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## **2021 Budget Process and Target Staff Report to Council**

Report Number: 2020-35

Department(s): Financial Services

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

Meeting Date: May 19, 2020

### **Recommendations**

1. That the report entitled 2021 Budget Process and Target, dated May 19, 2020, be received; and,
2. That the proposed budget schedule with a target budget adoption date of December 14, 2020 be approved; and,
3. That endorsement be given to staff to proceed with preparation of the 2021 budgets employing the structure and targets as set out in this report; and,
4. That the form and timing of budget submissions for all entities accountable to Council be subject to the process outlined in this report; and,
5. That the proposed community engagement plan for the budget be adopted; and,
6. That the Treasurer be authorized and directed to do all things necessary to give effect to these recommendations.

### **Executive Summary**

The proposed process for the 2021 budget is the same as that of previous years. Some flexibility may be required to deal with the impact of the COVID-19 (pandemic, the resulting recovery period, and the implementation of the Fiscal Strategy (scheduled for presentation to Council in June).

## Purpose

The purpose of this report is to secure Council's approval of the schedule, process and initial targets for the 2021 budget.

## Background

### CURRENT PRACTICE

Since 2012, Council has set budget targets to limit the property tax levy increase. 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.

Starting with the 2017 budget process, the following principles have been applied in building the budget:

1. The budget is divided into segments based on:
  - Operations, capital or reserves
  - Major funding source – tax-supported, rate-supported
  - Governance – Town, Central York Fire Services (CYFS), Library, Downtown Business Improvement Area (BIA)
  - Relationship to service levels – base, growth, enhancements, extraordinary
2. The Toronto Consumer Price Index (CPI) for March is used as the starting point to set a target for the base budget. An additional 0.25% to 0.50% is added to convert this index for municipal purposes.
3. Service level enhancements and extraordinary items are not included in the base budget.
4. Growth revenues are only applied to growth expenses.
5. Requests for budget increases, both operating and capital, are documented as mini business cases on forms called Decision Packages, which include all relevant budgetary impacts.
6. Each budget segment must confine its expenditures to the available funding.
7. Wherever possible, budgets will be derived from Council-approved multi-year financial plans.

The 2020 budget introduced changes to capital budgeting:

1. The Capital Budget is approved funding for annual capital expenditures with the focus on the total amount. There are two capacity tests:
  - a. Operational – that the projects can be delivered
  - b. Financial – that funding is limited to availability of each individual source

2. The Capital Program is the list of projects contained within the Capital Budget. Changing circumstances can result in projects being reduced, deferred or cancelled and replaced by other projects.
3. The Capital Spending Authority is the total of all approved capital expenditures.

During the 2020 budget process, Council pre-approved \$12.7 million in capital expenditures for 2021.

- \$6.2 million to complete the construction of the new fire station
- \$4.8 million for the 2<sup>nd</sup> phase of the Advanced Metering project (smart water meters)
- \$1.7 million for the final amounts for 2 fire vehicles

## **Budget Structure**

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)
    - Newmarket Downtown Business Improvement Area (BIA)
    - 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

## **APPLICABLE LEGISLATION**

Section 290 of the *Municipal Act* stipulates that a local (lower tier) municipality must prepare and adopt a budget that provides estimates of expenses, including necessary provisions, and revenues, including the tax levy.

Multi-year budgets are addressed in Section 291. Budgets may be approved for up to five years (the current year plus four more), but are subject to annual review – this allows for a change in direction as may be in the case with a newly elected council.

The *Municipal Act* also requires that "... every board, commission or other body, other than an upper-tier municipality or school board, for which the municipality is required by law to levy a tax or provide money" submit a budget request to it by the date, and in the detail and form required by the municipality." For budget purposes, those entities that require council approval of their budgets are treated similar to municipal departments.

### **Newmarket Public Library (Library)**

The Library is governed by a management board and produces separate audited financial statements<sup>1</sup>. However, it is regulated by the *Public Libraries Act*, which in Section 24 requires the library board to prepare annual estimates (a budget) "... on or before the date and in the form specified by the council." Council is given the right to amend this budget.

