 - School boards identified under the Education Act

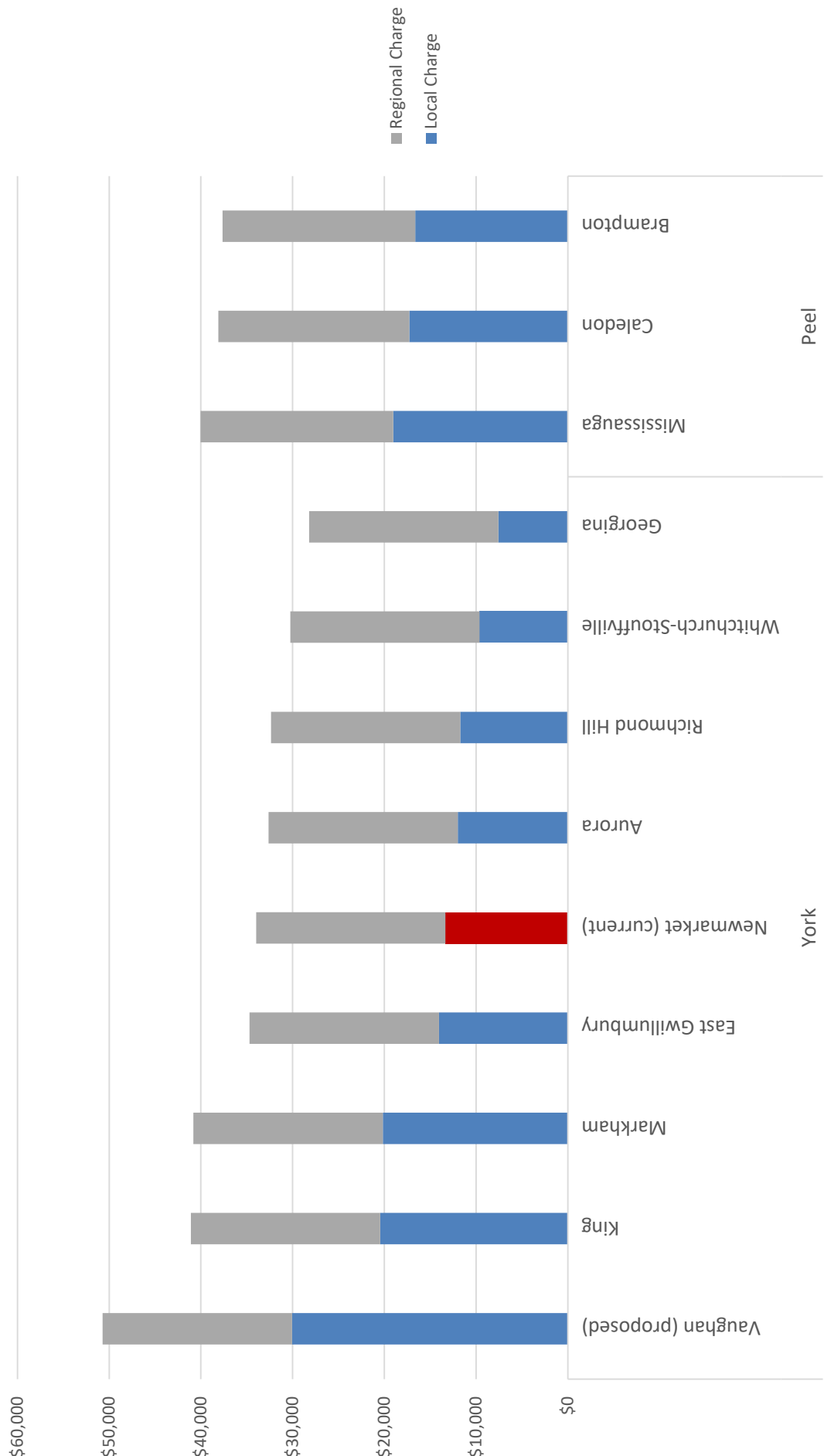
Current DC By-law Policies: Non-Statutory Exemptions

- Deferral policies
 - 18 months for high-rise mixed-use residential and office buildings
- Non-statutory exemptions (all currently exempt)
 - Agricultural uses
 - Non-profit housing
 - Private schools
 - Cemeteries
 - Temporary uses
 - Hospitals
 - Accessory uses

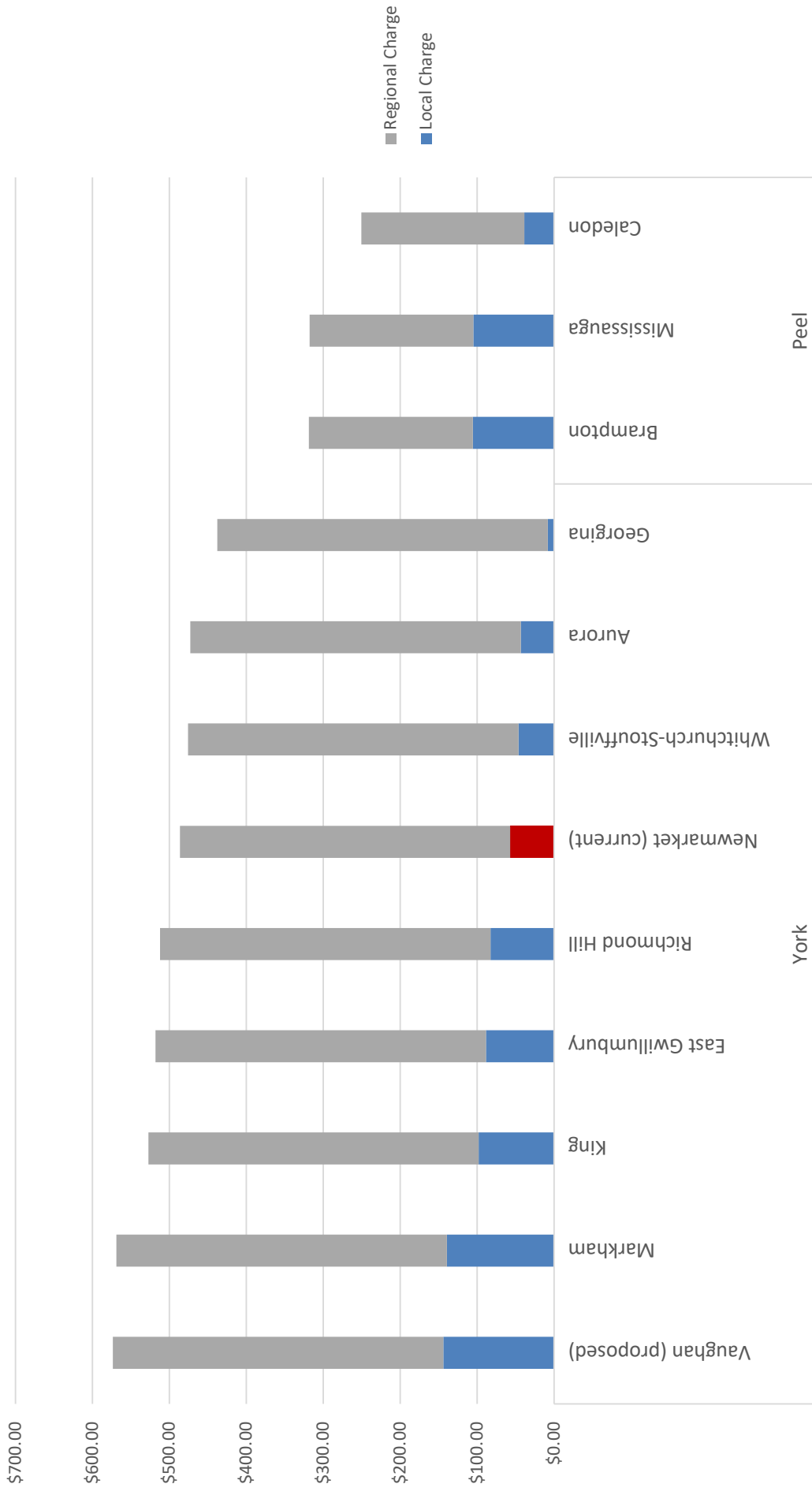
Other Non-Statutory Exemptions for Consideration

- Staff will be seeking Council direction on which DC exemptions and/or reductions should be considered as part of the 2019 DC Background Study update:
 - Purpose-built market rental housing
 - Attainable (affordable) housing
 - Others

Development Charges Comparison (Large Apartment)



Development Charges Comparison (Retail Charge Per Sq. M.)



Key Steps in Passing a DC By-law

Task	Description
<i>Release DC Background Study to Public</i>	<ul style="list-style-type: none"> • 60 days prior to by-law passage (including on website)
<i>Advertise for Public Meeting</i>	<ul style="list-style-type: none"> • 20 days notice
<i>Release Proposed DC By-law</i>	<ul style="list-style-type: none"> • 2 weeks before Public Meeting (or sooner)
<i>Hold Statutory Public Meeting</i>	<ul style="list-style-type: none"> • Receive submissions from public and Council • Amend proposed charges and by-law if warranted • Determine if additional Public Meeting is required
<i>DC By-law Passage</i>	<ul style="list-style-type: none"> • Any changes brought forward for adoption
<i>Notice of By-law Passage</i>	<ul style="list-style-type: none"> • 20 days after DC by-law passage
<i>Appeal Period</i>	<ul style="list-style-type: none"> • 40 days following DC by-law passage
<i>DC Pamphlet</i>	<ul style="list-style-type: none"> • 60 days after passage of DC by-law

Proposed Project Timeline



Questions?



Town of Newmarket
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Newmarket, Ontario, L3Y 4X7

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Development Charges Background Study Update Information Report

Report Number: 2018-17

Department(s): Financial Services

Author(s): Kevin Yaraskavitch, Financial Business Analyst

Date: April 30, 2018

In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Purpose

The purpose of this information report is to update Council on the progress of the Development Charge background study.

Background

Development charges are fees imposed on new development to finance development-related capital costs. These charges pay for new infrastructure and facilities to maintain service levels accounting for growth. The principle is "growth pays for growth" so that financial burden is not borne by existing tax and rate payers.

In accordance with the requirements of the Development Charges Act, 1997, development charges by-laws can only be in force for a maximum period of five years. Therefore, the Town needs to periodically update its by-law.

