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## **2020 Budget Process Update Staff Report to Council**

Report Number: 2019-102

Department(s): Financial Services

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

Meeting Date: October 15, 2019

### **Recommendations**

1. That the report entitled 2020 Budget Process Update dated October 15, 2019 be received; and,
2. That subject to any further direction, staff be authorized to move forward to finalize the Preliminary Draft 2020 Tax-supported, Rate-supported Operating and Capital Budgets; and,
3. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

### **Executive Summary**

Development of the draft 2020 budgets is progressing well – all targets will be met. There are some challenges:

1. The Stormwater Budget – options will be presented
2. The Capital Budget – a new approach is being undertaken
3. The Tax-supported ARF – a new strategy

## **Purpose**

Report 2019-42 outlined the 2020 budget process and targets. Council amended the recommendations and adopted them on May 6, 2019. This report will provide an update on progress and challenges.

At this point we usually strive to present a Preliminary Draft Budget. In some years, such as this, details are not finalized and an overview is provided. For the 2020 budget there are some significant changes and details of the budget will not be available until later, in time for discussion at the Special Committee of the Whole meetings set aside for budget deliberations. Specifically:

- The Capital Budget on October 28, 2019
- The Rate-supported Operating Budgets – water, wastewater and stormwater – also on October 28, 2019
- The Tax-supported Operating Budget on November 11, 2019

## **Background**

### **Council set clear targets and direction for the budget**

Finance Report 2019-42, 2020 Budget Process and Target, proposed targets for the 2020 budget. On May 6, 2019 Council approved this report and added the following recommendation:

*That endorsement be given to staff to proceed with preparation of the 2020 budgets employing the structure and targets as set out in this report with a tax levy increase of less than 3%.*

The original target suggested in the report was a tax increase of 3.9%. The Council direction challenged staff to find cost reductions in the budget.

## The Tax-supported Budget is on target

The tax-supported budget will include a base increase of 1.99% and an infrastructure levy of 1% for a combined 2.99% increase - \$60 to the average residential property.

	Net increase in \$	% Tax increase
Town base	\$ 996,000	1.66%
CYFS base	439,000	0.73%
Library base	65,000	0.11%
Mulock Farm	-	-
Enhancements	-	-
Growth, net	-	-
ARF	600,000	1.00%
Carried forward (Bill 148)	240,000	0.40%
<b>Original request</b>	<b>\$ 2,340,000</b>	<b>3.90%</b>
Reductions	- 546,000	(0.91%)
<b>Meeting Council's direction</b>	<b>\$ 1,794,000</b>	<b>2.99%</b>

### Town Base

The Town 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 and has property taxation as its' primary funding source. It covers all municipal services except those that are rate-supported (water, wastewater, stormwater and building permits) or that have a separate governance (Central York Fire Services, Newmarket Public Library and the Newmarket Downtown BIA).

### Central York Fire Services (CYFS)

The Joint Council Committee (JCC) for CYFS approved an Asset Management Plan and 10-year financial outlook at its meeting on June 12, 2018. These plans were the starting point for CYFS's 2020 budget. A special JCC meeting is being set up to review and make a recommendation on the CYFS budget for 2020, the tentative date is October 22, 2019 as of the writing of this report.

The draft budget includes Newmarket's share of the base budget and funding requests for growth items and for an increase in ARF contributions.

### Newmarket Public Library (NPL)

The Library Board approved the NPL budget request on September 18, 2019. This included an inflationary increase in the Municipal Grant and a growth provision.

### Other Boards and Committees

There have been no budget requests from any of the boards or committees, including the Newmarket Downtown BIA.

### Mulock Farm

Until the property is made accessible to the public, the current budget is sufficient. A minor housekeeping adjustment will be made to net the transfers to and from reserve funds.

### Enhancements

Enhancements are the net cost of increases to service levels. There is limited room in the tax-supported budget for enhancements.

### Growth

Growth includes the additional net cost to maintain the existing level of service for a growing community. It matches growth-related expenses with growth-related revenues. For the tax-supported budget, this revenue is assessment growth – incremental property taxation revenue generated from new construction.

Assessment growth for 2020 has been projected to be 1.30% and will be matched against \$680,000 in growth-related expenditures.

### Asset Replacement Fund (ARF)

The contributions to the tax-supported ARF, also referred to as the Infrastructure Levy, has the goal of reducing the infrastructure funding gap and the fund deficit.

The Capital Financing Sustainability Strategy recommended an annual increase in the tax-supported ARF contribution equal to a 1% tax increase. Previous budgets have not always met that target. The plan is that 2020 will be at 1%.

## Reductions

The budget target of a tax increase of less than 3% was a challenge. After deducting a 1% infrastructure levy, this left 1.99%. While 2% was the Toronto Consumer Price Index (CPI) at the end of March; and is a good indicator of the 2020 rate; CPI is not a sufficient measure for the cost drivers experienced by municipal governments. The basket of goods used by a municipality varies significantly from those of an average household and can be 0.25% to 0.50% higher.

