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October 30, 2013

**CORPORATE SERVICES REPORT - FINANCIAL SERVICES - 2013-49**

TO: Mayor and Members of Council  
SUBJECT: Approval of the 2014 Operating and Capital Budgets  
ORIGIN: Director, Financial Services/Treasurer

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**RECOMMENDATIONS**

**THAT Corporate Services Report - Financial Services - 2013-49 dated October 30, 2013 regarding approval of the 2014 Operating and Capital Budgets be received and the following recommendations be adopted:**

1. **THAT the proposed 2014 Operating Budget with expenditures of \$106,327,009 be approved, which is comprised of the following components:**
  - a. **\$56,975,206 for the Town portion, which includes an additional \$208,000 for asset replacement funding;**
  - b. **\$30,000 for the Newmarket Downtown Business Development Area (BIA);**
  - c. **\$3,668,618 for the Library portion;**
  - d. **\$14,560,013 for Central York Fire Services (Newmarket share) which includes an additional \$150,125 (Newmarket share) for asset replacement funding; and**
  - e. **\$31,093,172 for the Water and Wastewater Rate Groups;**
2. **AND THAT the proposed 2014 Capital Budget with expenditures of \$23,730,863 be approved;**
3. **AND THAT the proposed 2014 Operating and Capital Budgets be forwarded to the Council meeting of November 12, 2013 for final approval.**

**Purpose**

The purpose of this report is to obtain Committee of the Whole approval of:

1. the 2014 Operating Budget, including water and wastewater, tax-supported, CYFS, Library, and the Newmarket Downtown Business Improvement Area (BIA) operations; and
2. the 2014 Capital Budget.

**Budget Impact**

The tax increase of 2.72% would be \$41.95 to the average residence. Combined with the projected Regional and School Board increases, the all-in tax increase for the average residence would be 1.73% or \$69.50.

The water and wastewater utility bill for the average residence will increase by 8.4% or \$82.25/year.

The proposed capital budget is \$23,730,863 and is within the available funding envelope.

## **COMMENTS**

### **Background**

#### **Budget Process and Schedule**

At the Special Committee of the Whole (budget) meeting on April 22 plans for the 2014 budget process were outlined. The topics covered were: Council interviews, introduction of the Budget Toolkit, Council priorities, the budget schedule, the format of the budget, and public engagement. Joint Corporate Communications/Financial Services Report 2013-27, 2014 Budget Process Update, provided an update on these topics.

Council agreed to a budget schedule outlined in Financial Services Report 2013-15 which recommended that we undertake an earlier start to the budget process with a target budget approval of November 12, 2013. In order to support an earlier approval date, a comprehensive public engagement and consultation process was developed.

#### **Status Quo Budget**

The starting point for the development of the 2014 operating budget was a status quo budget (also referred to as a 'base' budget). Its goal was to provide for the same level of services as provided in 2013 and with the same total dollar allocation as in 2013. This budget also includes some of the following adjustments:

1. Changes in revenues and expenses due to inflation and contract/price changes;
2. Changes in revenues and expenses due to growth;
3. New mandatory requirements;
4. Service changes specifically approved by Council since the adoption of the 2013 budget;
5. Removal of one-time items;
6. Annualization of changes made in the 2013 budget.

Variances from the status quo budget were identified as either drivers or listed in decision packages – efficiencies, growth-related items, and service level enhancements.

#### **Targets**

On April 11, 2011, Council established a multi-year budget target of “a blended tax rate not to exceed the higher of either the Toronto Consumer Price Index (CPI) or 2% in 2012, 2013 and 2014.” With the aim to stay within the target and deliver the budget prior to the New Year, staff identified service needs and refined the budget to reflect the community’s feedback and Council’s key priorities. \$787,396 in budget requests were deferred for consideration in future years and \$266,260 in efficiencies were found.

A preliminary draft budget was presented at the Special Committee of the Whole (budget) meeting of September 16 that met that target. Based on projected increases for the Regional and Educational property taxes and tax shifting, it was estimated that this could be achieved with a Town tax levy increase of 3.41%.

Council on September 30, 2013 set an additional target “for the Town tax increase of less than 2% and for the Asset Replacement fund of less than .75% for a combined target of less than 2.75%.”