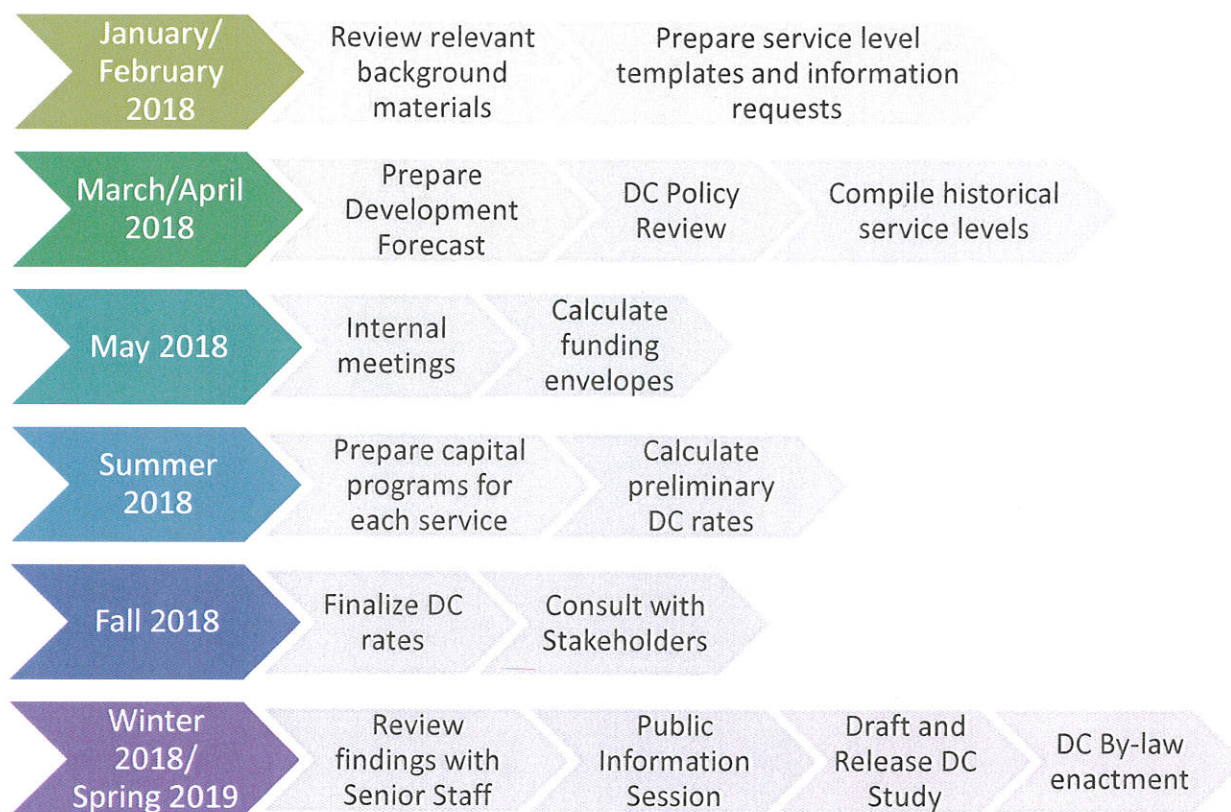
The Town's current Development Charges By-law, 2014-42, came into force and effect on September 1, 2014. This requires that a new development charges background study be completed and a new by-law approved by Council before September 1, 2019.

Discussion

Staff has created a task force in order to complete the Development Charge Background Study. This task force is a multi-disciplinary team and will create stronger ties with the asset management and budgeting processes. This will enable even better financial management for growth related capital projects.

The Town has retained a consultant to provide expert advice with respect to creating a development charge background study and by-law. Three consultants responded to the RFP: Hemson Consulting Limited, Watson & Associates Economists Ltd., and DFA Infrastructure International Inc. Following a thorough, documented evaluation process, Hemson Consulting Limited was awarded the contract.

Below is the proposed project timeline for updating the development charge by-law:



Conclusion

Members of the Hemson Consulting team will provide a presentation at the Financial Sustainability Workshop on April 30, 2018. Staff will continue progress on creating the Development Charge Background Study and proposed By-law.

Business Plan and Strategic Plan Linkages

This report links to Newmarket's key strategic directions in being Well-Managed through fiscal responsibility.

Consultation

In addition to the external research completed, and the retention of a consulting firm, monthly meetings take place with staff member representation from relevant Town departments.

Human Resource Considerations

None.

Budget Impact

The completion of the Development Charge Background Study will allow the Town to collect development charges for the 2019-2024 period to fund growth related capital projects.

Attachments

None.


Contact

For more information on this report, contact: Kevin Yaraskavitch at 905-953-5300 ext. 2106 or kyaraskavitch@newmarket.ca


Approval



Kevin Yaraskavitch
Financial Business Analyst



Mike Mayes, CPA, DPA, CGA
Director, Financial Services/Treasurer



Esther Armchuk, LL.B
Commissioner of Corporate Services

Financial Sustainability Workshop



Presenters: Mike Mayes, Frank Wu
Date: April 30, 2018



Elements of a Sustainable Financial Strategy

1. Asset Management
2. Debt
3. Revenues
4. Investment Strategy
5. Reserves and Reserve Funds
 - Asset Replacement Fund



Asset Management

- Manager, Asset Management hired
- Additional staff included in 2018 budget
- For details see Asset Management Committee Report 2018-04, Asset Management Strategy Progress Report



Debt - basics

The *Municipal Act* limits the use of debt:

- to capital purposes
- to an Annual Repayment Limit (ARL)
- Lower Tier municipalities must borrow through an Upper Tier Municipality

However, this applies to *external* debt and not *internal* debt, i.e. borrowing from our own reserve funds



Debt - indicators

Strength of the underlying asset - Long-term debt as a % of the net book value of tangible capital assets

2012	2013	2014	2015	2016	2017
11.2%	10.3%	9.4%	8.5%	7.7%	6.9%



Debt – indicators (cont'd)

Capacity to pay – annual debt servicing (principal and interest) compared to own source revenues (i.e. not grants or DC's) – same formula as the ARL

2012	2013	2014	2015	2016	2017
5.5%	5.3%	5.3%	4.9%	4.6%	4.5%

Debenture for the Mullock Farm (\$26 million) will increase the debt servicing to 5.8%

We have debt capacity for another \$60 million



Debt Projections

Debt retirement		Tax-supported
2019	\$ 8.5 million	
2024	\$15.5 million	\$ 590,000
2026	\$8.2 million	
2031	\$1.5 million	
2048	\$ 26.0 million	\$ 1,460,000
Total	\$ 59.7 million	\$ 2,050,000



Why update the policy?

Current Debt Policy

- Was adopted in 2006
- Focused on limits to debt and gave no direction as to when to borrow
- Does not include internal borrowing



Debt Policy Proposed Changes

- Specifies when debt can be used as a financing source
- Includes rules for internal loans
- Sets limits on the length of repayment terms
- Prescribes reporting requirements

Report 2018-11, Policies for Financial
Sustainability recommends an updated policy



Revenue Trends



1. More efficient tax billing and collections
 - More proactive tax collection
 - New tax software proposed (Procurement Services, IT & Financial Services Report 2018-07)
2. Tiered water rates
 - Full implementation by 2020
3. New water meters
 - Installations starting later this year
4. Service Pricing Policy update
 - separate presentation



Investments - indicators

Active investments

	2013	2014	2015	2016	2017
Return on investment	\$ 88,171	\$ 575,918	\$ 524,636	\$ 946,519	\$ 890,938
Benchmark	28,403	353,967	280,137	528,997	611,715
Incremental income	\$ 59,767	\$ 221,951	\$ 244,299	\$ 417,522	\$ 279,223
Operating budget Allocation	\$50,000	\$ 125,000	\$ 175,000	\$ 175,000	\$ 175,000



Investments - indicators

Business enterprises

	2013	2014	2015	2016	2017
	In \$ millions				
Hydro equity	\$ 1.34	\$ 1.78	\$ 1.77	\$ 1.61	\$ 0.82
Promissory note interest	1.20	1.20	1.20	1.20	1.20
Dividends	1.34	1.34	1.34	1.34	1.34
Total	\$ 3.88	\$ 4.32	\$ 4.31	\$ 4.15	\$ 3.36



Investment

– policy considerations

- More extensive investing
- Expanding the range of eligible investments
- Prudent Investor Standard



Reserves and Reserve Funds

- definitions



The accumulated surplus consists of Reserves and Reserve Funds, which are used for rate stabilization – for future events unforeseen (contingency) or foreseen (savings)

Reserve Funds tend to be for a longer term than Reserves and earn interest

Generically, they are called “Reserves”



Reserves and Reserve Funds

- indicators

	2012	2013	2014	2015	2016	2017
Tax Discretionary Reserves as a % of Taxation Revenue	27%	32%	15%	7.4%	8.2%	7.3%
Water Reserves as a % of Water Revenues	132%	140%	149%	154%	161%	165%
Wastewater Reserves as a % of Wastewater Revenues	85%	93%	106%	116%	121%	139%



Reserve Funds Policy Proposed Changes

- Primarily housekeeping
 - Updates on funding sources
 - Revised targets
 - Confirming delegated authority
 - Consolidation of some funds

Report 2018-11, Policies for
Sustainability recommends a policy

Financial



Asset Replacement Fund

- Overview



The Asset Replacement Fund (ARF) was created in 1998

Goal: to ensure that Newmarket can afford to replace future capital assets as required

Contributions were based on estimated annual contribution requirement – initially 100% for water, wastewater and fire; 50% for other assets (which grew to 100% by 2008)



Asset Replacement Fund

- indicators



Capital reserves and reserve funds as a % of accumulated amortization

	2012	2013	2014	2015	2016	2017
Combined	8%	10%	9%	8%	9%	11%
Tax-supported	-5%	-4%	-7%	-10%	-8%	-10%
Rate-supported	46%	50%	53%	55%	58%	42%



Asset Replacement Fund

- indicators



Contributions to capital reserves and reserve funds as a % of amortization expense

	2012	2013	2014	2015	2016	2017
Combined	88%	86%	88%	92%	106%	101%
Tax-supported	69%	74%	85%	82%	81%	69%
Rate-supported	116%	99%	94%	113%	212%	244%



Asset Replacement Fund

- current practices

Global fund

- ARF funding is limited to the total balance from all sources

Non-TCA application

- ARF funding of projects that extend the life of assets or support capital activities

These were appropriate and legitimate practices while the ARF was developing, and now being revisited:



Asset Replacement Fund

- issues with current practices

Global fund

- Tax-supported ARF has borrowed \$31 million from the rate-supported ARF
- Contributes to capital carryovers

Non-TCA application

- Mixed use of the ARF makes measuring the infrastructure gap more difficult



ARF Policy & Strategy

Proposed Changes

Policy

- ARF categories to be aligned with Asset Management Plans
- Defines targets
- Restricts use of ARF to the capital budget

Strategy

- Deals with the inter-fund loan
- Reallocates ARF balances and contributions



ARF Status

	December 31, 2017 balance	2018 ARF Contributions	2018 ARF for non-TCA	2018 Net ARF
	In \$ millions			
Roads, IT & Other	\$ 11.8	\$ 4.6	\$ 1.5	\$ 3.1
Facilities & Parks	- 31.0	3.2	2.8	0.4
Tax-supported	- \$ 19.2	\$ 7.8	\$ 4.3	\$ 3.5
Water & wastewater	46.1	7.4	1.6	5.8
CYFS	- 0.1	0.8		0.8
Library	1.2	0.2		0.2
Total	\$ 28.0	\$ 16.2	\$ 5.9	\$ 10.3



ARF Strategy and the Budget



1. Tax supported ARF's owe the rate-supported ARF \$31 million
2. This is set aside and repaid over 20 years - \$1.9 million annual principal and interest
3. The remaining tax-supported ARF's have \$11.8 million which is redistributed



ARF Strategy and the Budget (cont'd)



4. The following are deducted from tax supported ARF contributions:
 1. Inter-fund loan repayments of \$1.9 million
 2. ARF transferred back to the operating budget for non-TCA expenses, \$4.3 million
5. The remaining \$1.6 million is distributed



ARF Strategy and the Budget

- transition



Mitigating factors to help with the transition:

1. In addition to the ARF contributions, there is grant funding available, some of which is sustainable e.g. the Gas Tax (\$2.5 million)
2. \$50 million in fully funded carryovers into 2019 and beyond
3. Implementation of Asset Management Plans
4. Moving towards multi-year budgeting
5. Update of Development Charges





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Policies for Financial Sustainability Staff Report

Report Number: 2018-11

Department(s): Financial Services

Author(s): Mike Mayes, Director, Financial Services

Meeting Date: April 30, 2018

Recommendations

1. That the report entitled Policies for Financial Sustainability be received; and,
2. That the following corporate financial policies, including the appendices be approved:

Debt Policy, Reserve and Reserve Fund Policy, Asset Replacement Fund Policy

Executive Summary

See below

Purpose

To finalize key policies for financial sustainability by updating the Debt Policy and creating new policies for Reserves & Reserve Funds and for the Asset Replacement Fund.