Meeting the target required finding \$546,000 in cost reductions. The basic tactics are efficiencies, new revenues, manageable risk, and service level adjustments. These reductions have been found without taking the REV It Up program into consideration.

As a result, the tax increase target has been met. Details will be provided at the Special Committee of the Whole meeting on November 11, 2019.

### **The Rate-supported Budgets are based on their 6-year financial plans**

Rate-supported operating budgets – water, wastewater and stormwater are funded 100% from non-tax revenues. They have 6-year financial plans that were approved by Council in 2017. The Building Division is also considered to be a rate-supported budget.

- Water and Wastewater projected a combined increase of 4.9%. This has been achieved.
- Stormwater projected an increase of 10.9% in its 6-year financial plan. This is achievable but the stormwater capital program is challenged by the level of funding.
- Building permit fees are sufficient to fund the Building Department.

Details will be provided at the Special Committee of the Whole meeting on October 28, 2019.

### **The Capital budget will remain within the available funding envelopes**

The growth component of the capital budget is funded mostly by development charges (DC's). DC collections and reserves are strong and can support the budget requests. The replacement of some DC's with a Community Benefit Charge (CBC) is not until 2021 and should not have a direct impact on the 2020 budget.

The replacement component of the capital budget is funded mostly by the Asset Replacement Fund (ARF). The Water and Wastewater ARF's are very strong. The Stormwater ARF is not. The Tax-supported ARF is in a deficit. The latter two present challenges to the capital program.

This is further explained below in the new approach to capital budgeting and ARF contributions.

## **Discussion**

In general, the budget process has progressed well. There are a number of areas where recommendations are being finalized. These are briefly outlined below and further Council approval will be sought at the appropriate Special Committee of the Whole meetings (October 28 and November 11).

### **Stormwater is challenged to meet its capital funding requirements**

When Stormwater was segregated from the tax-supported budget and set up as a separate rate group, it was done on a revenue neutral basis. Since then, new regulations have significantly increased operating costs and there has been expansion of the capital program.

Options being considered to stay within the funding envelope for 2020, include:

- Deferring projects
- Borrowing on an interim basis
- Increasing stormwater rates further than the 6-year plan projection (10.9%)
- A combination of these options

This is to be discussed further on October 28, 2019.

### **A new approach to capital budgeting will eliminate capital carryovers**

The current projection is that \$60 million in approved capital projects will not be completed by the end of 2019. This creates a number of issues: cash flow planning for investments, delivery expectations and possible out-of-date cost estimates.

The new approach will emphasize a deliverable budget. This will be achieved by:

- Setting an overall spending cap for the capital budget based on historical spending
- Taking a “tender ready” approach – limiting budget approval to projects that are tender ready and to the costs to get projects tender ready
- More extensive forecasting
- Quarterly reporting tracking progress and adding new projects as appropriate

This is significant change involving a review of all previously approved capital projects and upcoming budget requests.

### **First steps will be taken towards a new ARF Strategy**

The tax-supported Asset Replacement Fund is projected to be in a \$23 million deficit at the end of 2019. This deficit has been growing over the years.

While an ARF Strategy is being developed as part of an overall financial strategic framework, the following practices will be implemented in the interim:

- A consistent minimum 1% tax levy increase for annual ARF contributions
- ARF contribution increases to be targeted to building the fund balance
- No increases in the deficit

This step combines with the new approach to capital budgeting – the two initiatives will complement each other. It is possible that the adjustment to the capital program may need to be phased in.

### **Additional Gas Tax funds received in 2019 need to be allocated**

Newmarket would normally receive \$2,547,376 for its share of the federal gas tax. For 2019, the federal government doubled this payment and gave us another \$47,444 as our share of the Gas Tax surplus. The additional \$2,594,820 has not yet been allocated. These funds could be used to phase in the above initiatives.

### **Long-term interest rates at historic lows**

The interest rate for a 20-year debenture is in the 2.5% per annum range. This is only slightly higher than the daily interest earned on our bank account. In compliance with the Town's Debt Policy, we have the capacity to borrow another \$80 million.

Taking on new debt is not being recommended at this time, but this opportunity should be noted.

### **Community Benefit Charges (CBC) should not impact the 2020 capital budget**

Discounted Development Charges will be replaced by a Community Benefit Charge. This includes DC's collected for Recreation, Parking, Library, Fire and General Government.

As the relevant regulations have not yet been issued, the impact cannot be reliably estimated at this time. This should not be a problem as the implementation date is not until 2021.

## **REV It Up has not been factored into the 2020 budget**

REV It Up is a service review to provide the Town with recommendations on how to deliver long-term sustainable savings and provide efficiencies, while maintaining or improving service levels. It is being funded by a provincial government grant – the Audit and Accountability Fund. A final report will be issued regarding this by December 31, 2019.

The 2020 budget includes currently realizable budget reductions and does not factor in any expectations from this review.

## **A new financial strategic framework will be presented to Council in early 2020**

The 2020 budget has seen the acceleration of some financial plans that were in place and the development of new plans. This is evolving into a comprehensive overhaul of our financial policies and strategies. An overarching fiscal framework, comparable to that of York Region, is targeted to be presented to Council in May/June of 2020.

