

Fiscal Strategy – 2021 Update

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Date: September 21, 2021



Agenda

1. Today's goals
2. Background
3. Progress to date
 - Initiatives
 - KPI's
4. Next steps



Today's Goals



1. Provide an update on the Fiscal Strategy recommendations
2. Present key performance indicators (KPI's) to track implementation.



Strategic Plan Linkage



Under the Pillar of Long-term Financial Sustainability, Council has the following Strategic Priority:

*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*



Background

- Sept. 28, 2020 - Council workshop on the Fiscal Strategy
- Nov. 9, 2020 - Report 2020-82, Fiscal Strategy – Next Steps provided an implementation plan and recommended performance measurements

Details of both are on the website at:

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



Comparative Fiscal Diagnostics (September 2020)



- Data for comparator municipalities was drawn from their 2018 Financial Information Return (FIR) and Statistics Canada's 2016 Census
- Comparative charts presented for fiscal capacity, infrastructure intensity, reserves, debt, revenues and expenditures
- 79 recommendations were derived from the key findings



Comparative Fiscal Diagnostics – report card

| | |
|----------------------------|-----------------------------------|
| Fiscal Capacity | moderately high |
| Infrastructure Intensity | average to slightly below average |
| Reserve Balances | below average |
| Overall financial position | good |



Fiscal Strategy Recommendations



The 79 recommendations summarized:

- Refine the capital budget process
- Revise the development charge (DC) by-law to incorporate legislative changes
- Prepare a community benefits charge (CBC) strategy and by-law
- Accelerate work on asset management plans (AMP) and integrate them with the budget process and DC Study update (Item 2)



Recommendations cont'd

- Increase spending on infrastructure rehabilitation and replacement
- Carry out a comprehensive rate setting study that covers water, wastewater and stormwater rates
- Employ strategies to increase contributions to reserves to build them to more appropriate levels. This includes the Asset Replacement Fund, Rate Stabilization, Contingency and Growth.



Recommendations cont'd

- Review our investment strategy and practices to increase returns
- Update policies that support the Fiscal Strategy
- The Treasurer should provide an annual update on the status of implementation of the recommendations

Staff agrees with all of the recommendations



Progress to Date

Initiatives delivering on Recommendations



The following initiatives implement the recommendations:



1. 2021 budget process (5)
2. Reserves and Reserve Funds review (5)
3. Asset Management Plans (AMP's) (4)
4. DC update and CBC study (6)
5. Rate-supported Financial Plans (10)
6. Annual reporting (5)
7. Future budget processes (21)
8. Budget Policy (15)
9. Debt Policy update (4)
10. Investment Strategy update (1)



1. 2021 Budget Process

Preliminary Draft Budget was presented on October 5, 2020, included:

- Refinements to the presentation of the capital budget (12, 13, 15)
- Incremental investment income no longer allocated to the operating budget (74)
- Budget is introduced with all 3 elements integrated – tax-supported operating, rate-supported operating, and capital (78)



2. Reserves and Reserve Funds Review

Originally scheduled for Q2 2021

Deferred to include findings from AMP's

New date TBD

Will include:

- Integrating AMP's to determine required contributions (50, 51)
- Elimination of inter-fund borrowing (58, 59)
- Policy update (63)



3. Asset Management Plans (AMP's)



Originally scheduled for Q2 2021, changed to:

- Core assets Q4 2021
- Non-core assets Q2 2024
- Level of Service and Funding Strategy 2025

Will include:

- AMP's as part of the budget process (28)
 - Will start a year early, 2022 budget
- Comprehensive AMP's (29, 31, 32)



4. DC update and CBC study

Updating the 2019 DC by-law and initiating a Community Benefits Charge (CBC) study to incorporate legislative changes that permit the generation of additional revenue

Original target was 2021

Revised schedule:

- Q2 2022 revise DC's and initial CBC study
 - Quick hits (26, 27)
- 2024 full renewal of DC/CBC (19, 22, 23, 25)



5. Rate-supported Financial Plans



Updates of the 2017 Water, Wastewater and Stormwater 6-year Plans in 2022

- Stormwater updated in 2020 (43)
- Water and wastewater in 2021 (34)

Next update to include further refinements, such as the integration of Asset Management Plans, capital planning (35-39, 41-43)



6. Annual reporting

A variety of items:

- Projection of capital spending added to quarterly reporting in 2021 (14)
- Separate investment report in 2021 for 2020 yearend reporting (76)
- 2022 budget will be compared to actual results on a consistent basis (16)
- Refinements to DC reporting to be included in the 2021 report (17-18)



7. Future budget processes

Done, or in 2022 Budget process

- Creation of a contingency reserve (40, 45)
- Fiscal strategy update (62, 77)

2023 and later Budget processes

- Capital budgeting (5, 6, 8-11, 30)
- Capital reserve contributions (48, 49, 52, 55, 69)
- Growth capital funding (20, 21, 24, 47)
- Increase infrastructure spending (33)



8. Budget Policy

Formal policy is targeted for 2022/23:

Current practices to be included:

- Capital Spending Authority (1-4, 7)
- Contributions to reserves (46, 53, 54, 56, 57)
- Use of assessment growth (70, 71)

New items to be considered:

- Use of Hydro dividend (60)
- Allocation of surplus (61, 64)



9. Debt Policy update

Done

- No new debt other than for Mulock Farm (65)
- Renegotiate Mulock Farm loan (68)
 - Investigated, not fiscally feasible

Future policy consideration in 2022/23

- Clarify terms for internal loans (66)
- Lower debt servicing limit to 5% (67)



10. Investment Strategy update



Town should consider using the One Investment Fund (75)

Will be part of review in 2022/23



Council direction is required



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

1. Uploading local water and wastewater services to the Region (44)
2. Reviewing our investments in Newmarket-Tay Power and ENVI (72, 73)



Progress to Date

KPI's



Measuring progress

1. Comparative Fiscal Diagnostic
2. Workflow, progress on recommendations
3. Financial KPI's



Option 1: Comparative Fiscal Diagnostics

- Used to put Newmarket's financial situation in perspective
- Data drawn from 2018 Financial Information Returns (FIR) and 2016 Census
- Comparative charts developed for fiscal capacity, infrastructure intensity, reserves, debt, revenues and expenditures
- Recommendations were derived from key findings



Comparative Fiscal Diagnostics not annually

Not necessary to do this on an annual basis:

- Process is very extensive and would require additional resources or retaining a consultant
- Data is not current and is better for longer term analysis
- Process is not transparent and could be perceived to not be impartial

To update with each Council term would be sufficient.



