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2021 Preliminary Draft Budget Staff Report to Council

Report Number: 2020-71

Department(s): Financial Services

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

Meeting Date: October 5, 2020

Recommendations

1. That the report entitled 2021 Preliminary Draft Operating and Capital Budgets dated October 5, 2020 be received; and,
2. That subject to any further direction, staff be authorized to provide the public with details of the Preliminary Draft 2021 Tax-supported, Rate-supported Operating and Capital Budgets.

Executive Summary

The Tax-supported Budget endeavors to maintain existing service levels for the Town's existing population (base budget) and future population (growth). The preliminary draft budget proposes a 2.99% tax increase which equates to approximately \$64.79 for the average residential property. Reduction options are presented for Council to consider and a Special Committee of the Whole meeting is scheduled for November 9 for deliberation of the Tax-supported Operating Budget.

The Rate-supported Operating Budgets – water, wastewater and stormwater - have restricted funding envelopes derived from the funding structure established in the Council approved multi-year financial plans. The projected increase is 4% for water and wastewater combined, and 10.2% for stormwater. For the average residence, this is \$49.44 and \$4.28 respectively. A Special Committee of the Whole meeting is scheduled for October 19 for deliberation of the Rate-supported Operating Budgets.

The Capital Budget includes \$37.2 million in expenditures for our infrastructure. A Special Committee of the Whole meeting is scheduled for October 19 for deliberation of the Capital Budget.

Purpose

The purpose of this report is to provide details on the decisions made in preparing the Preliminary Draft 2021 Tax-supported, Rate-supported Operating and Capital Budgets; to obtain Council's authorization to provide the budget details to the public; and to facilitate discussions to achieve the goals set by Council.

Background

As is the Town's practice, the Preliminary 2021 Draft Tax-supported, Rate-supported and Capital Budgets are the first drafts being presented as starting points for community consultation and Council consideration. Upon formal receipt of this report, subject to any further direction by Committee, the preliminary draft budgets and options will be provided to the public for comment.

The preliminary draft budgets were prepared by each department and were subject to review by the Senior Leadership Team (SLT) in consultation with the Operational Leadership Team (OLT). Through this process, items were discussed and prioritized with some being deferred.

Staff continued to pursue cost efficiencies and to maximize non-tax revenue sources to provide, where possible, a fiscally responsible budget that strikes a balance between affordable property taxes and maintaining current service levels.

Council approved the budget process, schedule and targets

Council was presented with the proposed schedule, process and targets for the 2021 budget at a [Special Council Meeting – Electronic on May 19, 2020](#). The following is an excerpt from the adopted motion:

That endorsement be given to staff to proceed with preparation of the 2021 budgets employing the structure and targets as amended, with options for reductions around Asset Replacement Fund contributions and Consumer Price Index as decision points for Council and a tax levy increase target of 2.99% consisting of:

- a. 0.99% base rate;
- b. 1.00% COVID-19 related contingencies;
- c. 1.00% Asset Replacement Fund contributions

Additional information on the budget process and target; and applicable legislation can be found in [Financial Services Report 2020-35, 2021 Budget Process and Target](#), which was presented to Council on May 19, 2020.

Budgeting in a COVID-19 world

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.

As noted in the [Financial Services Report - Financial Update regarding COVID-19](#), based on what we currently know, the 2020 tax-supported budget appears to be manageable and unless there is a significant change in circumstances, no direct budget impact on the 2021 operating budget is anticipated. The 2021 budget does not include a tax levy increase for carrying over a deficit from 2020.

Although there may be no direct budget impact on the 2021 operating budget, the pandemic does have an indirect impact:

- Restricted delivery of the 2020 capital program
 - It is recommended that the provision in the capital be increased to recognize the carryover
- Uncertainty about when and how hard a second wave will be, and what the “new normal” will look like
 - Council has directed a 1% Tax Levy for a COVID contingency
- Slower economy
 - Inflation is assumed to be in the 0% to 1% range
 - Growth has been reduced to 0.65% - half of what we would normally expect

Budget preparation guidelines were set to meet the 2021 budget challenge

In addition to dealing with the indirect influence of COVID-19, budget preparation had other challenges.

