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December 3, 2015

**JOINT CAO, COMMISSIONERS AND CORPORATE SERVICES REPORT
FINANCIAL SERVICES - 2015-62**

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

SUBJECT: 2016 Operating Budget

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATIONS

THAT Joint CAO, Commissioners and Corporate Services Report - Financial Services – 2015-62 dated December 3, 2015 regarding the 2016 Operating Budget be received and the following recommendations be adopted:

- 1. THAT the Draft Operating Budgets, subject to any direction from Committee, be presented to Committee of the Whole on January 11, 2016 for final review and recommendation to Council.**

COMMENTS

Purpose

The purpose of this report is to obtain Committee direction on any revisions to be made to the draft operating budgets, so that Committee of the Whole on January 11, 2016, can have a final review and make a recommendation to Council.

Budget Impact

Subject to any revisions, the current tax-supported budget includes a 2.43% levy increase, which is within the Council target of 2.5%; this is before any adjustments to the infrastructure levy.

The combined utility budgets propose a revenue increase of 3.6% above the 2015 projection.

Summary

Staff is recommending a budget which maintains service levels, continues to deliver on Council priorities, and addresses budget drivers while staying within the budget increase target; being sustainable and keeping risk to a manageable level.

Background - Schedule

All fees and charges that are to be effective January 1, 2016 were adopted by Council on September 14 (Recreation and Licensing) and November 30 (all others including water rates).

Special Committee of the Whole meetings have been set for December 7 and 14. The intent of these meetings is to allow for Committee deliberation on issues identified at the November 16 meeting, and to prepare for a final budget recommendation to be made on January 11 with approval on January 18.

The issues identified were:

- New staffing requests – addressed by CAO, Commissioners and Treasurers Joint Report # 2015–38, Proposed 2016 Staffing Positions – Supplemental Information
- Central York Fire Services governance - Joint CAO/Commissioner/Legal Services Report # 2015-10 - Central York Fire Services – Consolidated Fire Services Agreement
- Capital Program funding from the Asset Replacement Fund – this will be addressed in a subsequent report and presentation for the December 14 meeting.

The inclusion and amount of an infrastructure levy – to increase contributions to the Asset Replacement Fund – has yet to be determined. It is recommended that this be part of the December 14 meeting.

ACTIVITY	DATE	STATUS
Special Council – Approval of Fees & Charges	November 30	Done
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Public engagement indicates a strong desire to maintain service levels.

The Budget Coordination Committee (consisting of staff represented from across the corporation) developed the 2016 budget schedule and public engagement approach so that the budget process could be replicated annually. As has been the practice over the past four years, the key means of engaging the public was through the use of the online budget tool.

The online budget tool was operational from September 11th to November 30th. During this time, the budget tool webpage received 724 visitors, of which, 196 residents submitted responses using the tool.

Although the results varied by services, overall, the majority of residents (67% to 91%) indicated a desire to maintain or increase current service levels or tax dollars invested in the delivery of municipal services.

TOWN SERVICES	Decrease	Maintain or Increase
Bylaw and Licensing services	44 (24%)	152 (76%)
Community programs and events	44 (24%)	152 (76%)
Facilities, parks and trails	35 (18%)	161 (82%)
Fire Services	40 (20%)	156 (80%)
Planning and Development Services	52 (27%)	144 (73%)
Public Library Services	64 (33%)	132 (67%)
Roads, bridges and sidewalks	22 (11%)	174 (89%)
Solid waste management	17 (9%)	179 (91%)

These results are consistent with the results of prior years and of the Community Survey.

Council priorities continue to be achieved.

In 2015, Council set its priorities for the 2014 to 2018 term focused on 5 themes: Economic Development/Jobs; Enhanced Recreation Opportunities; Community Engagement; Efficiency/Financial Management; and Traffic Safety & Mitigation. Within these 5 themes, Council identified 14 strategic priorities for the community and for staff to deliver on. Progress on achieving these targets is reported on a semi-annual basis; a mid-term status report for 2015 was distributed in September, with the final status report for the year to be issued in January, 2016.