Background

The Town's Sustainable Financial Strategy is based on the following five elements:

1. Asset Management
2. Debt
3. Investment Strategy
4. Revenues
5. Reserves and Reserve Funds

On November 21, 2016, as part of the 2017 budget process, Council attended a workshop regarding the elements referenced above. Information was provided on their key financial indicators (KPI's) and on the status of policies related to them.

This report will provide a further update and overview of new and updated policies presented for adoption.

Discussion

ANALYSIS AND OPTIONS

Asset Management

Newmarket has hired a Manager, Asset Management who prepared a separate report to Council. The latest report was issued March 8, 2018 – Report 2018-04, Asset Management Strategy Progress Report.

Debt

The current debt policy was created in 2006 as an appendix to a report on the borrowing by-law. This policy focused on limits to debt but gave no direction as to when to borrow. It has become outdated in format as well as not covering new trends, such as internal borrowing. On this basis, an updated policy is being submitted for Council approval.

The new policy provides the following clarifications:

1. When debt could be used as a financing source
2. When an internal loan could be used as a financing source
3. Limits on the amount of debt
4. Limits on the length of repayment terms

The use of internal loans is currently only considered in the Investment Strategy and will now be added to the Debt Policy.

Debt levels will continue to be monitored with reference to:

- Strength of the underlying asset – long-term debt as a percentage of the net book value of tangible capital assets. (Net book value of an asset is its original cost less accumulated depreciation applied to it.)

2012	2013	2014	2015	2016	2017
11.2%	10.3%	9.4%	8.5%	7.7%	6.9%

- Capacity to pay the debt servicing cost - debt servicing cost as a percentage of total own-source revenue. Debt servicing costs include both the principal and interest portion of payments. Own-source revenue is essentially property taxes and user fees excluding development charges, grants, proceeds on disposal of tangible capital assets, increase/decrease in government business enterprise equity. It is the metric that the province uses for the Annual Repayment Limit that municipalities are required to adhere to.

2012	2013	2014	2015	2016	2017
5.5%	5.3%	5.3%	4.9%	4.6%	4.5%

Investment Strategy

The Town's initial Investment Policy was adopted in 2012 and an Investment Strategy to implement it was approved in 2013. These were both updated in January of 2016. The main change was to add more flexibility to short-term investments. To date, there has not been an opportunity to take advantage of this.

The Strategy establishes a benchmark, which is the return earned on our bank balances, i.e. a status quo of no investment effort. Success is measured by how much the actual investment return exceeds the benchmark, which is referred to as incremental investment income earned. This income is allocated to the operating and reserve funds based upon targets set in the budget process.

2013	2014	2015	2016	2017
\$59,767	\$221,951	\$244,299	\$417,522	\$279,223

Our investments are based on a 3-stream approach:

1. The first stream is short-term investment of operating funds, taking advantage of seasonal and cyclical cash fluctuations.
2. The second stream is medium and long-term investment of reserve funds, using the projected surplus of long-term balances.
3. The third stream is in business enterprises. These include internal projects that pay for themselves by generating revenues or saving costs, such as the Honeywell streetlight retrofit; and external investments such as our ownership in Newmarket-Tay Hydro.

A future update of the Strategy will expand on this last item.

Revenues

With 80% of the Town's revenues being from property taxation and user fees, the strategy has focused on these two areas.

Proactive Assessment Management (PAM) was implemented in 2016 to protect our property tax assessment base. In recent years, the base has been put under more risk with changes in legislation and assessment and classification challenges from significant non-residential taxpayers. We have been collaborating with the Municipal Property Assessment Corporation (MPAC), making more extensive use of tax and assessment analysis tools, and have become more diligent in the application of the policy. As a result, while there have still been material adjustments, we have been able to predict and mitigate some of the impact.

The Service Pricing Policy was adopted by Council in 2006. Its goal is to create a cost-based framework for setting user fees and to relieve the pressure on property taxes.

Staff is reviewing the policy to ensure that the Town's service pricing best promote social well-being. All the while, the policy will ensure that taxpayers are not overly burdened by subsidizing services. This review will be done in coordination with the Recreation Master Plan Playbook as it reviews pricing.

Reserves and Reserve Funds

Reserves and reserve funds are operating surpluses set aside for future purposes. Whether the funds are a contingency or a savings account, they provide for rate stabilization by preventing future rate spikes. The spikes may be due to events that are either unforeseen (contingency) or foreseen (e.g. savings for a capital replacement). Reserves tend to be shorter term and do not earn interest.

The Town has many different Reserves and Reserve Funds established by Council for a variety of purposes. The last review of them was the establishment of guidelines in 2008. These guidelines established for each reserve and reserve fund its purpose, funding source and target. As operations and priorities have changed, these guidelines need to be updated.

The proposed Reserve and Reserve Fund Policy includes housekeeping changes to:

1. Re-categorize reserves and reserve funds.
2. Define the delegation of authority.
3. Formalize the current practices of reserves and reserve funds management, such as creation of reserves, interest calculation and allocation, investment of reserve funds and internal loans.

Collectively, reserves and reserve funds for operating purposes are usually compared to the expenses they support or the revenues that they stabilize. Those for capital purposes will be discussed in the next section.

The primary measure for the Ministry of Municipal Affairs and BMA is Total Reserves and Discretionary Reserve Funds as a Percentage of Operating Expenses.

Newmarket	Median	Average
37.9%	51.0%	51.2%

Although the Town is below the Ontario average, the Ministry of Municipal Affairs considers it a “low level of challenge”, i.e. good.

As the main purpose of reserves and reserve funds is rate stabilization, levels should be compared by fund to the primary funding source.

	2012	2013	2014	2015	2016	2017
Tax Discretionary Reserve as a % of Taxation Revenue	27%	32%	15%	7.4%	8.2%	7.3%
Water Reserve as a % of Water Revenues	132%	140%	149%	154%	161%	165%
Wastewater Reserve as a % of Wastewater Revenues	85%	93%	106%	116%	121%	139%

Asset Replacement Fund

The history of the Asset Replacement Fund is included in the Background section of Financial Services Report 2018-12, Asset Replacement Strategy and will not be repeated here.

Funding the Asset Replacement Fund takes up a significant portion of our operating budgets – approximately 14% – and with the infrastructure deficit, it is a perennial budget driver. As such, Council has requested a separate policy be created.

This policy sets the framework for the aforementioned Asset Replacement Fund Strategy.

The Policy proposes:

1. Categorizing asset replacement funds on the same basis as the Asset Management Plan.
2. Creating an Asset Replacement Fund for Stormwater.
3. Different stages of ARF targets for the individual funds.
4. Definitions and restrictions on the use of ARF.

The Policy would disallow the use of ARF for the following purposes:

1. Annual Operating Program expenses for yearly ongoing major repairs and maintenance work related to the Town's capital assets.
2. Condition assessments or studies related to the assets.
3. Debt servicing – interest and principal – unless specifically authorized by Council to finance the replacement of an asset.
4. Any other operating expenses.

The ARF Strategy sets out how this can be done with no tax impact.

Key performance indicators (KPI's) are covered in the Strategy report.

Future Policies

Budget Policy

The 2018 and 2019 budget process are test runs for an upcoming budget policy: the principles that will be incorporated into the policy are being put into practice. A formal policy will be presented for review and adoption prior to the start of the 2020 budget process.

Gas Tax Policy

The Federal Gas Tax allocation can be used for a wide variety of capital projects but the Town's practice has been to restrict it to roads projects. There is a reasonable cost/benefit relationship with that choice. Consideration could be given to formalizing that arrangement or expanding its scope.

Ontario Community Infrastructure Fund

Similar to the Gas Tax, the province provides a formula-based allocation which the Town has been using for road re-surfacing and its Asset Management Strategy. This could be formalized into a policy.

Allowances for Employee Benefits

Certain employee benefits require the establishment of an allowance for them, either as a reserve fund or a liability. These include Post-Retirement Benefits, Long-Term Disability and Health and Dental benefits. They should also consider provisions for short-term leaves – vacation, illness, parental, etc.

There are currently procedures in place. A comprehensive policy, developed by Financial Services and Human Resources would provide clear funding targets.

Conclusion

These policies and strategies, if and as approved, will be factored into the 2019 budget process.

The Reserve and Reserve Fund Policy sets a framework for a review of our current practices. This review will consolidate, create and eliminate reserves as appropriate. It will also define targets and funding sources. A by-law will be enacted to formalize the policies on reserve funds.

Business Plan and Strategic Plan Linkages

This report links to Newmarket's key strategic directions in being Well Managed through fiscal responsibility.

Consultation

The Senior Leadership Team (SLT) has been consulted in the development of these policies. Information was provided by our internal auditors peer review of reserve funds and infrastructure levies.

Human Resource Considerations

Not applicable to this report.

Budget Impact

Operating and Capital Budget (Current and Future).

The Debt Policy sets the criteria for the use of debt financing, which is restricted to only capital projects. It also defines the term of the loan for debt servicing from the Operating Budget. For internal loans, the funding source is established.

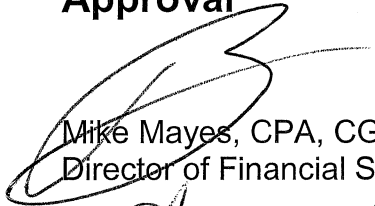
The Reserve and Reserve Fund Policy and the Asset Replacement Policy set the parameters for contributions from the Operating Budgets and funding to both the Operating and Capital Budgets.

In addition, these policies will impact future Operating and Capital Budgets with regards to target setting (Budget Policy) and the availability of funding. The 2019 Preliminary Draft Budget, to be presented to the new Council in January 2019, will include the approved changes.

