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2019 Budget Process & Target Staff Report

Report Number: 2018-85

Department(s): Financial Services

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Meeting Date: December 10, 2018

Recommendations

1. That the report entitled 2019 Budget Process & Target dated November 19, 2018 be received; and,
2. That the proposed budget schedule with a target budget adoption date of March 4, 2019 be approved; and,
3. That the proposed public engagement plan for the budget be adopted; and,
4. That Council set targets for the 2019 budget based on the recommended structure.

Executive Summary

This report includes the following information:

- **Budget Schedule** – schedule that staff will work with. The formal recommendation is being made to the new Council at a Special Committee of the Whole meeting on December 10.
- **Budget Structure and Targets** –Town's process of segregating the budget into components, each of which will have a target established by Council.
- **Public Engagement** (Consultation) – what is being considered for the second phase of engagement for the 2019 budget.

Purpose

The purpose of this report is to secure Council's approval of the schedule, process and targets for the 2019 budget.

Background

BUDGET TARGETS

Since 2012, Council has set budget targets to limit property tax levy increases. In general, these targets have been achieved. Setting these targets early has facilitated efficient preparation of budgets to ensure that they meet Council's expectations.

As part of the 2017 budget process, it was revealed that the Town has been eroding the base budget, the net funding for core services, to meet these targets. Consequently, structural changes were recommended to the budget, which included¹:

- Excluding enhancements and extraordinary items from the base budget, i.e. providing separate funding
- Matching growth revenues with growth expenses, i.e. no more use of the growth "surplus" to buy down tax increases
- Continued use of the Consumer Price Index (CPI) to set a target for the base budget

These changes were incorporated into the 2017 and 2018 budgets. They will also form the basis for the development of a budget policy.

The 2018 budget process built upon this framework and suggested that the CPI is not a sufficient measure for the cost drivers experienced by a municipal government². It suggested using March CPI, to facilitate budget preparation, and that the target should be 0.25% to 0.50% above the CPI. The report showed that actual budget targets had averaged out to being equal to the March CPI + 0.25%. This was considered but not adopted.

Discussion

BUDGET SCHEDULE

Appendix A includes a proposed schedule for the 2019 budget process. Some of the key dates are:

- **December 10** – first interaction with the new Council. This is the opportunity to finalize the schedule, the process, and the targets for the 2019 budget. Up to that time, staff have been working with tentative guidelines.

¹ Further details can be found in Joint AC/Commissioners – Corporate Services Report – Financial Services 2016-57, 2017 Preliminary Draft Budget.

² Corporate Services Report – Financial Services 2017-12, 2018 Budget Process and Target

- **January** – the Treasurer will be available to meet one-on-one with Members of Council to discuss the budget and budget process. These individual meetings have proven to be effective in the past.
- **January 14** – the preliminary draft budgets will be presented to Committee of the Whole. This will be the first look at the operating and capital budgets.
- **March 4** – this is the target date for approval of the 2019 budget. Council may wish to extend this time for further deliberations.

BUDGET STRUCTURE AND TARGETS

The Town's budget is segregated into the following components:

- Operating Budgets
 - Tax-supported operating budgets
 - Tax-supported base operating budget
 - Central York Fire Services (CYFS)
 - Newmarket Public Library (Library)
 - Mulock Farm (new for this year)
 - Tax-supported service level enhancements
 - Tax-supported growth
 - Tax-supported Infrastructure levy
 - Extraordinary items
 - Rate-supported operating budgets
 - Water
 - Wastewater
 - Stormwater
 - Building Permits
- Capital Budgets
- Reserve and Reserve Fund Budgets

Operating Budgets

The net costs to maintain infrastructure and provide services are included in the operating budgets. These budgets are divided by level of service (base, growth, enhancement) by primary funding source (property taxes, rates), governance (CYFS, Library) and by significant impacts (Mulock Farm, extraordinary items).

Tax-supported base operating budget

The Base Budget is defined to be the net cost to maintain the Town's service levels for a stable population. This is net of ancillary revenues and efficiencies. Tax-supported operating budgets have property taxation as a primary funding source and are further divided according to governance such as CYFS and Library. The Town's budget covers all of the other municipal services, including the internal support services. This is the part of the budget that usually gets the most public attention.

Although there have been ongoing refinements to the budget and finding new efficiencies continues, the base budget will continue to be driven by inflationary pressures. The Town's base budget is being built incorporating these cost reductions and factoring in inflation. To do otherwise could result in softening of our service levels.

In accordance with policy, the October CPI will be the basis for the 2019 economic increase for salaries and wages³. As this is our major expense, it would be appropriate to build our budget around the October CPI as much as possible.

