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2023 Preliminary Draft Budget Staff Report to Council

Report Number: 2023-08

Department(s): Financial Services

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Meeting Date: January 30, 2023

Recommendations

1. That the report entitled 2023 Preliminary Draft Budget dated January 30, 2023 be received; and,
2. That Council approve the capital spending authority for “Trails & Multi-Use Path” in the amount of \$1,920,000 in advance of the 2023 Budget approval; and,
3. That Council approve the deferral of 2023 capital spending authority for capital project “Recreation Playbook Implementation” for the RJT Outdoor Skating Rink to 2024; and,
4. That subject to any further direction, Staff be authorized to provide Council and the public with details of the Preliminary Draft 2023 Capital and Rate-Supported Operating Budgets on February 13, 2023 and Tax-Supported Operating Budget on March 20, 2023; and,
5. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The most significant budgetary pressure in the 2023 budget is inflation. The recommended tax-supported operating budget includes a tax rate increase of 7.67% (base budget at 5.56% and contribution to the Asset Replacement Fund (ARF) at 2.11%) in order to deliver a balanced budget while maintaining the existing service levels. This has been reduced from 13.00% after further refinements and identification of revenue opportunities, but does entail some risks.

The proposed capital budget is currently at \$41,560,000. The capital program includes a standard component which has been increased from \$20,000,000 to \$26,000,000 to recognize inflation and major projects at \$15,560,700.

The rate-supported operating budgets for water, wastewater and stormwater are based on their respective Council-approved six-year Financial Plans.

Purpose

Purpose of the report is to provide an overview on the preliminary draft 2023 tax-supported operating, rate-supported operating and capital budgets to initiate Council deliberations and review.

Background

The 2023 Budget preparation and development started in February 2022. Staff began the process by establishing guiding principles, assumptions and estimates in developing the budgets. Assumptions and costs were revised and refined as updated information were made available.

Business units submitted operating and capital decision packages in June 2022. Meetings were held by the Operational Leadership Team (OLT) and Senior Leadership Team (SLT) from August to December 2022 to discuss, review and ultimately recommend the preliminary draft budgets that are being presented for budget deliberations.

Special CoW meetings are scheduled to provide opportunity for further discussions on the capital and rate-supported operating budgets on February 13, 2023 and tax-supported operating budget on March 20, 2023.

Operating and Capital decision packages will be distributed in advance of the Special CoW meetings.

At this time, the target date to obtain Council decision on the 2023 budget is April 3, 2023.

Discussion

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 ARF, and extraordinary items)
 - Town's operating base budget
 - Central York Fire Services (CYFS)
 - Newmarket Public Library (Library)

- Main Street District Business Improvement Area (BIA)
- b. Rate-supported operating budgets
 - Water and Wastewater
 - Stormwater
 - Building Permits
- 2. Capital Budget
- 3. Reserve and Reserve Fund Budget

Although the 2023 preliminary draft budget is a status-quo budget in maintaining the existing extraordinary service levels, the budget pressures being faced in the 2023 budget have never been higher. The main driver is inflation. Year-over-year change as indicated by the Consumer Price Index (December Toronto) was 6% in 2022. Similarly, the Construction Price Index increased by over 30% since 2020. These inflationary increases have significant financial implications to both the operating and capital budgets.

1a. Tax-Supported Operating Budget

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

The following guiding principles were applied when developing the preliminary tax-supported operating budget:

- keep up with inflation and growth
- utilize growth revenues to support growth expenditures only
- continue to increase contributions to ARF
- maintain service levels

At the time of developing the tax-supported operating budget, the following assumptions were made:

- 1% tax rate increase generates an additional \$687,000 in property tax revenues
- assessment growth is confirmed at 0.76%
- expenditures will be increased based on CPI (forecasts: 2023 at 3.5% and 2022 at 7.0% during the time of developing the preliminary budgets)
- majority of the user fees and charges were approved by Council to increase by 2.5% in December 2022 (exceptions such as water, wastewater and stormwater fees)

Based on the guiding principles and assumptions outlined above, the initial tax rate increase to deliver a balanced budget came to 13.00% which included:

- higher base budget due to inflation (Town, CYFS and Library);
- higher contribution to ARF from 1.00% to proposed 1.25% to align with the Asset Management Plan (AMP) and recommendation from the Fiscal Strategy;
- inflation supplements for the Town’s contribution to ARF to account for anticipated higher asset replacement costs based on the 30% increase in Construction Price Index since 2021
- enhancements that included new staffing requests for Council approved initiatives

Staff conducted comprehensive review and risk assessments which resulted in revisions to bring down the tax rate increase from the initial 13.00% to 7.67%.