The Newmarket Public Library Board will be recommending the budget that is submitted to Council.

### **Newmarket Downtown Business Improvement Area (BIA)**

The BIA is also governed by a management board and also produces separate audited financial statements<sup>2</sup>. However it is regulated by the *Municipal Act*, which in Section 208 requires the BIA to prepare an annual budget "... by the date and in the form required by the municipality." Council may then "... approve it in whole or in part but may not add expenditures to it."

The Board of Management of the Newmarket Downtown BIA should be recommending the budget that is submitted to Council.

### **Central York Fire Services (CYFS)**

Central York Fire Services (CYFS) is a partnership with the Town of Aurora and is managed by a Joint Council Committee (JCC) consisting of three council members from each town. The Consolidated Fire and Emergency Services Agreement between the Towns of Aurora and Newmarket sets out the budget requirements in Section 6, with further elaboration of financial principles in Appendix D.

The draft operating and capital budgets are prepared by JCC in consultation with the Fire Chief. The budgets will be presented to Aurora Council for comment. From there, the budgets will be distributed to Newmarket Council who "... shall have sole authority to determine and approve the budgets." In practice, the Fire Chief prepares the budget in consultation with Financial Services and presents it to JCC for review, revision and recommendation.

### **Committees**

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<sup>1</sup> Which are consolidated into the financial statements for the Corporation of the Town of Newmarket

<sup>2</sup> Which are consolidated into the financial statements for the Corporation of the Town of Newmarket

Any budget requests related to Town committees are referred to the appropriate department for consideration in their overall departmental budget.

## **Discussion**

### **BUDGET SCHEDULE**

Appendix A includes a proposed schedule for the 2021 budget process. Please note that the schedule for the Town for the latter part of the year is subject to change.

Some of the key dates are:

- **October 5** – the preliminary draft budgets will be presented to Committee of the Whole. This will be the first look at the operating and capital budgets.
- **October TBD** – Special Committee of the Whole meetings dedicated to review the capital and rate-supported operating budgets.
- **November TBD** – Special Committee of the Whole meetings dedicated to review the tax-supported operating budget.
- **December 14** – this is the target date for approval of the 2021 budget. Council may wish to extend this time for further deliberations.

The meetings have been spaced farther apart to allow more time for preparation of reports and presentations so that they can be distributed in advance of the upcoming meetings.

Early budget adoption has advantages as follows:

- Tenders can be prepared and processed earlier in order to avoid potential cost increases that could be experienced in a later, busier, and more competitive environment.
- Facilitates better coordination with adjustments to fees and charges.
- Provides a full year of impact for any budget changes.
- Flexibility is available to extend the process, if required.

### **OTHER BUDGET CONSIDERATIONS**

There are a number of new factors that need to be considered for the 2021 budget. Council may wish to delay the budget process because of these. For instance, because of COVID-19, the Regional Municipality of York is adding 2 months on to its budget schedule. It is recommended that Newmarket Council not take this option at this time. The process is robust enough that staff, if allowed some flexibility, could start the process. This approach seems to be consistent with other local municipalities in York Region.

### **Impact of the COVID-19 Pandemic**

The COVID-19 pandemic is expected to significantly impact residents and businesses. The length of the pandemic and duration of restrictions are currently unknown. Also, it is uncertain how long it will take to recover to previous levels of economic activity and what steps may need to be taken.

The March 31 Financial Update, Report 2020-XX detailed some of the financial impact of the COVID-19 emergency in our projected 2020 results. The deficit and use of reserve funds, only estimates at this time, may challenge the 2021 budget.

Other issues to be considered in the 2021 budget are:

- Revenues may not immediately return to pre-pandemic levels. Until a vaccine is found and the community feels safe, economic activity may lag. This could include Assessment Growth.
- Mitigation measures, introduced in 2020, may be extended or enhanced.
- Some of the Financial Relief Program may be extended to 2021.
- Support may be provided for local businesses.
- The Provincial and/or Federal governments may provide stimulus funding to accelerate our capital plans.