The Tax-Supported Operating Budget had to deal with creating provisions for uncertainty, and the economic environment. Guidelines for budget preparation included:

- No increases in fees and charges for ancillary revenues - this affected all non-tax revenues other than water, wastewater and stormwater rates

- Base budgets were reduced by \$508,000
- REV It Up initiatives were accounted for separately

As in prior years, Decision Packages, which are like mini-business plans, were prepared for any staffing requests or any requests of additional funding such as service level enhancements. They were also prepared for capital requests. The list of new items recommended for approval are attached in the appendices.

The CYFS budget has not yet been reviewed or recommended by JCC

The Newmarket / Aurora Joint Council Committee met on September 1, 2020 and were presented with [Report JCC-2020-06, CYFS Draft 2021 Operating and Capital Budget](#).

Although JCC will not be reviewing the above referenced report and making a recommendation on the budget until their Special Budget meeting on October 13, the details contained in that report have been included in the Preliminary Draft Budget.

Discussion

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THE TAX-SUPPORTED OPERATING BUDGET IS \$91 MILLION

The Tax-supported Operating Budget is \$91 million, allocated according to governance, and consists of the following:

	Town	CYFS	Library	Total
	In \$ millions			
Expenses	\$ 62.1	\$ 17.2	\$ 3.4	\$ 82.7
Reserve transfers	6.5	1.5	0.3	8.3
	\$ 68.6	\$ 18.7	\$ 3.7	\$ 91.0
Non-tax revenues	- 22.2	- 0.4	- 0.4	- 23.0
Tax levy	\$ 46.4	\$ 18.3	\$ 3.3	\$ 68.0

The tax levy funds 73% of these budgets. Non-tax, or ancillary revenues, fund the remainder.

Reserve transfers are the net of transfers to and from reserves and reserve funds, and include direct transfers to the Capital budget. The largest component of these transfers is contributions to the Asset Replacement Fund (ARF) - \$5.8 million.

The requested increase has been allocated as follows:

	Base	Growth	ARF	Total
Town	\$ 306,750	\$ 233,000	\$ 566,000	\$ 1,105,750
CYFS *	312,000	151,000	59,000	522,000
Library		22,000		22,000
BIA (net)	0			0
COVID	625,000			625,000
Total	\$1,243,750	\$ 406,000	\$ 625,000	\$ 2,274,750

* Subject to change – JCC review will be October 13

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

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 the Central York Fire Services (CYFS), the Town of Newmarket Public Library Board (Library) and the Town of Newmarket Main Street District BIA (BIA). The Town's budget covers all of the other municipal services, including the internal support services.

Growth 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.

Savings of \$544,000 were found in the Town portion of the base budget

The budget preparation guidelines included reducing the base budget by \$508,000. \$544,000 in efficiencies were found – 7% more than required. The additional amount was applied to Decision Packages – the recommended list is in Appendix A.

Extraordinary items have been managed within the base budget

Extraordinary items are new regulatory requirements or substantial increases beyond normal inflation in the cost of goods and services. The practice has been to only include items that exceed normal inflationary or growth increases by \$100,000. For 2021, there were two candidates.

1. There will be an increase in annual insurance premiums of \$255,000. This amount has been refined from the original estimate and is still expected. Sufficient efficiencies in the base budget were found to offset this cost.
2. Provision for the scheduled market review of salaries and benefits. This has been deferred a year – [Financial Services Report 2020-62, Financial Update](#).

Assessment growth revenues will be applied against growth expenditures

Assessment growth for 2021 of 0.65% (\$406,000) appears to be achievable. The following is the revised allocation of tax-supported growth revenue:

Allocations	
CYFS	\$ 151,000
Library	22,000
Incremental growth	50,000
2021 capital – operating expenses	67,500
Available for Decision Packages	115,500
Assessment growth	\$ 406,000

The allocations to CYFS and the Library have been adjusted to align with the lower rate of growth. The CYFS allocation was cut in half. The Library was reduced from 1.5% to 0.65% of its municipal grant. As a result, funds were available for other purposes.

