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Preliminary Draft Tax-Supported Operating Budget Staff Report to Council

Report Number: 2019-119

Department(s): Financial Services

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Meeting Date: November 11, 2019

Recommendations

1. That the report entitled 2020 Preliminary Draft Tax-Supported Operating Budgets dated November 11, 2019 be received; and,
2. That subject to any additional direction from Committee, that the proposed budget be incorporated into the Draft Budgets to be presented to Committee of the Whole on November 25, 2019.

Executive Summary

The proposed 2020 tax-supported budget includes Central York Fire Services (CYFS), the Newmarket Public Library Board (Library), and the Newmarket Downtown Business Improvement Area (BIA). It meets Council's target of a tax increase of less than 3%, while including a 1% infrastructure levy, and allocating growth revenues to growth expenditures. The service delivery review, REV It Up has not been factored into the 2020 budget.

Purpose

This report provides details for the previous report, *2020 Budget Process Update*, dated October 15, 2019. Along with reports [2019-108](#) and [2019-110](#) for rate-supported operations and capital, these preliminary draft budgets are the starting point for Council deliberation and will form the basis for the consolidated draft budgets to be presented to Committee of the Whole on November 25, 2019.

Background

The original Tax Target request was an increase of 3.90%

Finance Report 2019-42, 2020 Budget Process and Target originally recommended a tax levy increase target of 3.90% to reflect the cost drivers impacting the 2020 operating budget.

The main driver for the base budget continues to be inflation. The basic Consumer Price Index (CPI) is the common standard but it is not sufficient for the cost drivers experienced by municipal governments. The basket of goods used by a municipality varies significantly from those of an average household. To recognize this, an additional amount in the range of 0.25% to 0.50% was recommended to be added to CPI to make it an appropriate measure for municipalities. When the budget process started, the March CPI for Toronto indicated an annual increase of 2.00%. Therefore 2.50% was used as a starting point for the base budget.

The Infrastructure Levy is the change in the annual contributions to the tax-supported Asset Replacement Fund (ARF). The Capital Financing Sustainability Strategy recommended an annual increase in the tax-supported ARF contributions equal to a 1% tax increase.

\$240,000 in expenses are being carried forward from 2019. This is equivalent to a 0.40% tax increase and consists of:

- \$200,000 for the final phase-in of costs to deal with Bill 148, *A Plan for Fair Workplaces and Better Jobs*. The strategy was developed for the 2018 budget. \$280,000 had been budgeted in 2018 and \$200,000 in 2019.
- \$40,000 of the 2019 budget provision for increases to casual wages not related to Bill 148 was deferred to 2020.

The starting point for 2020 was a 3.90% tax increase.

Council's Target

On May 6, 2019 Council approved the budget process and targets as set out in Finance Report [2019-42](#), *2020 Budget Process and Target*, 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%.

This direction challenged staff to find cost reductions in the budget.

Target increase was allocated to budget components

For efficient and effective budget preparation, the budget is separated into components: capital and operations, operations are split between rate-supported and tax-supported, and then the tax-supported operations are further subdivided into components. Each of these components is given an appropriate share of the budget target.

Component	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%
Original recommendation	\$ 2,340,000	3.90%
Reductions	- 546,000	(0.91%)
Proposed tax increase	\$ 1,794,000	2.99%

The Town's Base Budget is 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) has an Asset Management Plan and 10-year financial outlook as the foundation for its annual budgets. A special Joint Council Committee (JCC) meeting was held on October 22, 2019 to review and make a recommendation on the 2020 budget. The Town of Aurora has not had an opportunity to comment on the budget yet.

The Library Board approved the Newmarket Public Library budget request on September 18, 2019.

Other Boards and Committees - There have been no budget requests from any of the boards or committees, including the Newmarket Downtown BIA.

Until the Mulock Farm property is made accessible to the public, the current budget of \$250,000 per year is sufficient. A minor housekeeping adjustment has been made to net the transfers to and from reserve funds.

Enhancements are the net cost of increases to service levels. No room was expected in the tax-supported budget for enhancements.

Growth includes the net cost to maintain the existing level of service for a growing community. It matches growth-related expenses with growth-related revenues, assessment growth. Assessment growth for 2020 has been projected to be 1.30% and has been matched against \$680,000 in growth-related expenditures.

The contributions to the tax-supported Asset Replacement Fund (ARF) align with the recommendation of the Capital Financing Sustainability Strategy. An annual increase in the tax-supported ARF contribution equals to a 1% tax increase. These funds will be used to fund the replacement of tangible capital assets when they reach the end of their useful life.