Option 2: Workflow, progress on recommendations

| Status | Number | % of total |
|---|-----------|------------|
| Completed | 14 | 18 % |
| In progress, expected to be completed in 2021 | 25 | 31 % |
| Delivery in 2022 to 2024 | 37 | 47 % |
| TBD – Council direction required | 3 | 3 % |
| Total | 79 | |



Option 3: Financial KPI's

From Report 2020-82, Fiscal Strategy – Next Steps, linked to the fiscal strategy elements:

- Capital Management
- Debt Management
- Revenue Enhancement
- Reserve Management

Targets have not been set yet.



Capital Management: delivery is the challenge



From the Fiscal Strategy:

- Newmarket has time to build funds to meet its future infrastructure rehabilitation and replacement needs but it is essential to start taking action.

The operational and funding capacity required to carry out a long term rehabilitation/replacement program will require further review and recommendations, such as the Asset Management Plans September 27 workshop.



Condition assessment for Core Assets (Oct. 2020)



| Core Asset Category | Current Condition (Based on remaining useful life) | |
|---------------------|---|-------------|
| Roads | 71 % | Good |
| Water | 61 % | Good |
| Wastewater | 61 % | Good |
| Stormwater | 65 % | Good |
| Bridges | 30 % | Poor |
| Average | 64 % | Good |



Reinvestment ratio for Core Assets (Oct. 2020)

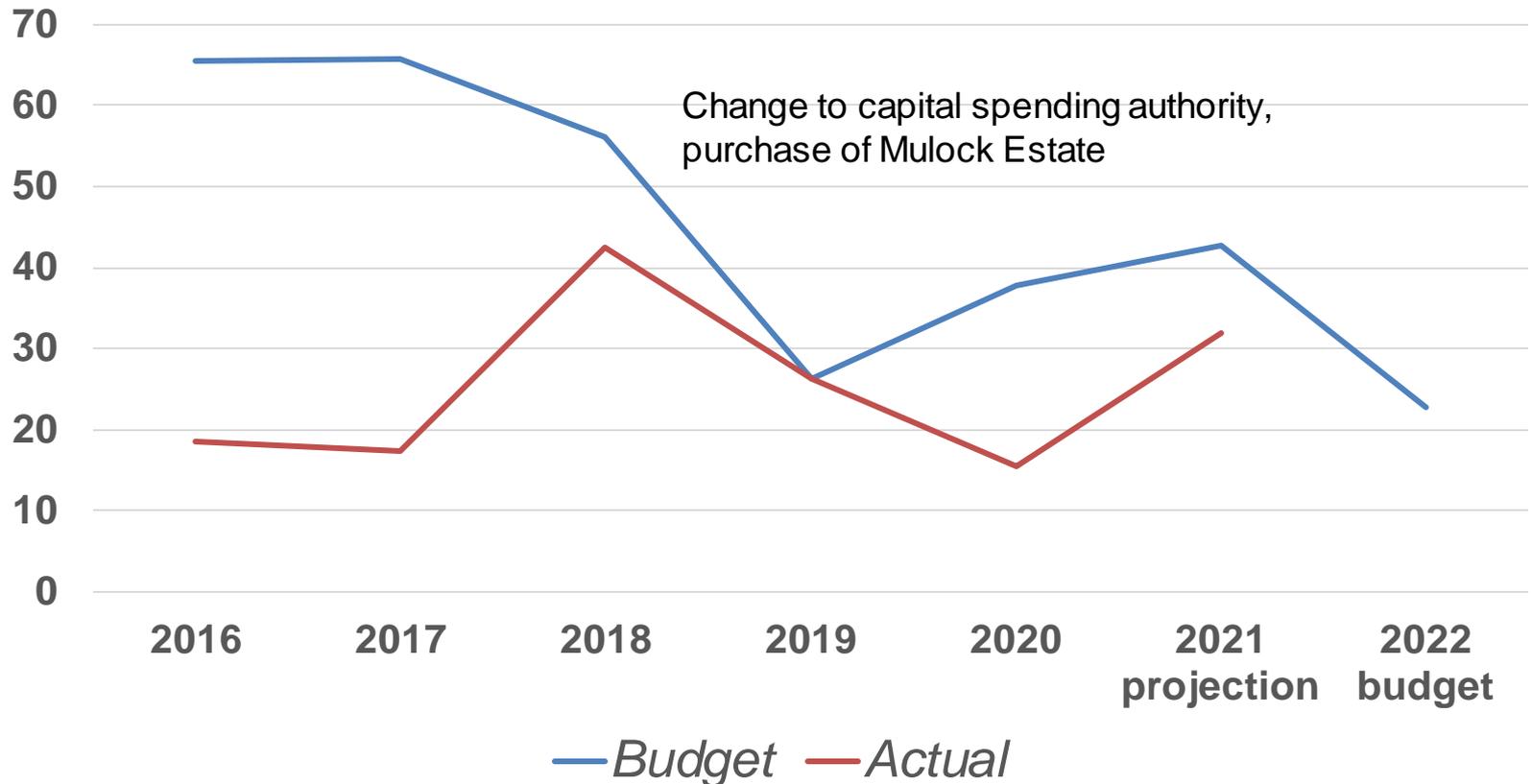


| Core Asset Category | Reinvestment Ratio (5-year average) | Target Reinvestment Ratio |
|-------------------------|--|---------------------------|
| Roads | 0.84 % | |
| Water | 0.47 % | |
| Wastewater | 0.18 % | |
| Stormwater | 0.09 % | |
| Bridges | 0.66 % | |
| Weighted average | 0.37 % | 2.0 % |



