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## **Fiscal Strategy – Next Steps Staff Report to Council**

Report Number: 2020-82

Department(s): Financial Services

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

Meeting Date: November 9, 2020

### **Recommendations**

1. That the report entitled Fiscal Strategy – Next Steps dated November 9, 2020 be received; and,
2. That Council endorse the implementation plan for the Fiscal Strategy as outlined in this report; and,
3. That the Treasurer be authorized and directed to do all things necessary to give effect to this resolution.

### **Executive Summary**

The Fiscal Strategy was presented at a Council Workshop held on September 28, 2020. Overall, in comparison to other Ontario municipalities, the Town's financial position is good. Some areas were identified for improvement, which can be addressed over the next three years.

### **Purpose**

The purpose of this report is to set out a blueprint for next steps and set out the development of an ongoing methodology to measure progress.

## Background

In line with a number of our core values including accountability, accessibility, courage and creativity – the Town has proactively created a fiscal strategy to ensure our future sustainability as a community. This was presented to Council on September 28, 2020.

The Fiscal Strategy Report and Presentation can be found on the Town’s website:

<https://www.newmarket.ca/TownGovernment/Pages/Budgets%20and%20Finances/Fiscal-Strategy.aspx>

Overall, in comparison to other Ontario municipalities, our financial position is good. The comparative fiscal diagnostics demonstrated that Newmarket has a moderately high fiscal capacity with an average to slightly below average infrastructure intensity. The main concern was the Town’s below average reserve balances.

The Fiscal Strategy also identified some areas where there is work to do. Appendix A has a full list of the 79 recommendations. They can be summarized as:

1. Refine the capital budget process
2. Revise the development charge (DC) by-law to incorporate legislative changes
3. Prepare a community benefits charge (CBC) strategy and by-law
4. Accelerate work on asset management plans (AMP) and integrate them with the budget process and DC Study update (Item 2)
5. Increase spending on infrastructure rehabilitation and replacement
6. Carry out a comprehensive rate setting study that covers water, wastewater and stormwater rates
7. Employ strategies to increase contributions to reserves and build them to more appropriate levels. This includes the Asset Replacement Fund, Rate Stabilization, Contingency and Growth.
8. Review our investment strategy and practices to increase returns
9. Update policies that support the Fiscal Strategy
10. The Treasurer should provide an annual update of the fiscal strategy to Council

This review was pursuant to the Council Priority “...to complete an assessment of the Town’s overall financial health to support effective and efficient long-term planning.”

## Discussion

Appendix A includes all 79 Fiscal Strategy Recommendations, and provides for each of them the Town’s position and an implementation timeline.

References in this report will indicate the specific recommendation in brackets, e.g. (#x).

## Town staff agrees with all of the recommendations

22 recommendations are shown as “current practice”. These are not yet in a formal policy or are not applied consistently. Inclusion in the recommendations confirms these initiatives and provides additional insight.

Two recommendations have a “maybe” position:

- Before the Town considers a non-residential development charge structure that parallels the Region, it should ensure that there are benefits in doing so (#25).
- Uploading water and wastewater services to the Regional Municipality of York could have operational and other impacts beyond efficiency gains that should also be considered before moving forward with this item (#44).

There is no disagreement with any of the recommendations.

## Implementation can be lined to activities and initiatives

The implementation timelines include the following Town activities and initiatives that could include execution of the recommendations:

Activity/Initiative	Description	Recommendations addressed
2021 budget process	Preliminary Draft Budget, presented on October 5	5
Future budget processes	Relates to the budget process, but there is insufficient time to incorporate them into the 2021 process	21
Reserve Fund review	Updates to our existing Reserves and Reserve Funds, and Asset Replacement Funds Policies and related strategies	5
Asset Management Plans (AMP)	Development and refinement of AMP's	4
DC update and CBC study	Revisiting our 2019 Development Charges (DC) and simultaneously initiating a Community Benefits Charge (CBC) study	6
Rate-Supported Financial Plans	Updates of the 2017 Water, Wastewater and Stormwater 6-year Plans	10
Annual reporting	Enhancements to our current annual reporting	5
Budget Policy	Formalization and expansion of our current practices	15
Debt Policy update	Revision of our existing Debt Policy and practices	4
Investment Strategy update	Revision of our existing Investment Policy, strategy and practices	1

Please note that some of the recommendations relate to more than one activity. For purposes of this report, they have been allocated to the activity where it is most likely that the change will occur.