The operating impact of 2021 capital projects is based on the current capital requests.

There is now funding for Decision Packages – see Appendix B for the proposed list.

Newmarket's share of the CYFS budget increase was reduced by \$262,000

The approved 10-year plan for Central York Fire Services included a \$1.3 million increase (4.61%) in the operating budget outlook for 2021. Newmarket's share would have been \$784,000.

The increase has been reduced to \$522,000.

Budget component	2021 outlook		Revised budget		Newmarket savings
	Total increase	Newmarket's share	Total increase	Newmarket's share	
Base	\$ 616,000	\$ 363,000	\$ 525,000	\$ 312,000	\$ 51,000
Growth	513,000	302,000	258,000	151,000	151,000

ARF	200,000	119,000	100,000	59,000	60,000
	\$ 1,329,000	\$ 784,000	\$ 883,000	\$ 522,000	\$ 262,000

The decrease is to comply with the direction for overall budget reductions, a lower growth rate, and decreased capital replacement requirements.

In addition to its share of the \$522,000 reduction in the CYFS budget, Newmarket also benefited from a shift in the cost allocation with Aurora. Newmarket's share decreased to 58.58% and Aurora's share increased to 41.42% - the 0.04% change results in a savings of \$12,000.

The Joint Council Committee (JCC) will be meeting on October 13 to review and make a recommendation on the CYFS budget.

The Library budget increase has been reduced by \$46,000

The original 2021 budget outlook for the Newmarket Public Library's budget included an increase of \$68,000. This has been reduced to \$22,000.

Budget Component	Original outlook	Revised Budget	Reduction
Base	\$ 17,000	\$ 0	\$ 17,000
Growth	51,000	22,000	29,000
	\$ 68,000	\$ 22,000	\$ 46,000

The Newmarket Public Library Board met on June 17 and September 16. To meet the budget targets, some of their recommendations have not been included in the Preliminary Draft Budget:

The BIA budget does not impact the overall tax levy

The Newmarket Main Street District BIA currently levies \$30,000 to its members. This amount has been unchanged since 2011. Their expenses are paid from this levy. Any surplus or deficit is transferred to/from the dedicated reserve. As a result, the BIA budget has no impact on the Town's budget; however, the BIA does require Council's approval of its budget.

Continuing REV It Up activity does not have a budget impact

At the [Special Council meeting of April 27, 2020 \(Item 4.7\)](#) an update was provided for 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.

Neither the expected savings nor potential investments have been factored into the 2021 budget; they were not used to meet budget reduction targets.

Some programs could generate additional revenues. For the Town, this includes Administrative Monetary Penalty System (AMPS) and Licensing Transportation Network Companies (TNCs). Consideration will be given to setting a target at the Special Committee of the Whole meeting scheduled for November 9. The Fiscal Strategy will help inform how these may be applied.

Central Fire Services wants to expand its cost recovery program. Sufficient revenues to offset the related expenses have been included in the budget, but no additional net revenue has been recognized. A recommendation on this will be provided by the Joint Council Committee (JCC).

The Fiscal Strategy is starting to influence the budget

A [Council Workshop was held on September 28](#) to review the analysis and recommendations of the Fiscal Strategy. Although the staff report will not be presented until November 9, some of the recommendations have been incorporated into the 2021 budget.

- Transfer of investment returns from the reserve fund has been eliminated - \$65,000
- Early Development Charges (DC) update and development of a Community Benefit Charge (CBC) - \$100,000 has been allowed for in the Capital Budget (GG1)
- Rate-Supported Financial Plans timelines have moved from 6 to 10 years

In addition, the Strategy confirms some of the Town's current budget and financial practices.

Council has asked for options to reduce the tax increase

Council's endorsement of the 2021 budget target included direction to staff to provide "options for reductions around Asset Replacement Fund contributions and Consumer Price Index ..."