The annual increase in the Toronto CPI at the end of October was 2.7%. Converting this for municipal purposes, results in an increase in the 2.95 to 3.2% range.

For the base budget, a tax increase of 2.95% is recommended.

For 2019, a 1% tax increase will generate property tax revenues of approximately \$600,000.

Central York Fire Services (CYFS)

Fire's financial plans include completion of the 2014 Fire Department Master Plan Update and meeting increasing requirements for asset replacement. Setting aside a fixed portion of the budget for growth is being recommended.

The Joint Council Committee (JCC) for Central York Fire Services (CYFS) have approved an Asset Management Plan and 10-year financial outlook at its meeting on June 12, 2018. These documents will form the starting point for CYFS's 2019 budget requests.

The CYFS budget is a major component of the Town's budget but is subject to the Town's overarching budget considerations. The 10-year plan adopted by JCC included a base budget increase of \$425,000. However, a substantial shift in the factors for the funding allocation has reduced Newmarket's contribution to \$356,000 – a 0.59% tax increase.

The recommended base budget target for CYFS is the amount included in their 10-year financial plan, as adjusted by changes in application of the funding formula - \$356,000.

Newmarket Public Library (Library)

A preliminary budget report was presented to the Newmarket Public Library Board on May 16, 2018. Its projected an inflationary increase in the municipal grant of \$75,000.

The recommended base budget target for the Library is the amount approved by the Library Board - \$75,000.

³ subject to it being an appropriate measure relative to our comparators – Policy HR 9-03 Economic Adjustment

Mulock Farm

Due to the high profile of the supplementary levy, this is being shown in the budget as a separate component. The 2018 Supplementary Budget for the Mulock Farm included a 2.6% tax levy increase. This was sufficient to fund the operating costs of the Mulock Farm, as a passive park. No additional increase is required for 2019 as additional costs will be offset by increased revenue availability.

	2018 Budget	2019 Budget	Net change
Debt servicing	\$ 1,460,000	\$ 1,460,000	\$ 0
Property maintenance	100,000	350,000	250,000
Revenue – parkland dedication	- 100,000	- 100,000	0
Revenue – assessment growth	0	- 250,000	-250,000
Total	\$ 1,460,000	\$ 1,460,000	\$ 0

No increase is recommended for the Mulock Farm levy in 2019.

Tax-supported service level enhancements

Enhancements are the cost of increases to service levels. They are documented on Decision Package forms. The rate-supported and separate governance budgets can also have enhancements.

There is no room in the base budget and no separate provision in the tax-supported budget for enhancements. The emphasis is on maintaining existing service levels. This should not be an issue for 2019 as the theme for this year will be to pause and plan for the future.

No service level enhancements are recommended to be included in the 2019 budget.

This may be changed as Council moves through the budget process but sets a reasonable starting point.

Tax-supported growth

Growth includes the additional net cost to maintain the existing level of service for a growing community. It includes both expenses and revenues. Growth revenues are revenues earned from increases in the population. The most visible is property assessment growth – incremental property taxation revenue generated from new construction. It also includes other revenues, such as water charges to new homes.

Growth-related expenses are the incremental expenses necessary to maintain service levels for a growing population.

The Town has started the sustainable practice of applying growth revenues only to growth expenses, and to date has been successful in limiting growth expenses to the available growth revenues.

Assessment growth for 2018 has been projected to be 1.2%. The following is the recommended allocation of tax-supported growth revenue:

Assessment growth at 1.2%	\$ 720,000
Expenses:	
2019 Operating costs for new growth-related capital approved in the 2018 budget	\$ 110,000
2019 Operating costs for new growth-related capital approved in the 2017 budget	\$ 30,000
Mulock Farm operating costs	\$ 250,000
Incremental growth (costs that increase as the Town grows, including supplies and contracted services for the maintenance of roads and other infrastructure, waste management and telecommunications)	\$ 76,000
Fire Master Plan – 2019 allocation	\$ 286,000
Reduction of Fire allocation to stay within funding envelope	(\$32,000)
Expense total	\$ 720,000

It is recommended that assessment growth revenues be applied against the growth expenses as detailed in the table above.

Tax-supported infrastructure levy

Infrastructure Levy is the change in the annual contributions to the Asset Replacement Fund (ARF). It includes both tax-supported and rate-supported contributions. The primary focus has been on the tax-supported portion, as there is a large infrastructure gap.

The Capital Financing Sustainability Strategy recommended an annual increase in the tax-supported ARF contribution equal to a 1% tax increase. 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.

For 2019, a 1% increase equates to \$600,000. CYFS, supported by its 10-year financial plan and asset management plan has requested \$120,000 of this.

An increase of \$600,000 is recommended for the infrastructure levy (ARF contributions).

