



**Mike Mayes, Director
Financial Services/Treasurer**

TOWN OF NEWMARKET
395 Mulock Drive
P.O. Box 328
Newmarket, ON L3Y 4X7

www.newmarket.ca
mmayes@newmarket.ca
905.895.5193 ext. 2102

June 15, 2015

CORPORATE SERVICES REPORT – FINANCIAL SERVICES 2015-39

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

SUBJECT: Capital Financing Sustainability Strategy Update

ORIGIN: AMCTO Intern

RECOMMENDATION

THAT Corporate Services Report – Financial Services 2015-39 dated June 15, 2015 regarding the Capital Financing Sustainability Strategy Update be received.

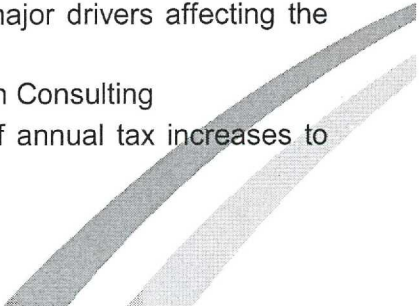
COMMENTS

Purpose

The purpose of this report is to provide Committee with an update on the implementation of the recommendations made by Hemson Consulting in the Capital Financing Sustainability Strategy in order to assist with long-term capital budget planning.

Background

The Town of Newmarket has been proactive in addressing the need to have funds available to replace capital assets as they age. A number of projects, studies, and actions have occurred to support the proper management of the Town's asset inventory, a selection of which is presented below.

- **1998** – Asset Replacement Fund (ARF) created with the goal of financing replacement of capital assets
 - **2009** – Corporate and Financial Services Report 2009-38 presented estimates for the future needs of the ARF and indicated a need for increased asset replacement funding to maintain existing capital assets
 - **2009** – Corporate and Financial Services Report 2009-44 presented options on how to phase-in increases to ARF financing
 - **2012** – Corporate Services Information Report 2012-12 presented the major drivers affecting the water and wastewater rates projected in the 6-year financial plan
 - **2012** – Capital Financing Strategy/ARF Study commissioned from Hemson Consulting
 - **2013** – Financial Services Report 2013-14 presented the requirement of annual tax increases to fund scheduled capital replacements
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- **2013** – Financial Services Report 2013-18 presented the infrastructure funding gap forecast to rise from \$25.7 million in 2013 if infrastructure funding was not increased
- **2014** – Final version of Hemson's Capital Financing and Asset Replacement Fund Study Part 1 presented the need for annual infrastructure levy tax increases of between 0.85% and 1.8%
- **2014** – New development charges bylaw adopted, setting development charges across the Town to be levied to cover future growth-related capital costs
- **2014** – Part 2 of Hemson's study is presented to Council under Joint CAO/Corporate Services Report – Financial Services 2014-05, laying out the Capital Financing Sustainability Strategy
- **2014** – First Town of Newmarket Asset Management Plan (AMP) prepared in December and presented in Joint Development and Infrastructure Services Commission, Corporate Services Commission and Office of the CAO Information Report 2014-10
- **2015** – Work of the Asset Management Committee continues

Analysis

There are 10 key recommendations in the Capital Financing Sustainability Strategy Report produced by Hemson Consulting. Several of these recommendations contain multiple proposals within them, and are best understood by dividing their various elements for easy comprehension as identified in Appendix 1 to this report.

Some recommendations are distinct projects with clearly visible outputs such as an asset management report card. Others are changing or maintaining practices like carry-forward projects or classifying capital expenditures. Still other recommendations are significant projects that require changes to corporate and Council practices such as the implementation of a 10-year capital budget or a robust asset management system.

Recommendations in the table (Appendix 2 - attached to this report) are classified under one of three status types. These classifications reflect the nature of many proposals, which are not projects that are either complete or incomplete, but rather complex changes of process and paradigm that must be integrated into existing business practices:

- projects that are fully integrated into existing processes are marked as **implemented**;
- projects that are underway but not fully implemented are marked as **in progress**;
- projects that are under review are marked as **planned**.

STRATEGIC PLAN LINKAGES

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

This report links to Council's strategic priority of efficient financial management by supporting effective and efficient services.

CONSULTATION

In preparation of this report, consultations were held with various internal staff on the status of Hemson's recommendations. The supporting reports referenced in this report involved further consultations with various other stakeholders.

HUMAN RESOURCE CONSIDERATIONS

Not applicable to this report.

BUDGET IMPACT

Operating and Capital Budgets (Current and future)

The implementation of the various recommendations in the Hemson report and their respective budget impacts have been previously reported on as they have been approved and future actions to implement the remaining recommendations will continue to be reported on as they are proposed.

The 2015 budget allocated the Ontario Community Infrastructure Fund grant of \$317,700 to the Asset Management Plan.

CONTACT

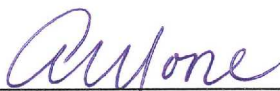
For more information on this Report, contact Ted Horton, AMCTO Intern by dialing 905-953-5300, ext. 2049 or via e-mail at thorton@newmarket.ca



Ted Horton
AMCTO Intern



Mike Mayes
Director, Financial Services/Treasurer



Anita Moore, AMCT
Commissioner, Corporate Services

TH/nh

Attachments:

Appendix 1 – Capital Financing Sustainability Strategy Update (3 pgs.)

Appendix 2 – Asset Replacement Fund Graph (1 pg.)