Three potential areas for further budget reductions have been identified:

1. Asset Replacement Fund (ARF)
 - Consistent with a 1% increase in the contributions to the Asset Replacement Fund is the target for 2021. In prior years this has been reduced to lower the tax increase
 - Risk – This is contrary to the recommendations of the Fiscal Strategy and creates additional tax pressure in the future
2. Base Budget
 - The 0.99% levy increase for the Base Budget was built on the assumption of a 0.43% rate. Inflation is currently lower
 - Risk – The decrease in the inflation rate is temporary and rates will start to return to the usual 2.3% range
3. COVID-19 contingency
 - While the 1% levy is prudent it does not have any specific tangible application assigned to it
 - Risks – There is uncertainty about the extent, timing and cost of the second wave, and recovery measures, which may be substantial

These options can be investigated further at the Special Budget Committee of the Whole meeting on November 9. At that time, there should be more information for the discussion.

RATE-SUPPORTED FINANCIAL PLANS ARE BEING UPDATED

The Water, Wastewater and Stormwater financial plans are still in development. The current plans were adopted by Council on June 26, 2017 and although they do not need to be updated, it would be prudent to do so. Water and Wastewater has started undertaking the AMI (Smart Meter) project, which will significantly alter operations. Stormwater is facing challenges not contemplated in its original financial plan.

These plans will be presented at the Special Budget Committee of the Whole meeting on October 19. At this time, it is expected that the 2021 budget will align with the current 6-years plans and include a 4% increase to the combined Water / Wastewater rate and a 10.2% increase to Stormwater.

Appendix C lists the Decision Packages recommended for inclusion in the Rate-Supported Budgets.

THE CAPITAL BUDGET IS EVOLVING AND HAS A NUMBER OF COMPONENTS

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 focus is on maximizing delivery and eliminating capital carryovers

	Original target	Revised
Program	\$ 15.0 million	\$ 13.7 million
Provision unallocated allocated	\$ 5.0 million	\$ 3.1 million \$ 3.2 million
“Normal” spend	\$ 20.0 million	\$ 20.0 million
Major items	\$ 12.7 million	\$ 17.2 million
Total	\$ 32.7 million	\$ 37.2 million

“Normal” spend is the amount that the Town can reasonably expect to deliver in a year based on past experience. This is the test of operational capacity. It recognizes that there is a limit on what dedicated capital project staff in Engineering, Public Works and Procurement can reasonably manage in a year. This is segregated into two sections:

- Program is the listing of new items be added
- Provision is an amount set aside for projects deferred from 2020 and the inclusion of new priorities that may arise during the year
 - The original provision of \$5 million has been increased to \$6.3 million to accommodate deferrals from the [Financial Update Report 2020-62](#).

Major items require minimal effort from dedicated capital project staff. They either use other staff (such as Fire Station 4-5 being managed by Aurora staff) or have a very high expenditure to staff effort ratio (such as the Advanced Metering project). These projects do not impede delivery of the capital program.

The Capital Budget fits within our financial capacity

Capital expenditures deferred from 2020 have already had funding allocated to them.

There is sufficient funding for new projects, noted below:

	ARF	DC	General	Other	Total
	(in \$ millions)				
Mandatory	\$ 2.4	\$ 0.1	\$ 0.0	\$ 0.2	\$ 2.7
Replacement	4.6	1.2	0.1	2.5	8.4
Growth	0.0	2.4	0.0	0.2	2.6
	\$ 7.0	\$ 3.7	\$ 0.1	\$ 2.9	\$ 13.7

The Asset Replacement Fund (ARF) is the primary funding source (51%) with Development Charges (DC) in second place (27%). Other includes \$2.5 million from the 2021 Federal Gas Tax allocation.

Appendix D includes the listing of new projects added to the capital budget. It includes the \$13.7 million from the table above and \$917,727 in additional funding for Fire Station 4-5 – which is classified as a major item.

Within the new projects are two that have been pre-approved. They are included so as to give formal budget approval to them. The projects are:

- Additional funding for Fire Station 4-5, \$917,727 (CYFS8)
 - Approved by [JCC on November 26, 2019 \(Item 4.1\)](#)
 - Received without comment by [Newmarket Council on February 10, 2020 \(Item 9.3.11\)](#)
- Old Fire Hall renovations, \$300,000 (FAC8)
 - Part of lease agreement with new tenant

Appendix E is the listing of \$6.7 million in projects deferred from 2020 to 2021, of which \$3.5 million for the Advanced Meter project is classified as a major item.