The 2015 budget included items for these priorities. Those items that were budgeted for in 2015, but were not completed in 2015, will be carried forward into 2016. Additional items were added into the 2016 budget to address Council's priorities.

Details will be provided as part of the December 7 budget presentation.

Council's budget target was met.

On October 26, 2015, Council set the following target for the 2016 tax-supported budget:

... that any tax increase (Town portion), not including the Asset Replacement Fund allocation, not exceed 2.5%.

No direction has been given yet on the Asset Replacement Fund allocation. This is scheduled for discussion at the December 14 Special Committee of the Whole meeting.

The budget drivers, carried forward from previous years, made this a challenge:

Annualization of 2015 enhancements

Enhancements for sidewalk snow clearing and transportation initiatives were included in the 2015 budget but not at the full annual cost. The annualization of these items in 2016 will cost \$173,028 (equal to a 0.33% tax increase). Phases 2 and 3 of these items will cost \$150,000 and \$155,000 in 2017 and 2018 respectively.

Magna naming rights, term expiration

In 2006, Magna International offered the Town \$5 million to secure the naming rights for the new recreational complex (now known as the Magna Centre). The funding agreement was for \$500,000 to be paid annually for 10 years. These funds were applied against the 20-year debenture which was incurred to finance the new facility.

The budget impact in 2016 would have been \$500,000, but the re-allocation of Development Charges (per the 2014 DC Bylaw and Background Study) has offset the majority of this and reduced the impact to \$130,000 (0.24%).

Re-opening Old Town Hall

The net operating costs for the re-opened Old Town Hall were phased in over two years. \$127,500 was included in the 2015 budget. The remaining net costs of \$103,365 (0.19%) are included in the 2016 budget.

Revenue Right-sizing

Revenues have been growing on an annual basis but have not been achieving the budgetary target. The areas are:

- User Fees (including Recreation and Culture), which as per the Recreation Playbook, have limited room for further increases if our rates are to remain competitive.
- Property Tax Re-Assessments resulting from significant adjustments in current years. The implementation of Proactive Assessment Management will attempt to ensure we maximize predictable property tax revenues.
- Development Fees have been affected by growth not coming in at the rate that was anticipated.
- Investment income has lowered with decreases in interest rates. The Town's Investment Policy and Strategy is being updated to address this.
- Donations for general purposes are difficult to attract as the focus is on fundraising for specific projects.
- Other revenue opportunities continue to be sought but this is limited unless the province provides municipalities with more funding tools.

It is important for staff to continue to provide options to expand and diversify our revenue sources.

These were significant factors in reducing our 2014 and 2015 operating results. For 2016 and future years, it is important to have realistic and achievable targets.

To address this issue in one year, the required revenue budget right-sizing adjustment is \$971,000 (1.83% of a tax increase).

Budget Reductions and Refinements

The above noted budget drivers result in a budget increase of 2.35%. In addition, there are budgetary increases related only to 2016 (3.02%), such as wage and price increases. These would have resulted in a tax increase of 5.37%, but \$1,524,219 was identified – a combination of efficiencies, reductions, refinements and additional revenue.

A detailed list was previously provided as part of the Supplementary Budget Information provided on November 16.

These were significant budget reductions for 2016 and it will become increasingly difficult to find similar reductions in future budget years. It is therefore important to find innovative ways to mitigate future tax increases. As a result of these reductions and refinement, the Council target was met.

Staff continue to refine the budget.

The draft budget was presented to Committee of the Whole on November 16 with a proposed 2.5% tax increase. Since that time, there have been some revisions to the budget:

Staffing Requests

It is estimated that the request for a Health and Safety Compliance Officer (categorized as mandatory), will save \$5,000 in training costs.

Procurement Services request for a Contract Performance resource has been corrected to part-time for a savings of \$34,237.

Updated Reductions

The original list of budget reductions and refinements was decreased by a \$16,963 provision for wages. This provision is not required.

The list also included an additional \$20,000 in garbage bag tag revenue. This has not been approved and should be removed.

Net Impact

The net impact of these refinements is a decrease of \$36,200 which lowers the draft tax increase to 2.43%.

Risk has been balanced in the budget.