Components	Start Point (%)	Revisions (%)	Tax Rate Increase (%)
Base – Town	7.00%	(1.00%)	6.00%
CYFS	0.84%	0.00%	0.84%
Library	0.18%	0.00%	0.18%
ARF	1.25%	(0.25%)	1.00%
Capital Inflation supplement	3.33%	(2.22%)	1.11%
Enhancements	0.40%	(0.40%)	0.00%
Growth	0.00%	0.00%	0.00%
Mitigations	0.00%	(1.46%)	(1.46%)
Total	13.00%	(5.33%)	7.67%

The following revisions were made to the tax-supported operating budget:

- 1.00% reduction to the base budget on the basis that 2022 inflation ended at 6% as compared to the 7% assumption;
- defer additional 0.25% increase to ARF contribution;
- phase in inflation supplements over three years;
- defer enhancements which included new staffing requests for Council-approved initiatives;
- mitigations that included revenue opportunities.

While there are risks associated with the above revisions; they are considered to be manageable in the short term.

The 2023 Tax-Supported Operating Budget and the proposed 7.67% do not include financial impacts from Bill 23, More Home Built Faster Act, 2022.

1b. Rate-Supported Operating Budget

The 2023 rate-supported operating budgets (water, wastewater and stormwater) were established based on their respective Council-approved six-year financial plans. In December 2022, Council approved the 2023 water and wastewater rates with an increase of 3.8% and stormwater rate with an increase of 9%.

Building permit fees will continue to fund the Building Department. The reserve fund is targeted to be within at a minimum 100% 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 following guiding principles were applied when developing the capital budget:

- keep up with inflation and growth
- maintain existing assets in state of good repair
- establish capital requests based on updated plans
- evaluate capital delivery and capacity to deliver
- increase standard program to account for inflation
- include major projects
- include unallocated provision to provide flexibility and contingency

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 capital budget is comprised of a standard component and major projects. In the past, a threshold of \$20 million was established as the operational capacity for the standard component. With inflationary increase, the threshold for 2023 has been increased by 30% from \$20 million to \$26 million.

Major projects are projects that require minimal effort from dedicated capital project staff; therefore do not have a capacity restriction.

As well, the 2023 proposed capital budget includes a \$3 million unallocated provision in anticipation that there will be 2022 capital projects that require continuation into 2023 for project completion. 2022 carryover capital projects will be identified in the Q4 Financial Update report to be tabled to the Committee of the Whole (CoW) in March 2023.

The proposed 2023 capital budget totals \$41,560,700 with majority of the funding from ARF and Development Charges.

Category	ARF	DC	Other Reserve & Reserve Funds	Grant	Unallocated Provision	Total
Replacement	10,635,350	0	0	4,330,000	0	14,965,350
Growth	0	20,840,350	200,000	300,000	0	21,340,350
Other	0	0	2,255,000	0	0	2,255,000
Unallocated	0	0	0	0	3,000,000	3,000,000
Total	10,635,350	20,840,350	2,455,000	4,630,000	3,000,000	41,560,700

The decision package for capital project “Trails and Multi-Use Path” in the amount of \$1,920,000 will require Council approval at this time in order to meet construction timelines in spring 2023 for the Northwest Quadrant trails. This is additional funding requirement to the 2022 approved funding based on recent tender.

Based on the revised project delivery timeline for the RJT Outdoor Skating Rink, the 2023 pre-approved capital spending authority (from the 2022 Budget process) for “Recreation Playbook Implementation” will be deferred to 2024.

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

With impacts from high inflation, the proposed preliminary draft tax-supported operating budget recommends a tax rate increase of 7.67% to deliver a status quo budget. Based on the average assessment value of \$706,000, the impact to a residual household will be an increase of \$174. This represents the local portion only (not including any increase from the Region).

The capital budget is currently at \$41,560,700 and the rate-supported operating budgets are based on the Council-approved six-year financial plans.

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 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.

Communications and Public Engagement for the 2023 Budget

This year, the 2023 budget communications plan will have an education-focused approach driving the community to the Town website to learn more about the Town's budget and opportunities to get involved. A variety of communications tools and tactics will continue to be used (Town page advertisements, media releases, social media posts, website updates, e-newsletters and more) to promote public budget meetings and encourage community participation in the budget process.

Human Resource Considerations

Not applicable.

Budget Impact

Impact to a residential home will be approximately \$228 in 2023:

- \$174 in property taxes (local portion only) based on tax rate increase of 7.67% and average assessment value of \$706,000; and
- \$50 in water and wastewater fees based on the approved rate increase of 3.8%; and
- \$5 in stormwater fees based on 465 square meters.

Attachments

Attachment A: Capital Decision Package "Trails and Multi-Use Path"

Approval

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Commissioner, Corporate Services

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