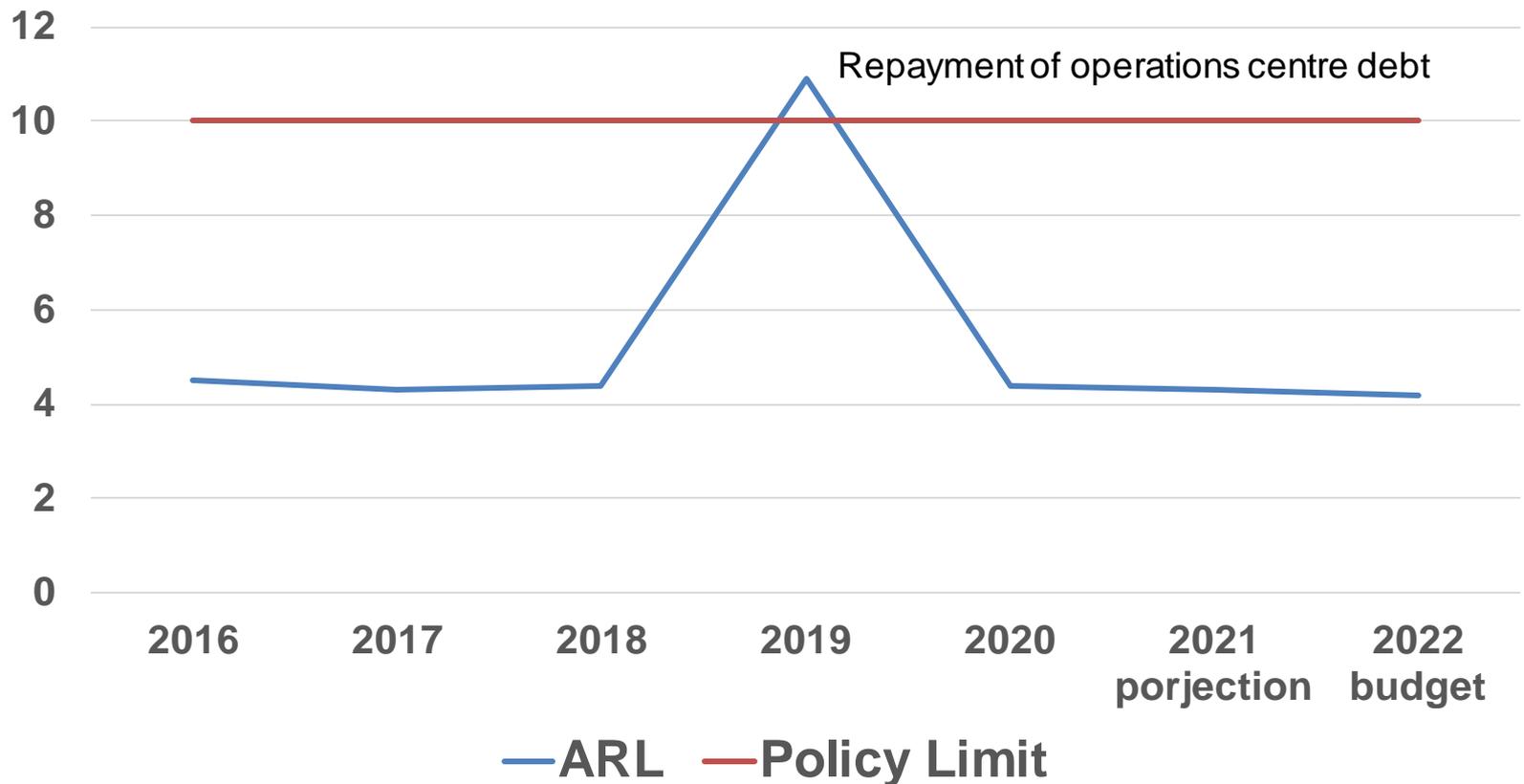
Delivery of the Capital Program

Capital expenditures in \$ millions



Debt Management, under control

Debt servicing as a % of own source revenue



Revenue Enhancement a balancing act

From the Fiscal Strategy

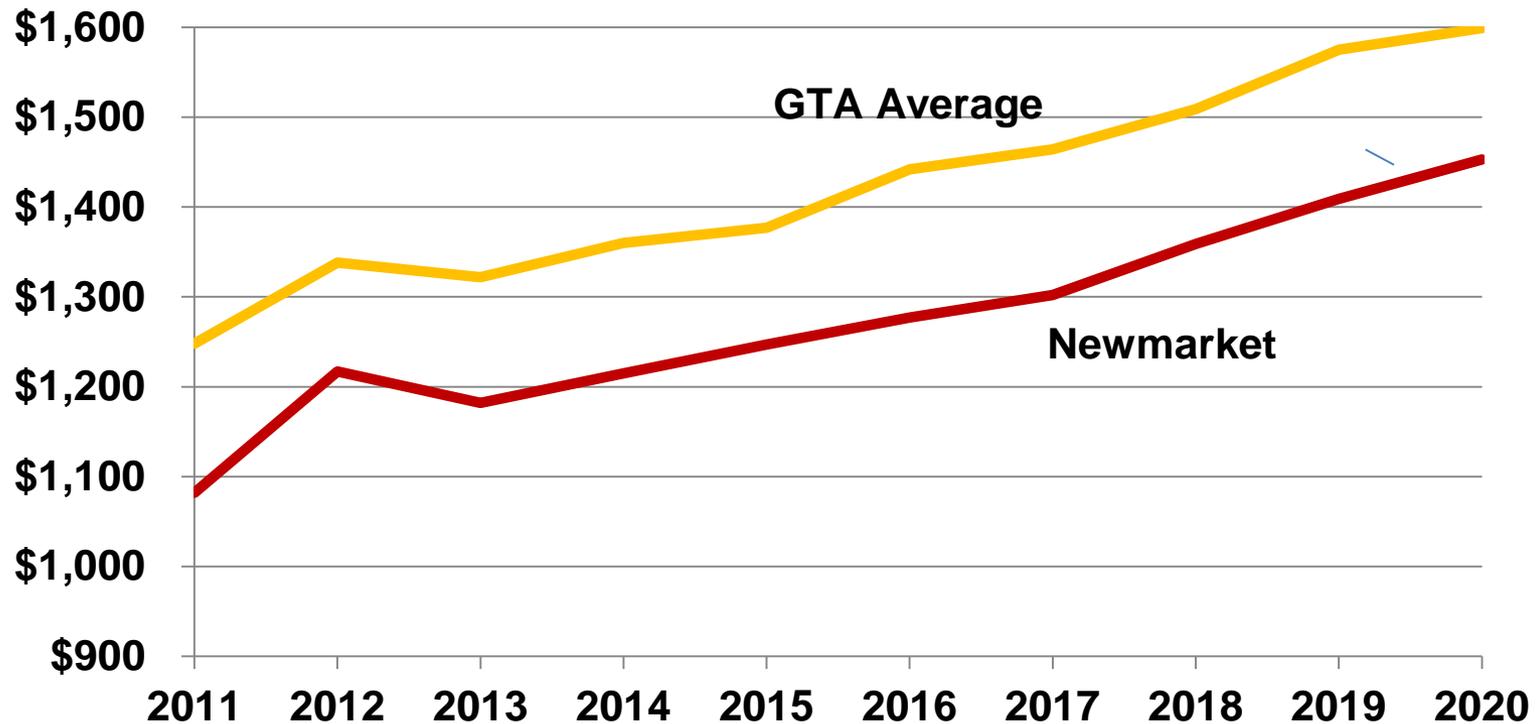
- Fiscal diagnostics demonstrate that Newmarket has high fiscal capacity but slightly below average revenue per household
- Lower taxes and rates, although financially beneficial to residents in the short-term, have limited funding available for reserve funds and infrastructure, and hinder the ability to meet level of service targets



