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February 18, 2015

JOINT CAO/COMMISSIONERS & FINANCIAL SERVICES REPORT - 2015-08

TO: Mayor Tony Van Bynen and Members of Council
Committee of the Whole

SUBJECT: Preliminary Draft 2015 Budgets

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATION:

THAT Joint CAO/Commissioners & Financial Services Report – 2015-08 dated February 18, 2015 regarding the Preliminary Draft 2015 Budgets be received and subject to any further direction, staff be authorized to provide the public with details of the Preliminary Draft 2015 Tax-supported, Utility and Capital Budgets.

COMMENTS

Purpose

The purpose of this report is to provide details on the Preliminary Draft 2015 Tax-supported, Utility and Capital Budgets and to get Council's authorization to provide the budget details to the public.

Budget Impact

Council has set a tax increase target for the Town in 2015 of between 2% and 2.5%, excluding any adjustments to the contributions to the Asset Replacement Fund. In the past, Council approved an infrastructure levy of 0.80% in 2013 and 0.74% in 2014, and staff are recommending 1% as a starting point for 2015 based on the recommendations of the Capital Financing Sustainability Strategy.

Summary

According to the Budget Schedule, the preliminary draft 2015 budgets will be presented at the Special Committee of the Whole on February 23, 2015 for initial review. If the recommendation is adopted, staff will seek public input by providing the details to the community via the website, e-mail blasts and Town Page advertisements leading up to the public budget consultation meeting which will take place on March 23, 2015.

Background

As is the Town's practice, the Preliminary 2015 Draft Tax-supported, Utility and Capital Budgets are the first drafts being presented as starting points for community consultation and Council consideration. Upon adoption of the report recommendation and subject to any further direction by Committee, the preliminary budgets will be provided to the public for comment. This is the initial review stage which will end with a public budget consultation meeting being held on March 23 and any further direction that Council provides as a result.

Staff continues to pursue cost efficiencies and maximize non-tax revenue sources to provide where possible, a fiscally responsible budget that strikes a balance of affordable taxes, and maintaining current service levels while implementing and maintaining community and Council priority services. This creates a challenge given that municipalities have limited sources of revenue available, many of which do not increase with inflation.

The 2015 budget process has been shifted due to the new term of Council, which has condensed significantly the amount of time available for Council deliberation on the budget. As a result, 2015 should be considered a transition year. It is running simultaneously with Council's priority settings exercise which will set a roadmap for this term of Council. This is coupled with the fact that the 2016 budget process will be launched approximately mid-year. It is expected that the 2016 budget will be approved by the end of this year and more information on this process will be provided after the 2015 budget has been finalized.

Elements of a Sustainable Financial Strategy

Financial Sustainability – There are many definitions of financial sustainability. The one used by the Local Government Association of Australia is: *....a government's ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation.*

Financial Sustainability involves a number of tactics that look beyond the current year and consider the tax impact of 2015 decisions on future years. To partially address this, the 2015 budget will consist of an outlook for 2016 including known drivers for the base budget, the continuation of the phased growth plan, carryovers (if any) from the 2015 budget and any relevant Council priorities. As much as possible, costs in the current budget are included for the full year (annualized) as opposed to including only the amount that can reasonably be expected during the year (de-annualized). This approach prevents deferring the cost of 2015 decisions to 2016.

Elements of a sustainable financial strategy include measures that provide for sound and responsible fiscal management. The Town's policies and related material include:

Reserves and Reserve Funds – the Town should have approximately \$45 million in uncommitted reserves and reserve funds at the end of 2014. Uncommitted is the projected cash balance less any expenditures that were budgeted for but not spent; typically these are accounted for in the capital carryovers and are not available to be redeployed. Reserves can be segregated by the level of restrictions placed on them. "Obligatory" reserves are ones where the use is

restricted by provincial legislation, such as development charges. "Restricted" reserves are ones that are restricted fully or partially by an actual implied agreement or understanding, such as reserves for Central York Fire Services, Newmarket Public Library and the Water and Wastewater reserves. A "designated" reserve is one where the funds are restricted by Council policy and practice such as the Asset Replacement Fund. "Discretionary" funds are those that require Council approval for their creation and purpose such as the Rate Stabilization Fund or Efficiency Fund, and which allow some latitude in the timing of their application.