## **Fiscal Strategy**

The Fiscal Strategy is a long-term plan, which includes an update of the capital financing sustainability strategy, an asset replacement fund (ARF) strategy, a review of our investment and debt practices, and the development of a formal budget policy. This new initiative is scheduled to be presented to Council in June.

It may introduce some changes that can be implemented for the 2021 budget. The process would be adjusted accordingly,

## **REV It UP**

At the Special Council meeting of April 27, 2020 an update was provided of the service delivery review – REV It Up. An update was provided on the 13 projects that are being undertaken, 7 of which have already been initiated.

These projects will be included in the 2021 budget: some will require some investment, some will start to realize savings. The budget will show them as a separate item.

## **TAX-SUPPORTED OPERATING BUDGETS**

The net costs to maintain infrastructure and provide services are included in the operating budgets.

**For the tax-supported base budget, a tax increase of 1.99% is recommended**

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, Library and BIA. The Town's budget covers all of the other municipal services, including the internal support services. The tax-supported component is the part of the budget that usually gets the most public attention.

The March increase in the Toronto Consumer Price Index (CPI) is, on average, a good predictor of what the September and year-end increases might be. This year the March Toronto CPI only increased 0.43% due to the pandemic and lower oil prices. If we move into a recession, it is possible that we may even see deflation. However, a 1.99% increase is still recommended as a provision for the pandemic and recovery.

For 2021, a 1% tax increase will generate property tax revenues of approximately \$625,000.

### **Central York Fire Services' (CYFS) 10-year financial plan projects a \$439,000 increase in Newmarket's share of the base budget**

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 are the starting point for CYFS's 2021 budget.

For 2021 the outlook includes a \$1.3 million increase (4.61%) in the operating budget. Newmarket's share would be \$784,000, which consists of:

- \$363,000 for the base
- \$302,000 for growth
- \$119,000 for the Asset Replacement Fund (ARF) – the 3<sup>rd</sup> of 4 annual increases per the CYFS Asset Management Plan (AMP)

There may be a shift to increase the allocation of funding from the Town of Aurora, but it is too early to project and it is not expected to be as significant.

### **An inflationary increase for the Newmarket Public Library would be \$17,000**

The 2019 budget for the municipal grant to the Library was \$3.33 million. The Newmarket Public Library Board has adopted a multi-year budget target of inflation plus a growth factor of 1.5%. This 2.0% increase would be \$67,000; \$17,000 for the base budget and \$51,000 for growth.

### **Changes to the BIA's levy do not directly affect the Town's budget**

The Newmarket Downtown BIA currently levies \$30,000 on its members. This amount has been unchanged since 2011. Its expenses are paid from this levy. Any surplus or deficit is transferred to/from its dedicated reserve. As a result, the BIA budget has no

impact on the Town’s budget; however, the BIA does require the Town’s approval of its BIA budget.

**There should be no provision for service level enhancements in the 2021 budget**

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

With all of the other budget challenges, it is recommended that there be no allowance in the tax-supported base budget for enhancements. Exceptions may be made to directly implement Council priorities or to invest in REV It Up initiatives.

**Assessment growth revenues will be applied against growth expenditures**

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 assessment growth – incremental property taxation revenue generated from new construction. Growth-related expenses are the incremental expenses necessary to maintain service levels for a growing population.

The Town uses 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 2021 had been previously projected to be 1.30%<sup>3</sup>. To be conservative 0.65% or \$406,000. The following is the initial proposed allocation of tax-supported growth revenue:

<b>Assessment growth at 0.65%</b>	<b>\$ 406,000</b>
Expenses:	
Fire Master Plan – 2020 allocation	\$ 302,000
Incremental growth (costs that increase as the Town’s population grows, including supplies and contracted services for the maintenance of roads and other infrastructure, waste management and telecommunications)	\$ 50,000
Newmarket Public Library – growth provision	\$ 51,000
<b>Expense total</b>	<b>\$ 403,000</b>
<b>Unallocated revenue</b>	<b>\$ 3,000</b>

<sup>3</sup> Updated to reflect the work done for the 2019 Development Charges Background Study.