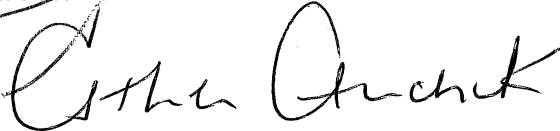
Attachments

Debt Policy (5 pages)
Reserves and Reserve Funds Policy (5 pages)
Asset Replacement Fund Policy (4 pages)

Approval



Mike Mayes, CPA, CGA, DPA
Director of Financial Services/Treasurer



Esther Armchuk LL.B
Commissioner of Corporate Services

Contact

For more information on this report, contact Mike Mayes at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca



CORPORATE POLICY

Sub Topic: Debt Management Policy Policy No. FIN. xxxxx
Topic: Financial Services Policy Employees Covered: All Employees
Section: Financial Services Council Adoption Date: xxxxx
Effective Date: xxxxxxxx Revision No: Date:

Policy Statement & Strategic Plan Linkages

This policy is in line with Council's priority "Ensuring effective and efficient services" and the Town's "Well Equipped & Managed" Strategic Plan objective.

Purpose

The purpose of this policy is to set out the parameters for issuing debt and managing the debt portfolio and provide guidance to decision makers. This Policy enhances the quality of decisions, rationalizes the decision-making process, identifies objectives for staff to implement and ensures compliance with statutory requirements and long-term financial flexibility and sustainability.

Definitions

Debt: any obligation for the payment of money. Debt would normally consist of debentures as well as either notes or cash loans from financial institutions; Debt may also include loans from reserve funds or other financial obligations such as leases.

Own Source Revenues: direct municipal revenues such as property taxes, user fees and charges., They do not include grants, deferred revenues earned, donated/assumed tangible capital assets, gain/(loss) on sale of land & capital assets, and increase/decrease in government business enterprise equity.

Annual Debt Servicing Cost: annual required debt repayments including principal and interest.

Reserve: An appropriation from net revenue at the discretion of Council or the Treasurer, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Reserves are typically used for short-term purposes. As a general practice, reserve and reserve fund may both be referred to as reserve.

Reserve Fund: A fund that has been set aside either by a by-law of the municipality or by a requirement of provincial legislation to meet future events. A reserve fund can have a revenue and/or expenditure stream and earns interest. Reserve funds are typically used for long-term purposes such as reserve fund for capital.

Procedures

Use of Debt

Debt is a financing source but not a funding source. Debt can only be issued when all of the following criteria are met:

1. New capital expenditure;
2. The asset is included in the Asset Management Plan;
3. The amount, after deducting all available funding such as development charges or reserves, is greater than 1% of tax levy increase;
4. Borrowing from reserve funds is not a valid option (see Section IV Internal Loans)

Land Purchases

It is recognized that there may be opportunities that arise to purchase land which do not meet the Uses of Debt or Internal Loan criteria. In such a situation, Council may override those provisions and the Treasurer will propose a funding plan for approval.

As land is a non-depreciable asset, it is the exception to the 20-year term limit on long-term debt. If available, a 30-year term is permissible.

Authority to Issue Debt

A lower-tier municipality in a regional municipality, such as the Corporation of the Town of Newmarket (Town), does not have the power to issue debentures as per *Section 401(3), of the Municipal Act, 2001*. The Town Council has to approve a bylaw to make application to the Regional Municipality of York to issue debentures on behalf of the Town.

The Treasurer shall have the authority and responsibility to recommend to Council the most effective form of debt financing for any work/asset, in addition to the appropriate timing and duration.

Financial Debt and Obligation Limit

To limit the Town's debt risk, the Town's total financial debt and obligation limit shall meet the following criteria:

(a) Annual debt servicing cost plus annual capital lease payments are not to exceed 10% (or other percentage as set out by Council) of the Town's previous year's net own source revenues;

(b) Annual debt repayment limit is not to exceed the amount defined in the previous year's Financial Information Return Schedule "Annual Debt Repayment Limit" (ARL).

Types of Debt

I. Short-term Debt - Under 1 Year

The Town may temporarily borrow for cash flow purposes from any one or a combination of the following sources:

- a) Bank line of credit;
- b) Short-term promissory notes;
- c) Bankers' acceptances;
- d) Any other form of short-term indebtedness
- e) Reserve Funds

The Town's combined limit of borrowing from the above sources is subject to the limits set in the borrowing by-law. Effort should be made to have short-term debt repaid prior to December 31 of the year the debt is incurred, or as soon thereafter as possible.

II. Medium-Term Debt - 1 to under 5 Years

Medium-term financing requirements, for periods greater than one year but less than five years will be financed through any one or combination of:

- a) Capital leases;
- b) Term loans;
- c) Promissory notes.
- d) Reserve Funds (Internal Loans)

Financial commitments for existing and anticipated leases for the current fiscal year are to be included in the calculation of the Town's Financial Debt and Obligation Limit.

III. Long-Term Debt - 5 Years or Greater

Long-term debt consists of debentures or other forms of debt issued on behalf of the Town by the Regional Municipality of York to finance assets over a period of not less than 5 years and not more than 20 years (or 30 years for land). Long-term borrowing from Reserve Funds (Internal Loans) is also allowable and may be more appropriate.

IV. Internal Loan

The Town may borrow from its reserve funds for capital assets subject to the following:

- a) The underlying capital asset can pay for itself within a reasonable time period, not to exceed 10 years, through cost savings or additional revenues.
- b) The rate is not less than the prime rate at the time of borrowing;
- c) Term of repayment is not to exceed the lesser of 20 years or the life expectancy of the capital assets;
- d) Total loan from reserve funds is not to exceed 50% of the total reserve funds balance;
- e) Council approval

Term of Debt

The Town may incur debt for a maximum of 20 years. The term of any particular debt shall be dependent on:

- a) The nature of the underlying work/asset;
- b) The useful life of underlying work/asset;
- c) The likelihood or otherwise of the useful life being altered and reduced or extended;
- d) The state of the interest rates of the day;
- e) The value of the underlying work/asset to future generations;
- f) The user fees or other revenues which the underlying work/asset itself may generate to offset any increased cost for the debt and reduce any set property tax impact arising therefrom;
- g) The availability of funding for the underlying work/asset from other sources such as an Asset Replacement Fund

Land purchases are an exception and debt may be incurred for a maximum of 30 years.

Reporting

Once in every fiscal year, the Treasurer shall provide a report to Council containing, but not limited to the following:

- a) The balance of the Town's debt including internal loans;
- b) Debt servicing costs for the previous year and current year;
- c) Annual Debt Repayment Limit for the current year as calculated by Financial Information Return;
- d) Any new requests for debt

Responsibilities

The Treasurer has the overall responsibility for the management of debt. This includes but is not limited to the following:

- a) Reviews the need for debt and recommends the amount, type and term of debt to Council;
- b) Coordinates with the Region of York for issuance of debt;
- c) Calculates the financial debt and obligation limit;
- d) Ensures timely repayment of debts;
- e) Ensures all reporting requirements identified within this Policy are met;
- f) Reviews this policy periodically to ensure compliance with the statutory requirements as well as effectiveness and relevance and recommend any required changes to Council for consideration and approval.

Cross References

CORP. 1-03 Accountability and Transparency Policy

Delegation By-law No. 2016-17

FIN. 2-01 Operating and Capital Financial Policy

Municipal Act, 2001



CORPORATE POLICY

Sub Topic: Reserves and Reserve
Funds

Policy No. FIN.4.01

Topic: Financial Services Policy

Employees Covered: All Employees

Section: Financial Services

Council Adoption Date:

Effective Date:

Revision No:

Date:

Policy Statement & Strategic Plan Linkages

The Corporation of the Town of Newmarket strives for the best practice of fiscal management to maintain financial stability and flexibility, while adhering to statutory requirements. This policy is in line with the Town's "Well Equipped & Managed" Strategic Plan objective.

Purpose

This policy is to establish guidelines for the creation, consolidation, closure and management of reserves and reserve funds.

Definitions

Town: Refers to the Corporation of the Town of Newmarket.

Reserve: An appropriation from net revenue at the discretion of Council or the Treasurer, after the provision for all known expenditures. It has no reference to any specific asset and does not require the physical segregation of money or assets as in the case of a reserve fund. Reserves are typically used for short-term purposes. As a general practice, reserve and reserve fund may both be referred to as a reserve.

Reserve Fund: A fund that has been set aside either by a by-law of the municipality or by a requirement of legislation to meet future events. A reserve fund can have a revenue and/or expenditure stream and earns interest. Reserve funds are typically used for long-term purposes such as reserve fund for capital.

Obligatory Reserve Fund: A reserve fund that is set up by statutory requirement. For financial reporting purposes, in accordance with Public Sector Accounting Board, this kind of reserve fund is treated as deferred revenue.

Development Charges: Fees against land to pay in full or in part for the increased capital costs required due to increased needs for municipal services arising from the development of the area in which the land is located. Development charges are defined by the Development Charges Act, 1997.

Procedures

Objectives of Reserves and Reserve Funds

The primary objectives for reserves and reserve funds shall be:

- Adherence to statutory requirements - to establish and maintain reserves to meet all statutory obligations;
- Promotion of financial stability and flexibility – to establish appropriate reserves and maintain a targeted level to achieve long-term financial stability and flexibility;
- Provision for capital expenditures – to maintain adequate reserves to replace or rehabilitate major capital assets as required, and to provide funding for new capital assets;
- Assurance of fairness & equity to taxpayers - reserves should serve to balance the impact of the operating costs and capital costs, on both current and future taxpayers

Category of Reserves and Reserve Funds

Reserves and reserve funds will be maintained in the following categories:

1. Discretionary – subdivided into:

a) Operating:

- i) Reserves for development related revenue (e.g. tree planting);
- ii) Reserves for cyclical events/expenses (e.g. customer survey, election);
- iii) Reserves for operational carry-overs (e.g. Human Resources consulting);

- iv) Reserves for operational contingencies (e.g. winter control);
 - v) Restricted operating reserves (e.g. Long-term disability reserve);
 - vi) Reserves for capital assets condition assessment (e.g. road needs study);
 - vii) Reserves for major repairs and maintenance (e.g. crack sealing).
- b) Capital:
- i) Asset replacement funds (e.g. roads, facilities);
 - ii) General capital funds (e.g. sale of property);
 - iii) Designated capital funds (e.g. official plan);
 - iv) Growth capital funds (e.g. trail voluntary levies)

2. Obligatory – subdivided into:

- a) Development charges (Development Charges Act);
- b) Parkland (Planning Act);
- c) Gas tax grant (Transfer of Federal gas tax revenues agreement);
- d) Reserve fund for engineering review and administration of development;
- e) Other required

The detailed list of reserves and reserve funds may change from time to time due to creation, closure or consolidation of reserves and reserve funds.

Management of Reserves and Reserve Funds

The Town will strive to use the best practices among municipalities to manage its reserves and reserve funds. These practices include:

1. Establishment of new reserves or reserve funds

Unless required by legislation or authorized by other Policies or Council direction, a reserve or reserve fund will be established as recommended by the Treasurer and approved by Council. The purpose, target if applicable, and source of funding of the reserve fund shall be identified prior to approval.

