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## 2023 Draft Operating and Capital Budgets Staff Report to Council

Report Number: 2023-21

Department(s): Financial Services

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

Meeting Date: March 27, 2023

### Recommendations

1. That the report entitled Draft 2023 Operating and Capital Budgets dated March 27, 2023 be received; and,
2. That the Draft 2023 Operating Budget with expenditures of \$147,368,530 be approved, which is comprised of the following components:
  - a. \$ 72,873,205 for Town purposes
  - b. \$ 18,165,424 for Central York Fire Services (Newmarket's share)
  - c. \$ 3,864,412 for the Newmarket Public Library
  - d. \$ 30,000 for the Main Street District Business Improvement Area (BIA)
  - e. \$ 21,640,991 for the Water Rate Group
  - f. \$ 24,914,938 for the Wastewater Rate Group
  - g. \$ 3,036,520 for the Stormwater Rate Group
  - h. \$ 2,843,040 for the Building Permit Rate Group
3. That a Capital Spending Authority of \$154,284,700 be established, being \$63,078,700 for 2023 and \$64,326,000 for 2024 and \$26,880,000 for 2025; and,
4. That the draft 2023 Operating and Capital Budgets be forwarded to the Council meeting of April 3, 2023 for final approval; and
5. That Council authorize the Director of Financial Services/Treasurer to:
  - a. Make any necessary adjustments within the total approved budget to reflect organizational changes and any other reallocation of costs; and
  - b. Accept and adjust the budget for new provincial and/or federal funding provided there is no tax levy impact; and,

6. That staff be authorized and directed to do all things necessary to give effect to this resolution.

## Executive Summary

The 2023 Budget process has been challenged with higher inflationary pressure than in other years. Despite the budgetary challenges, the Town continues to strive for maintaining its high levels of services while delivering a sustainable and fiscally responsible budget.

The proposed 2023 budget includes a 5.50% increase in property taxes. Council had previously approved a 3.8% increase in the combined water and wastewater rates, and a 9.0% increase in the stormwater charge in December 2022. New rates were effective as of January 1, 2023.

## Purpose

The purpose of the report is to obtain approval from Committee of the Whole (CoW) on the 2023 Operating and Capital Budgets, followed by Council decision on April 3, 2023 for adoption.

## Background

The 2023 Budget deliberation process commenced on January 30, 2023 with the report to Special CoW entitled [“2023 Preliminary Draft Budget”](#). The process started later than usual due to the municipal election in October 2022.

Three Special CoW meetings were scheduled with the following reports to further discuss the budgets: [Preliminary Draft Capital Rate-Supported Operating Budgets](#) on February 13, 2023, [Service Level Reduction Options](#) on March 6, 2023 and [Preliminary Draft Tax-Supported Operating Budget](#) on March 20, 2023.

## Discussion

The Town’s 2023 Budget totals \$210.4 million with the following breakdown:

<b>Components</b>	<b>\$ in millions</b>
Tax-supported operating budget	\$94.9
Rate-supported operating budgets	\$52.4
<b>Total Operating Budgets</b>	<b>\$147.3</b>
Capital Budget	\$63.1
<b>2023 Total Budget</b>	<b>\$210.4</b>

## Operating Budgets

Based on the high inflationary pressures and the projected expenditures to deliver services, the required tax rate increase would be 13.0%. Every 1% tax rate increase in the 2023 budget will generate an additional \$687,000 in property tax revenues.

Over the course of internal budget review, sustainable savings totaling \$3.7 million were identified to lower the tax rate increase from the initial 13.0% to 7.67%. Budget deliberations brought down the tax rate increase further to 5.5%.

Operating Budgets support the day-to-day operations to deliver services to the Town's residents and businesses. There are two sets of operating budgets defined by their funding sources: tax-supported operating budget and rate-supported operating budget.

