



Town of Newmarket
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2022 Budget Target and Process Staff Report to Council

Report Number: 2021-32

Department(s): Financial Services

Author(s): Andrea Tang, Manager Finance & Accounting / Deputy Treasurer

Meeting Date: May 3, 2021

Recommendations

1. That the report entitled 2022 Budget Target and Process dated May 3, 2021 be received; and,
2. That the proposed budget schedule with a target budget adoption date of December 13, 2021 be approved; and,
3. That endorsement be given to staff to proceed with preparation of the 2022 budgets employing the structure and targets as outlined in this report; and,
4. That the form and timing of budget submissions for all entities accountable to Council be subject to the process outlined in this report; and,
5. That the proposed community engagement plan for the 2022 budget be adopted; and,
6. That the Treasurer be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The 2022 budget deliberation process will commence in October 2021 with meetings scheduled in October and November to discuss and review the tax-supported operating budget, rate-supported operating budgets and capital budget.

The target is to obtain Council approval on the 2022 budget by the end of 2021. There will be public engagement throughout the process to seek residents' feedback. The proposed process for the 2022 budget is consistent with previous years.

Purpose

The purpose of the report is to obtain Council's approval of the schedule, process and initial targets for the 2022 budget.

Background

Guiding Principles

It has been the Town's practice for Council to set budget targets at the beginning of the budget process. This process facilitates efficient preparation of budgets while meeting Council's expectations.

The following guiding principles have been applied in building the budget:

1. The budget is divided into segments based on:
 - a. Operations, capital or reserve and reserve fund;
 - b. Major funding sources - tax-supported, rate-supported;
 - c. Governance - Town, Central York Fire Services (CYFS), Newmarket Public Library (Library), Downtown Business Improvement Area (BIA);
 - d. Relationship to service levels – base, growth, enhancements, extraordinary.
2. Growth revenues are applied to growth related expenditures only.
3. A preliminary inflationary factor is applied as a starting point to set a target for the base operating budget.
4. Service level enhancements and extraordinary items are not included in the base budget.
5. Requests for Operating and Capital budget changes are documented on the respective Decision Packages which outline all relevant budgetary impacts.
6. Each budget segment must confine its expenditures to the applicable available funding source(s).
7. Where applicable, budgets will be derived from the Council-approved multi-year financial plans.

Budget Structure

The Town's budget is segregated into the following components:

1. Operating budgets
 - a. Tax-supported operating budgets (including consideration for growth, inflation, levy, contributions to Asset Replacement Fund (ARF), service level enhancements, extraordinary items and REV It Up initiatives)
 - Town's operating base budget
 - CYFS
 - Library
 - BIA
 - b. Rate-supported operating budgets

- Water and Wastewater
 - Stormwater
 - Building Permits
2. Capital Budget
 3. Reserve and Reserve Fund Budget

Discussion

Budget Schedule

The proposed 2022 budget schedule is outlined on Appendix A. Schedule for the latter part of the year is subject to change pending progress of the budget deliberation process.

Key milestone dates are:

October 3 – the preliminary draft budgets will be presented to Committee of the Whole outlining the operating and capital budgets.

October (TBD) – A Special Committee of the Whole meeting will be scheduled to review the capital and rate-supported operating budgets.

November (TBD) - A Special Committee of the Whole meeting will be scheduled to review the tax-supported operating budgets.

December 6 – the draft budgets and remaining fees and charges will be presented to Committee of the Whole for approval.

December 13 – target date for Council decision on 2022 Budget. Time may be extended for further deliberations.

1a. Tax-Supported Operating Budget

The operating budgets support day-to-day operations and include net costs to maintain infrastructure.

For the Town's tax-supported operating budget, a tax rate increase of 2.99% is recommended which includes the following components:

Components	%
Base Budget	1.74%
Contingency	0.25%
Asset Replacement Fund (ARF)	1.00%
Total tax rate increase	2.99%

Base Budget - Town

The base budget is defined to be the net cost to carry out day-to-day operations and to maintain the Town's service levels. This is net of ancillary revenues and efficiencies. The major funding source for the tax-supported operating budget is property taxes.

For the 2022 budget, a 1% tax rate increase will generate incremental \$667,000 in property tax revenues.

The two major factors impacting the base budget are growth and inflation.

For the 2022 budget, the Town will continue to apply the sustainable practice of applying growth revenue to growth related expenditures only. Assessment growth of 1% is currently assumed for 2022. Assessment growth for 2021 is forecasted to be around 0.82% and actual assessment growth in recent years were around 1.25%. 2021 is anticipated to be the commencement of recovery period. Therefore, 1% is being applied for 2022 at this time. Staff will continue to monitor and adjust for the Preliminary Draft Budget if necessary. Below outlines the preliminary allocation of the assessment growth revenues:

	\$
Assessment growth revenues	667,000
Growth related expenditures	
Mulock Park	250,000
Incremental growth	37,000
CYFS - Newmarket's portion	66,000
Library	17,400
Unallocated revenues	296,600

The unallocated revenues are available for:

- new growth-related operating expenses not directly related to capital as supported by Decision Package requests
- growth related Council Strategic Priorities
- future uses by transferring to a reserve

An inflationary factor of 1.5% (Provincial Forecast projects inflation of 1.7% for 2021) has been applied to the base budget to account for inflation on contracted services, supplies and goods. Staff will continue to monitor the Toronto Consumer Price Index (CPI) throughout the process and make adjustment if necessary.

The base operating budget also includes the operating budgets for the CYFS, Library and BIA.

Base Budget - CYFS

CYFS 10-year financial plan projects a total increase of \$714,500 for the 2022 budget. Newmarket's share (approximately 59%) represents an increase of \$418,000 which is comprised of the following components:

Components	\$
Base	332,000
Growth	66,000
ARF	20,000
Total increase	418,000

The allocation of funding from the Town of Aurora is subject to change; however it is not expected to be significant.