### **Council direction is required**

There are 3 recommendations, not included in the table above, which will require Council direction. Authorization would be required as there are operational, service level and other implications other than financial.

- Uploading local water and wastewater services to the Region (#44)

It is possible that there may be efficiencies gained if the Region were to consolidate the water and wastewater services; however, we would not be the ones benefitting from these savings. In addition, it is possible that the disentanglement of operations could result in additional costs.

- Reviewing our investments in Newmarket-Tay Power and ENVI (#72, #73)

Part of the reason that the Town has comparably lower reserve balances is that it still owns the local utility. While this can be part of the reconciliation of the discrepancy, the Town has been applying the proceeds from this investment to supplement the operating budget: it is recommended that the dividends should be allocated to reserves (#60). In addition, the review would look for ways to increase these dividends.

These will be addressed in separate reports to Council in the future.

### **The Capital Budget will undergo significant changes**

In addition to the changes made in 2020 for the Capital Budget – elimination of carryovers (#7) – the Fiscal Strategy recommends further segregations in the Capital budget.

Pre-construction and construction expenditures are to be split (#8) and approved separately by Council (#9). In addition, with some exceptions, construction costs should only be approved after pre-construction activities have been completed (#10). This “shovel-ready” approach can be managed through the interim Capital Program reviews that were started in 2020.

To allow the build-up of the Asset Replacement Fund (ARF), it is only to be used to fund replacements (#52), with rehabilitation work for infrastructure funded on a pay-as-you-go basis (#48). Based on our current capital expenditure projections, 75 to 80% of the Capital Budget that would normally be funded by ARF, is for rehabilitation. This transition will require significant analysis.

These are major changes to be included in future budgets.

## **Asset Management will be integrated into the budget process**

Including the Asset Management team in the 2021 budget process provided a better result. Building upon this, it is recommended (#30) that to be more efficient, they will be included in the process from the beginning.

However, care must be taken not to interfere with the expedited development of the Asset Management Plans (#28).

## **There is an opportunity for growth studies to be done**

The current Development Charges (DC) by-law was adopted in 2019 and will not expire for another 4 years. However, there have been major changes resulting from the COVID-19 *Economic Recovery Act, 2020*.

- Elimination of the mandatory 10% discount on soft-services; such as Recreation and Library (#26)
- Regulations allowing the creation of a Community Benefits Charge (#27)

The Community Benefits Charge is a new land value based charge that can be used to pay for growth-related capital costs. Municipalities are now allowed to impose a CBC for the capital costs of facilities, services and matters required because of development or redevelopment.

There are parallels between the two studies – DC and CBC. It is recommended that they both be done at the same time. This would be a more efficient process, preventing overlaps and eliminating gaps between the two.

There is an opportunity to review and revise the growth numbers. There is uncertainty over the employment numbers which were used in the previous DC Background Study. Consideration should also be given to non-traditional places of employment; such as working from home and remote workplaces.

## **Measuring the progress of effective implementation**

The Fiscal Strategy used comparative fiscal diagnostics to put Newmarket's financial situation in perspective. Data was drawn from comparator municipalities' 2018 Financial Information Return (FIR) and from Statistics Canada's 2016 Census. Comparative charts were then developed for fiscal capacity, infrastructure intensity, reserves, debt, revenues and expenditures. The recommendations were derived from key findings.

It is not necessary to repeat this process on an annual basis to measure progress.

- It is extensive and would require internal resources or retaining a consultant
- The data is dated and lends itself more to longer term analysis
- The process is not transparent and can be perceived to not be impartial

Progress can be measured in two ways:

1. Workflow – the status of the 79 recommendations as they are being completed – essentially a report card
2. Financial KPI's – key performance indicators can be chosen that demonstrate the effectiveness of the strategy

Both of these methodologies could be displayed on a dashboard and reported to Council on an annual basis (#77). The KPI's would track progress in the 4 elements of the Fiscal Strategy, which are very similar to our 5 elements of a Sustainable Financial Strategy.