This was met through a combination of corrections, adjustments and revisions which were contained in Financial Services Report 2013-44 - Proposals for the Draft Budgets.

## **Budget corrections and adjustments**

The original budget submissions were made in early July. During the three months since the original submissions, staff continued to review their budgets as new information became available – this is known as the sore-thumbing exercise. The draft budget was revised to reflect updated estimates which resulted in a net reduction to the tax-supported operating budget of \$267,000, equal to a 0.55% reduction in the tax increase.

## **Additional budget revisions**

The above corrections, along with Council's direction to remove the provision for the Old Town Hall from the draft budget, lowered the tax increase to within \$217,000 of the target. To achieve the remaining reduction staff focused on items that would not have an impact on service levels and would have minimal risk. Growth items to maintain existing service levels in a growing municipality have been preserved and revisions were proposed that reduced the budget by a further \$235,000.

Funding of the service level enhancements, one of the revisions, will include \$10,000 for the Integrity Commissioner from the general consulting reserve and \$25,000 for the Southlake CreateIT initiative from the growth reserve.

## **Further budget adjustments/considerations – Committee of the Whole October 28, 2013**

Staff was directed by Council to calculate the viability and savings of removing the ice pads at Magna Centre between the periods of June 15 to August 15, 2014. This was addressed by Recreation & Culture report 2013-39, which recommended making no change at this time.

Joint Development and Infrastructure Services and Community Services report 2013-47 provided details on the proposal for a leash-free dog park. The draft Capital Budget includes an amount for this item of \$100,000. The funding is to be split 50/50 between the Town and community fundraising (further funding criteria will apply as per the Committee of the Whole minutes). \$10,000 was added to the budget for operating costs.

## **Central York Fire Services (CYFS)**

At their meeting of September 3, the Joint Council Committee (JCC) made a recommendation on the CYFS budget. In accordance with the Consolidated Fire and Emergency Services Agreement, their budget has been reviewed by Aurora Town Council and is being submitted to Newmarket Town Council for final approval.

## **Fees and Charges**

The 2014 Recreation & Culture and Licensing Fees received early approval in September. The remaining fees and charges are being presented along with this report. All fees and charge adjustments will be effective January 1, 2014 and are reflected in the 2014 budget.

## **Tax-Supported Operating Budget**

Information on the Tax-Supported Operating Budget has been previously distributed and is available with other information on our website at: <http://www.newmarket.ca/en/townhall/2014budget.asp>. Hard copies of previous reports can be obtained through the Financial Services department.

### Central York Fire Services

The CYFS budget includes an enhancement item which has no net budget impact and an increase in their contribution to the Asset Replacement Fund of \$250,000. This contribution is in line with their 10-year capital forecast and has a net impact (net of Aurora's share), of \$150,125.

### Newmarket Public Library

The NPL budget was approved by the Library Board on June 19. Updated information has resulted in some minor revisions which were received and added to the budget as recommended by the Board at its meeting on September 18.

### Newmarket Downtown BIA

This budget continues to be self-funded from the local levy and has no impact on the general tax-supported budget.

### Building Division

The Building Division's budget includes total expenditures of \$1,974,251 which represents an increase of 2.4% from the 2013 budget. There is no impact on the operating budget, as the Building Division is self-funded by building permit fees, other related revenues, and the Building Reserve.

### Asset Replacement Fund (ARF) contributions

In May of this year Council passed a supplementary tax increase of 0.80% for infrastructure. This was the result of Hemson Consulting's report on Phase 1 of the Capital Financing Sustainability Strategy. This resulted in an additional contribution of \$363,773 to the Asset Replacement Fund.

Based on their 10-year capital projections, JCC has already recommended a \$250,000 increase in ARF contributions for CYFS – Newmarket's share being \$150,125. It is recommended that a further \$208,000 be contributed towards ARF for the Town's infrastructure. This would make the total increased ARF contribution \$358,125, which is roughly equivalent to the infrastructure levy for 2013 and less than a 0.75% tax increase.

Hemson's report on Phase 2 of the study is scheduled for a Special CoW meeting on November 18. It is expected to be supportive of increasing the ARF contributions.