Actual use of these funds will be determined later in the budget process.

Extraordinary items

Extraordinary items are costs which would normally be included in the Base Budget but are considered separately because their magnitude would be too disruptive. These can be new regulatory requirements or substantial increases beyond normal inflation in the cost of goods and services. They can also be significant budget reductions. The practice has been to only include items that exceed normal inflationary or growth increases by \$100,000.

For 2019, the extraordinary items currently known are:

- Defending the Town's interests in terms of legal and assessment challenges, Each of these areas had requested an additional \$200,000 in 2018 (\$400,000 in total). The 2018 budget included an additional \$100,000. The remaining \$300,000 is being requested in 2019.
- A Strategy for *Bill 148, A Plan for Fair Workplaces and Better Jobs*, was developed for the 2018 budget. It was decided to transition the costs to the tax base over a 5-year period. \$280,000 was included in 2018 and another \$280,000 is proposed for 2019. Although there have been changes to the legislation which result in cost reductions, the additional funding is still needed for the measures that will remain in place.
- Waste Management had requested additional costs of \$429,108 in the 2018 budget that were categorized as extraordinary. The final approved budget used reserves to defer \$150,000 of these costs to 2019.
- Vacancy Rebate tax reductions for businesses will no longer be paid in 2019. This should result in savings of about \$100,000 per year.

The net cost of these extraordinary items is \$630,000. The preliminary draft budget will recommend how to address this.

There is no staff recommendation with regards to the extraordinary items at this time.

Additional work is required to determine if some of these costs can be covered within the base budget or if there are further opportunities for phasing.

Rate-supported budgets

Rate-supported operating budgets – water, wastewater, stormwater and building permits are all funded 100% from non-tax revenues. All but building permits have 6-year financial plans that were approved by Council in 2017. These plans will form the foundation for 2019 budget requests.

Rate Group	Revenue increase per 6-year financial plan			
	Non-growth	Growth	Total - \$	Total - %
Water	\$ 1,367,000	\$ 203,000	\$ 1,570,000	9.28%
Wastewater	\$ 493,000	\$ 247,000	\$ 740,000	3.59%
Stormwater	\$ 218,000		\$ 218,000	11.8%

Water and Wastewater revenues will include the 3rd phase of the implementation of tiered water rates and a combined 5.1% increase in volumetric rates. Non-growth, i.e. revenues from current users, cover cost increases for the existing level of service (base), enhancements (if any), and increases in contributions to the rate-supported Asset Replacement Funds.

Growth is projected to be 1.2% of 2018 revenues. No provision has been made for Stormwater due to the difficulty in differentiating between base and growth at this time.

It is recommended that the approved 2017 6-year financial plans be used to set the 2019 targets for the water, wastewater and stormwater budgets.

Building Permits do not have a multi-year plan but do have a substantial reserve fund. No budgeting challenges are anticipated in this area.

It is recommended that any increases in the Building permit rate group be funded from its reserve fund.

Capital budget

This budget includes the purchase and financing of Tangible Capital Assets (TCA) for infrastructure, land, buildings, machinery, equipment and other items that provide long-term benefits; and of major corporate studies such as the Official Plan and the Development Charges Background Study.

The capital budget will continue to be separated according to major funding source. The capital requests will be subject to availability of funding.

Capital category	Main funding source	Availability of funding
Replacement	Asset Replacement Fund (ARF)	Limited to the uncommitted portion in the consolidated balance of all Asset Replacement Funds.
Growth	Development Charges (DC's)	Subject to inclusion in the 2014 Development Charges Background Study, and having sufficient funding for the non-growth or exempt portion if any. ⁴
Other	General revenues and reserves funds as appropriate	There is an annual provision in the operating budget and there are unallocated amounts in the general reserves for capital.

It is recommended that the capital budget remain within the available funding envelope.

The funding envelopes are defined as shown in the above table with the following clarifications:

- A multi-year funding envelope is appropriate if there is a Council-approved multi-year financial plan for capital such as an Asset Management Plan or a DC Background Study.
- Although not required by policy, rate-supported capital should be limited to the availability of the relevant rate-supported funding. This ensures sustainability.

Reserve and Reserve Fund Budgets

Generally, contributions to and from Reserve Funds are derived from the Operating and Capital Budgets. Contributions to and from Reserves tend to be in response to operational surpluses or deficits, but some transfers may be included in the operating and capital budgets as well.

Because of the dependence upon the other budgets, the Reserve and Reserve Fund Budgets are not compiled until after the Operating and Capital Budgets have been approved.

⁴ DC's cannot fund 100% of a project if some of it is deemed to be benefiting existing (and not just new) users, and/or if there is a statutory 10% reduction.

