



Town of Newmarket
395 Mulock Drive P.O. Box 328,
Newmarket, Ontario, L3Y 4X7

Email: info@newmarket.ca | Website: newmarket.ca | Phone: 905-895-5193

2022 Preliminary Draft Budget Staff Report to Council

Report Number: 2021-65

Department(s): Financial Services

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

Meeting Date: October 4, 2021

Recommendations

1. That the report entitled 2022 Preliminary Draft Operating and Capital Budgets dated October 4, 2021 be received; and,
2. That subject to any further direction, staff be authorized to provide the public with details of the Preliminary Draft 2022 Tax-Supported, Rate-Supported Operating and Capital Budgets.

Executive Summary

On May 3, 2021, Staff tabled a report to Committee of the Whole (CoW) on 2022 Budget Target and Process with a proposed 2.99% tax rate increase. As directed by Council, the report outlines items that will bring down the tax rate increase to 1.99% for the tax-supported operating budget.

Rate-supported operating budgets are prepared in alignment with the Water and Wastewater six-year financial plans and the Stormwater six-year financial plan.

Capital budget will be subject to the availability of funding and operational capacity.

Decision packages will be finalized and distributed prior to the next Special CoW meeting on October 18, 2021.

Purpose

Purpose of the report is to provide an overview on the decisions made in preparing the preliminary draft 2022 tax-supported, rate-supported operating and capital budgets to meet Council's targets and direction.

Background

Council was presented with the report on 2022 Budget Target and Process in May 2021. The report outlined key milestone dates for the 2022 budget deliberation process and provided Council with a 2.99% tax rate increase target.

At the meeting, Staff was directed to explore opportunities to achieve a tax rate increase of 1.99%.

Since then, business units submitted operating and capital decision packages. Commission reviews were held in July, followed by reviews by Operational Leadership Team (OLT) and Senior Leadership Team (SLT).

Special CoW meetings are scheduled to provide opportunity to have further discussions on the capital and rate-supported operating budgets on October 18, 2021 and tax-supported operating budget on November 8, 2021.

Operating and Capital decision packages will be distributed in advance of the October 18, 2021 Special CoW meeting.

Target date to obtain Council decision on the 2022 budget is December 13, 2021.

Discussion

In preparing the preliminary draft 2022 budget, the following guiding principles were considered:

- Align to Council priorities with the vision of long term financial sustainability
- Implement various recommendations from Fiscal Strategy
- Maintain existing service levels
- Deliver a fiscally prudent budget

In addition, the Town continued the practice of applying assessment growth revenues towards growth related expenses only.

Tax-supported operating budget

For the 2022 tax-supported operating budget, every 1% tax rate increase will generate an additional \$667,000 in tax revenues. Staff was directed to explore opportunities to bring down the tax rate increase target from 2.99% to 1.99%.

The original target was a 2.99% tax rate increase with the following breakdown:

Components	%
Base Budget	1.74%
Contingency	0.25%
Asset Replacement Fund (ARF)	1.00%
Total tax rate increase	2.99%

The following items are being presented for consideration to achieve a 1.99% tax rate increase:

1. Departmental targets
2. Contribution to contingency reserve
3. Non-growth decision package provisions
4. Use of Ontario Community Infrastructure Fund (OCIF)
5. Efficiencies

There are other budget reallocations within the existing base budget that are being proposed for the 2022 Budget. Since there is no incremental impact to the tax-supported operating budget, these proposed changes will not have any impact to the 1.99% tax rate increase target.

6. Growth decision package provisions
7. Internal debt repayment
8. Growth allocations

1. Departmental targets

Each department was presented with a target to identify sustainable efficiencies in their base operating budgets. Departments were successful in attaining their respective targets.

2. Contribution to contingency reserve

The 2021 approved budget includes a \$500,000 contribution to Contingency to set aside funds in a reserve to address unforeseen extraordinary events. Throughout the pandemic since March 2020, the Town continued to deliver services and adjusted operations where necessary to navigate throughout the pandemic. At the end of the 2020 fiscal year, though COVID-19 related expenses exceeded various grant funding, the Town was able to fund the incremental net expenses without drawing from the Rate Stabilization Reserve.

As for the 2021 year-end forecast, it is projected COVID-19 related expenses will exceed available grant funding received to date. However, the shortfall will be funded through use of the contingency funds and Economic Development reserve fund. Both 2020 and 2021 fiscal years, though faced with many challenges posed by the pandemic, the Town does not require any draw from the Rate Stabilization reserve.

At this time, the current base budget of \$500,000 for contingency is deemed to be sufficient and will not require additional contribution of \$167,000 in the 2022 budget as originally presented.

3. Non-growth decision package provisions

Provisions for past years' non-growth decision packages were established in the base budget. Upon further review, it is deemed that such provisions are no longer required.

4. Use of Ontario Community Infrastructure Fund (OCIF)

The Town is a grant recipient of the OCIF. In past years, grants were utilized in funding eligible capital projects. Starting with the 2022 budget, a portion of the grant will be directed towards funding asset management expenditures that are included in the tax-supported operating budget and are also eligible expenditures.

5. Efficiencies

As part of the decision packages that will be distributed prior to the Special CoW meetings, a proposed change in delivering janitorial services at municipal offices will generate savings in the operating budget. Details will be outlined in the corresponding decision package.