Staff as directed by Council during the previous term, will be bringing forward a policy to define and restrict the use of the Asset Replacement Fund and all other reserves and reserve funds.

Debt – the Town has had a debt policy in place since 2002. In accordance with the Town's Debt Policy, the amount of debt is limited to the purchase of land and other capital assets when other sources of financing are not available. The Policy also limits the amount of debt servicing (principle and interest) to 10% of the Town's own source revenues which is lower than the 25% limit that the province allows municipalities. In 2014, the Town's actual debt servicing was 5% (2013 – 5.3%) – which is well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$60 million and still remain within its 10% debt servicing (borrowing) limit. \$2.8 million of principal was repaid in 2014. Approximately 15% of our debt servicing is funded directly from property taxes.

Investment Strategy – In 2013 Council approved an Investment Strategy that put the Investment Policy (adopted in 2012) into action. The policy set out guiding principles for the management of surplus funds and the investment portfolio. Staff provides Council with an Investment Report on a quarterly basis.

Investing in Our Future – The Preliminary Draft 2015 Budgets include efficiencies that have been identified. These are predictable and sustainable budget savings which are being recognized and have minimal risk. Examples include \$185,000 in revenue from solar panels and \$345,000 in savings on streetlights.

Asset Management Planning – Asset management planning balances the financial requirements of properly maintaining and rehabilitating assets so that they are in good working order and are able to provide the intended levels of service. The initial emplacement, maintenance and eventual replacement of infrastructure have always been one of the most important responsibilities of a municipality. The asset pool of municipalities is quite different to that of most large businesses. It is comprised of a diverse array of asset types which perform a critical function for the community. The total value of the assets is immense and in recent years, asset management has been linked to fiscal sustainability.

The Town of Newmarket is responsible for a variety of capital assets. These include:

- Linear infrastructure such as roads, bridges, sidewalks, trails, water and wastewater and storm sewers.
- Buildings including recreation centres, fire halls, library, operations centre and Town hall.
- Land improvements such as sports fields, parking lots and stormwater management (SWM) ponds.
- Vehicles and equipment including fire trucks, ploughs, ice resurfacers and mowers.

In September 2012, Council approved the award of an RFP with respect to the Capital Financing Sustainability Strategy to Hemson Consulting Ltd. The strategy was broken into three interconnected parts (reports available upon request) as follows:

Part 1 – An initial review of the existing asset replacement fund and associated policies. This part was completed and reported on.

Part 2 – Development of a Capital Financing Sustainability Strategy taking into account such things as forecasted growth and capital requirements; providing financing alternatives and philosophies, and presenting findings.

As a result of this review, the initiatives underway include:

- the creation of the Utility Transition Task Force that in addition to updating the 6-year financial plan and rate structure, will examine issues like a storm sewer user rate
- investigating the method of implementation of a 10 year capital budget (or forecast) and multi-year operating budgets
- development of a four or five year operating budget forecast commencing with the 2016 budget
- the Service Pricing Policy is being examined in conjunction with the Recreation Master Plan process
- a review of various policies including the Debt Policy, Reserves/Reserve Funds/Asset Replacement Fund policies and finalization of the Donation Policy
- development of an annual reporting structure for the Asset Replacement Fund
- opportunities are being sought to apply the use of Development Charges to operational expenses (where appropriate and sustainable)

Staff is currently preparing a status update report with respect to this matter and it is anticipated that it will be brought forward to a future Committee of the Whole meeting in Q2 2015.

Part 3 – Preparation of the Development Charges Background Study and by-law. The background study and Development Charges by-laws have been adopted by Council.

Ontario municipalities are now required to develop detailed asset management plans to accompany any requests for provincial infrastructure funding. A cross corporate staff Task Force was formed in the early fall of 2014 for this purpose and the Town's initial Asset Management Plan was in place by the end of the year. It is available for viewing on the Town's website.

Revenues

Fees and Charges – Municipalities have limited sources of revenue, user fees and charges being one of them, playing an integral part of the municipality's budget. Staff submit, for Council's consideration, annual fees and charges reports using a staged approach and based on the Service Pricing Policy (SPP). The SPP was established in 2007 and balances costs between user groups and the taxpayer. The Policy will be reviewed in 2015 and in large part will be informed by the findings of the Recreation Master Plan (Playbook) process given that recreation fees form a significant portion of the SPP as a whole. Generally, Licensing and Recreation and Culture fees are submitted early in the fall with the remainder being brought forward closer to year

end so that all fees are in place for the beginning of the following year. For this transition year and with the Recreation Master Plan update underway, Committee of the Whole on April 13 will consider the remaining fees and charges – Recreation and Culture. User fees and charges form about 33% of the total revenues earned by the Town.

