



**Mike Mayes, Director
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October 15, 2015

JOINT CAO, COMMISSIONERS AND FINANCIAL SERVICES REPORT 2015-48

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

SUBJECT: Preliminary Draft Budgets for 2016

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATION:

THAT Joint CAO, Commissioners and Financial Services Report - 2015-48 dated October 15, 2015 regarding Preliminary Draft Budgets for 2016 be received for information purposes.

COMMENTS

Purpose

The purpose of this report is to identify the challenges in preparing the preliminary draft budgets, especially given the tight deadlines in a post-election year.

Budget Impact

The proposed tax target, based on Council's target for 2015, would result in an increase of \$61.68 in the Town portion of property taxes for the average resident living in a house assessed at \$450,072.

Summary

Due to a number of challenges, the presentation of the preliminary draft budgets will be deferred to November 9, 2015.

Background

Through the previous years, the Town has been striving to make Newmarket even better by providing new and enhanced services to its residents while maintaining a modest tax increase. We have accomplished this by finding efficiencies and focusing on generating non-tax revenues such as user fees.

Through reviews and trend history, it is becoming clear that for a variety of reasons our revenue targets are not being achieved. It is important to note that even though the revenue targets are not being met, staff have, for the past few years, been able to generally maintain below budget departmental year ends (excluding unforeseen one-time extraordinary expenses such as the insurance re-assessment). However, this approach is becoming increasingly difficult to maintain as our services expand. Staff have recently been examining options that will balance budgetary sustainability with the need to respond to growing expectations.

In 2014, we saw the year end results necessitate a large draw on reserves (for exceptional items) in order to balance the year-end position. We are now projecting similar results in 2015 and Council will be apprised of this further in the 2015 3rd quarter results report, which will include some mitigating measures that staff are undertaking in order to assist with seeing a positive year end result.

The 2016 budget seeks to break this trend and this report will outline some recommended approaches to the 2016 budget process.

Analysis and Options

TAX-SUPPORTED REVENUES

While revenues are growing on an annual basis, they are not achieving the budgetary target. In 2016 we need to begin right-sizing. It is important to have realistic and achievable targets. Staff are currently undertaking a similar examination of historical expenditure trends and will report further on this.

User Fees (including Recreation)

2016 will see the implementation of the Recreation Playbook and the update of the Service Pricing Policy. It is anticipated that neither review will result in significant increases in revenues, but they will ensure that our rates remain competitive and we do not see volume decreases.

Property Tax Re-Assessments

We have been hit in recent years with significant property tax reassessments which may date back a number of years but have to be absorbed in the current year. For 2016, the implementation of Proactive Assessment Management will ensure that we are maximizing predictable property tax revenues while minimizing the impact of adjustments to our tax revenues. A Council Workshop was recently held on this matter and staff will be aggressively implementing this.

Growth

Growth has not been coming in at the rate that was anticipated. The corridors are still waiting for the first mixed-use intensification. This impacts property tax revenue as well as planning and engineering revenues. To help address this, development along the corridors is subject to an upcoming Council workshop and subsequent efforts will continue to be focused on positioning Yonge Street and Davis Drive for increased development.

Staff are taking a very close look at growth related items submitted through the budget process in order to determine timing, given the current growth rates.

A principle that we are striving for is to use growth revenues solely for growth expenses. We are looking at working this principle into our longer term forecasts

Investments

Decreases in interest rates are challenging our ability to bring in suitable returns on investment. We will be looking to add more flexibility to our investment policy and investment strategy to deal with this environment. As well, the 2016 budget will see initial stages of multiyear operating and capital budgets which facilitate planning for investments.

Donations

With all the focus on fundraising for specific projects, it is difficult to attract general donations. A Donation Policy will be presented but will provide procedures and structure and not necessarily additional revenue.

Other Revenues

We will continue to seek other revenues and funding sources. The 2016 budget includes promotion for such initiatives as wedding ceremonies, sponsorship opportunities, etc.

In addition, we are initiating public consultation on the development of the Stormwater Management Rate. This will not be in place for 2016 but is planned for the beginning of 2017.

TAX-SUPPORTED EXPENSES

Some adjustments need to be made in expenses to offset the decrease in budgetary revenues.

The draft budget will take into account a managed approach relative to timing in the hiring of staff, whether new or replacements.

Recommendations will be made to attribute the cost of providing higher levels of service with the beneficiary.

For 2016, growth requests will be limited as we pause to absorb and deal with the commitments previously made.

This will be a managed approach to better align expenses with revenues and will take into account desired service levels and 5-year trends.

Central York Fire Services (CYFS)

There may be an impact on the timing for the implementation of the Fire Master Plan as a result of limiting growth expenditures.

The draft budget was presented to the Joint Council Committee on October 13. JCC has recommended that it be forwarded to Aurora Council for review and comments. The next step would be to forward it to Newmarket Council for approval. This is the process defined within the Joint Services Agreement.

Newmarket Public Library

The Library budget was endorsed by the Board on September 12, 2015.

Tax Levy Increase

During the 2016 budget process staff have been operating with an administrative target of a maximum of 2.5% for base needs to preserve service levels, growth and enhancements if possible. This target is consistent with that established by Council for the 2015 budget. This is proving to be a significant challenge. It is resulting in requiring more time for the process and in realigning the target for the reasons cited earlier as follows:

- 2.5% for the base budget requirements to preserve service levels
- None or very limited new growth related items, within the target
- No enhancements, other than the annualization of items carried forward from 2015. We are considering base items as the related service level (ie. sidewalk snow clearing has been previously approved)

It is noted that even with this re-aligned target structure, challenges may still occur and staff are continuing to examine this and will report further. In addition we will identify a separate 1% for an increase in contributions to the tax-supported asset replacement fund to continue the practice of previous years and to work towards long-term sustainability.