2. Closure or consolidation of reserves or reserve funds

Unless authorized by other Policies or Council direction, a reserve or reserve fund may be closed or consolidated with another reserve or reserve fund as recommended by the Treasurer and approved by Council.

3. Interest and Calculation Method

All reserve funds will earn interest. Interest will be calculated monthly based on the fund balance at the end of each month. The interest rate used will be the same rate that the Town's bank account earns. Reserves do not earn interest.

4. Investment of Reserve Funds

Reserve funds may be invested for a term that will not exceed its expected date of need. The related investment of income will be credited monthly to the specific reserve fund according to its proportionate share of the investment portfolio. Investment shall be further governed by the Corporation's Investment Policy and Procedures.

5. Transfers to/from reserves and reserve funds

All transfers to/from reserves and reserve funds shall be approved by Council, normally as part of the annual budget approval process or at year-end, as recommended by the Treasurer through the reserves and reserve funds report.

6. Internal and external loans

Intra-fund lending from reserves and reserve funds is permitted to finance capital expenditures or operating cash flow deficiencies. All loans will bear the market rate of return and the interest income will be credited to the original reserves and reserve funds.

External loans may be made at the discretion of Council under Section 107 of the *Municipal Act, 2001* to any group or body for purposes considered to be in the best interest of the municipality. External loans must bear the market rate of return, commensurate with the term of loan and be credited to the appropriate reserve source.

Delegation of Authority

The Treasurer of the Town will retain the overall responsibility for creation, closure and managing the Town's reserves and reserve funds. This authority is to be exercised in consultation with the Senior Leadership Team (SLT). The Treasurer may delegate this authority to the Deputy Treasurer.

There is one exception to the general rules on the Establishment of New Reserves and Transfers to/from Reserves. A Reserve may be created in respect of any existing budget or financial obligation, which in the opinion of the Treasurer is material, and where funds have been appropriated but not expended prior to the end of the fiscal year. The Treasurer has delegated authority to create the necessary provisions or allowances by transferring the appropriate funds to a Reserve, and to subsequently transfer from the Reserve to satisfy the obligation. Use of this authority is to be reported in compliance with the relevant policies.

Reporting

The Treasurer shall submit to Council the following reports annually:

- Reserves and Reserves Funds Continuity Report including reserves and reserve funds created, closed or consolidated during the year;
- Reserves and Reserve Funds Budget Report;
- Development Charges Report;
- Building Permit Fees Report;
- Other reports required by legislation, or by Council, or deemed necessary

Responsibilities

The Treasurer has overall responsibility for the management and administration of reserves and reserve funds. These include but are not limited to the following:

- Determines the need for creation, consolidation, and closure of reserves and reserve funds;
- Sets and adjusts targets for various reserves and reserve funds, where appropriate;
- Recommends transfers to/from reserves and reserve funds;
- Manages the investment of reserves and reserve funds as per the Investment Policy;
- Prepares the required reports to Council regarding reserves and reserve funds;
- Develops and updates this policy, as necessary

Cross-References

Municipal Act, 2001

FIN. 2.01 Operating and Capital Financial Policy

FIN. 3.01 Investment Policy



CORPORATE POLICY

Sub Topic: Asset Replacement Funds	Policy No. FIN.xxx
Topic: Financial Services Policy	Employees Covered: All employees
Section: Financial Services	Council Adoption Date:
Effective Date:	Revision No: Date:

Policy Statement & Strategic Plan Linkages

The Corporation of the Town of Newmarket strives for the best practice of fiscal management to maintain financial stability and flexibility, while adhering to statutory requirements. This policy is in line with the Town's "Well Equipped & Managed" Strategic Plan objective.

Purpose

This policy is to establish guidelines for the creation, consolidation, closure and management of asset replacement funds to achieve long-term financial flexibility and sustainability.

Definitions

Town: Refers to the Corporation of the Town of Newmarket.

Capital Asset: An asset that is over a certain threshold as determined by the Town's Tangible Capital Assets Policy and has a useful life of longer than one year and is not intended for sale during the normal course of business.

Amortization expense: The annual allocation of the cost of a capital asset based on its useful life – often referred to as "depreciation."

Annual Operating Program: Refers to yearly ongoing major repairs and maintenance work related to the Town's capital assets such as roads, facilities, parks, etc.

BMA Study: Refers to the annual municipal study conducted by the BMA Management Consulting Inc.

Procedures

Objectives of Asset Replacement Funds

The primary objectives for asset replacement funds shall be:

- a) To maintain adequate funds to replace, rehabilitate and upgrade tangible capital assets as required;
- b) To promote long-term financial flexibility and sustainability;
- c) To ensure fairness & equity to current and future taxpayers

The highest priorities are to safeguard public health and safety, and to maintain existing levels of service.

Category of Asset Replacement Funds

Asset replacement funds will be maintained in the appropriate categories as defined in the Asset Management Plan (AMP). The Treasurer may revise the categories as necessary from time to time to align with the AMP.

Management of Asset Replacement Funds

The Town will strive to use the best practices among municipalities to manage its asset replacement funds. The financial practices include:

- Establish, close or consolidate asset replacement funds
- An asset replacement fund will be established, closed or consolidated with other asset replacement funds as recommended by the Treasurer and approved by Council

Funding sources for asset replacement funds

- a) Allocation of taxation revenues specified in the tax-supported operating budget;
- b) Allocation of user fee or rate revenues specified in the rate-supported operating budgets;
- c) Specific infrastructure levy;
- d) Net proceeds from disposal of tangible capital assets;
- e) Transfers from other reserves and reserve funds as approved by Council;
- f) Other appropriate sources

Asset replacement funds target

- Stage 1/initial: annual increase in contributions should at least equal to new net requirements and indexing for Construction Price Index;
- Stage 2/optimal: contributions at a sustainable level to meet the requirements as identified in the Asset Management Plan.
- Stage 3/ideal: contributions are sufficient to maintain the asset replacements funds balance at a level equal to or greater than the accumulated amortization for the applicable capital assets.

The highest priorities are to safeguard public health and safety, and to maintain existing levels of service. These priorities can supersede achieving the ARF targets.

Use of asset replacement funds

Asset replacement funds can only be used for the following expenditures:

- Rehabilitation of tangible capital assets;
- Betterment, which extends the lifespan of the tangible capital assets beyond its original life expectancy. This is the definition used by the Public Sector Accounting Board;
- Replacement of tangible capital assets to maintain the current service level

This can include all expenditures that can be appropriately allocated to the cost of the capital asset in compliance with Public Sector Accounting Standards.

Asset replacement funds are not to be used for the following expenditures:

- Annual Operating Program expenses for yearly ongoing major repairs and maintenance work related to the Town's capital assets;
- Condition assessments or studies related to the assets,
- Debt servicing – interest and principle – unless specifically authorized by Council to finance the replacement of an asset;
- Any other operating expenses

Interest and calculation method

All asset replacement funds will earn interest or bear interest if the balance is negative. Interest will be calculated monthly based on the fund balance at the end of each month. The interest rate used will be the same rate that the Town's bank account can earn.

Investment of asset replacement funds

Asset replacement funds may be invested for a term that will not exceed its expected date of need. The related investment of income will be credited periodically to the specific asset replacement fund according to its proportionate share of the investment portfolio. Investment shall be further governed by the Corporation's Investment Policy and Procedures.

Delegation of Authority

The Treasurer of the Town will retain the overall authority for creation, closure and managing the Corporation's asset replacement funds. The Treasurer may delegate the authority to the Deputy Treasurer.

Reporting

The Treasurer shall submit to Council the following reports:

- Asset replacement funds continuity report;
- Asset replacement funds budget report;
- Other reports required by legislation or by Council or deemed necessary

The continuity and budget of the asset replacement funds reports may be included in the reserves and reserve funds continuity and budget report respectively.

Responsibilities

The Treasurer has overall responsibility for the management and administration of asset replacement funds. These include but are not limited to the following:

- Determines the need for creation, consolidation and closure of asset replacement funds;
- Sets and adjusts targets for specific asset replacement funds where appropriate;
- Recommends contributions to, and funding from, asset replacement funds;
- Prepares required reports to Council regarding asset replacement funds;
- Develops and updates this policy as necessary

Cross-References

Municipal Act, 2001

FIN. 3.01 Investment Policy

FIN.XXX Reserves and Reserve Funds Policy



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Newmarket, Ontario, L3Y 4X7

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Asset Replacement Fund Strategy Staff Report

Report Number: 2018-12

Department(s): Financial Services

Author(s): Mike Mayes, Director, Financial Services/Treasurer

Meeting Date: April 30, 2018

Recommendations

1. That the report entitled Asset Replacement Fund Strategy be received; and,
2. That the Asset Replacement Fund Strategy, as outlined in this report, be adopted by Council; and,
3. That staff be directed to use this Strategy in future budget considerations.

Executive Summary

The strategy aims to rationalize the various asset replacement funds, and to develop metrics and targets for them. It also establishes some principles that could facilitate the long-term reduction of the infrastructure gap. This strategy will be a key component in the financial strategy for the Asset Management Plan (AMP).

Purpose

The purpose of this report is to provide guidance on how to operationalize the Asset Management Policy to ensure sustainability of financing for the Town's capital assets, i.e. to reduce the infrastructure gap.

Background

The Asset Replacement Fund (ARF) was created in 1998. Its original goal was to ensure that Newmarket could afford to replace future capital assets as required.

Contributions were based on the amount needed to be set aside on an annual basis to cover the cost to replace an asset at the end of its life cycle. The amounts were based on the current replacement and not historical cost. No adjustments were made for contributions that should have been made prior to creation of the ARF.

The initial annual contributions to the ARF were only 50% of the estimated requirements. Exceptions were made for water, wastewater and fire, which all started at 100%. Over time, the contributions on the other assets were increased and they hit 100% in 2008.

There were no further increases in ARF contributions until the Capital Financing Sustainability Strategy in 2013 recommended annual infrastructure levies of 1%. This resulted in infrastructure levies in 2013 (0.84%), 2014 (0.74%), 2015 (1%), 2016 (0.80%) and 2018 (0.68%). There was no increase in 2017.

With the challenges to sustain these levies, it is appropriate to consider a longer-term financial strategy.

Discussion

The initial intent of the Asset Replacement Fund (ARF) has been made more precise in the Asset Management Strategy (AMS) by addressing the infrastructure-funding gap.

The first step in the strategy is to measure the gap

There is no industry standard measure available at this time. The usual providers of municipal key performance indicators, the Ministry of Municipal Affairs and BMA Consulting (BMA), have not yet provided a suitable recommendation. A metric has been considered by the Municipal Finance Officers Association of Ontario (MFOA) and used by our internal auditors in their review of our infrastructure levy. That metric is capital reserves as a percentage of the accumulated amortization of tangible capital assets.

Amortization is the accounting term for depreciation, the proportional annual allocation of the original cost of an asset. Accumulated amortization is the sum of the depreciation over the years. Net book value is the original cost of the asset less its accumulated amortization at a given point in time. At the end of an asset's expected useful life, the accumulated amortization will equal its original cost and the asset is then considered fully amortized and has no net book value.