Items 6 to 8 outlined below are budget reallocations proposed for the 2022 tax-supported operating budget that do not have any impact in achieving a 1.99% tax rate increase target.

6. Growth related decision package provisions

The base budget currently also includes provisions for growth related decision packages. These provisions were funded from prior years' assessment growth revenues. Since there is no commitment for these provisions, to be consistent with our practice of using assessment growth dollars for growth expenditures, staff is proposing to redirect these funds towards annual asset replacement fund (ARF) contributions. These funds will be set aside to support future replacements of the anticipated new assets being constructed and/or assumed to accommodate a growing population.

7. Internal debt repayment

The base budget includes a repayment of internal loan from reserve to fund renovations at 395 Mulock Drive municipal office. The internal loan has been fully repaid and the budget can be redirected towards contribution to the General Capital Reserve.

8. Growth allocations

As part of the Asset Management Plan update, Asset Management Office has conducted a comprehensive analysis to determine the appropriate levels of growth allocations to support the ongoing operating costs associated with growth-related core assets. The growth allocation analysis is based on details of assumed assets (such as kilometers of new roads, watermain pipes, sewer pipes and number of stormwater ponds) and the associated costs to operate and maintain the assets annually.

2022 budget is a transition year to adopt the new methodology and will continue to evolve over the years to refine the process. This change won't impact the tax rate increase as we continue the Town's practice of allocating assessment growth dollars to support growth related expenditures only. However, it will limit the discretionary use of these funds.

Summary on tax-supported operating budget

Overall, a 1.99% tax rate increase target can be achieved by adopting items 1 to 5. These proposed items will not have any impact to our existing service levels and are deemed to be fiscally prudent in achieving a sustainable budget.

Items 6 to 8 are refinements to the tax-supported operating budget that do not have any incremental financial impact. These changes align with the recommendation from the Fiscal Strategy to increase contributions to reserves to build them to more appropriate levels and align with asset management practices.

A Special CoW meeting is scheduled on November 8th to further discuss and review the tax-supported operating budget.

Rate-Supported Operating Budgets

The six-year water and wastewater financial plans were updated in March 2021 which aligns with recommendation outlined in the Fiscal Strategy. The 2022 water and wastewater fees will increase by 3.8%, consistent with the water and wastewater financial plans.

The Region has recently completed its rate study which proposes a 3.3% increase annually for the year starting on April 1, 2022 to April 1, 2027 inclusive. These increases are within the assumptions included in the updated water and wastewater six-year financial plan.

The 2022 Stormwater operating budget will include a 10% increase, consistent with the six-year stormwater financial plan.

More details on the rate-supported operating budgets will be presented at the October 18th CoW meeting.

Capital Budget

2022 capital requests will be subject to the availability of funding and operational capacity. Operational capital will remain at \$20,000,000 for standard program of which \$15,000,000 (75%) will be allocated for the 2022 capital program and the remaining \$5,000,000 (25%) will be set aside as an allowance for in-year requests and changes.

Alignment to Asset Management Plan for core asset replacements and Development Charge Background Study for new growth assets were taken into consideration in the review of 2022 capital decision packages.

Major funding sources for various types of capital requests are as follows:

Capital Category	Funding source(s)
Replacement	Asset Replacement Fund (ARF)
Growth	Development Charges
Other	General Capital, Reserve Funds, Gas Tax revenues and other grants

The 2022 Capital Budget will be reviewed and discussed at the October 18th Special CoW.

Conclusion

Adoption of items 1 to 5 outlined in the report will achieve a tax rate increase of 1.99% for the tax-supported operating budget.

Rate-supported operating budgets are in alignment with the respective financial plans.

Capital budget will be subject to the availability of funding and operational capacity, consistent with past practice.

The 2022 preliminary draft budget aligns with Council priority on achieving long term sustainability and incorporates recommendations from the Fiscal Strategy.

Business Plan and Strategic Plan Linkages

The 2022 budget achieves long term sustainability by continuing the practice of utilizing assessment growth revenues to fund growth related expenditures only. The tax-supported operating budget does not include one-time fund to balance the budget.

The 2022 budget takes into consideration recommendations from the Fiscal Strategy:

- continue to increase contributions to reserves to build them to more appropriate levels;
- integrate asset management plans with the budget process;
- refine the capital budget process; and
- water and wastewater operating budgets are based on the updated six-year financial plans

Consultation

All members of OLT and SLT and their staff participated in the preparation of the preliminary draft budgets.

The Corporate Communications department was consulted in the development and implementation of community engagement throughout the budget process.

A report was tabled at the September 7, 2021 Joint Council Committee (JCC) meeting to provide an overview of the draft budget. A special JCC meeting will be scheduled in October to further review the 2022 Central York Fire Services (CYFS) budget.

Human Resource Considerations

All staffing requests have been reviewed by the Human Resources department. Details are outlined in operating decision packages.

Budget Impact

The Town's preliminary draft budget proposes a 1.99% tax rate increase for the average household assessed at approximately \$702,400. This equals an additional \$44.09 per year for the average household.

Attachments

None.

Approval

Mike Mayes, CPA, CGA, DPA

Director of Financial Services / Treasurer

Esther Armchuk, LL.B

Commissioner, Corporate Services

Contact

Andrea Tang, CPA, CA

Manager, Finance & Accounting / Deputy Treasurer, atang@newmarket.ca (ext. 2104)