All goals were achieved

The tax-supported operating budget delivers on its goals:

1. A tax increase of less than 3%
 - A base budget increase of 1.99%
 - An infrastructure levy of 1.00%
2. \$546,000 in budget reductions were found
3. It does not include anticipated results or recommendations from the Service Delivery review - "REV It Up"
4. Assessment Growth Revenue of 1.3% has only been applied to growth-related expenditures

Discussion

\$546,000 in budget reductions is required for Council's target

The original tax levy increase request of 3.90% would have generated \$2,340,000 in new revenues. Council reduced with a target of less than 3%. The revised revenue increase is \$1,794,000; \$546,000 less.

\$575,000 of extraordinary items included in the budget

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

For 2020, the extraordinary items are:

Library books (replace DC funding)	\$ 125,000
Additional benefit plan costs	350,000
Reduction of Recreation stretch revenue target	100,000
Extraordinary items	\$ 575,000
Reductions required for Council's target	546,000
Consolidated reduction target	\$ 1,121,000

For Development Charge (DC) purposes, Library books can be pooled and treated as a capital asset. Some of the purchases can be attributed to meeting growth demands and had previously been funded by DC's. Funds may become even more limited with changes to the *DC Act*. Consequently, the tax-supported budget should cover this as an annual expense.

The major medical portion of the Town's benefit plan is expecting a 29% increase. The main reason for the increase is more extensive use of expensive specialty drugs. The total increase is \$420,000. \$350,000 represents the amount in excess of expected inflationary and growth increases.

In the 2019 budget, Recreation & Culture was given a stretch target of \$200,000 over and above their projected revenues. This is not a best practice to budget this way. After further review it now appears that some of this stretch target is achievable, it was only reduced by half - \$100,000.

\$1,121,000 in reductions were found

In the past, extraordinary items were accommodated by increasing the tax rate, reducing the ARF levy, or deferring recognition of the expense. None of these are sustainable practices and none were used for 2020.

2019 items carried forward and absorbed in the base budget	\$ 240,000
Reduction in Public Works Services budget	730,000
Shift in CYFS cost allocation	80,000
Partial funding of Library books from Growth	31,000
Various minor items	40,000
	\$ 1,121,000

The items carried forward from 2019 have been absorbed into the base budget. \$480,000 from prior years had been allocated to the most affected departments – Recreation & Culture, Parks, and Customer Service. From the full impact of \$680,000, the final phase-in of \$200,000 would have been allocated to the rest of the organization but as it has no major impact on any individual department, it has been worked into their base. Similarly, the \$40,000 for casual wages will be absorbed or possibly not even required due to lower casual wage trends.

As will be noted in the 3rd quarter budget report, Public Works Services expenses are substantially below budget. This has been the trend over the last two years. Waste Management and utility costs have been reduced as have contributions to a maintenance reserve. These reductions are reflected in the Service Bundles costs reported below. There are adequate reserves to manage the minimal risk.

A shift in the CYFS cost allocation will benefit Newmarket. The operating costs are split between Newmarket and Aurora by applying a formula which factors in population, assessment and call volume. Due to Aurora's higher rate of growth, Newmarket's share of the budget will decrease by \$80,000 in 2020.

The Library Board has recommended a \$49,000 growth allowance for the Library. As there is only one recommended request of \$18,000 against this provision, the remainder can be applied to Library Books.

Departments do not always require their full budget allocation. In addition, adjustments are made to preliminary estimates and allocations. These factors have resulted in a net savings of \$40,000.

These reductions have been found outside of the REV It Up program.

Additions to the base budget have been limited

Although funding for enhancements was not included in the budget allocations, lower inflation throughout 2019 has created some capacity for additions to the tax-supported base budget - \$221,000. These are detailed by Decision Packages in the appendices to this report.

Tax-supported Decision Packages are included as well. Some were recommended for deferral but are attached so that they could be considered in the overall context.

	Net tax impact	Net rate impact	Total
Mandatory	\$ 73,500		\$ 73,500
Maintenance	48,500	160,000	208,500
Necessary	\$ 122,000	\$ 160,000	\$282,000
Pending further review	99,000	22,000	121,000
Budget provision	\$ 221,000	\$ 182,000	\$ 403,000

Decision Packages are miniature business cases for initiatives that did not fit into a department's existing budget allocation. Requests for mandatory items are intended to address contractual, health & safety or similar concerns. Requests for maintenance items are for additional funds to maintain the existing level of service. These two categories are considered necessary to provide budget for.