As such, the ARF Strategy and updates to the 6-year financial plans (water, wastewater and stormwater) are being deferred to 2020.

Some policy work under consideration is:

- A Budget Policy to formalize our current practices
- A change in the Economic Increase Policy to an earlier target date to facilitate the preparation of budgets
- Updates to the Investment Policy with regards to capitalizing on the long term opportunities that should materialize and on the allocation of incremental Reserve Fund investment income

## **Conclusion**

### **Upcoming dates:**

- October to November – Community Engagement Phase 2
- October 28 - Special Committee of the Whole – Capital & Rate-supported Budgets
- November 11 – Special Committee of the Whole – Tax-supported Operating Budget
- November 25 – Committee of the Whole regular meeting with draft budgets and fees and charges for approval
- December 2 – Target for Council approval of the Budget

There will also be opportunities for Councillors to meet with or to obtain additional information from the Treasurer or other members of staff.



## **Business Plan and Strategic Plan Linkages**

The budget includes funding for the pillars of Council's Strategic Priorities for 2018-22:

1. Long-term financial sustainability
2. Extraordinary places and spaces
3. Safe transportation
4. Economic leadership and job creation
5. Vibrancy on Yonge, Davis and Mulock
6. Environmental stewardship

The 2020 budget process specifically addresses priorities within Council Strategic pillar of long-term financial sustainability:

1. Community engagement
  - Details are provided in the Consultation section below
2. Develop a multi-year operating and capital budget that aligns with Budget Policies
  - The new approach to capital budgeting will be a first step towards multi-year capital budgeting
  - Financial Policies are being updated and developed to support this and other budget initiatives
  - In addition to the 6-year financial plans for rate-supported operations, an outlook will be provided for the tax-supported operating budget
3. Ensure ongoing continuous improvement and a service level analysis for consideration
  - Staff continued to find cost reductions in the budget
  - REV It Up has started
4. Asset Management Plan and investment into the Asset Replacement Fund
  - Building the Asset Replacement Fund (ARF) is a primary focus of this budget

## **Consultation**

### **The Community Survey indicated a high approval rating**

The Newmarket Citizen Satisfaction Survey was conducted in June and July of 2018. The headline result was that 95% of residents surveyed are satisfied with Newmarket as a place to live. Of even more significance was that 85% indicated that they were receiving at least fair value for their taxes and user fees.

Council will be diving deeper into these results when they set their priorities for the term. However, from the survey results it appears that Newmarket residents do not feel over-taxed.

### **Communications: Phase Two of Community Engagement will commence**

Public Engagement for the 2020 budget focused on educating residents around the Town's overall budget process, how our services link to Council's Strategic Priorities (2018-2022) and raising awareness on ways they could provide their feedback.

The objectives of **Phase One** engagement were to show residents how the Town "builds the budget" (the budget process); and to provide residents with a greater understanding of where tax dollars go. This was achieved by:

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

For the month of **October (Phase Two)**, the Town will be asking residents to participate in our [2020 Budget Game: How do you want to see your tax dollars invested?](#)

This Budget Game will ask residents to rank each municipal service provided by the Town of Newmarket, in order of importance, by assigning a number from 1 to 8 for each service. **Each service also links to the Council Strategic Priority** that it applies to. Services with the highest rankings will assist Council with the 2020 Budget.

During Phase Two, the Town launched a [webpage on HeyNewmarket.ca](#) – Newmarket's online engagement platform. This online forum will feature information about the 2020 Budget process with key meeting dates, information on how residents can get involved in the Budget process and a monthly cost breakdown of the Town's municipal services (calculated based on the average assessed Newmarket home at \$618,750). There is also an opportunity for residents to provide their feedback in the forum section and to ask budget-related questions.

In summary, the 2020 Budget and Community Engagement Tools include:

- A dedicated webpage at [newmarket.ca/2020budget](#)
- Budget Booths at internal and external events
  - Community Open House 2019
  - Budget Game: <https://www.surveymonkey.com/r/3S5TTBD>
- All Household Mailer – June tax insert

- Posters and signage and other printed materials
- Social Media Campaigns
- Online forum and engagement webpage at [HeyNewmarket.ca](http://HeyNewmarket.ca)
- Advertisements in Newmarket's weekly Town Page in the Newmarket Era
- Advertisements in Newmarket Now – Newmarket's e-newsletter
- Promotions on the Town's screens and marquees at Town facilities
- Media Release and Media Interviews
- Council Engagement – Budget Engagement Toolkit

## **Human Resource Considerations**

The draft budgets will include requests to add to the staffing complement. Details will be provided at the Special Committee of the Whole meetings dedicated to budget deliberations.

## **Budget Impact**

Based on the current budget targets, the annual impact to the average residential property would be:

- Property Tax – a 2.99% increase of about \$60
- Water and wastewater – a 4.9% increase of about \$60
- Stormwater – a 10.9% of about \$4

## **Attachments**

N/A

## **Approval**

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

Esther Armchuk, LL.B  
Commissioner of Corporate Services

Jag Sharma  
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## **Contact**

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