Conclusion

Upcoming dates:

- October 13 – Special JCC meeting to review the CYFS budget
- October 19 – Special Committee of the Whole meeting dedicated to review the Capital and Rate-supported Operating Budgets, and the Rate-supported Financial Plans
- November 9 – Special Committee of the Whole meeting dedicated to review the Tax-supported Operating Budget and the Fiscal Strategy
- December 7 – Committee of the Whole - Presentation of the Draft Budgets and remaining Fees & Charges for approval

- December 14 – this is the target date for approval of the 2021 budget and remaining fees & charges

Council may choose to extend this time for further deliberations.

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

Reserve and Reserve Fund Budgets

Contributions to and from Reserve Funds are derived from the Operating and Capital Budgets. After they have been approved, the Reserves and Reserve Funds Budget can be compiled.

Business Plan and Strategic Plan Linkages

This 2021 Budget is supportive of Long-Term Financial Sustainability and furthers all of Council's Priorities under that pillar:

1. Ongoing community education and engagement
 - Conduct ongoing public education and 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).

As a further refinement to the process this year, the Asset Management Team reviewed the Decision Packages – capital and operating – to ensure consistency in application of ratings. This is the first step towards ensuring alignment with Asset Management Plans, which are under development.

Communications

The 2021 budget communications will focus on using a simpler, more graphic-based approach to public education and engagement. This will include new and creative ways for interacting with the community virtually via a budget-themed Facebook Live event, Hey Newmarket virtual engagement, expanded website and social media presence and more.

As part of the communications plan for the 2021 budget, following budget approval, staff will produce a budget-focused publication highlighting town services and what the community is getting for their tax dollars.

Human Resource Considerations

The preliminary draft budgets include adding 5.1 full time equivalent (FTE's) positions to the staffing complement. These are new staff:

- 2 additional firefighters for Central York Fire Services (2 FTE - CYFS6). This is in anticipation of the findings of the next Fire Master Plan. This has not yet been reviewed or recommended by JCC, who will be meeting on October 13 to review the CYFS budget.
- Convert the Fleet Administrative contract position to permanent full-time (1 FTE – ROAD1).
- Convert the Health & Safety Specialist contract position to permanent full-time (1 FTE – HR1).

And additional hours for regular part-time staff:

- 7 hours per week for the CYFS Accounts Administrator for Cost-Recovery Program (0.2 FTE - CYFS7). This was approved by [Council on September 21, 2020 \(Item 9.1.2.](#)
- Convert 2 part-time positions in Customer Service to fulltime (0.5 FTE – CS2).
- Convert a part-time position in Financial Services to fulltime (0.4 FTE – FIN1).

In consideration of the uncertainty around COVID and the economic climate, it is recommended that a similar approach to last year's deferral of staffing requests be taken - that a provision be made in the budget for the requests but that **hiring for these positions remain on hold until approved by Council.**

The exception would be the pre-approved additional hours for the CYFS Accounts Administrator.

Budget Impact

The Preliminary Draft Budgets include \$137.4 million for operations. Funding would be provided from property taxes - \$68 million, water/wastewater and stormwater rates - \$46.4 million and ancillary revenues - \$23 million.

For an average residential property with an assessed value of \$700,000, this would mean the following:

	% increase	\$ increase
Property tax	2.99 %	\$ 64.79
Water / wastewater	4.00 %	\$ 49.44
Stormwater	10.20 %	\$ 4.28
Total		\$ 118.51

The Capital Budget of \$37.2 million provides some flexibility – allowing \$6.3 million for projects deferred from 2020 and the inclusion of new priorities that may arise during the year.

Attachments

Appendix A – Summary of Tax-supported Operating Budget Decision Packages, Base

Appendix B - Summary of Tax-supported Operating Budget Decision Packages, Growth

Appendix C – Summary of Rate-supported Operating Budget Decision Packages

Appendix D – Summary of Capital Program, new Decision Packages

Appendix E – Summary of Capital Program, Allocations from 2020

Approval

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Contact

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