<b>Fiscal Strategy Elements</b>	<b>Sustainable Financial Strategy Elements</b>	<b>Key Performance Indicators (KPI's)</b>
Capital Management	Asset management	<ul style="list-style-type: none"> <li>• Condition rating</li> <li>• Delivery – capital expenditures as a percentage of budget</li> <li>• Funding – reinvestment ratio</li> </ul>
Debt Management	Debt	<ul style="list-style-type: none"> <li>• Debt servicing costs as percentage of own source revenue</li> </ul>
Revenue Enhancement	Revenue	<ul style="list-style-type: none"> <li>• Taxes - levy per capita</li> <li>• Water and wastewater – average annual residential cost</li> <li>• Diversification – property tax revenue as a percentage of total revenue</li> </ul>
	Investment strategy	<ul style="list-style-type: none"> <li>• Return on investment</li> </ul>
Reserve Management	Reserves and Reserve Funds	<ul style="list-style-type: none"> <li>• Discretionary reserves - percentage of own source revenue</li> <li>• Capital reserves - percentage of accumulated amortization</li> </ul>

Where possible, the KPI's are taken from the annual municipal study provided by BMA Management Consulting Inc. or are industry standards.

All of the proposed KPI's can be calculated as required, and therefore can be used to support budget and other financial planning.

They may be compared to other municipalities, industry standards, historical trends or targets.

### **Implementation Schedule**

Implementation of the recommendations will depend upon the timing of the activities and initiatives, and the availability of resources.

Activity/Initiative	Implementation Timing	Comments
2021 budget process	2020	“Low hanging fruit”
Reserve Fund review	2021 – 2 <sup>nd</sup> quarter	This is a high priority as it addresses the primary fiscal concern
Asset Management Plans (AMP)	May 2021	Led by the Asset Management team
DC update and CBC study	2021	Using resources from the Strategic Initiatives department
Rate-Supported Financial Plans	2022	Using resources from the Strategic Initiatives department
Annual reporting	2021 to 2022	Two year phase-in
Future budget processes	2021 to 2023	Phase into budgets, coordinating with other activities and initiatives
Budget Policy	2022 to 2023	Dependent upon the availability of resources
Debt Policy update		
Investment Strategy update		

External consulting may be required for some of these initiatives, such as the DC Update and CBC Study. In others, such as policy work, a peer review would be useful.

Investing in additional resources – staffing or consulting – could expedite implementation of the Fiscal Strategy recommendations.

## Conclusion

This report sets out a blueprint for implementation of the Fiscal Strategy over the next three years.

It could take decades to fully realize the effectiveness of the Fiscal Strategy. For this reason, monitoring of progress is essential.

## Business Plan and Strategic Plan Linkages

The recommendations of the Fiscal Strategy are supportive of Long-Term Financial Sustainability and furthers all of Council Priorities under that pillar:

1. Utilize ongoing community engagement to help inform program, services and financial planning.

Enhances the quality of the information being presented to the public.

2. Develop a multi-year operating and capital budget that aligns with budget policies.

Integrates Asset Management Plans, rate setting studies, capital budgets on fiscal policies.

3. Ensure ongoing continuous improvement and a service level analysis for consideration. Utilize both internal and external resources to complete an assessment of the Town's overall financial health to support effective and efficient long-term planning.

Evaluated the Town's fiscal capacity and compared it to other Ontario municipalities.

4. Complete a comprehensive and up-to-date Asset Management Plan that reflects a Corporate Risk Strategy and continued investment into the Asset Replacement Fund.

Accelerates the development and application of Asset Management Plans and reserve fund contributions to support them.

## **Consultation**

These recommendations have been reviewed and are supported by the Strategic Leadership Team. (SLT).

Members of Council were presented with an overview of the Fiscal Strategy at a workshop held on September 28, 2020. Their comments and questions have been incorporated into this report.

## **Human Resource Considerations**

If Council decides to accelerate implementation of the Fiscal Strategy, additional resources would be required. This could be the addition of a Financial Business Analyst on a contract or permanent basis.

## **Budget Impact**

If Council decides to accelerate implementation of the Fiscal Strategy, additional resources would be required either for staffing or consulting.

The proposed 2021 Capital program includes a Development Charges (DC) update and the development of a Community Benefits Charge (CBC).

## **Attachments**

Appendix A – Fiscal Strategy Recommendations



## **Approval**

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

Esther Armchuk  
Commissioner, Corporate Services

## **Contact**

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