



Town of Newmarket  
395 Mulock Drive P.O. Box 328,  
Newmarket, Ontario, L3Y 4X7

Email: [info@newmarket.ca](mailto:info@newmarket.ca) | Website: [newmarket.ca](http://newmarket.ca) | Phone: 905-895-5193

## **2021 Preliminary Draft Rate-Supported Operating Budgets Staff Report to Council**

Report Number: 2020-80

Department(s): Financial Services

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

Meeting Date: October 19, 2020

### **Recommendations**

1. That the report entitled 2021 Preliminary Draft Rate-Supported Operating Budgets dated October 19, 2020 be received; and,
2. That subject to any additional direction from Committee, the proposed Water and Wastewater budgets be incorporated into the Draft Budgets to be presented to Committee of the Whole on December 7, 2020; and,
3. That the Treasurer be authorized and directed to do all things necessary to give effect to these recommendations.

### **Executive Summary**

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. Updates of these financial plans were intended to be included in the 2021 budget process.

The Water and Wastewater plans require further review to incorporate recommendations from the Fiscal Strategy. The Stormwater plan requires direction from Council; this is covered in a separate report.

The proposed combined Water and Wastewater increase is 4% for the average residence using 200 cubic metres of water per year, which equates to \$49.44.

## **Purpose**

The purpose of this report is to obtain Council's direction on the Water and Wastewater Rate-Supported Operating Budgets.

## **Background**

[Report 2020-35, 2021 Budget Process and Target](#) set out the structure for the Rate-Supported Operating Budgets.

The Preliminary 2021 Draft Budgets were presented on October 5, 2020 as a starting point for community consultation and Council consideration.

### **Council Workshop on the Fiscal Strategy**

Council was presented a report and presentation on September 28, 2020. This included comparative diagnostics on Newmarket's financial sustainability, and made 79 recommendations resulting from that analysis.

As these recommendations include significant changes to Water and Wastewater reserve funds, as well as a rate-setting study, the introduction of the update to the Financial Plan is being deferred to allow for further analysis.

### **Budgeting in a COVID-19 world**

In reaction to the COVID-19 pandemic, the Town initiated a Financial Relief Program (see [Report 2020-28](#)). Two measures impacted Water and Wastewater:

- 2020 rate increases were reversed and returned to 2019 rates on May 1, 2020
- Overdue accounts started being transferred to the property tax accounts

The second measure could generate revenue from overdue charges in 2021 if this practice continues.

## **Discussion**

### **FINANCIAL PLANS ARE THE STARTING POINT FOR THE 2021 BUDGET**

The existing 6-year Financial Plans for Water and Wastewater were adopted by Council on June 26, 2017. They included a combined 4% increase in rate revenues. The 2021 budget revenue was built around this assumption. The rest of the budget was based upon experience, including the impact of the Financial Relief Program, and cost reduction measures.

The budgets are being presented to facilitate decision making, as in many cases the segregation of costs is arbitrary.

## Water and Wastewater consolidated budget

	2020	2021	change
Fee increase	4.92% > 0%	4.00%	
<b>Revenue</b>	<b>\$ 41,702,000</b>	<b>\$ 41,750,000</b>	<b>\$ 48,000</b>
Regional costs	\$ 25,663,000	\$ 25,550,000	\$ - 113,000
Expenses	6,970,000	7,091,000	121,000
Support costs	2,268,000	2,291,000	23,000
ARF	6,618,000	6,618,000	0
Reserves	183,000	200,000	17,000
	<b>\$ 41,702,000</b>	<b>\$ 41,750,000</b>	<b>\$ 48,000</b>

*Fee increase* is 4% as set out in the current 6-year Financial Plan. Although the plan shows the increase applied equally to both rate groups, an unbalanced approach is recommended to account for a variance in reserve balances. The fees and charges, which will be coming to Committee of the Whole on December 7, will request no increase in Water Rates and a 7.8% increase in Wastewater Rates – a blended increase of 4.0%. For comparison, prior to the implementation of the Financial Relief Program and the reversal of the 2020 increase, the rate increases would have been 6.49% for Water and 3.45% for Wastewater – a blended increase of 4.92%.

*Revenue* does not change much. The 2020 budget reflects an increase to only the first 4 months of the year – the proposed 2021 rate increase will only return revenues back to their anticipated pre-COVID levels. However, \$4,000 per month has been added for late payment charges. This has been kept at a token amount as we do not have historical data to determine a more precise estimate at this time.

*Regional costs* include charges from the Regional Municipality of York for the purchase of water and the treatment of wastewater. The 2020 budget anticipated a 9% increase in these rates last year, but the Region did not implement an increase. Similar to revenues, the 2020 budget was not revised to reflect this change. A smaller increase is expected for 2021, resulting in a budgetary decrease.

*Expenses* include wages and operational costs, minor increases.

*Support costs* also include a minor inflationary increase.

*ARF* contributions to the Asset Replacement Fund have not been increased.

*Reserves* are transfers of the budgetary “surplus” to rate stabilization reserves.

Appendix “A” lists the Decision Packages recommended for inclusion in the Rate-Supported Budgets. There is one for Water and Wastewater; and two for Stormwater.

## Conclusion

The 2021 Water and Wastewater Budgets will be used as the basis for an update to their Financial Plans in 2021 and will establish their rates for 2021, which will be brought forward to Committee of the Whole on December 7, 2020.

### Upcoming dates:

- 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.

## Business Plan and Strategic Plan Linkages

Consideration has been given to the recommendations of the Fiscal Strategy:

- Set water rates according to Newmarket's needs
- Commission or carry out a comprehensive rate-setting study that covers water and wastewater rates
- Ensure that the rate-setting study considers long-term asset management funding needs, inter-generational equity, water demand (impact of conservation), the cost of climate change adaptation, increased costs due to intensification, and a contingency factor for yet-to-be identified costs such as regulatory changes
- Investigate the reasons for Newmarket's historically higher than average rates and address controllable factors
- Develop a detailed financial plan that includes an analysis and forecast of capital and operating costs and incorporates the results of the rate-setting study
- Extend the time horizon of the financial plans to ten years
- The policy of pooling rate and tax-supported Asset Replacement Fund reserves should be dropped, and intra-reserve borrowing between tax and rate-supported reserves should not be permitted

## Consultation

This report builds on the presentation of the Preliminary Draft Budgets to Committee of the Whole on October 5, 2020. At the time of writing this report, there had been no comments or questions submitted on the Rate-Supported Operating Budgets.

## **Human Resource Considerations**

The Preliminary Draft Rate-Supported Operating Budgets do not include any requests for additional staff.

## **Budget Impact**

For an average residential property using 200 cubic metres of water per year, this would mean an annualized increase, based on the rates, of \$49.44.

As the first four months of 2020 were at a higher pre-Financial Relief Program rate, the actual increase in year-over-year dollars spent would be less, by approximately \$33.

## **Attachments**

Appendix “A” – Summary of Rate-Supported Operating Budget Decision Packages

## **Approval**

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

Esther Armchuk, LL.B  
Commissioner, Corporate Services

## **Contact**

For more information on this report, contact: Mike Mayes at 905-953-5300 ext. 2102 or via e-mail at [mmayes@newmarket.ca](mailto:mmayes@newmarket.ca)