The tax-supported and rate-supported operating budgets include the following expenditures:

Area	Expenses based on PSAB	Principal Repayment on Long-term Debt	Capital Financing	Transfer to Reserves/ Reserve	Total Expenditures
Town	\$60,125,614	\$3,980,725	\$736,781	\$8,030,085	\$72,873,205
Downtown BIA	\$30,000	\$0	\$0	\$0	\$30,000
Library	\$3,615,378	\$0	\$0	\$249,034	\$3,864,412
CYFS	\$16,694,959	\$0	\$0	\$1,470,465	\$18,165,424
<b>Tax-supported</b>	<b>\$80,465,951</b>	<b>\$3,980,725</b>	<b>\$736,781</b>	<b>\$9,749,584</b>	<b>\$94,933,041</b>
Water	\$17,693,871	\$47,120	\$0	\$3,900,000	\$21,640,991
Wastewater	\$19,733,609	\$47,120	\$0	\$5,134,209	\$24,914,938
Stormwater	\$1,649,033	\$0	\$0	\$1,387,487	\$3,036,520
Building	\$2,843,040	\$0	\$0	\$0	\$2,843,040
<b>Rate-supported</b>	<b>\$41,919,553</b>	<b>\$94,240</b>	<b>\$0</b>	<b>\$10,421,696</b>	<b>\$52,435,489</b>
<b>Total</b>	<b>\$122,385,504</b>	<b>\$4,074,965</b>	<b>\$736,781</b>	<b>\$20,171,280</b>	<b>\$147,368,530</b>

**Expenses based on PSAB** are used for financial statement reporting as regulated by the Public Sector Accounting Board (PSAB), but do not include amortization (also known as depreciation).

**Principal Repayment on Long-term Debt** excludes interest which is included in Expenses.

**Capital Financing** is the amount transferred from the Operating to the Capital Budget. It does not include the operating and maintenance costs of infrastructure, which are included in Expenses.

**Transfer to Reserves/Reserve Funds** includes contributions to the Asset Replacement Fund.

**Total Expenditures** are accounted for as an expanded fund-based approach for budgeting and management purposes.

Recognizing the budgetary pressures, there is only one growth related operating decision package “Denison Synthetic Turf Maintenance” recommended for inclusion in the operating budget at this time (refer to Appendix A for more details). This request will be funded from growth revenues that will not have any tax impact. Unallocated growth revenues will be transferred to the Growth Reserve. This is consistent with our fiscally prudent guiding principle to fund growth expenditures with growth revenues only.

As illustrated in the table below, 78.2% of the funding (equivalent to \$74.2 million) for tax-supported operating expenditures is from property taxes.

	Town	CYFS	Library	Total
\$ in millions				
Expenses	\$64.1	\$16.7	\$3.6	\$84.4
Reserve Transfers	\$8.7	\$1.5	\$0.3	\$10.5
<b>Total Expenses &amp; Transfers</b>	<b>\$72.8</b>	<b>\$18.2</b>	<b>\$3.9</b>	<b>\$94.9</b>
Non-Tax Revenues	(\$20.1)	(\$0.4)	(\$0.2)	(\$20.7)
<b>Tax Levy</b>	<b>\$52.7</b>	<b>\$17.8</b>	<b>\$3.7</b>	<b>\$74.2</b>

99.8% of funding for Rate-supported Operating expenditures is from rates (water, wastewater, stormwater and building).

	Water	Wastewater	Stormwater	Building
Expenses	\$17.7	\$19.7	\$1.6	\$2.8
Reserve Transfers	\$3.9	\$5.2	\$1.4	\$0.0
<b>Total Expenses &amp; Transfers</b>	<b>\$21.6</b>	<b>\$24.9</b>	<b>\$3.0</b>	<b>\$2.8</b>
Non-Rate Revenues	(\$0.02)	(\$0.02)	(\$0.1)	(\$0.0)
<b>Rate Levy</b>	<b>\$21.6</b>	<b>\$24.9</b>	<b>\$2.9</b>	<b>\$2.8</b>

## Capital Budget

The Capital Spending Authority is the total of all capital expenditures approved by Council and may span more than one year. Due to the resource capacity and timelines for design and project delivery, some capital projects take longer than one year to be completed. The Capital Spending authority for future years would ensure continuity and financial stability to complete projects that span more than one year. This differs from the Capital Budget which is the annual component and includes the required funding. The Capital Program is the list of projects to be delivered by the Capital Budget.

Based on the report [Preliminary Q4 2022 Financial Summary](#), the proposed 2023 capital spending authority is \$63,078,700 after inclusion of the 2022 capital carryover requests. The 2024 and 2025 capital spending authority will be \$64,326,000 and \$26,880,000 respectively. Appendix B “2023, 2024 and 2025 Capital Spending Authority Summary” outlines the 2023 capital program and future years’ funding requirements, as well as the individual capital decision packages are included for reference.