Capital Budget

The capital program for 2016 will be set at a level working within available funding envelopes which will minimize the impact on the operating budget and allow us to absorb the commitments previously made. This will also allow reserve fund balances to grow. Funding from the tax-supported operating budget is being capped at \$500,000.

Water and Wastewater Budget

As we have provided for the full cost of services in previous budgets, we anticipate that the increases in 2016 will be consistent with the current 6-Year Financial Plan. They will be lower than that of neighboring communities.

Currently our residential rates are higher than the average while our non-residential rates are lower. We will start addressing that in 2016.

Budget Process

For the 2016 budget process, most of the budget discussion was done at the department head level individually and then collectively by the Operational Leadership Team. Building on the Town's collaborative fashion, this allowed for the discovery of additional synergies, innovation and efficiencies, while also assisting in succession planning. They formulated budget recommendations which were then reviewed by the Strategic Leadership Team (SLT).

Next year, not being an election year, will allow for more time and even better results. There are some other suggestions that will be factored into the 2017 process as a starting point. They include:

- a move toward multi-year budgeting and forecasts will facilitate better budget discussions and investment results;
- linkages to business plans and service levels
- implementation of recommendations from the Asset Management Program

Next Steps

Staff are striving to achieve a balanced and sustainable budgetary approach based on the assumption of a 2.5% tax increase (excluding the 1% ARF contribution – consistent with Council's 2015 target) and require additional time to finalize the preliminary draft 2016 budget. In the next 2016 Preliminary Draft Budget report, staff will identify budget reductions and any items that we've been unable to fit into the targeted funding envelope, including whether any minor adjustments to service levels are necessary.

Staff will continue to work within the administrative budget target.

We anticipate that we will be in a position to bring back a report and present it to the November 9 Committee of the Whole meeting. This may move our budget schedule out somewhat, however, it is noted that a Special Committee of the Whole meeting was scheduled for December 7 in the event that additional time was required.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

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

It supports the following Council priorities:

- creating a strategy for vibrant and livable corridors along Davis and Yonge Street with a financial strategy for growth
- engaging our changing resident demographics through public engagement
- ensuring effective and efficient services by adhering to our Sustainable Financial Strategy

CONSULTATION

The Organization Leadership Team (OLT), Strategic Leadership Team (SLT) and all levels of management have been involved in the development of this budget.

The public engagement process for the budget has begun.

BUDGET IMPACT

Operating Budget

The current targets for the operating budgets are:

- Tax-supported Operating Budget – a projected 2.75% “all-in” (Region, School Board Town) tax increase to the average residential taxpayer, with the Town portion being a 2.50% tax increase and a dedicated 1% tax levy for ARF.
- Utility Budget – an increase in combined water and wastewater charges to the average residence of 7.5% or less, as projected in the 6-Year Water and Wastewater Financial Plan.

Projected all-in (Town, Region and School Board) impact on the average residential taxpayer, without taking consideration for possible tax shifting is as follows:

	2015	2016	\$ CHANGE	% CHANGE
Town Portion	\$1,762.15	\$1,823.83	\$61.68	3.50%
Region Portion	1,831.75	1,892.93	61.18	3.34%
Municipal sub-total	\$3,593.90	\$3,716.76	\$122.86	3.42%
School Board Portion	878.87	878.87	0.00	0.00%
TOTAL	\$4,472.77	\$4,595.63	\$122.86	2.75%

- *Based on an average assessment of \$450,072*
- *The Region's 2014-2018 outlook projects a tax increase of 3.34%*
- *No increase in the School Board is anticipated at this time*
- *No provision has been made for the impact of tax-shifting*

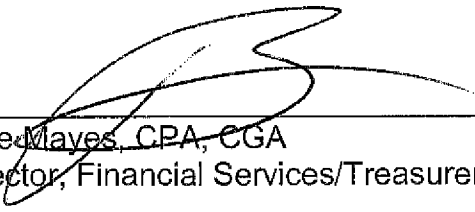
Capital Budget

Funding for the capital program will be limited to the available funding envelope.

There will be a recommendation to increase contributions to the Asset Replacement Fund by \$530,000 from the tax-supported operating budget and an additional amount to be determined from the utility rate-supported budget.

CONTACT

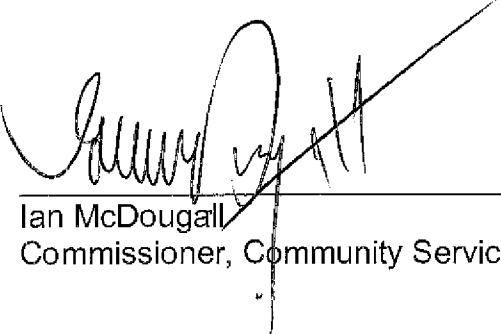
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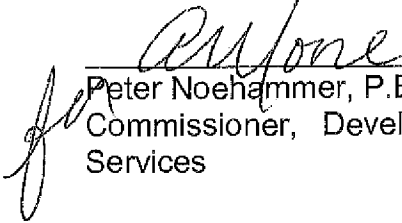
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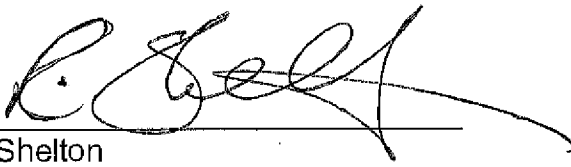
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