Taxes – levy per capita



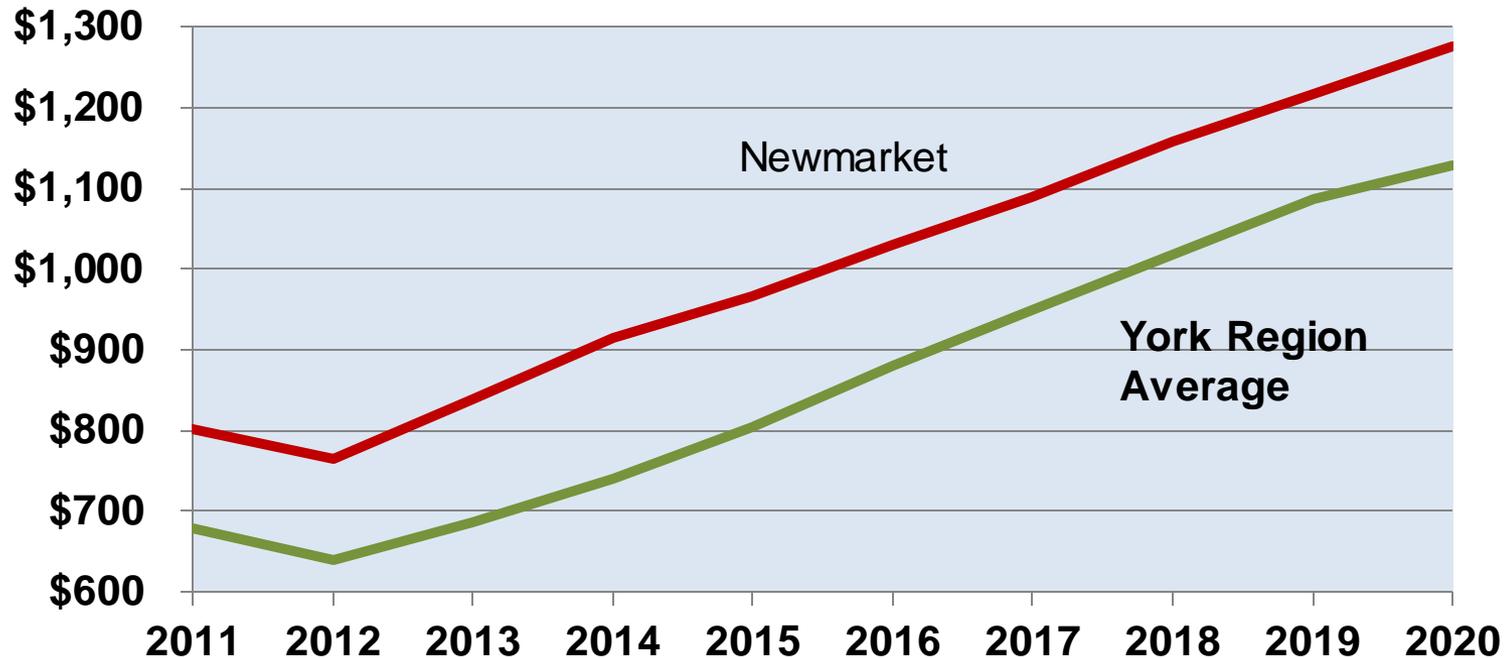
Municipal Levy per Capita



Water and wastewater – average annual residential cost



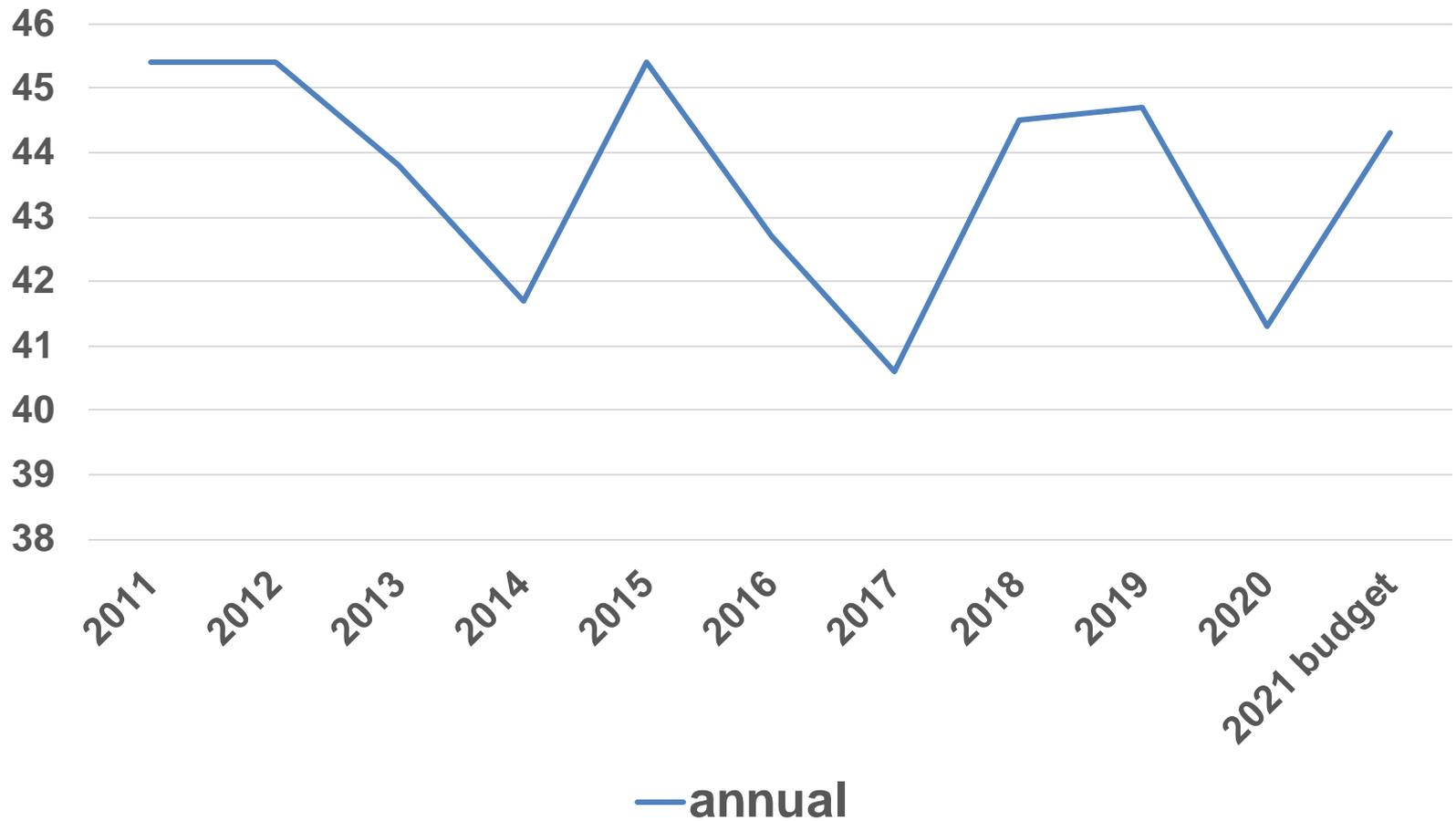