For example, an asset purchased for \$20,000 with a 20-year life expectancy would have annual amortization of \$1,000 and after 5 years would have an accumulated amortization of \$5,000 and a net book value of \$15,000. Note that market value or replacement cost is not considered for accounting purposes.

If funds had been set aside on an annual basis equal to the amortization, then the capital reserves would be at 100% of the accumulated amortization at the end of the asset's lifecycle. That would represent current ratepayers paying for the cost of the tangible capital assets that provide services to them. This has not been the experience of Newmarket or most municipalities.

Capital Reserves as a % of Accumulated Amortization

	2012	2013	2014	2015	2016	2017
Combined	8%	10%	9%	8%	9%	11%
Tax Supported	-5%	-4%	-7%	-10%	-8%	-10%
Rate Supported	46%	50%	53%	55%	58%	42%

The review done by our internal auditors determined that the average level among our comparable municipalities was 9.2%.

As can be seen, achieving 100% is a long-term goal. An interim measure to indicate if progress is being made would be to compare contributions to capital reserves as a percentage of amortization expense on an annual basis.

Contributions to Capital Reserves as a % of Amortization Expenses

	2013	2014	2015	2016	2017
Combined	86%	88%	92%	106%	101%
Tax Supported	74%	85%	82%	81%	69%
Rate Supported	99%	94%	113%	212%	244%

The dramatic increase in 2016 was due to revisions in our estimate for the life cycle of roads, water, wastewater, and storm water systems.

The next step is to set targets

The policy sets out three stages for targets – initial, optimal and ideal. The following application of these stages is recommended:

- Water and Wastewater rate groups – stage 3/ideal. These funds have mature ARF's and are expected to reach 100% of accumulated amortization by 2030.
- Stormwater rate group – stage 2/optimal. The initial 6-year financial plan is working towards the funding target as set out in the Capital Financing Sustainability Strategy. This will be reviewed next year when the plan is reviewed.
- Central York Fire Services – stage 2/optimal. Although CYFS has not yet finalized its Asset Management Plan (AMP), it does work towards sustaining a 10-year capital program. The Joint Council Committee (JCC) has agreed to move towards a 10-year goal.
- Newmarket Public Library - stage 3/ideal. The Library does not have a formal AMP but does have a sufficient balance in its ARF to cover the proportional share (based on life cycle) of the current replacement value of its assets.
- Town (other tax-supported) – stage 1/minimal. These assets have the largest infrastructure gap. Beginning with basic annual increases, as recommended by the Capital Financing Sustainability Strategy, would be a good start. Consideration will need to be given to the impact of the other measures before escalating the target.

It should be emphasized that these are the targets. Budget considerations will always be an overriding factor. In the case where targets cannot be met due to budgetary constraints, then the targets can be used as a guideline for prioritization.

Some housekeeping is required to make the KPI's and goals meaningful

- The inter-fund imbalance needs to be dealt with.

A number of the tax-supported ARF accounts are in a negative balance. At the end of 2017, there was a \$46 million inter-fund loan from the Water, Wastewater and Storm Sewer rate groups. Major water, wastewater and storm sewer replacements will not occur until 2040, but it is recommended that plans be made to repay the loan prior to that.

It is recommended that the \$46 million internal loan be set aside and repayment set up over a 20-year period. This would amount to approximately \$2.8 million annually at current interest rates.

- The asset categories should align with the Asset Management Plan (AMP).

These categories have not been finalized yet, but currently are:

1. Library – furnishings and equipment but not books (operating budget) or building.
2. Information Technology – hardware and software
3. Fire (CYFS) – vehicles, equipment and furnishings
4. Buildings – including facilities, municipal offices, the Library and Town-owned fire stations
5. Equipment, recreation – gym equipment etc.
6. Parks – including outdoor pools, splash pads and other outdoor facilities
7. Vehicles and equipment, parks
8. Vehicles and equipment, operations
9. Municipal parking lots
10. Roads
11. Streetlighting
12. Sidewalks
13. Stormwater Management System – includes mains and ponds
14. Water System
15. Wastewater System
16. Bridges and culverts
17. Trails and walkways

If the AMP structure revises its categories, the ARF accounts and ARF Strategy will be revised accordingly.

- Limiting the use of ARF to Tangible Capital Assets (TCA).

Currently, the ARF is used to finance expenditures that are not directly for the purchase or construction of Tangible Capital Assets. These expenditures include annual operating programs for major repairs and maintenance, condition assessments and studies, and debt servicing. Although this is an appropriate use of the ARF, doing so makes it difficult to measure progress on our targets. The Policy seeks to further refine the use of ARF funds.

The proposed policy would no longer use the ARF to fund these items. To ensure that there is no budget impact, annual contributions to the ARF would be reduced by the same amount.

Recognizing that the cost of annual operating programs for major repairs and maintenance can fluctuate from year to year based on requirements, a reserve should be established on the same basis as the Winter Control Reserve to stabilize the impact on rates.

- The tax-supported funds and contributions should be re-balanced.

Between 1998 and 2008, the tax-supported asset replacement fund contributions grew from 50% of the estimated annual contributions to 100%. However, this growth did not occur evenly and some categories of assets became underfunded due to inaccurate life cycle and replacement cost information. As a result, some ARF accounts, such as Roads, have a healthy balance, while others, such as buildings, are in a deficit.

Concurrent with setting aside the deficit balances as an internal loan, it is recommended that the remaining positive balances be re-distributed amongst the asset categories. This could be done proportional to accumulated amortization, which has been identified as a measure.

On a similar basis, future annual contributions to tax-supported ARF should also be re-allocated on the basis of annual amortization.

This excludes Fire and Library which are calculated independently because they have separate governance. It also excludes the rate-supported ARF's as they have a separate and regulated primary funding source.

The new ARF accounts define the funding envelope for each asset category

To facilitate financial sustainability and reducing the infrastructure gap, expenditures should be limited to the available funding. This should be applied to each of these AMP (ARF) groupings. Consequently, no fund should be borrowing from other categories.

This may be a challenge. The amount of funding for each category will be limited. The transition to multi-year capital budgets and revisiting capital carryovers should assist with this. Also, temporary borrowing from future contributions will be allowed if there is a plan to balance the fund at the end of the 10-year timeframe. This would be reasonable way to allow for cyclical fluctuations. The Fire capital funding projections are based on this principle.

Committing to long-term funding solutions

Some years there may be pressures on the budget that cause Council to choose to apply some or the entire infrastructure levy to items other than ARF contributions. If this is done to a limited degree, there may not be a problem if the following solutions are used.

- Extraordinary items

Financial Services Report 2017-12, 2018 Budget Process and Target defined extraordinary items as cost increases that are too large to be contained within the base budget. It also stated that similar treatment should be applied to extraordinary cost reductions.

There are expenses that have become embedded in the base budget that have an expiration date. They include:

1. Emerald Ash Borer (EAB) – the cost of this program in 2018 will be \$1 million. Within a few years, the expense will be reduced to a maintenance level in the \$200,000 range.
2. Honeywell energy retrofit programs – these programs invested in initiatives that have reduced our energy consumption. The savings are paying for internal loans used to finance the capital expenditures. The first phase has its final payments in 2018. \$156,000 will become available in 2019.
3. Vacancy rebates – the province has given municipalities the option to reduce or eliminate the current requirement to provide tax rebates on vacant business properties. This current 30-35% rebate costs the Town about \$121,000 every year. York Region municipalities are meeting to discuss the implementation of this option.
4. Debenture payments – currently \$590,000 in property taxes funds debenture payments. This will no longer be required in 2025.

Moving forward, as we use tax rate increase targets based on inflation indicators, it would be appropriate to use these extraordinary cost savings to enhance the Asset Replacement Fund and not apply them to the base budget.

- Dedicated revenues

A challenge in using inflation as the standard for the budget is that not all revenue components have steady annual inflationary increases. While inflationary increases in expenses can be matched by, inflationary increases in property taxation and user fees, there are revenues that do not increase annually with inflation – these would include our investments, such as our dividends from investment in Newmarket-Tay Hydro.

These investments will provide an adequate return in the long term and so should be matched with longer-term expenses such as financing the tax-supported asset replacement fund. In practical terms, this means any increase, or decreases in these revenues, would be reflected in increases or decreases in the contributions to the tax-supported Asset Replacement Fund.

If a commitment was made to these long-term funding solutions, then we could occasionally deviate from the planned annual contributions with a comfortable level of risk.

The Asset Replacement Fund Strategy is the key link between the Asset Management Strategy and the Budget

As such, it will be monitored, reviewed and updated as the Asset Management Strategy is developed.

Conclusion

As stated above.

Business Plan and Strategic Plan Linkages

This report links to Newmarket's key strategic directions in being Well Managed through fiscal responsibility.

Consultation

The principles of this strategy have been developed in consultation with the Strategic Leadership Team (SLT) and used information provided by our internal auditor.

Human Resource Considerations

None.

Budget Impact

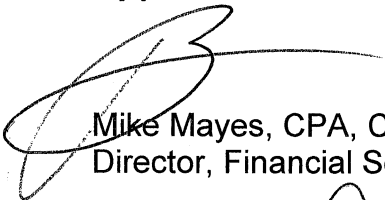
The Asset Replacement Fund Strategy is the key link between the Asset Management Strategy and the Budget.

The current target of a 1% tax increase as an infrastructure levy, along with the amounts included in the 6-year plans for water, wastewater and stormwater is moving the Town in the right direction.

Attachments

None.

Approval

A stylized, handwritten signature in black ink, appearing to be 'Mike Mayes'.

Mike Mayes, CPA, CGA, DPA
Director, Financial Services

A stylized, handwritten signature in black ink, appearing to be 'Esther Armchuk'.