### **Utility (Water and Wastewater) Budget**

The recommended Utility Budget meets provincial regulations for financial sustainability. It has sufficient revenues to meet its anticipated 2014 costs and recognizes the need for long-term sustainability by initiating changes to the rate structure. The 2014 Water and Wastewater Operating Budgets are consistent with and were derived from the Six-Year Water and Wastewater Financial Plan that was approved by Council in February 2012. For the average resident this will result in an 8.4% increase to their utility bills (2013 was 9.0%).

After the budget is finalized, the 6-year plans will be updated. Consideration is being given to remote meter technology and a review of our rate structure.

## Consolidated Operating Budgets

The following table summarizes the proposed expenses and expenditures:

| <b>SUMMARY OF OPERATING EXPENSES AND EXPENDITURES</b> |                               |  |                          |   |                           |
|---|-------------------------------|--|--------------------------|---|---------------------------|
| <b>Area</b>   | <b>Expenses Based on PSAB</b> | <b>Principal Repayment on Long-term Debt</b> | <b>Capital Financing</b> | <b>Transfer to Reserves and Reserve Funds</b> | <b>Total Expenditures</b> |
| Town  | 42,806,677                    | 2,490,952                                    | 204,000                  | 9,499,326                                     | 55,000,955                |
| BIA   | 30,000                        |  |                          |   | 30,000                    |
| Building  | 1,974,251                     |  |                          |   | 1,974,251                 |
|   | <b>44,810,928</b>             | <b>2,490,952</b>                             | <b>204,000</b>           | <b>9,499,326</b>                              | <b>57,005,206</b>         |
| Newmarket Public Library                              | 3,422,066                     |  |                          | 246,552                                       | 3,668,618                 |
| Central York Fire Services                            | 13,625,275                    |  | 14,000                   | 920,738                                       | 14,560,013                |
| Water & Wastewater                                    | 23,830,698                    | 660,420                                      |                          | 6,602,054                                     | 31,093,172                |
| <b>TOTAL</b>  | <b>85,688,967</b>             | <b>3,151,372</b>                             | <b>218,000</b>           | <b>17,268,670</b>                             | <b>106,327,009</b>        |

*Expenses* are used for financial statement reporting as regulated by the Public Sector Accounting Board (PSAB).

*Expenditures* are an expanded fund-based approach used for budgeting and management purposes.

## Capital Budget

The preliminary draft capital budget presented on September 16, included \$13,490,357 in capital expenditures. The capital budget is now \$23,730,863. Report #2013-44 - Proposal for the 2014 Draft Budgets included an additional \$10,340,506 and the budget for the Leash-Free Dog Park was set at \$100,000 with a fundraising component.

The revised draft capital budget fits within the funding envelope.

\$7.1 million worth of projects were deferred for consideration in future years.

## Projected Reserve and Reserve Fund Balance

Based on 2013 budgeted ending balances and projected 2014 activity, at December 2014, there would be a total of \$51.8 million in the reserves and reserve funds, \$37.3 million in cash and \$14.5 million in capital

loans including Asset Replacement Fund (\$0.9 million), Water and Wastewater Reserve Rate Stabilization Reserve (\$1.5 million), Tax Rate Stabilization Reserve (\$0.6 million), other operating reserves (\$18.9 million), other capital reserves (\$8.1 million), and Obligatory Reserve Funds (e.g. DC's - \$21.8 million).

The Reserve and Reserve Fund budget will be compiled from the Capital and Operating budgets, with revenue projections, and presented for approval in March/April 2014.

### **Next Steps**

The recommendations of Committee of the Whole will proceed to Council on November 12, 2013 for final adoption of the 2014 Operating and Capital budgets. Should additional time be required for deliberations, further meetings can be scheduled for November 18 and/or December 9.

Under the new Public Sector Accounting Board (PSAB) guidelines, Council will be presented with a report reconciling the approved budget to the budget as presented on the financial statements, in February.

These recommended budgets, along with the 2013 Capital Carryovers, will formulate the Reserves and Reserve Funds budget which will be presented in March/April 2014.

The final tax rate will be set and the all-in total known when we receive the Regional and School Board rates, which would be some time in the spring of 2014.

### **BUSINESS PLAN AND STRATEGIC PLAN LINKAGES**

This report links to Newmarket's key strategic directions of being Well Managed through fiscal responsibility. The 2014 budget has taken Council Strategic and Budget Priorities into consideration.