Residential Water/Wastewater Cost



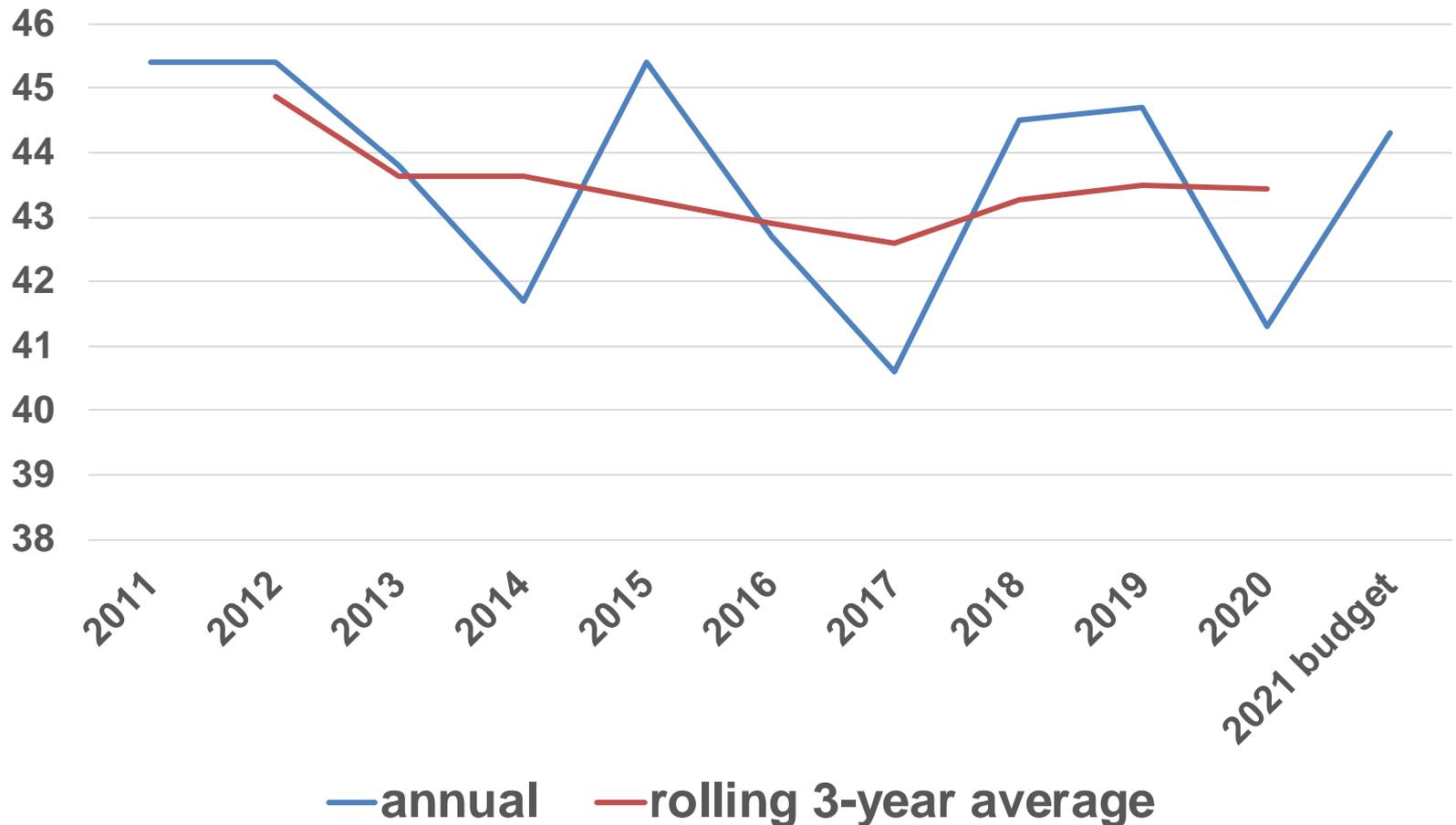
Note: 2011 represent average household water cost per 250 m³, while 2012 to 2020 represents cost per 200 m³.