Community and Council requirements for the 2016 budget have been met without taking on additional risk.

The 2016 budget contains the following risks and risk mitigation measures:

Risk	Impact
<ul style="list-style-type: none"> • Growth revenue – assessment growth is included in the budget at 1.00%, but the latest MPAC numbers show only 0.80%. It is possible that difference will not be covered by the final supplementary tax billing or the surcharge for non-residential properties. 	\$ 106,000
<ul style="list-style-type: none"> • Hiring gaps 	400,000
<ul style="list-style-type: none"> • Budget reductions – even though most of the reductions are shown as low risk, there is still some risk – assuming 10% 	84,000
<ul style="list-style-type: none"> • Revenue adjustment phasing 	130,000
	\$ 720,000

The risks contained in the budget are offset by mitigation measures:

Mitigation Measures	Impact
<ul style="list-style-type: none"> • Growth items are included at the full annual cost – with the exception of CYFS; all growth requests have been included at the full annual amount for sustainability reasons. It is likely that only 75% of these budgets would be spent because of the timing of budget approval. 	\$ 105,000
<ul style="list-style-type: none"> • Manage hiring gaps – deliberate hiring gaps and extending vacancies should cut the risk by at least two thirds. 	265,000
<ul style="list-style-type: none"> • Rate Stabilization Fund – projected balance 	330,000
<ul style="list-style-type: none"> • Investment Strategy Update – projected additional income from allowing flexibility in short-term investments 	20,000
	\$ 720,000

In addition to the risk mitigation measures, there are some provisions for additional security:

Additional Security	Impact
• Other operating reserves – reserves for operational contingencies.	\$ 870,000
• Enhanced monitoring – attempts will be made in 2016 to eliminate the \$130,000 revenue phasing in 2016 rather than defer it to 2017. A Finance resource will be assigned to track this, revenues, budget variances and hiring gaps; and to report on this at least quarterly.	n/a
• Enhanced operational responsibility and accountability – the Operational Leadership team (OLT) is taking on a more significant role in the budget process, ensuring that corporate priorities are addressed. It was instrumental in finding the \$1.5 million in budget reductions to meet the Council target.	n/a
	\$ 870,000

Sustainability measures are contained in the budget.

Community and Council requirements for the 2016 budget have been met without creating significant additional tax increases in future years. There are other aspects of longer term sustainability which will be addressed in the next report for the December 14 Committee of the Whole.

As previously mentioned, there were significant items carried forward into 2016 from previous years which created a challenge. One of the goals of the 2016 budget was to eliminate or at least to minimize the deferral of tax increases to future years.

TAX INCREASE	2016	2017*	2018*	2019*
	DRAFT BUDGET	Starting point based on known drivers, subject to refinement		
Base budget (Town)	1.49	1.50	1.50	1.50
CYFS – including growth	1.33	1.63	1.50	1.50
Newmarket Public Library	0.24	0.15	0.15	0.15
Phasing of 2015 enhancements	0.33	0.27	0.26	
Growth expenses (excludes CYFS)	0.89	0.30	0.30	0.30
Growth revenue	(1.00)	(1.00)	(1.00)	(1.00)
Revenue adjustments	1.59	0.23		
Other one-time adjustments	0.43			
Adjustments to capital financing	(0.42)			
Other reductions	(2.38)	TBD	TBS	TBD
Total (prior to refinement)	2.50	3.08	2.71	2.45

** the outlook is based upon known drivers at this time. It has not undergone a substantive review and is still subject to refinement.*

- Tax increases are not projected to significantly decrease in the next few years. As such, there is no benefit in deferring costs.
- A significant driver going forward will be fire services and the implementation of the Fire Master Plan.

Sustainable measures included in the 2016 budget:

- Normally the revenue right-sizing would use reserves to phase it in over 3 or more years. With the goal of sustainability, to minimize the tax impact in future years, an attempt was made to absorb most of this in 2016.
- Growth items are included at the full annual cost – with the exception of CYFS.
- Capital budget financing is within the funding envelope without drawing upon general capital reserves.