Proactive Assessment Management – To deal with changes in development patterns, redevelopment, and challenges to assessed values, the Town will initiate a more proactive approach to assessment management to ensure that we are maximizing property assessment revenues and minimizing, or at least anticipating, any adjustments.

Other Sources of Revenues - Grants/Federal Gas Tax and Dividends - The Federal and/or Provincial governments offer a variety of grants that are eligible to municipalities and are to be used toward investment in capital infrastructure as defined within the specific funding programs. In addition to these grants, the Town can also receive a grant from the Region of York, for projects such as entranceway features and cycling trails (lake to lake program). The grants are identified as funding sources in the capital budget documents.

The Federal Gas Tax Fund (GTF) provides stable and predictable, long-term funding for Canadian municipalities to help build and revitalize public infrastructure. Communities are able to use the renewed GTF towards a wide range of projects such as local roads and bridges, broadband and connectivity, culture and recreation. In 2015 the Town will receive an allocation of \$2,315,796. The GTF supported projects are identified as well.

The Town as a shareholder, receives from Newmarket-Tay Power approximately \$1.3 million as an annual dividend. 70% of these funds are used to offset the operating fund contributions to the capital budget, and the rest is applied as general revenues, but our reliance on the dividend should be reduced as it is considered an unpredictable funding source.

Preliminary Draft 2015 Budgets

As was earlier reported, there is a consistent challenge shared by Ontario municipalities of doing more with less in addition to the ongoing pressures to maintain or even enhance existing levels of service with minimal tax increases.

The Region and School Board tax rates for 2015 have yet to be finalized, however, the Region's proposed budget contemplates a tax levy increase of 3.79% (estimated to be in the area of 3% for Newmarket due to tax shifting) and it is estimated that the School Board's (set by the province) may be in the area of 1% after tax shifting.

The preliminary draft budgets have been prepared by each department and were subject to review by the Senior Leadership Team with consultation from the Operational Leadership Team. Through this process, items were discussed and prioritized with some being deferred.

Preliminary Draft 2015 Tax Supported Budget – When preparing the draft operating budget, staff gave priority to maintaining service levels in a growing community. In identifying how to address growth, a phased approach is being recommended for items such as the Fire Master Plan update and restructuring of the Public Works Services department. The next priority is

responding to the community's request for enhanced and expanded service levels. Examples include improved public engagement, expanded winter control and traffic matters. It will not be possible to address all of these requests within the target and decisions on where to focus our resources will be necessary.

The Town is facing some budget drivers that are outside of its control such as the increase in insurance premiums, the Emerald Ash Borer program and negative tax assessment adjustments that are reflective of recent Assessment Review Board hearings.

Preliminary Draft 2015 Capital Budget – The Capital Budget is a financial plan that outlines the infrastructure investments required for the Town, setting out funding sources and outlining operating impacts that will be realized as a result of these various capital investments. This provides Council and the community with the complete picture.

The Preliminary Draft 2015 Capital Budget is \$26,965,775. 74% is related to replacement projects, primarily financed from the asset replacement fund, 16% is related to growth with substantial funding from DC's, with the remainder being service level enhancements from a variety of sources. Projects are limited to the funding envelope and have no additional impact on the operating budget.

Newmarket Public Library

On December 17, 2014, the Board approved and recommended a 2% increase in the Library budget. This has been forwarded to Council for approval and has been included in the preliminary draft budget.

Central York Fire Services (CYFS)

The Joint Council Committee (JCC) met on February 3, 2015 for the presentation of the CYFS budget. The Fire Department Master Plan Update (FDMPU) was also presented at that meeting. The operating and capital implications of the FDMPU are very significant and JCC requires additional time to review and make their recommendation. They will be meeting again on March 3 for further budget deliberations. If they make a recommendation at that time, the Joint Services Agreement requires that the budget then be sent to Aurora Council for review.