Diversification – tax revenue as a % of total revenue

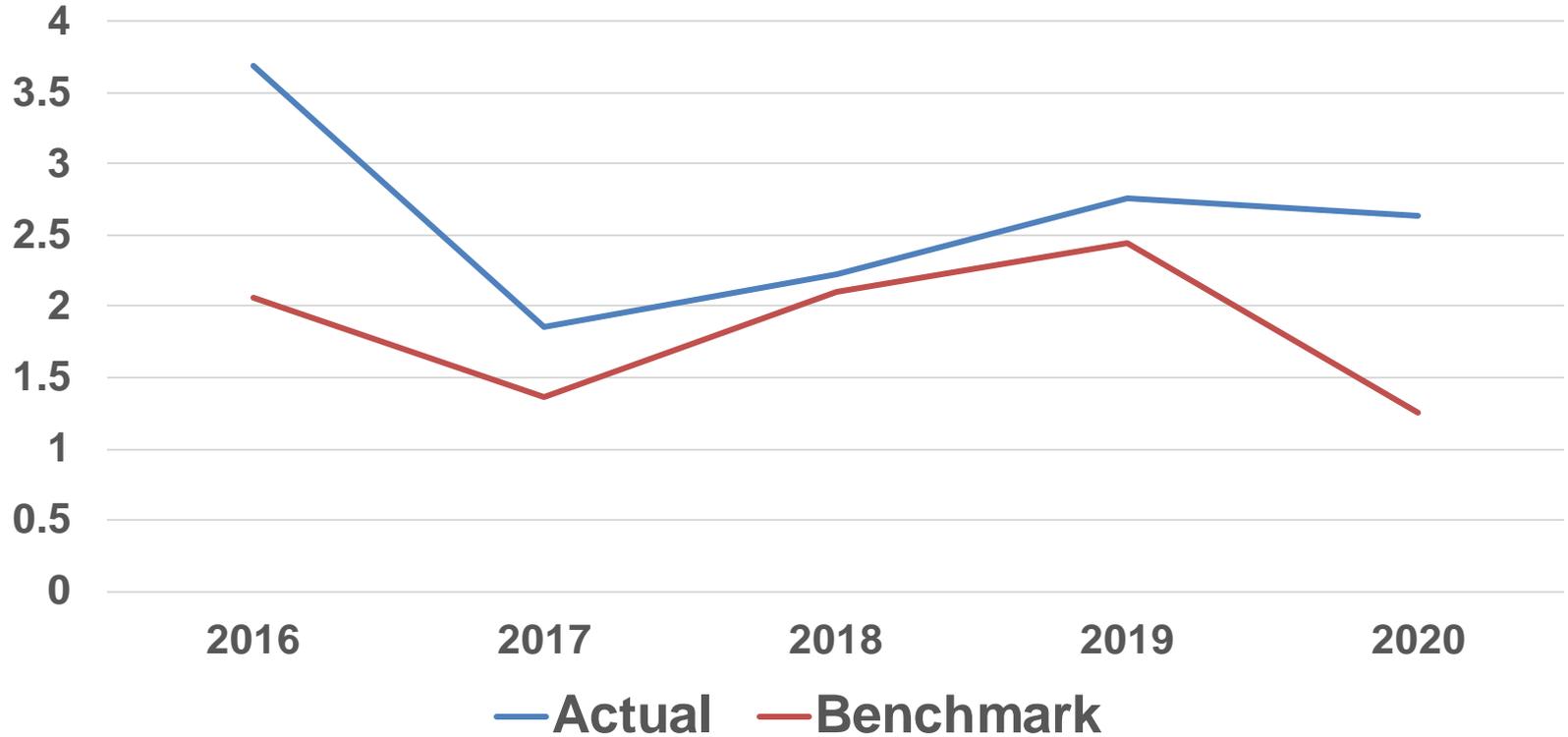


Diversification – tax revenue as a % of total revenue



Return on investment

Actual annual return on active investments
vs. the benchmark



Reserve Management further work required



From the Fiscal Strategy

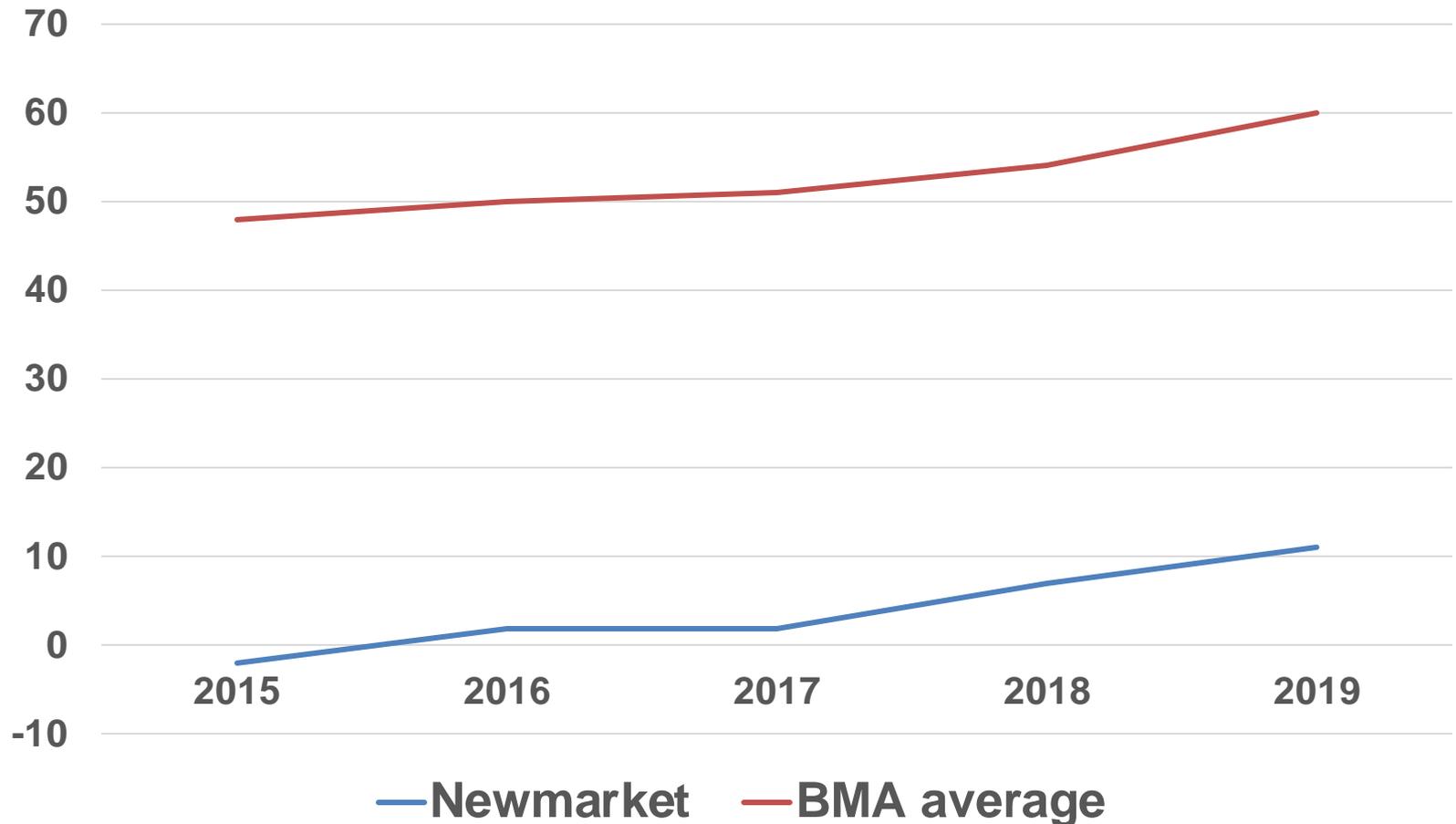
- Reserves are an issue for Newmarket

The issue relates to the adequacy of the Town's infrastructure reserves.