Esther Armchuk
Commissioner, Corporate Services

Contact

For more information on this report contact: Mike Mayes at 905-953-5300, ext. 2102 or mmayes@newmarket.ca



Service Pricing Policy

April 30, 2018

Presenter:

Mike Mayes

Director, Financial Services

Purpose

- To establish cost recovery target levels for municipal services
- To promote responsible resource management by discouraging overuse
- To support the use of municipal goods and services that provide a public benefit beyond the user
- To identify services where pricing is not appropriate

Four Step Process to Apply the Service Pricing Policy



1. Identify the Service

2. Classify the Service

3. Apply Special Considerations

4. Evaluate Price Performance

1. Identify the Service

- a) Identify the service that the Town wishes to evaluate
- b) Determine the cost of providing the service to the consumer
- c) Determine how customers pay for the service or practical payment methods
- d) Identify the positive and negative public impacts to the service

1. Identify the Service

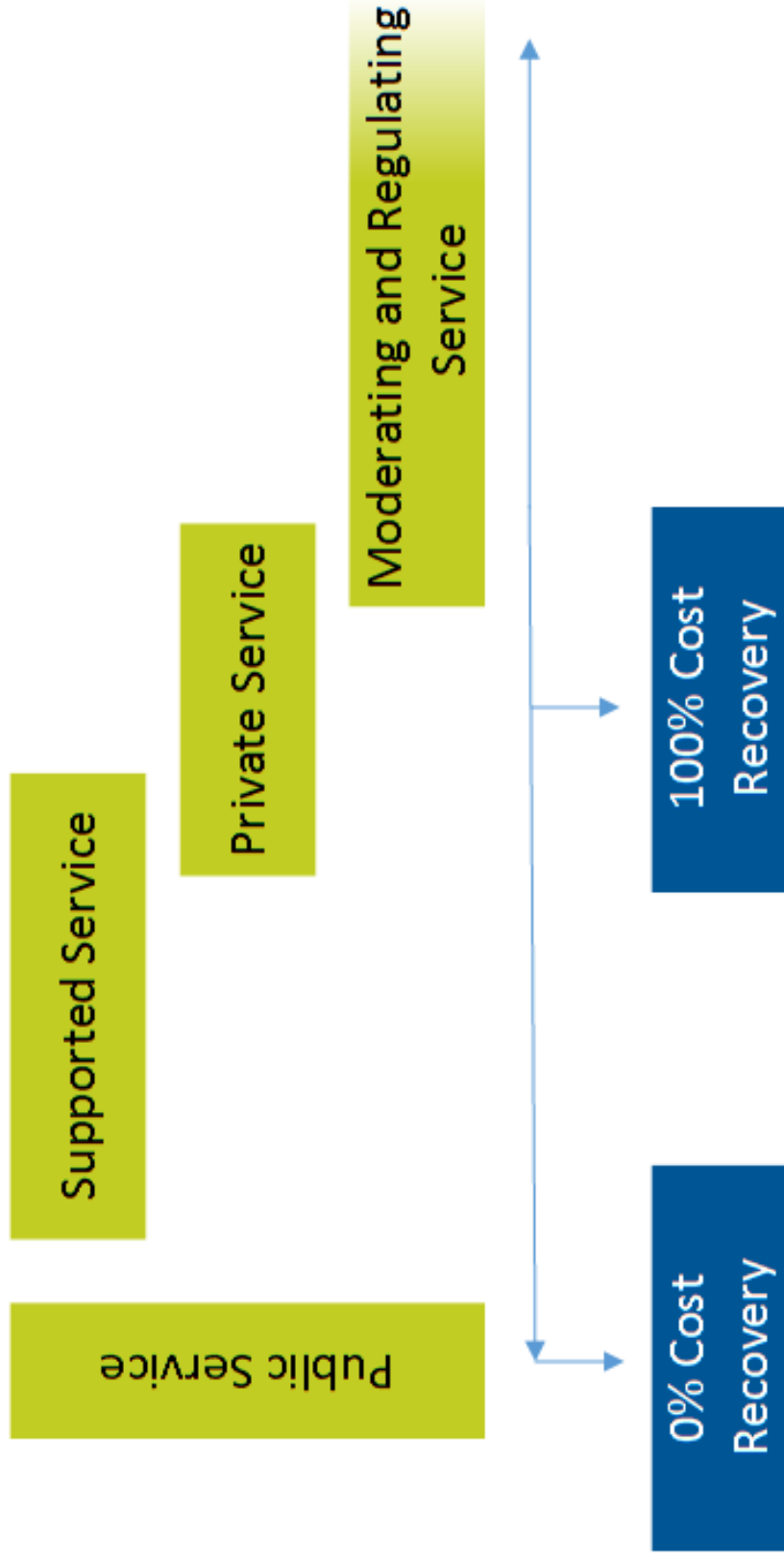
Public Impact Aspects

- Social
- Equality
- Health and Safety
- Environment
- Economic
- Cost

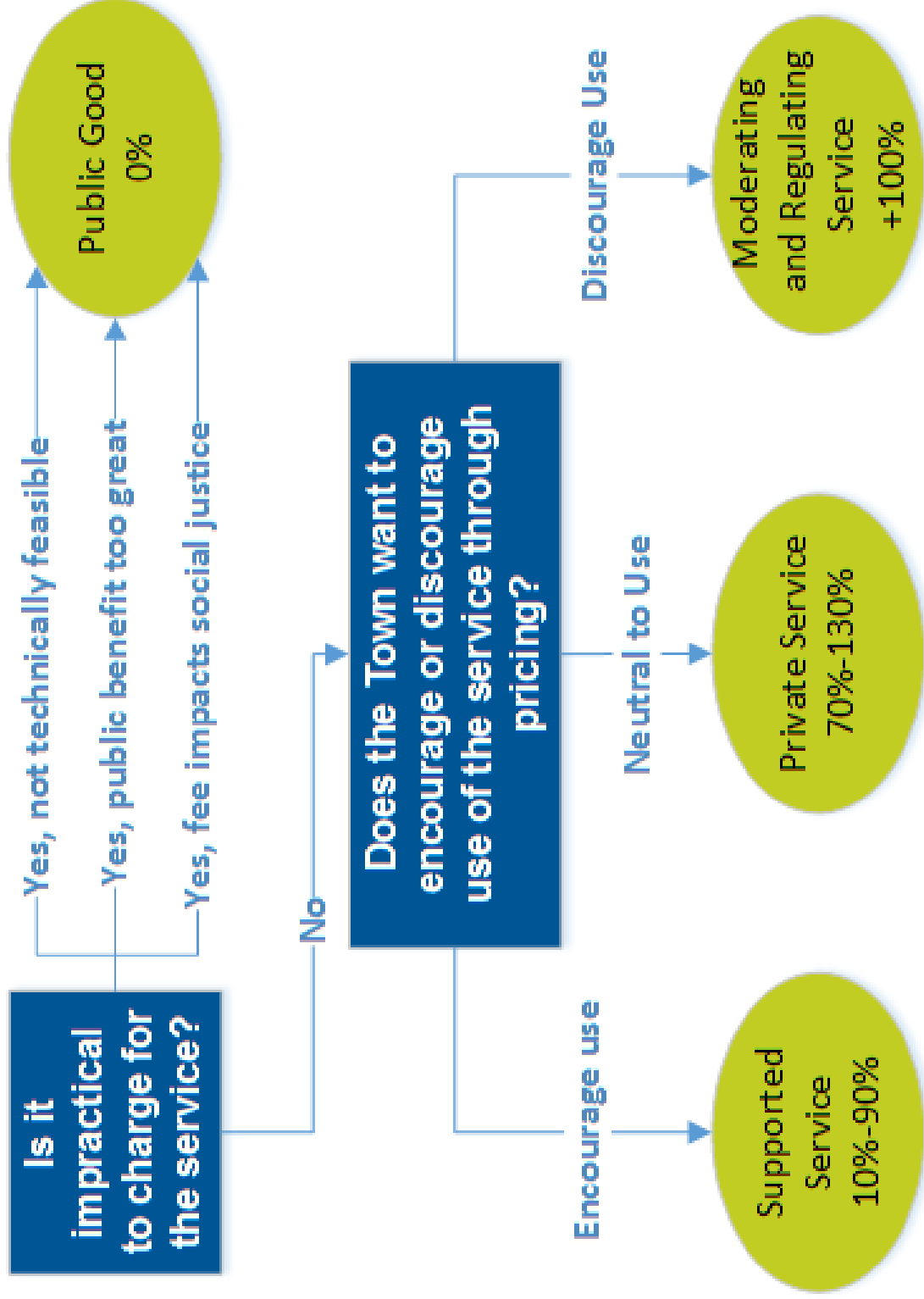
2. Classify the Service

- a) Public Service
- b) Supported Service
- c) Private Service
- d) Moderated or Regulated Service

2. Classify the Service



2. Classify the Service



3. Apply Special Considerations

The classifications provide a band of cost recovery. This step allows for further consideration to reach the optimal cost recovery target.

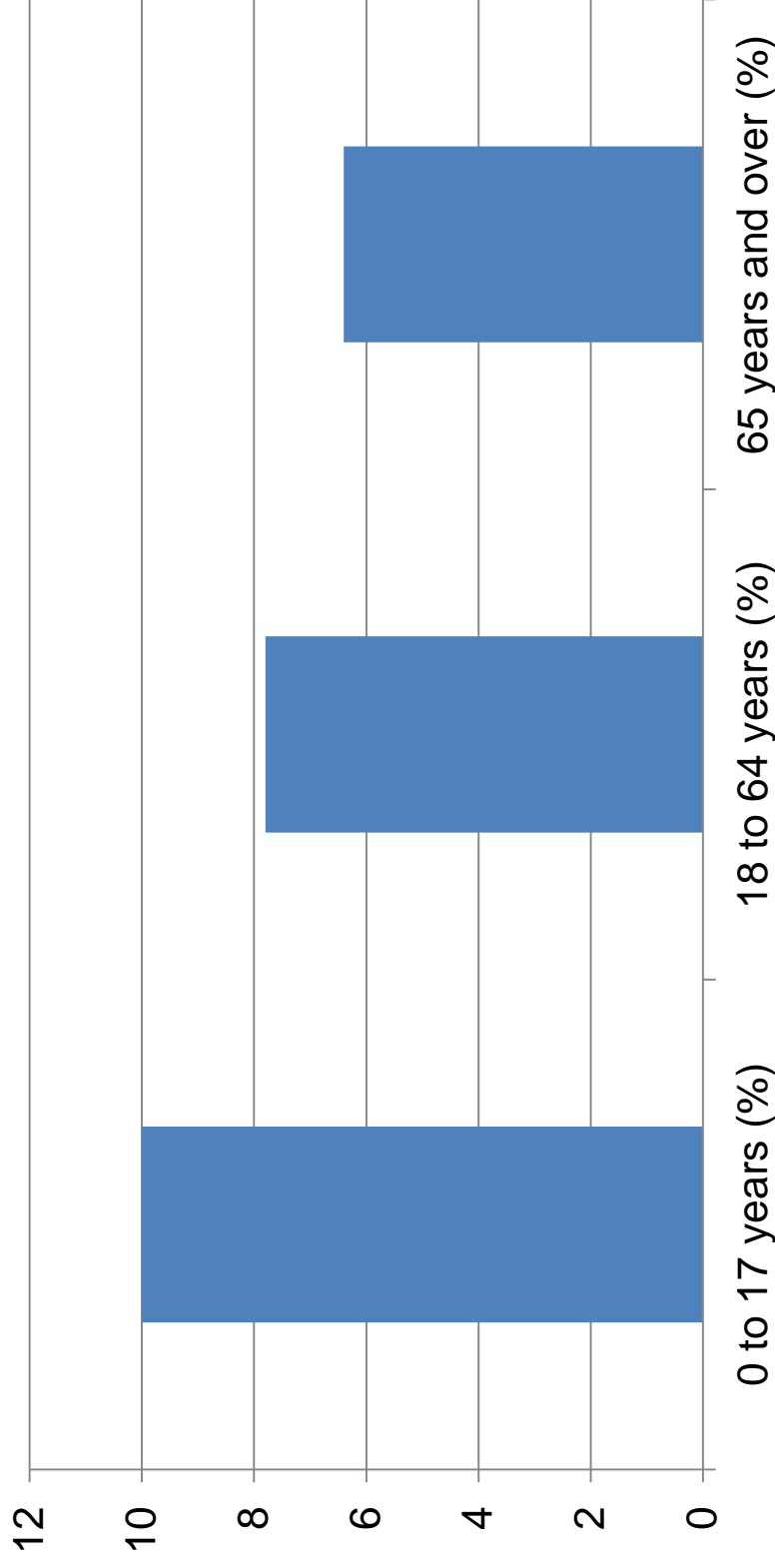
3. Apply Special Considerations

Pricing for the network effect



3. Apply Special Considerations

Poverty Rates by Age Group in Newmarket, 2016



4. Evaluate Price Performance

1. Does the service hit its cost recovery target?
2. Does the pricing structure appropriately reflect costs for individual users?
3. Does the pricing maximize the net public impact of the service?



