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## **2021 Preliminary Draft Tax-Supported Operating Budget Staff Report to Council**

Report Number: 2020-81

Department(s): Financial Services

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

Meeting Date: November 9, 2020

### **Recommendations**

1. That the report entitled 2021 Preliminary Draft Tax-Supported Operating Budget Report dated November 9, 2020 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 December 7, 2020; and,
3. That the Treasurer be authorized and directed to do all things necessary to give effect to this resolution.

### **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.

Council must balance the competing priorities of the economic impact of the pandemic with fiscal responsibility in the 2021 budget. Reduction options have been presented for Council to consider.

Wherever possible, Fiscal Strategy recommendations have been implemented.

## **Purpose**

The purpose of this report is to obtain Council's direction on the Tax-Supported Operating Budget.

## **Background**

Report 2020-35, 2021 Budget Process and Target set out the structure for the Tax-Supported Operating Budgets. It was presented at the 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.*

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 noted in the accompanying report, Fiscal Strategy – Next Steps, some of the recommendations have been included in the 2021 budget. The Strategy provides a larger context to be considered when making budget decisions.

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

Although the COVID-19 pandemic appears to have no direct budget impact on the 2021 budget, there are indirect impacts:

- Uncertainty about how long the pandemic will last and what the “new normal” will look like
  - Council has directed a 1% Tax Levy for a 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

**The CYFS budget has been reviewed by JCC**

The Newmarket / Aurora Joint Council Committee (JCC) met on October 13, 2020 to review and make recommendations on the Central York Fire Services (CYFS) budgets. Three changes were made to the operating budget submission.

1. No additional staffing until supported by a recommendation from the new Fire Master Plan.
2. Asset Replacement contributions to be maintained at the 2020 level.
3. Increase in the revenue budget to include new revenues.

As per the Joint Services Agreement, the CYFS budget has been forwarded to Aurora Council for review and comment. After that, it will come back to Newmarket Council for approval.

**Discussion**

**THE TAX-SUPPORTED OPERATING BUDGET IS \$91 MILLION**

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

	Town	CYFS	Library	Total
	In \$ millions			
Expenses	\$ 62.1	\$ 17.2	\$ 3.4	\$ 82.7
Reserve transfers	6.6	1.4	0.3	8.3
	<b>\$ 68.7</b>	<b>\$ 18.6</b>	<b>\$ 3.7</b>	<b>\$ 91.0</b>
Non-tax revenues	- 22.2	- 0.4	- 0.4	- 23.0
<b>Tax levy</b>	<b>\$ 46.5</b>	<b>\$ 18.2</b>	<b>\$ 3.3</b>	<b>\$ 68.0</b>

These numbers have been updated to reflect the changes to the CYFS budget recommended by JCC.

The tax levy funds 75% of these budgets. Non-tax, or ancillary revenues fund the remainder, of which user fees and charges are 13% of the budget.

Reserve transfers are 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) - \$6.5 million.

The requested increase has been allocated as follows:

	Base	Growth	ARF	Total
Town	\$ 338,750	\$ 384,000	\$ 625,000	\$ 1,347,750
CYFS	280,000			280,000
Library		22,000		22,000
BIA (net)	0			0
COVID	625,000			625,000
<b>Total</b>	<b>\$1,243,750</b>	<b>\$ 406,000</b>	<b>\$ 625,000</b>	<b>\$ 2,274,750</b>

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 Downtown District BIA (BIA). The Town’s budget covers all of the other municipal services, including the internal support services.

Decision Packages included in the Base Budget are listed in Appendix A. There have been no changes to this list.

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.

**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	\$ 0
Library	22,000
Incremental growth	50,000
2021 capital – operating expenses	67,500
Fiscal Strategy - Growth Reserve	151,000
Available for Decision Packages	115,500
<b>Assessment growth</b>	<b>\$ 406,000</b>

JCC removed the requirement for a CYFS allocation. To confirm with the recommendations of the Fiscal Strategy, these funds can be diverted to the Growth Reserve Fund. Council could take this opportunity to start providing for the Mulock Park: a strategic decision to build a fund for capital expenditures, and to build room in the base budget to avoid the need for a future tax increase.

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

Decision Packages proposed for in the Growth Budget are listed in Appendix B. This has been updated to reflect JCC’s recommendations.

Appendix C lists the Decision Packages that have been deferred for consideration in future years.