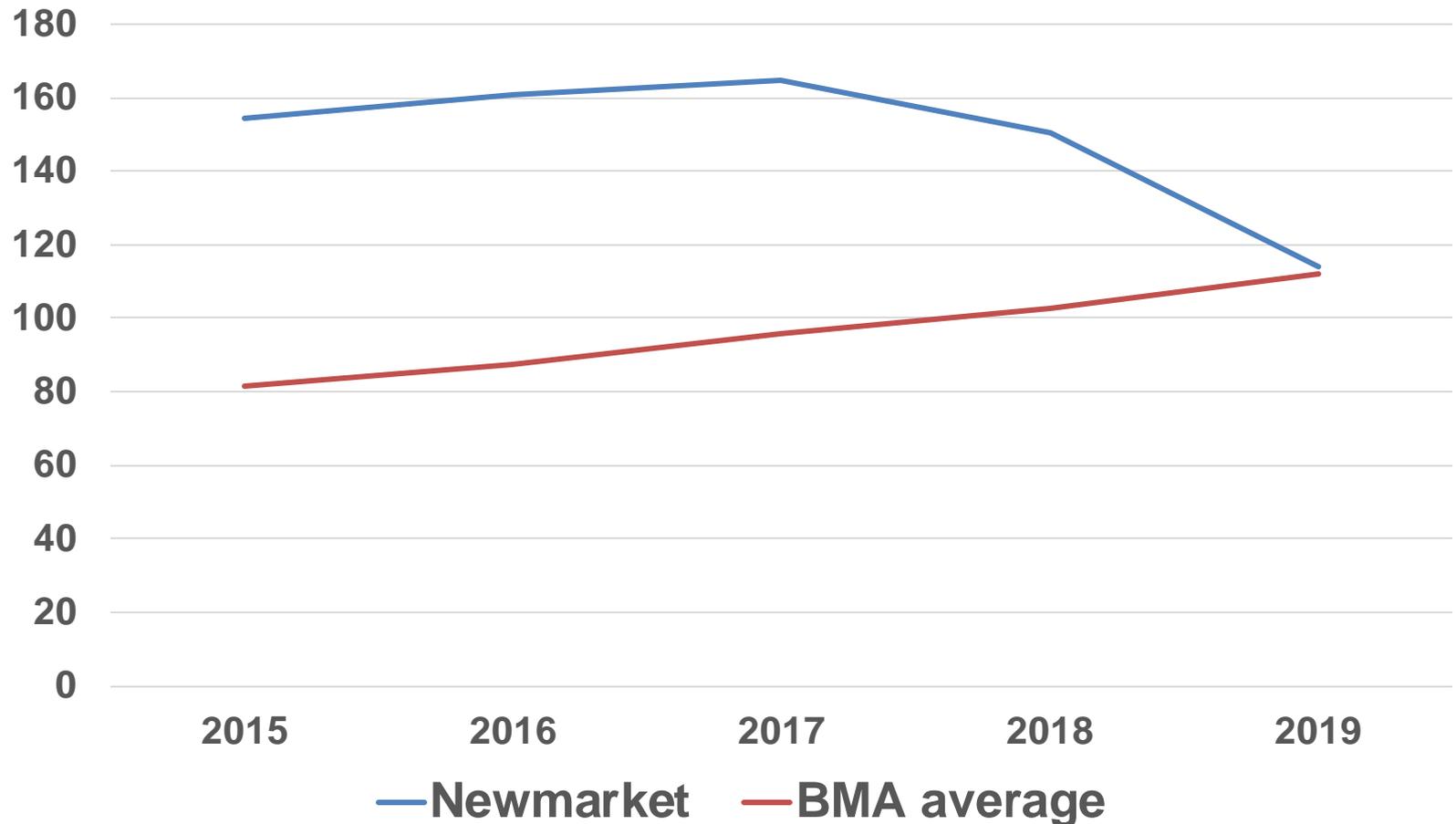
The Reserve & Reserve Fund review and the Asset Management Plans will dive deeper to propose options and strategies, including opportunities for redeployment of funds.