Project Timeline

Time	Deliverable
April, 2018	Present Draft Concepts to Council
February, 2019	Public Consultation
March, 2019	Propose Draft Policy to Council



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Service Pricing Policy Update Information Report

Report Number: 2018-20

Department(s): Financial Services

Author(s): Kevin Yaraskavitch

Date: April 30, 2018

In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Purpose

The purpose of this report is to provide information on updating the Town's Service Pricing Policy.

Background

In 2006, Newmarket endorsed its first Service Pricing Policy to ensure a fair and equitable balance between what users pay for programs and services and how much is drawn from the tax base.

The policy guides the pricing of municipal services to meet cost recovery targets. Cost recovery is the amount of money that the Town will get back from running a program through user fees.

The current policy's focus is to ensure that higher percentage of the costs is recovered through user fees. After a public consultation process, the policy lead to annual prices increase to prevent the softening of services due to inflation. This is an example of the many benefits of the policy.

Discussion

This policy update proposes to shift the focus to using pricing as means to incent the use of services that are desirable to the broader community. It also focuses on using pricing as means to provide a disincentive to behaviour that has a negative impact on the community. This policy continues to support the application of fair and reasonable prices for municipal services.

Staff has drafted four step process to applying the updated service pricing policy. The four steps are: Identify the service, Classify the service, Apply special considerations and evaluate price performance.

Step 1: Identify the Service

The initial step of applying service pricing policy is to identify the service. There are four actions for this step.

1. Identify the services that the Town wishes to evaluate.

A service is an action or set of actions that generates value and whose cash flow is largely independent or separable of other services. The set of actions to be included in one service should be based on materiality.

2. Determine the cost of providing the service to the consumer.

Include all costs related providing the service, both direct costs and indirect costs. The policy will provide a discussion on what type of costing system should be used to determine the cost of providing different services.

3. Determine how customers pay for the service or practical payment methods.

Determine how the service is paid for currently. Identify if there is a membership fee, pay per use, rental payments, etc. If there is no current payment method, identify how the Town could practically charge for the service.

4. Identify the positive and negative public impacts to the service.

A public impact occurs when the use of service provides third party benefits or costs. Public impact is identified through six aspects:

Social

This aspect considers whether the service increases social cohesion. This includes promoting social ties, a sense of Newmarket identity, etc.

Equality

This aspect considers whether the service increases equal access to necessary services. This includes equal learning opportunities, equal access to the democratic process, etc.

Health and Safety

This aspect considers whether the service increases the health and safety of the community. This includes reducing the risk of chronic and acute injuries, implementing preventative measures, etc.

Environment

This aspect considers whether the service increases the environmental health of the community. This could include reducing pollutants released into the air or watershed, preserving natural areas, reducing waste, etc.

Economic

This aspect considers whether the good increases the economic vitality of the community. This could include increasing the number and quality of jobs in the community, ensuring the efficient use of resources, etc.

Cost

This aspect considers whether there are more efficient services either provided by the Town or private sector.

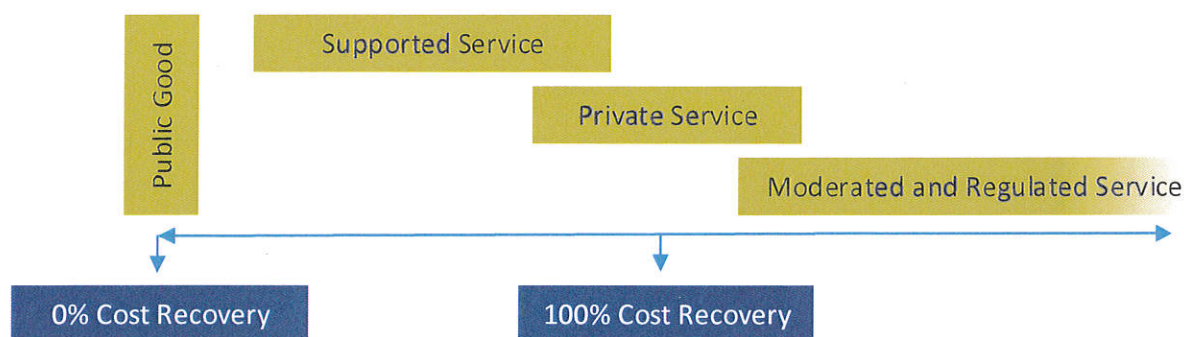
Step 2: Classify the Service

Classification Categories

The Town offers a wide variety of services. This proposed policy update will classify different types of services and how to charge for those services.

The policy proposal places services on a continuum of cost recovery. 0% cost recovery means the service is entirely covered through property taxes or government transfers. 100% cost recovery means the service is entirely covered through user fees.

Figure 1: Service Pricing Continuum



The following subsections describe each of the classifications of services.

Public Good

A public good is a service that is impractical to apply a user fee or regulatory charge against. The first definition of an impractical charge is that it is not technically possible to apply a charge. The second definition is that the public benefit of the service is so great that the service deserves greater public support than provided with supported goods. The third definition is that applying a fee would significantly compromise the social equity provided by the service.

Supported Service

A service within this class provides a net positive impact to the community. The service in this class also provides a benefit for individual users. This service does not have full cost recovery in order to encourage use, provide a gesture of assistance, minimize evasion of fee payments and achieve strategic goals. The default cost recovery in this class is 90%. The greater the net positive impact, the lower the cost recovery target should be.

Private Service

The service is provided for the benefit of specific interested users. There is no broader net benefit or appeal to the community as a whole. This service may contribute to the diversity of amenities and services provided within the community. The fees set for providing a service within this category recover the full cost of providing the service by the municipality. The default cost recovery for this class is 100%. There may be strategic considerations in charging below or above the cost of providing the service.

Moderated or Regulated Service

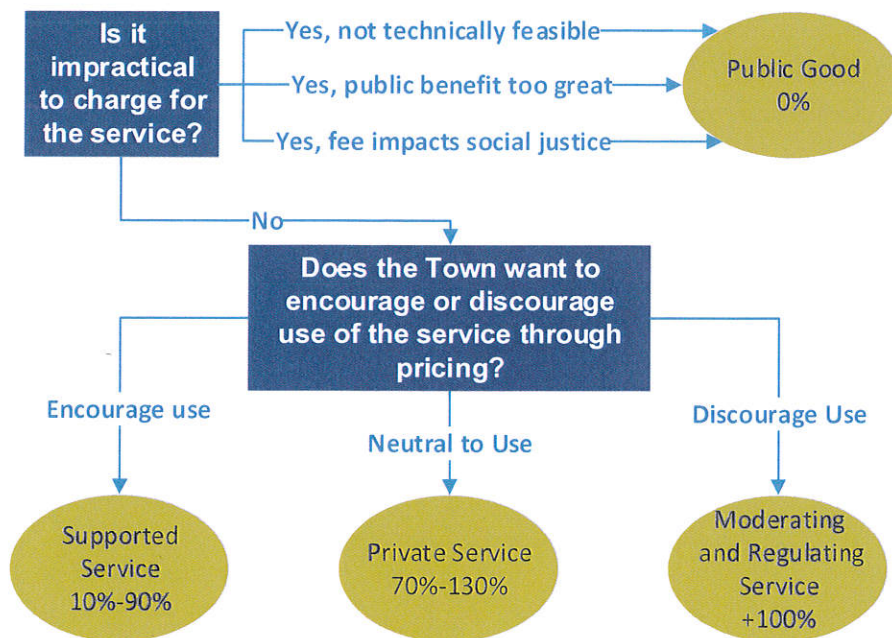
The use of a service within this class provides a net negative impact to the community. The name of this type is controlled good, but sometimes it may be more appropriate to call it a bad. A bad is anything with negative value in the market place.

Goodness and badness are inherently subjective declarations. However, as a general rule, when a good is consumed in excess, it becomes a bad. Therefore, providing pricing can control the level of consumption of a good to prevent it from becoming a bad or reduce the prevalence of a bad.

Classification Decision Tree

The figure below illustrates the questions that need to be asked and answered in order to determine the class of the service in question.

Figure 2: Classification Decision Tree



Step 3: Apply Special Considerations

The classifications provide a band of cost recovery. This step allows for further consideration to reach the optimal cost recovery target.

Step 4: Evaluate Price Performance

1. Does the service hit its cost recovery target?

Determine if the service hits its cost recovery target established through this policy. This is done with the chosen costing system established in step 1. Identify the Service.

2. Does the pricing structure reflect actual costs for individual users?

Determine if there is a rational nexus between the cost of providing the service and the fee that is charged to users.

3. Does the pricing maximize the net public impact of the service?

Determine if the pricing of the service has adverse effects on the use of the service. Pricing may need to be lowered to promote use or pricing may need to be increased to moderate use of the service.

Conclusion

A presentation will be made at the Council workshop on April 30th. Staff would like to hear preliminary feedback on the policy direction. Below is the projected timeline for implementing the service pricing policy update.

Time	Deliverable
April, 2018	Present Draft Concepts to Council
February, 2019	Public Consultation
March, 2019	Propose Draft Policy to Council

Business Plan and Strategic Plan Linkages

The Service Pricing Policy is an initiative that is recognized in the Sustainable Financing Strategy and is in alignment with the key focus area “Well Planned & Managed” of the Community Strategic Plan.

The policy also addresses the Council Strategic priority of “Efficiency/Financial Management” by ensuring effective and efficient services and measuring our performance.

Consultation

Departments most impacted by this policy have been consulted and helped formulate the concepts ion this report.

Human Resource Considerations

None.

Budget Impact

None.

Attachments

None.

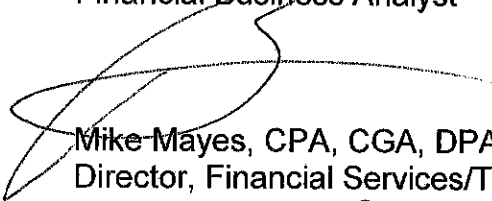
Contact

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Approval



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Financial Business Analyst



Mike Mayes, CPA, CGA, DPA
Director, Financial Services/Treasurer



Esther Armchuk, LL.B.
Commissioner, Corporate Services