### **CONSULTATION**

All members of the Senior and Operational Leadership Teams participated in the preparation of the budget. The Directors of Strategic Initiatives and Communications have been fully engaged in this process.

### **Public Engagement**

Council has emphasized increased community consultation/engagement as part of their Strategic Priorities and has requested that staff utilize new and traditional tools to provide multiple channels for citizens to voice their opinion on the budget. In a two-phased approach, Corporate Communications, Financial Services and Strategic Initiatives continued to work together with Council to effectively engage and communicate the 2014 budget process with Newmarket residents.

The two-phased approach was as follows:

Phase One – designed to obtain general feedback on how tax dollars should be invested

Phase Two – designed to obtain feedback on the draft budget once it has been publicized

The first phase of the 2014 Budget Community Engagement Strategic Communications Plan included the online budget survey tool. Implemented in 2012 as part of the budget process, this tool was promoted at the Farmers' Market, the GO Station, Councillor Ward meetings and various community events and through the following means:

- Advertising at all facilities via postcard and paper copies of the survey

- Public computers at Town kiosks and at the Library
- Town Page Ads
- Newmarket Now Advertising
- Call out to 15,000 residents
- Twitter and Facebook
- Strong presence on Town website
- Media releases, coverage in SNAP and ERA newspapers

This phase of community engagement yielded over 1,600 visitors to our budget Web page, doubling the number of visitors over 2012, with 320 online and paper surveys completed. We received positive media coverage on public engagement and thousands of residents were provided the opportunity for input. Ancillary positive outcomes from the Budget Tool included providing general education on the budget process and diversity of business lines, as well as costs of services in relative terms, plus it provided direct channels for two-way feedback on specific business lines/service.

### **Newmarket Public Library and Central York Fire Services Budgets**

The NPL budget is a recommendation from the Newmarket Public Library Board. The CYFS budget is a recommendation from the Joint Council Committee (JCC) with input from Aurora Council.

### **HUMAN RESOURCE CONSIDERATIONS**

The 2014 budget includes the growth-related additions to the staffing complement to maintain services levels.

### **BUDGET IMPACT**

#### **Operating Budget (Current and Future)**

The recommended draft operating budgets would result in:

- Tax-supported Operating Budget – a 1.73% “all-in” (Region, School Board Town) tax increase to the average residential taxpayer, with a 2.72% Town levy.
- Utility Budget – an 8.4% increase in combined water and wastewater charges to the average residence.

Projected all-in (Town, Region and School Board) impact on the average residential taxpayer, taking into consideration the probable impact of tax shifting within the Region is as follows:

|              | 2012               | 2013               | \$ CHANGE       | % CHANGE     |
|--------------|--------------------|--------------------|-----------------|--------------|
| Town         | \$ 1,542.43        | \$ 1,584.38        | \$ 41.95        | 2.72%        |
| Region       | 1,658.81           | 1,677.06           | 18.25           | 1.10%        |
| Municipal    | 3,201.24           | 3,261.44           | 60.20           | 1.88%        |
| School Board | 808.88             | 818.18             | 9.30            | 1.15%        |
| <b>TOTAL</b> | <b>\$ 4,010.12</b> | <b>\$ 4,079.62</b> | <b>\$ 69.50</b> | <b>1.73%</b> |

Based on an average assessment of \$401,385

The Regions outlook for 2014 projects a tax increase of 1.75%, and the School Boards have not yet indicated any changes in their rates.

\* The projected changes are based upon conservative estimates of the impact of tax-shifting on Newmarket residents.

This budget meets Council's Town-only and all-in (including Region and School Board) targets.

Utility (Water / Wastewater) Operating Budgets

The budget is derived from the 6-year Water and Wastewater Financial Plans and would result in an 8.4% rate increase to the average resident.

Capital Budget


The recommended draft capital budget includes \$23,730,863 in expenditures for which there is adequate financing provided.

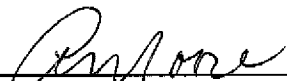
The contributions to the Asset Replacement Fund have been increased by \$458,000; \$208,000 for the Town and \$250,000 for Fire (Newmarket's share being \$150,125).

The proposed capital budget is within the available funding envelope.

**CONTACT**

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