Minimal non-sustainable measures have been included in the 2016 budget:

- Deferral of 25% of the cost of hiring 4 additional firefighters will increase 2017 taxes by 0.13%
- Phases 2 and 3 of the 2015 sidewalk snow clearing and transportation initiatives would result in increases in 2017 (0.27%) and 2018 (0.28%). It is important to note that these additional phases are still subject to Council approval with each annual budget.
- Deferral of \$130,000 of the revenue adjustment to 2017 reflects a tax increase of 0.23% unless sustainable offsetting savings are found in 2016.

Newmarket's tax rates are competitive.

BMA Consulting does an annual review in which they compare the metrics for participating Ontario municipalities including almost all of those in the greater Toronto area. Their draft 2015 survey shows results similar to those of previous years. Newmarket's taxes are lower than both the York Region and GTA average; this will likely continue into 2016. An informal survey of municipal treasurers in York Region indicates that our proposed increase will be in the middle.

Additional staff is required to implement Council plans and meet the demands of growth.

This is addressed by Joint CAO, Commissioners and Treasurers Report #2015–38, Proposed 2016 Staffing Positions – Supplemental Information.

Council has some options to choose from.

Council options could include:

- Proceed with budget as it is at a 2.43% tax increase.
- Include additional Council priorities in the budget. Up to \$36,000 can be added and still have the tax increase remain within the Council target.
- Adjust risk levels.
- Adjust service levels.
- Any other items identified by Committee.

The infrastructure levy / Asset Replacement Fund allocation will be dealt with at the December 14 Special Committee of the Whole.

These directions and decisions will inform the Draft Operating Budgets which will be presented at a Special Committee of the Whole on January 11, 2016 for final review and recommendation to Council on January 18, 2016.

The Utility Budget moves towards full compliance and full sustainability.

The water rates were approved by Council on November 30. These fees support utility budgets which are fully compliant with legislation and provide for fully sustainable 6-Year Water and Wastewater Financial Plans.

These operations are heavily regulated and do not include discretionary service levels. Only 21.5% of the budget is for wages and materials. The majority of the budget is paid to the Regional Municipality of York for the treatment of water and wastewater (55.1%), and for capital assets through the Asset Replacement Fund and debt servicing (22.1%).

Consequently, there are two main methods of approach to the budget:

1. Intergenerational – costs could be deferred to the future. This is not recommended.
2. User – the rate structure should ensure that costs are distributed on an equitable basis. On this basis, a tiered monthly charge is proposed to be phased in beginning in July 2016.

The combined utility budgets propose a revenue increase of 3.6% above the 2015 projection.

There are no proposed changes to the water rebate program. Earlier this year, a report and workshop were presented on Aging in Place which addressed the Town's policies that provide financial assistance for tax and ratepayers. The direction provided was to work on administrative efficiencies but to not increase funding for these programs.

A stormwater rate is not proposed for 2016 but will be recommended for implementation in 2017.

NEXT STEPS

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BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

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

CONSULTATION

The 2016 budget was a collaboration of all management staff and saw the Operational leadership Team (OLT) taking on a greater role.

This report was prepared by the Treasurer in consultation with the Strategic Leadership Team (SLT).

HUMAN RESOURCE CONSIDERATIONS

This is addressed by Joint CAO, Commissioners and Treasurers Report # 2015-38, Proposed 2016 Staffing Positions – Supplemental Information.


BUDGET IMPACT

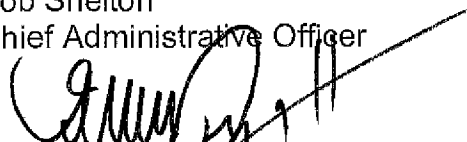
Subject to any revisions, the current tax-supported budget includes a 2.43% levy increase, which is within the Council target of 2.5%; this is before any adjustments to the infrastructure levy.

The rate-supported budget would result in a 6.5% increase to the average residential water user. The combined utility budgets propose a revenue increase of 3.6% above the 2015 projection.

CONTACT

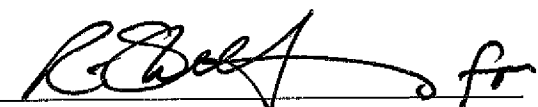
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