### **Council has asked for options to reduce the tax increase**

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

In this budget, Council must balance the competing priorities of the economic impact of the pandemic with fiscal responsibility in the 2021 budget. This can be split into 7 issues for their consideration.

#### 1. Budgeting in a COVID world

The pandemic and resulting restrictions have had a major financial impact. There is uncertainty about the extent – both in terms of duration and cost. Revenue targets may not be achievable. Additional financial relief may be required for residents; support may be required for local businesses. At this time it is difficult to project what the future may hold.

For this reason, a 1% tax levy is proposed, as a prudent measure. It would generate \$625,000 and would address a Fiscal Strategy recommendation.

Doing otherwise would risk having to make service level adjustments. This would be similar to what we did for 2020, but unlike 2020 there may not be additional funding from the provincial or federal governments.

## 2. Asset Replacement Fund (ARF)

The Fiscal Strategy introduced the concept of intergenerational equity – that financial responsibility should be shared fairly between current and future residents. In simpler terms, the question is do we pay now or later?

Not only does paying later have the potential to increase costs, it also does not match costs with benefits. As much of our current infrastructure was provided by developers, current residents are paying a minimal cost if they do not contribute towards the cost of replacement. Depreciation is a normal cost of doing business.

For this reason, the Town has been targeting annual tax levy increases of 1% to enhance contributions to the Asset Replacement Fund. Doing so narrows the infrastructure funding gap and ensures that we can maintain our service levels by replacing capital assets when required.

Deferring this increase in whole or in part would result in larger increases in the future.

## 3. Council Strategic Priorities

Council has established its strategic priorities for this term of Council and grouped them under 6 pillars. To move forward with Council’s vision, to deliver on these priorities, expenditures have been included in the proposed 2021 budgets; \$99,000 in the Tax-supported Operating Budget and \$635,000 in the Capital Budget.

Operating Budget	• Digital Engagement – Hey Newmarket	\$ 25,000	
	• Eliminating transfer of investment returns from the reserve fund	\$ 65,000	
	• Electric Vehicle Charging Station	<u>\$ 9,000</u>	\$ 99,000
Capital Budget	• DC update and CBC Study	\$ 100,000	
	• Mulock Drive Multi-Use Path Feasibility Design Study	\$ 200,000	
	• Active Transportation Implementation Plan	\$ 175,000	
	• Trails & Multi-Use Path	\$ 100,000	
	• Stormwater Wet Pond Bathymetric Surveys	<u>\$ 60,000</u>	\$ 635,000

## Conclusion

### Upcoming dates:

- 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 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

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

- The practice of allocating investment returns above benchmark to subsidize operating should be abandoned. Investment returns on reserves should be entirely allocated to reserves
  - Transfer of \$65,000 of investment returns in the reserve fund has been eliminated

- A new Contingency Reserve should be established to provide support for unforeseen and currently unquantifiable needs (e.g., pandemic, climate change, disasters, emergencies, changes in Provincial funding)
  - The budget includes a 1% tax levy for COVID-19 related contingencies
- The contribution to the Asset Replacement Fund should be increased by a minimum of 1% per year for the next ten years
  - The budget includes a 1% tax levy for an increase in contributions to the Asset Replacement Fund
- The Town should consider moderate increases in property taxes to support infrastructure investment, primarily, asset management after economic conditions have improved
  - A tax levy increase is recommended for 2021
- The current policy governing the use of assessment growth revenue should be retained
  - Assessment growth revenue has not been applied as general revenues
- Any portion of assessment growth revenue not needed for growth purposes in the budget should be allocated to the new Growth Reserve
  - On this basis, the funds not required by CYFS should be transferred to the Growth Reserve Fund, or to a growth-related reserve fund such as the Mulock Park Reserve.

## 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, the following question has been submitted regarding the Tax-supported Operating Budget.

- Reconsideration of the deferral of \$20,000 for eSignature Software (IT4)

## Human Resource Considerations

The preliminary draft budgets include adding 3.1 full time equivalent (FTE's) positions to the staffing complement. These are new staff:

- 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)

Also 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 full-time (0.5 FTE – CS2)
- Convert a part-time position in Financial Services to full-time (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 Tax-supported Operating Budget provides for \$91 million in expenditures. Funding would be provided from property taxes - \$68 million, and ancillary revenues - \$23 million.

For an average residential property with an assessed value of \$700,604, this would mean a property tax increase of 2.99% or \$64.79.

## 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 Deferred Tax-Supported Operating Budget Decision Packages

## Approval

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## Contact

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