The amount for incremental growth is an estimate. The actual amount will be calculated and presented as part of the Preliminary Draft Budget.

The unallocated portion is available for:

- Supporting the growth-related capital program, i.e. the funding portion not covered by Development Charges (DC's)
- New growth-related operating expenses not directly related to capital, as supported by Decision Package requests
- Council Strategic Priorities, if growth-related
- Future uses, by transferring to a reserve

The preliminary draft budget will provide a comprehensive recommendation.

### **An infrastructure levy of \$625,000 increase in ARF contributions**

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 contribution equal to a 1% tax increase. The goal is being updated as part of the Fiscal Strategy – this is a recommended as a starting point.

For 2021, a 1% increase equates to \$625,000. CYFS, supported by its 10-year financial plan and asset management plan, has requested \$119,000 of this.

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

### **There are two potential new extraordinary items for 2021**

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 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.

At the time of writing, there are two possible extraordinary items:

1. An increase in annual insurance premiums of \$250,000
2. Provision for the scheduled market review of salaries and benefits – the impact to be determined

There may be flexibility to include these items in the base budget if sufficient efficiencies can be found.

The impact of the pandemic and recovery have not been factored into the base budget.

## The starting point for 2021 is a 2.99% tax increase

Summarizing the targets noted above:

<b>Tax-supported operating budget</b>	<b>Net increase in \$</b>	<b>% Tax increase</b>
- Town	\$ 864,000	1.38%
- CYFS	363,000	0.58%
- Library	17,000	0.03%
- Enhancements	-	-
- Growth, net	-	-
<b>subtotal</b>	<b>\$ 1,244,000</b>	<b>1.99%</b>
- ARF	625,000	1.00%
<b>Total</b>	<b>\$ 1,869,000</b>	<b>2.99%</b>

## Newmarket's tax rates continue to be competitive

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.

Appendix B compares Newmarket's per capita tax levy to the average for the Greater Toronto Area (GTA). Newmarket is approximately 10% below the Greater Toronto Area (GTA) average.

## RATE-SUPPORTED OPERATING BUDGETS

### Rate-supported financial plans will be updated later this year

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. These plans will be updated in September and will be the foundation for 2021 budget requests.

## **Water and Wastewater rates moving towards the York Region average**

Appendix C shows how Newmarket's combined water and wastewater rates<sup>4</sup> compare to the York Region average. This trend should continue for the next few years. Installing smart meters and leveraging substantial reserves should result in rates being at the Region average during this term of Council.

The 6-year financial plan will be updated based on the Fiscal Strategy and rate changes due to the Financial Relief Program. They will be extended to 10 years.

## **Stormwater rates continues to be challenged to fund capital**

The Stormwater Rate Group has had significant increases in operating costs due to regulatory changes and needs to revise its capital plan. To address these issues, the 6-year financial plan will be updated based on the Fiscal Strategy and will be extended to 10 years.

## **Building permit fees will continue to fund the Building Department**

Building permit fees cannot be used to subsidize the tax-supported budget. Consequently revenues earned in excess of expenditure needs have been transferred to a dedicated reserve fund. The reserve fund is now within the target range and needs to be reviewed for sustainability.

## **CAPITAL BUDGET**

### **The capital budget remains within the available funding envelope**

This establishes the financial capacity.

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 sources. The capital requests will be subject to the availability of funding.

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<sup>4</sup> Commonly referred to as just the 'water rate' including the wastewater portion.

The funding envelopes are defined as shown in the table referenced below, with the following clarifications:

Capital category	Main funding source	Availability of funding
Replacement	Asset Replacement Fund (ARF)	Limited to the allocated portion of the Asset Replacement Funds
Growth	Development Charges (DC's)	Subject to inclusion in the 2019 Development Charges Background Study, and having sufficient funding for the non-growth or exempt portion, if any <sup>5</sup>
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 <sup>6</sup>

Usually, approximately 55% to 65% of new capital requests are in the Replacement category and approximately 35% are Growth. The requests are funded 45% to 60% from ARF and 20% to 35% from DC's.