## 2023 Capital Program Funding by Category

Category	ARF (\$)	DC (\$)	Other Reserve & Reserve Funds (\$)	Grants / Other (\$)	Unallocated Provision (\$)	Total (\$)
Replacement	9,497,350			4,388,000		13,885,350
Growth		25,540,350				25,540,350
Other			3,535,000	1,300,000		4,835,000
Unallocated					518,000	518,000
2022 Projects	3,274,000	4,415,414	10,457,000	153,586		18,300,000
<b>Subtotal</b>	<b>12,771,350</b>	<b>29,955,764</b>	<b>13,992,000</b>	<b>5,841,586</b>	<b>518,000</b>	<b>63,078,700</b>

The Development Charges (DC) (\$30.0 million or 47.5%) is the primary funding source for growth projects, followed by Asset Replacement Fund (ARF) (\$12.7 million or 20.2%) for asset replacements.

Other funding sources include:

- \$14.0 million from other reserves and reserve funds; and
- \$4.0 million from the 2023 Canada Community Building Fund allocation; and
- \$1.8 million from the 2023 Ontario Community Infrastructure Fund (OCIF).

The requested Capital Spending Authority of \$154.3 million includes the following funding requirements by year:

Year	\$
2023	63.1
2024	64.3
2025	26.9
<b>Total</b>	<b>154.3</b>

The Capital Program has been prepared, reviewed and prioritized with consideration for both operational and financial capacity to deliver the recommended 2023 Capital Program. The Asset Management Plan and Development Charge (DC) Background Study have been considered when developing the 2023 Capital Program.

## **Conclusion**

CoW has been presented with the draft 2023 operating and capital budgets. The direction provided with respect to the staff recommendations on the 2023 Operating and Capital Budgets will be tabled at the April 3, 2023 Council meeting for adoption.

To complete the budget process in 2023:

- The Reserves and Reserve Funds Budget will be presented to Council. It is based on the approved operating and Capital Budgets;
- The Budget will be presented in the Financial Statement format;
- There will be quarterly Financial Updates on the operating results and delivery of the Capital Program.

In summary, the 2023 Budget achieves a balance between community needs and fiscal responsibility.

## **Business Plan and Strategic Plan Linkages**

The 2023 budget achieves long term sustainability by continuing to:

- utilize assessment growth revenues to fund growth related expenditures only;
- increase contribution to ARF;
- align rate increases for the rate-supported operating budgets based on the respective financial plans;
- invest in capital infrastructure; and
- replace assets to keep the Town's assets in a state of good repair.

## **Consultation**

All members of Operational Leadership Team (OLT) and Strategic Leadership Team (SLT) and their staff participated in the preparation and review of the 2023 draft budgets. Members of Council provided valuable feedback and direction throughout the budget deliberation process.

### **Joint Council Committee (JCC)**

A Joint Council Committee (JCC) meeting was held on January 10, 2023 to review and make a recommendation on the 2023 Central York Fire Services (CYFS) budget. Aurora Council reviewed the budget on January 16, 2023 and had no formal comments.

### **Newmarket Public Library Board**

Newmarket Library Board reviewed and recommended the capital and operating decision packages at their board meeting on May 11, 2022.

## **Other Boards and Committees**

There have been no budget requests from any of the boards or committees, including the Newmarket Downtown BIA.

## **Human Resource Considerations**

No new staffing request in the 2023 Budget.

## **Budget Impact**

Based on the proposed tax rate increase of 5.5%, the annual increase will be \$125 for a residential property with current value assessment (CVA) of \$706,000 by the Municipal Property Assessment Corporation (MPAC) and annual increase of \$159 with CVA of \$900,000.

Council had previously approved the water and wastewater increase of 3.8% and stormwater increase of 9.0% in December 2022. The rate increases were effective as of January 1, 2023. The annual increase for water and wastewater will be \$50 based on an average consumption of 200m<sup>3</sup>, and \$4.58 for stormwater based on 465 square metre lot.

## **Attachments**

Appendix A – Tax-Supported Growth Operating Budget Decision Package

Appendix B – 2023, 2024 and 2025 Capital Spending Authority Summary

## **Approval**

Mike Mayes, CPA, CGA, DPA

Director of Financial Services

Esther Armchuk, LL.B

Commissioner, Corporate Services

## **Contact**

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