Conclusion

Next Steps:

The Treasurer will be available to meet one-on-one with Members of Council. The Community Engagement process will begin and additional budget information will be provided to Council. The preliminary draft budgets will be presented on January 14, 2019 at a Committee of the Whole meeting. Budget approval is targeted for March 4, 2019.

Staff will be finalizing their 2019 budget requests based upon the targets set by Council as outlined in this report.

Business Plan and Strategic Plan Linkages

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

Consultation

Phase one engagement for the 2019 budget:

Phase One of public engagement focused on education around our overall budget process. Content related to the Supplementary Budget and financing for the Mulock Estate was also included in budget-related items.

Public education for Phase One ran from late August to the end of November 2018. Throughout the campaign, the focus of the budget - *ensuring we meet the needs of our community now and in the future* – was communicated, and a theme of “building our budget” emerged.

The objectives of Phase One engagement were to show residents how we “build our budget” (the budget process); and to provide them with a greater understanding of where their tax dollars go. This was achieved by:

- Providing a breakdown of the regional, local municipal and school board portions of a tax bill in primary communications tactics; and
- Including an explanation of the services the Town provides and the net costs associated with those services (based on the average assessed home in Newmarket in 2018) in primary communications.

The explanation of services and fees was the focus of our 2019 budget game – “Put your money where it matters.” A new version of the “Put your Money where it matters” game was launched under the “building the budget” theme. The game was played by residents at events including the Newmarket Farmers' Market, the CYFS Newmarket Open House and the Princess and Superhero Party. An incentive offering a chance to win one prize of

\$100 “Newmarket Bucks” to use toward any Town fee or program was also included as part of the promotion. **A total of 324 people participated in the game during the events.**

The game asked residents to choose their top three service priorities by taking three Lego-like blocks and allocating them into buckets which represented the different services provided by the Town (By-laws and Licensing; Community Event; Facilities, Parks and Trails; Fire Services; Planning and Development; Public Library; Roads, Bridges and Sidewalks; and Waste management). Residents could also choose to take just one block and put it into a bucket labelled “Satisfied with all Services equally.” An online version of the game was also created, and included additional facts, stats and more information about the services provided by the Town. **As of November 26, 2018, a total of 84 participants played the game online.**

The primary goal of the game was to educate residents on which services are provided by a municipality and to give specific details on how these services support our community/ impact residents on a day-to-day basis. Participants were encouraged to provide comments on all services, on our budget process and on the game in general both online and at events. **A total of 408 people participated in the game as of November 26, 2018.**

(For engagement results and a full list of comments, please see Appendix B)

Communications tools to promote the budget process and the game included: a new dedicated webpage - Newmarket.ca/2019budget, including graphics and a link to the new game; a four-page tax insert which went to all households; postcards; 2019 budget booths at events; posters for events; printed handouts for events; print ads in the Town Page of the Newmarket Era; articles in the Newmarket Now e-newsletter; social media posts on Facebook, Twitter and Instagram; promotion on the screens and marquees at Town facilities; and Get Involved articles on the homepage of newmarket.ca

Phase Two of Community Engagement:

Phase Two of engagement will take place from December 2018 to March 2019 (when the final budget is passed). Tactics for Phase Two will include: promotion of budget meetings and links to budget presentations in the Town Page, Newmarket Now e-newsletter, Town website and social media. A media release and media relations tactics are also planned for Phase Two engagement.

These recommendations are the product of lessons learned from the 2018 and previous budget experiences. They include recommendations that have been reviewed by the Strategic Leadership Team (SLT), the Operational Leadership Team (OLT) and representatives across departments from members of the Budget Committee and the Budget Sub-committee.

This budget plan has been discussed with the Senior Leadership Team (SLT) and the Operational Leadership Team (OLT). It is consistent with past practice.

Human Resource Considerations

Not applicable to this report.

Budget Impact

A summary of the proposed budget targets:

Tax-supported budget net increase of \$2,327,000. This is a 2.95% tax increase (\$1,770,000) less \$43,000 by not increasing the Mulock Farm levy, plus a 1% infrastructure levy. This will provide an additional \$356,000 for Central York Fire Services, \$75,000 for the Newmarket Public Library, \$600,000 for Asset Replacement Fund contributions and \$1,296,000 for the Town's base budget. There is no provision for service level enhancements.

Other budgets will be limited by the funding available to them: tax-growth by assessment growth, rate-supported budgets by their revenue as projected in their 6-year plans, and capital by the availability of applicable reserve funds, Development Charges and other funding sources.

Attachments

Appendix A: Proposed Schedule for the 2019 Budget

Appendix B: Budget Game Results

Approval

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