Base Budget – Library

The 2021 Library operating budget is \$3,487,000. The Newmarket Public Library Board has adopted a multi-year budget target of inflation of 1.5% plus a growth factor of 0.5%. Therefore, the 2022 base budget will increase by \$69,700.

Components	\$
Base	52,300
Growth	17,400
Total increase	69,700

Base Budget – BIA

The BIA currently levies \$30,000 on its members. This amount has been unchanged since 2011. Its expenses are paid from the levy. Any surplus or deficit will be transferred to/from its dedicated reserve. As a result, the BIA budget has no impact on the Town's budget. However, the BIA requires the Town's approval of its annual budget.

Contingency

Council approved a 0.8% contingency levy as part of the 2021 Budget. The contingency provision provides a funding source to address unforeseen events such as the pandemic.

The 2021 operating budget currently includes \$500,000 in contingency funds. An incremental 0.25% contingency levy in the 2022 budget will increase the contingency funds by \$167,000 to a total of \$667,000.

ARF

The Town should continue to build up the ARF to ensure sufficient funds are available to replace Town's assets in order to maintain them in state of good repair. A 1% increase in the contributions to the ARF is the target for 2022 which aligns with recommendations from the Fiscal Strategy.

Service Level Adjustments, Extraordinary Items and REV It Up Initiatives

There is no change identified for the 2022 Budget at this time.

1b. Rate-Supported Operating Budget

The 2022 rate-supported operating budgets (water, wastewater and stormwater) will be established based on the respective six-year financial plans. The water and wastewater financial plans were updated and approved by Council in March 2021.

Building permit fees will continue to fund the Building Department. The reserve fund is within the target range at 105% of total annual costs. Annual review of fees and expenditures is conducted to ensure financial sustainability.

2. Capital Budget

The capital budget funds the purchase, construction and financing of Tangible Capital Assets (TCA) for infrastructure, land, buildings, machinery, equipment and other assets. It also provides funding source for major corporate studies.

The capital budget will continue to be separated according to major funding sources. Capital requests will be subject to the availability of funding and operational capacity.

The 2022 capital budget should be set at \$22.7 million with the following breakdown:

	Standard	Major	Total
2021 commitments for 2022	1,800,000	2,700,000	4,500,000
2022 capital program	13,200,000	-	13,200,000
Unallocated provision	5,000,000	-	5,000,000
Total	20,000,000	2,700,000	22,700,000

The 2022 budget process will continue to use the \$20 million on threshold as the operational capacity for standard projects. Of the \$20 million, \$5 million is set aside as an allowance to be allocated later to allow flexibility for new projects into the program as the year progresses. The remaining \$15 million will define the 2022 capital program of which \$1.8 million has been identified to be included in the 2022 capital program from the 2021 budget process.

Major projects are projects that require minimal effort from dedicated capital project staff such as construction of Station 4-5 in the amount of \$2.7 million.

Upon approval of the Mulock Park project, \$3.5 million will be required to be included in the 2022 budget as a major project. This is currently not included in the capi0211tal budget of \$22.7 million.

3. Reserve and Reserve Fund Budget

Contributions to and from reserve and reserve funds are derived from the operating and capital budgets resulted from operational surpluses or deficits and transfers included in the operating and capital budgets.

The Reserve and Reserve Fund Budgets will be compiled following the approval of the operating and capital budgets due to the interdependence on other budgets.

Conclusion

Staff will start preparing the 2022 budget requests based upon the process and targets set by Council as outlined in this report. The goal is to present the preliminary draft budgets on October 3, 2021 and to approve the 2022 budget by the end of 2021.

There will be community engagement throughout the budget process to obtain residents' input.

Interim appropriations should not be required for 2022 if the budget is approved on December 13, 2021 as per the proposed schedule.

Business Plan and Strategic Plan Linkages

The budget process aligns with the Council Priority in the Town's continuous journey to strive for Long Term Financial Sustainability by developing budgets that align with budget policies and Fiscal Strategy. There is ongoing improvement and service level analysis for consideration to support effective and efficient long term planning.

Consultation

Financial Services consulted with the Senior Leadership Team (SLT) and Operational Leadership Team (OLT) on the 2022 budget target and process. The Corporate Communications department has also been consulted on public engagement plan.

Public Engagement for the 2022 Budget

Public engagement for the 2022 budget will continue to build on the success of previous year's virtual/online engagement. As always, community engagement will be very important in helping to shape the 2022 budget. The Town will continue to utilize traditional communications tools and tactics (Town page advertisements, media releases, website updates, e-newsletters and more), while continuing to seek out new and creative ways to engage and interact with the community virtually. This could include a budget-themed Facebook Live event, budget-themed game or survey, virtual 'drop-ins' for the community, and further interactive elements on Hey Newmarket, the Town's online engagement platform. If/When the COVID landscape stabilizes, staff will consider in-person public education opportunities for the 2022 budget.

The Corporate Communications department will be preparing a detailed communications plan, with community engagement beginning over the summer in advance of the preliminary draft budget (October).

Human Resource Considerations

Not applicable.

Budget Impact

This report sets out the process for developing the 2022 operating and capital budgets. The target for tax-funding operating budget is a tax rate increase of 2.99% as a starting point which is consistent with past practice. Targets for rate-supported operating budgets will be based upon their respective approved six-year financial plans. The capital budget will be within its available funding envelope.

Attachments

Appendix A – Proposed 2022 Budget Schedule

Approval

Mike Mayes, CPA, CGA, DPA
Director of Financial Services

Esther Armchuk, LL.B
Commissioner, Corporate Services

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