Given the possibility that JCC will not provide its recommendation in time for the targeted budget approval date, the CAO's and Treasurers from Aurora and Newmarket met with the Fire Chief to develop an interim recommendation. This proposal, which has been consolidated into the preliminary draft budget, provides for the fulfillment of the outstanding recommendations from the previous Fire Master Plan. It will be included in the presentation to JCC on March 3, at which time they will have the opportunity to adopt or modify it. As such, the Fire Department budget is subject to revision.

Preliminary Draft 2015 Utility Budget – The water and wastewater utilities receives no funding from property taxes so rates must fund all necessary investments in the water infrastructure. These investments allow the Town to expand, operate and maintain a reliable water system to meet the needs of current and future customers. Recently, Council adopted Water and

Wastewater Rate Adjustments which came into effect January 1, 2015. The main rate increase drivers which have been factored into the relevant 2015 budget submissions include:

- an 8% increase in Regional charges for the treatment and distribution of water and the collection and treatment of wastewater
- conservation measures and weather resulting in lower than anticipated revenues
- providing for an enhanced rate stabilization reserve as a means of reducing the effect of volatile revenue streams
- increasing costs related to additional flushing of the water system
- other general cost increases

The 2014 Development Charges update provides for additional funding of debt charged to the utility rate groups. The budget is recommending that the reallocated rates be used for an enhanced condition assessment program, as recommended by both the Capital Financing Sustainability Strategy and the Asset Management Plan.

Council Strategic Priorities – There has been one workshop scheduled to date with respect to Strategic Priorities and a second one is scheduled for March 30. Being a transition year and seeing that the Strategic Priorities sessions and the budgets are running a parallel process, Council priorities are typically staged with implementation over the 4-year term. However, it is possible that some priorities are included in the 2015 budgets as they meet growth demands or respond to community requests.

Referred to 2015 Budget Items – A companion report included on this Special Committee of the Whole Agenda (CAO/Commissioner's Report #2015-01) outlines items that Council, during the previous term, referred to the 2015 Budget process. The report sets out staff's approach and disposition to the items for Council's consideration.

Infrastructure Levy – The creation of the Asset Replacement Fund (ARF) in 1998 was an innovative step toward financial sustainability. Through the years however, economic pressures have prevented it from reaching a targeted balance. The Hemson report recommended that there be an annual tax increase of up to 1.8% to assist in ARF funding. Subsequently Council in 2013 considered options for phasing in funding to assist with ARF funding over the long term and implemented through a 2013 Supplementary Budget, a tax levy dedicated specifically to the program in the amount of 0.80%. In 2014, as part of the regular budget approval, an additional 0.74% was approved. These additional dedicated levies have provided a solid starting point for closing the estimated funding gap.

When Council directed that Staff work within a 2% to 2.5% tax levy target for the 2015 Budget, it excluded factoring into the target any dedicated infrastructure levy. Unless direction is given otherwise, **Staff recommend that Council consider a levy of 1% in order to continue this multi-year effort of addressing the infrastructure funding gap.**

Tax Increase Options for Consideration

Option 1 – a 2.2% tax increase would provide for the base budget as presented, including the recommended growth-related items. There would be no provision for service level enhancements.

Town only tax increase – Option 1

	TOWN	CYFS	LIBRARY	TOTAL
Base	2.04%	1.01%	0.13%	3.18%
Mandatory items		0.15%		0.15%
Growth revenues	(2.00)%			(2.00)%
Growth items	0.46%	0.41%		0.87%
SUBTOTAL	0.50%	1.57%	0.13%	2.20%
Enhancement items	0%	0%		0%
Infrastructure levy	1.00%			1.00%
TOTAL	1.50%	1.57%	0.13%	3.20%

The following items have been included in growth:

FIRE MASTER PLAN - Phase 1 (Newmarket's share)	\$ 206,871
Public Works Services department restructuring– Phase 1 water/wastewater – 2 FTE's (funded by water rates) facilities and roads – 2 FTE's, net cost	0 119,947
Building Department – 2 FTE's (funded by permit fees)	0
Additional sidewalk snowploughing route	16,320
VIVA corridor maintenance	30,000
Part-Time Green Space Development Coordinator (funded by developer fees)	0
Additional planner (funded from planning reserve)	0
Customer Services kiosk supervisor (offset by staff reductions)	0
Part-time procurement clerk made fulltime	38,000
Expansion of cellphone usage	21,600
Additional overtime for IT support	8,835
Realty Services Officer for Property (funded by DC's and staff reductions)	0
TOTAL	\$ 441,573