The Operational Leadership Team made recommendations based on priorities, but those recommendations will be subject to further review by the Senior Leadership Team. It may be premature to move forward with some of the recommended decision packages until the REV It Up results are known. As such, provision has been made in the budget to fund these projects if they go forward and Council approval is required for any changes to the staffing complement to ensure alignment with the REV It Up results.

Any unspent portion of the provision would be for Council to consider. For example, any excess could be transferred to the Asset Replacement Fund or General Capital.

Growth revenue is applied to Growth expenditures

As has been the Town's practice, assessment growth revenues are applied to growth-related expenditures. This is a sustainable practice.

	Original	Revised
Fire Master Plan, 2020 allocation	\$ 293,000	\$ 207,000
Incremental growth in the base budget	80,000	68,000
Newmarket Public Library allocation	49,000	49,000
Operating costs for donated park	30,000	30,000
Operating costs for new capital	328,000	12,000
Capital and DC discounts		23,000
To be allocated to Decision Packages		391,000
Assessment Growth of 1.30%	\$ 780,000	\$ 780,000

CYFS's 10-year budget included an annual growth provision of 2% of its base budget. The 2020 allocation is for the last step in a 5 stage hiring plan for a 7th crew to staff the new fire station – 4 firefighters. At their last meeting, JCC approved reductions to the growth provision for 2020.

Incremental growth is costs that increase as the Town's population grows. It includes maintenance of roads and other infrastructure, waste management and telecommunications. The assessment growth rate (1.3%) is applied to these expenses. The original estimate was \$12,000 higher than required.

The Library has a request of \$18,000 for casual staffing for virtual services. The remaining \$31,000 is applied to Library Books no longer eligible for DC funding.

The Town will receive a donation of parkland in 2020. The operating costs to maintain this park is estimated to be \$30,000.

The recommended capital budget includes Active Transportation Implementation, a growth project with an annual operating cost of \$12,000.

Unallocated funds will be transferred to the Asset Replacement Fund or Growth Reserve and can be used for future capital purposes.

There is sufficient funding for the recommended growth decision packages detailed in the next section.

Additions to the growth budget have been limited

Decision Packages are submitted for the cost to maintain the current level of service for a growing population. The details are in the appendices to this report. They are summarized in the following table:

	Net tax impact	Net rate impact	Total\$
CYFS - per FMP	\$ 207,000		\$ 207,000
Library - mandatory	\$18,000		\$18,000
Library – replacing DC's	31,000		31,000
Library - total	\$ 49,000		\$ 49,000
Town - pending further review	\$ 391,000	\$ 268,000	\$ 659,000

All of the the Town's recommended decision packages are pending further review by the Senior Leadership Team once the results of the REV It Up project are available.

ARF levy is at the 1% goal

The contributions to the tax-supported ARF align with the recommendation of the Capital Financing Sustainability Strategy. An annual increase in the tax-supported ARF contribution equal to a 1% tax increase. These funds will be used to fund the replacement of tangible capital assets when they reach the end of their useful life.

As a new ARF Strategy is being developed, it is important to consistently make the necessary investments. An infrastructure levy of 1% would invest \$600,000 as follows:

ARF increase allocation	Town levy	Aurora's share	Total ARF increase
Parks and facilities	\$ 541,380		\$ 541,380
CYFS	58,620	41,380	100,000
	\$ 600,000	\$ 41,380	\$ 641,380

Parks and Facilities are the two areas in the tax-supported ARF that have deficit balances. Investment in the CYFS ARF is proportionately matched by the Town of Aurora.

REV It Up results will not be available for 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. The review by an independent consultant is being funded by a provincial government grant through the the Audit and Accountability Fund. A final report will be delivered by December 31, 2019.

The 2020 budget includes currently realizable budget reductions and does not factor in any recommendations from this review. Some new initiatives are being deferred pending an analysis of the results of the independent service delivery and efficiency review.

Property taxes will trend at 10% below GTA average

Comparing property taxes between municipalities can be challenging. There are many methodologies which can lead to inconsistency and confusion. The Town's practice has been to use the Municipal Levy per Capita as reported by BMA Consulting in their annual study of Ontario municipalities. To be consistent with single tier municipalities (cities such as Toronto) and those that have different splits of authority (e.g., waste management cost allocation between regional/county and local municipalities), the calculation includes both upper and lower tier taxation.