Appendix 1– Capital Financing Sustainability Strategy Update

RECOMMENDATION	EXPLANATION	NOTES	STATUS
1	Dynamic Asset Inventory	Move towards a dynamic condition-based asset management system to assist in establishing future reserve contribution amounts.	In progress
	Create a single centralized asset system	Integrate existing databases to link ARF, TCA, DCs, GIS, and enterprise software	Planned (Date TBD)
	Extend asset data	Roads inventory is complete and is inspected on a 5-year cycle as identified in the Roads Needs Study.	Implemented
		Bridges and culverts inventory is complete and inspections occur on a 2-year cycle.	Implemented
		An initial inventory of the water and wastewater pipes has been completed in the Town's GIS system. Work is underway to improve the condition rating data.	In progress
2	Software Asset Management System	Other types of assets are managed through separate processes. These will progressively be integrated with the Asset Management Plan.	Planned (Date TBD)
		The Asset Management Committee will review software requirements. This is a potential collaboration opportunity identified in the ongoing N6 Shared Services Review.	Planned (Date TBD)
3	Report Cards	Potential formats and audiences have been discussed internally. The Asset Management Committee is reviewing report card requirements.	Planned (Date TBD)

4	10-Year Capital Budget	Integrate a 10-year capital forecast into the budget for Council review. Include an estimate of the potential operating impact of major capital projects; estimate and identify annual tax and rate impacts relating to replacement.	The development of such a budget is on the workplan of the Budget Coordination Committee. The 2016 budget will include a 10-year capital and 4-year operating outlook.	In progress
5	Three Categories of Capital Budget	Establish three general capital funding categories: Growth, Enhancement, Repair & Replacement.	These designations are currently used in the Asset Management Plan. In the 2015 Capital budget these terms were used to break down proposed capital expenditures.	Implemented
6	Stormwater Rate	Recommend that the Town implement a Storm Water Utility Rate.	Staff report underway, recommendations to come forward to Council for potential implementation in 2016.	In progress
7	Corporate Debt Policy Review	The existing debt policy is well established and contains many good components but should be reviewed and updated to reflect the current position of the Town.	Current policy limits debt but lacks definition to set principles for when debt and reserve fund borrowing should be used and. Policy is currently under review and a report will be presented to Council in 2015.	In progress
8	Follow Investment Strategy	Consider investing in projects that can earn a better return on investment or future budget savings	Policy has been successfully implemented, including investments in solar panels and LED streetlights.	Implemented
9	Other Key Recommendations			
	Department reviews	Continue to undertake and enhance department specific asset reviews with a focus on condition rating. Continue ARF reporting, roads needs studies, building assessments, water and sewer condition assessments and CCTV inspections.	Initial condition review completed as part of development of the Asset Management Plan. Plans are underway to improve condition assessments for assets where data is needed. In the 2015 budget additional funding was included for water and wastewater condition assessments.	In progress
	Carry-forward projects	Review projects that are budgeted for, approved, and not completed and reassign funds if projects are no longer required.	Carry-forward projects are already evaluated on an annual basis. A more robust review process will be integrated with the development of a 10-year capital budget.	In progress
	Reserves	Merge outdated, small or infrequently used capital reserves with the ARF or other reserves.	Reserves were reviewed. Policy development on reserve funds is under way; recommendations will come forward to Council in 2015.	In progress

Asset Replacement Fund	Continue to apply ARF funding to departments based on prioritized needs and borrow between reserves as needed.	ARF funding is allocated to departments based on prioritized needs and borrowing between reserves occurs regularly. Policy related to use of ARF will be developed in 2015.	Implemented / In Progress
Level of Service (Condition of capital assets)	Establish service level targets to assist with funding decisions.	The Asset Management Plan is based on the current service levels. Community expectations of the desired service levels will continue to be gauged.	In progress
Water and wastewater financial plan	Continue to follow the targets outlined in the Water and Wastewater Financial Plan. A longer term target of 80% of accumulated amortization should be achievable by 2020 Criteria include: • It is a local, regional or provincial priority; • will it improve productivity or capacity; • will it reduce operating costs or produce operating revenue; • is it provincially mandated; • will it advance objectives related to environmental or fiscal sustainability; • will it improve quality of life and safety	The Town is on track to meet this target, and the water and wastewater master plans are in the process of being updated.	Implemented
Consider criteria prior to approval of an "enhancement project"		Capital budget projects were considered and classified based on their principal funding source. Further integration of the criteria proposed by Hemson is to be considered in future budgets, but there remains a need to standardize the criteria.	In progress
Annual Tax Rate Increase for Asset Replacement (Infrastructure Levy)	Consider adopting annual tax rate increases of 0.85% to 1.8% to address the capital requirements of the Town as part of a long-term fiscal sustainability strategy.	Currently considered annually through the budget process on an individual basis each year, but not as a matter of policy. See Appendix 2 for more information on historical contributions to ARF.	In progress

Appendix 2 – Asset Replacement Fund Graph

This presents the amounts contributed to the tax-supported ARF, the water & wastewater ARF, and the total amount contributed to the ARF annually. The tax levy increase includes the overall tax change each year. Beginning in 2013, which was the first year to have a dedicated infrastructure levy, the ARF infrastructure levy is depicted independently of the tax levy increase. It should be noted that the outlying tax increases in 2002 and 2003 were due in large part to changes in what costs were recovered through local property taxes – namely, streetlighting was added in 2002 and garbage collection was removed in 2003.