All-In tax increase – Option 1

	2014	2015	\$ CHANGE	% CHANGE
Town	\$1,592.83	\$1,643.80	\$50.97	3.20%
Region	1,679.76	1,730.15	50.39	3.00%
Municipal	3,272.59	3,373.95	101.36	3.10%
School Board	818.25	826.43	8.18	1.00%
TOTAL	\$4,090.84	\$4,200.38	\$109.54	2.68%

Based on an average house assessed at \$403,079 in 2014.

The Region is currently recommending a 3.79% tax increase, and the School Boards are expected to be targeting 0%. These numbers project the impact of tax shifting.

Option 2 – a 2.5% tax increase would provide for the base budget as presented, including the recommended growth-related items, and approximately \$151,000 in service level enhancements.

Town only tax increase – Option 2

	TOWN	CYFS	LIBRARY	TOTAL
Base	2.04%	1.01%	0.13%	3.18%
Mandatory items		0.15%		0.15%
Growth revenues	(2.00)%			(2.00)%
Growth items	0.46%	0.41%		0.87%
SUBTOTAL	0.50%	1.57%	0.13%	2.20%
Enhancement items	0.30%	0%		0.30%
Infrastructure levy	1.00%			1.00%
TOTAL	1.80%	1.57%	0.13%	3.50%

The growth-related items are the same as noted above.

Council direction is required on what enhancement items would be included.

All-In Tax Increase – Option 2

	2014	2015	\$ CHANGE	% CHANGE
Town	\$1,592.83	\$1,648.58	\$55.75	3.50%
Region	1,679.76	1,730.15	50.39	3.00%
Municipal	3,272.59	3,378.73	106.14	3.24%
School Board	818.25	826.43	8.18	1.00%
TOTAL	\$4,090.84	\$4,205.16	\$114.32	2.79%

Based on an average house assessed at \$403,079 in 2014.

The Region is currently recommending a 3.79% tax increase, and the School Boards are expected to be targeting 0%. These numbers project the impact of tax shifting.

Public Communication and Engagement Plan

Community engagement is one of the key focus areas expressed by Council, the community and Staff. The Community Survey results and the 2015 Budget Engagement results will help to inform the 2015 budget process.

The 2015 budget brochure was mailed out with the interim tax bills accompanied by the launch of the interactive on-line budget survey. Various advertisements have appeared on the Town Page, in the e-newsletter and via email blasts advising of the input opportunity. The survey is available on-line and has been taken out to the community at events, such as Winterfest.

Community survey highlights include:

- 95% of residents are satisfied living in Newmarket
- 4 out of 5 residents are satisfied with local municipal government
- 84% of residents felt they were receiving at least fair value for their tax dollars and user fees for Town services
- 4 out of 5 residents are satisfied with overall services provided by the Town, particularly in the quality of service delivery
- Residents want more engagement on budget and municipal services and programs

Next steps

It is anticipated that the final 2015 Budgets will be adopted by Council on April 20, 2015. Staff will continue to engage residents through the survey and will be reporting further on the budget survey results. It is important to note that staff continue to look for innovative service delivery alternatives and efficiencies as a means to reducing the cost of municipal services and positively impact the

value of those services to residents. This is accomplished through such initiatives as our N6 partnerships and our continuous improvement culture.

Upcoming dates:

Ongoing	Community engagement centering on the online interactive budget survey
March 2	Preliminary draft budget info available to the public and posted on the Town's website
March 3	JCC further deliberations on CYFS budget
March 23	Public meeting on the budget
April 13	Draft budget presented to CoW
April 20	Council approval of the budget

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

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

CONTACT

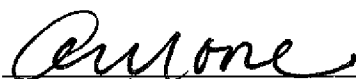
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Bob Shelton
Chief Administrative Officer



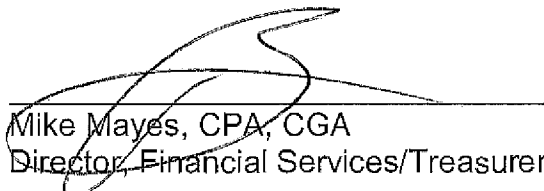
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