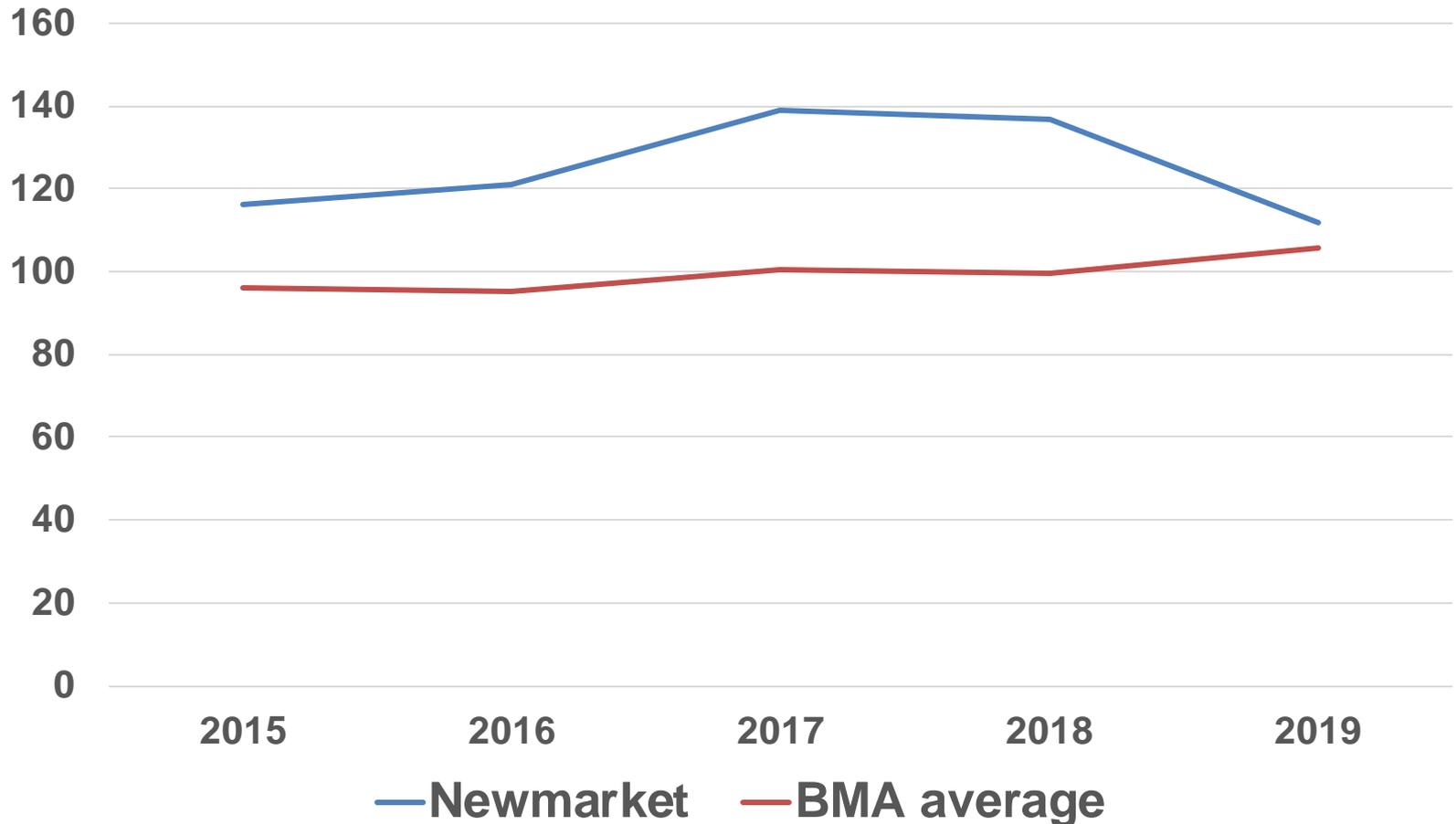
Tax Discretionary Reserves as a % of Own Source Revenues



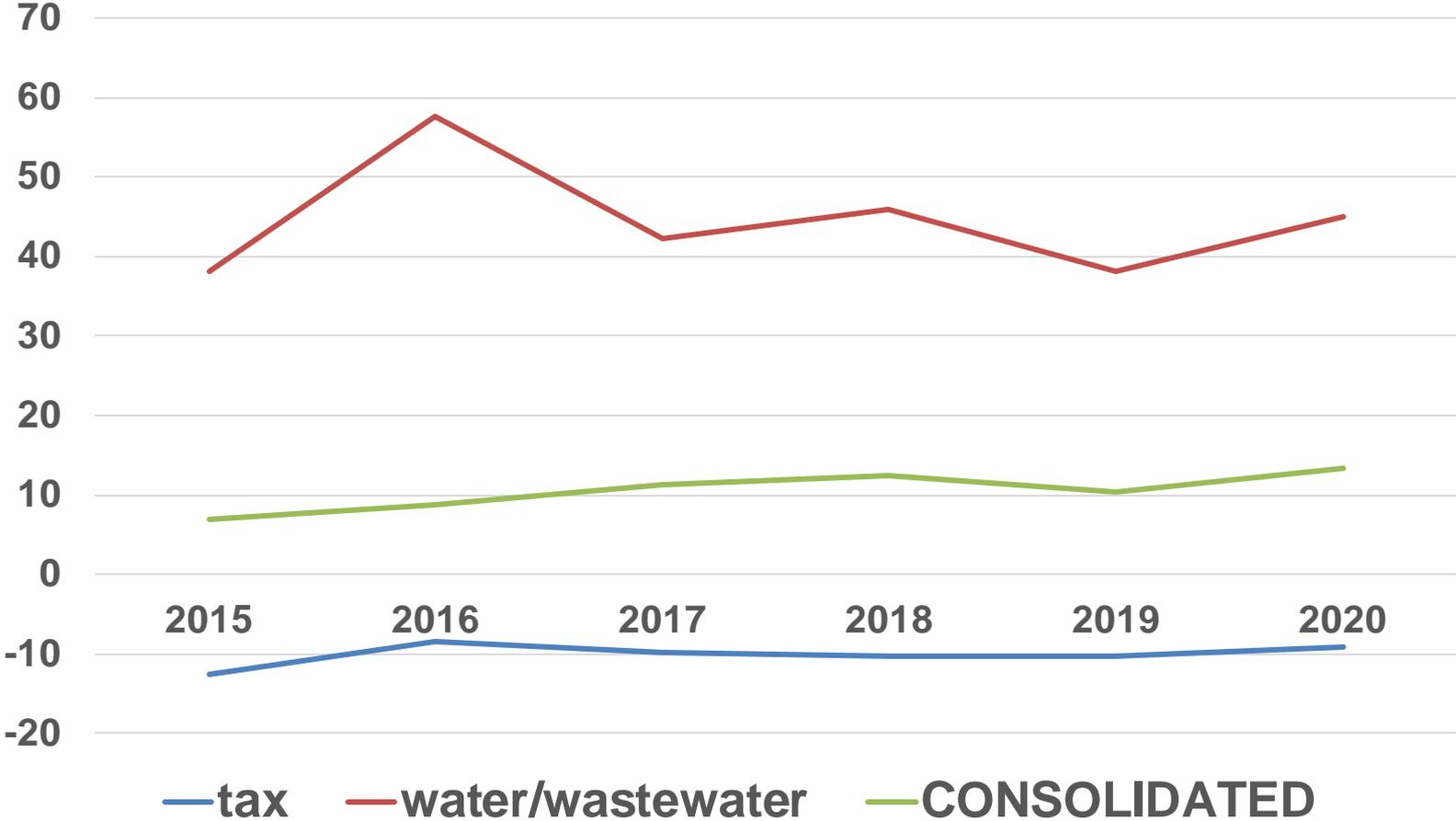
Water Discretionary Reserves as a % of Own Source Revenues



Wastewater Discretionary Reserves as a % of Own Source Revenues



Capital reserves – % of accumulated amortization



Next Steps

- September 27, Council Workshop on Asset Management Plans for core assets
- October 4, Committee of the Whole - Preliminary Draft 2022 Budget
- TBD – Reserves and Reserve Fund Review