Newmarket's tax rates will continue to be competitive.

Year	Newmarket	GTA average	% below
2014	\$ 1215	\$ 1360	- 10.6 %
2015	\$ 1247	\$ 1377	- 9.4 %
2016	\$ 1277	\$ 1442	- 11.4 %
2017	\$ 1302	\$ 1464	- 11.1 %
2018	\$ 1359	\$ 1509	- 9.9 %
2019	\$ 1406	\$ 1557	- 9.7 %
2020	\$ 1448	\$ 1605	- 9.8 %

Italicized Figures are Projections

Monthly cost of services shows value to the taxpayer

Another way to look at the budget is to consider the cost of services. This allows the user /resident to compare what they pay to the value they receive. Costs are shown as a monthly amount – the basis for most home budgets.

Service bundle monthly cost	2019	2020	Increase
Fire & Emergency Services	\$ 44.71	\$ 46.56	\$ 1.85
Waste Management	9.98	9.66	- 0.32
By-law & Licensing Services	4.13	4.48	0.35
Roads, Bridges & Sidewalks	28.43	28.76	0.33
Planning & Development	11.24	11.63	0.39
Community Programs & Events	11.91	11.69	- 0.22
Facilities, Parks & Trails	46.13	48.00	1.87
Public Library Services	9.97	10.70	0.73
	\$ 166.50	\$ 171.48	\$ 4.98

Waste Management and Roads, Bridges & Sidewalks show some of the reductions in Public Works Services noted above. Community Programs & Events shows Recreation & Culture's diligent approach to planning and cost controls. These outcomes are consistent with our year-to-date results. The Community Survey results consistently demonstrate that Newmarket residents are very satisfied with the levels and quality of services they receive and the value they get from their tax dollars.

Budget Outlook shows need for further cost reductions

Looking forward, maintaining tax increases below 3% will require a continuing effort on cost reductions.

	2019	2020	2021	2022	2023
Inflation (CPI)	2.70%	2.00%	2.50%	2.50%	2.50%
Tax increase:					
- Base	2.95%	2.50%	2.75%	2.75%	2.75%
- Extraordinary	1.28%	0.40%	-	-	-
- ARF	0.75%	1.00%	1.00%	1.00%	1.00%
	4.98%	3.90%	3.75%	3.75%	3.75%
Reductions					
Tax %	2.03%	0.91%	0.77%	0.78%	0.76%
\$	\$1,727,000	\$550,000	\$475,000	\$500,000	\$500,000
Revised increase	2.95%	2.99%	2.98%	2.97%	2.99%

The province has announced that the Audit and Accountability Fund program will be extended for another 3 years to enable municipalities to implement cost efficient or reduction measures. Further grant applications will be necessary to access the extension program funds.

Conclusion

The 2020 tax-supported budget meets Council's target while including a 1.00% infrastructure levy, and restricting growth revenues to growth expenditures. The service delivery review, REV It Up has not been factored into the budget.

An overarching fiscal policy framework, comparable to that of York Region, is targeted to be presented to Council in May/June of 2020.

Upcoming dates:

- 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

This report links to Council's strategic priority of long-term financial sustainability by developing a multi-year operating and capital budget that aligns with the Budget Policies.

Consultation

The Treasurer issued guidelines for budget preparation. Members of the Senior and Operational Leadership Teams participated in the preparation of the budget.

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.

The Joint Council Committee (JCC) held a special meeting on October 22, 2019 to review and make a recommendation on the CYFS budget for 2020. The budget included requests for increases in the base, growth expenses and ARF contributions.

Human Resource Considerations

The tax-supported and rate-supported operating budgets do not include any recommendations for additional staff at this time.

The approach taken for the 2020 Budget is to limit additions to the budget and specifically to staffing levels until the outcomes and recommendations from the REV It Up service delivery review are received. Provision has been made in the budgets for the expense, but adjustment to the staffing complement will still require Council approval.

Budget Impact

A 2.99% tax levy increase would result in an increase in the Town's property taxes to the average residential property of \$59.74 or \$4.98 per month.

2019	2020	Increase \$	Increase %
\$ 1,998.04	\$ 2,057.78	\$ 59.74	2.99%

Newmarket's property tax rate is projected to remain competitive at 10% below the Greater Toronto Area (GTA) average.

Attachments

Appendix A: Decision Packages – Recommended/Pending

Appendix B: Decision Packages – Deferred

Approval

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