**The capital budget should be set at \$32.7 million**

This sets the operational capacity.

This would consist of:

- \$12.7 million for capital expenditures approved with the 2020 capital budget and allocated to 2021 (fire station, smart meter project and fire vehicles). These projects would require minimal effort from dedicated capital project staff.
- \$20 million for new projects, split between:
  - \$15 million for a specified capital program
  - \$5 million (25%) allowance to be allocated later.

\$20 million has proven to be a reasonable delivery target for new projects based on our current experience.

There are two reasons for the 25% provision, both based on our experience with capital expenditures in 2020. Firstly, as we have eliminated capital carry-overs, it allows for projects that are expected to be completed by year-end but still have some expenses in

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<sup>5</sup> 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. Assessment growth revenue may be used to fund the shortfall.

<sup>6</sup> \$100,000 was allocated from the 2018 tax-supported operating budget surplus for this purpose.

the following year. It is a degree of tolerance for estimation errors to include these residuals.

The second reason is to allow flexibility for new projects into the program as the year progresses. This may be due to unforeseen opportunities, changing priorities, or to provide for projects that become shovel-ready during the year.

Requests to use the allowance would be reported, with details of capital expenditures on a quarterly basis. Requests for new capital projects will continue to be documented in Decision Package forms.

## **RESERVE AND RESERVE FUND BUDGETS**

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.

## **Conclusion**

Staff will start preparing their 2021 budgets requests based upon the process and targets set by Council as outlined in this report. The goal is to present the preliminary draft budgets on October 5, 2020 and to approve the budget before the end of the year.

The first phase of the Community Engagement process will begin in June.

Interim appropriations should not be required for 2021, if the budget is adopted on December 15, 2020 as per the proposed schedule.

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

This process is supportive of Long-Term Financial Sustainability and furthers all of Council's Priorities under that pillar:

1. Ongoing community engagement
  - Conduct ongoing public engagement related to financial planning
2. Develop a multi-year operating and capital budget that aligns with budget policies
  - Develop a comprehensive budget policy
3. Ensure ongoing continuous improvement
  - Advance REV It Up recommendations
4. Complete Asset Management Plans
  - Update the capital financing sustainability strategy

## **Consultation**

These recommendations are the product of lessons learned from 2020 and previous budget experiences. They include recommendations that have been reviewed by the Strategic Leadership Team (SLT) and the Operational Leadership Team (OLT).

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

## **Public Engagement for the 2021 Budget**

Public engagement for the 2021 budget will continue to build on the success of previous year's virtual/online engagement. As always, community engagement will be very important in helping to shape the 2021 budget. The Town will continue to utilize traditional communications tools and tactics (Town page advertisements, media releases, website updates, e-newsletters and more), while also seeking out new and creative ways to engage and interact with the community virtually. This could include a budget-themed Facebook Live event, virtual 'drop-ins' for the community, and further interactive elements on Hey Newmarket, the Town's online engagement platform.

The communications department will be preparing a detailed communications plan, with community engagement beginning over the summer in advance of the preliminary draft budget (October). This will include a budget tool kit for Council with suggestions for how to further engage the community online.

## **Human Resource Considerations**

Not applicable to this report.

## **Budget Impact**

This report sets out the process for developing the 2021 operating and capital budgets.

The tax-supported budget starts with a 2.99% tax increase. Targets for the rate-supported budgets are deferred to September - the approval of their updated financial plans. The capital budget will be within its available funding envelope which has not been defined yet.

## **Attachments**

Appendix A – Proposed Schedule for the 2021 Budget

Appendix B - Newmarket's per capita tax levy remains below GTA average

Appendix C - Newmarket's Water rates compared to Regional average

## **Approval**

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

Esther Armchuk, LL.B  
Commissioner, Corporate Services

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