



INFORMATION REPORT
Corporate Services Commission, Financial Services

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May 23, 2017

CORPORATE SERVICES INFORMATION REPORT – FINANCIAL SERVICES 2017-31

TO: Mayor Tony Van Bynen and Members of Council

SUBJECT: Response to questions regarding:
Financial Services report 2017-29 - 2018 Budget Process and Target Update

ORIGIN: Director, Financial Services/Treasurer

In accordance with the Procedure By-law, any Member of Council may make a request to the Town Clerk that this Information Report be placed on an upcoming Committee of the Whole agenda for discussion.

COMMENTS

At the May 8 Committee of the Whole meeting, Financial Services report 2017-29, 2018 Budget Process and Target Update, was presented. It proposed budget targets and a Communications plan for 2018. Committee decided to defer this report to allow more time for consideration.

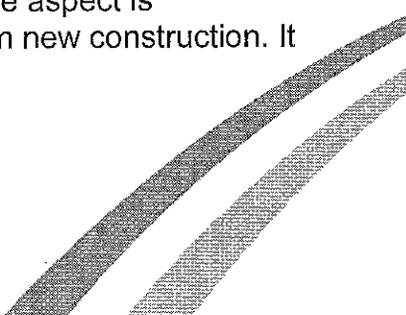
The report is being re-submitted to CoW on May 29. In advance of that meeting, the Treasurer offered to collect questions and comments from Council members, the CAO, Commissioners, Directors and other staff regarding this report or the process in order to provide as much information as possible to assist Members of Council in their decision.

Based on feedback received, this information report will attempt to provide further clarification on the 2018 budget targets and process.

Does the Town benefit financially from growth?

No, the Town does not benefit financially from growth.

New development – growth – brings in additional revenues. The most visible aspect is assessment growth – incremental property taxation revenue generated from new construction. It also includes other revenues, such as water charges, to new homes.

A decorative graphic in the bottom right corner consisting of two parallel, curved, shaded lines that sweep upwards and to the right.

The primary purpose of growth revenues is to pay for growth-related expenses. These are the incremental expenses necessary to maintain existing service levels for a growing population. They should also include the cost to replace growth-related assets. Growth-related expenses have not always been clearly identified and this gave the impression that there was a "growth dividend" which could be used to mitigate property tax increases.

The following table was included in Financial Services Information Report 2016-57. It shows that growth is not paying for growth.

	2012	2013	2014	2015	2016	2017 tax impact	2017 – dollars \$
Assessment revenue	2.00%	1.50%	1.50%	2.00%	1.00%	1.23%	\$680,000
Expenses:							
Decision Packages – Town	1.14	0.72	0.88	0.46	0.68	0.00	0
Decision Packages – Fire	0.00	0.01	0.00	0.56	0.25	0.50	275,898
Annualization of prior years	0.29	0.37	0.66	0.05	0.34	0.16	88,287
Operating impact of the growth-related capital budget	0.50					0.10	55,180
	1.93%	1.10%	1.54%	1.07%	1.27%	0.76%	\$419,365
Net growth – revenue less expenses	0.07%	0.40%	(0.04)%	0.93%	(0.27)%	0.47%	\$260,635
Estimated impact of growth on services - Public Works	0.15	0.14	0.42	0.11	0.19	0.20	110,359
Estimated additional ARF requirement for growth-related capital	0.05	0.06	0.12	0.10	0.16	0.17	93,805
True net growth position	(0.13)%	0.20%	(0.58)%	0.72%	(0.62)%	0.10%	\$ 56,471

However, growth has many more dimensions to it. It is not just a financial decision and there may be other factors such as economic development which are outside the scope of this report.

Please clarify the different budget categories of expenses – base, growth, enhancement, and extraordinary.

Here are some definitions:

- *Base Budget* expenses are those required to maintain the Town's existing service levels for a stable population. Generally increases would be due to inflation, legislation, or technological changes.
- *Growth* expenses are for the additional costs to maintain the existing level of service for a growing community. They would include staffing and other costs to expand services to new residents.
- *Enhancements* are the cost of increasing service levels. The expanded sidewalk snow clearing program is an example.
- *Extraordinary items* are significant additional costs for required goods or services that have the potential to distort the rest of the base budget, if it has to absorb them. These can be new regulatory requirements or substantial increases in the cost of goods and services beyond normal inflation. They can also be significant budget reductions.

In practice, the distinctions can be somewhat blurred. The following two examples will hopefully provide a better understanding.

Example 1: Bylaw officers

Let's assume a Town with 8 bylaw officers and a population of 88,000 residents. We could define the level of service (LOS) to be 1 bylaw officer per 11,000 residents. (for illustrative purposes only)

For budget purposes:

- Base budget – providing salaries, benefits and an annual economic increase to the bylaw officers
- Growth – adding another bylaw officer as the population approached 99,000 – 9 officers for 99,000 maintains the 1 officer per 11,000 resident's LOS
- Enhancement – adding an additional bylaw officer, not in response to population growth. This could be due to a request to increase the frequency of patrols. Adding a 9th officer without corresponding population growth would mean a 12.5% increase in the LOS, increasing it to 1 officer per 9,778 residents.

As you can see, the distinction between growth and enhancement can become blurred: the population doesn't grow in 11,000 increments and we can't hire a fraction of a bylaw officer.

Example 2: Waste Management Contract

The Town's 2017 budget for waste management was \$2.2 million.

For 2018 budget purposes:

- Base budget – an inflationary increase of 2.1% or \$46,000 would be expected.
- Growth – as the Town grows, the waste management increases with each property. This is an example of incremental growth, as opposed to step growth in the previous example. Using our projected growth rate of 1.24%, a \$27,000 increase would be expected.
- Enhancement – no significant changes in LOS is expected with the new contract.
- Extraordinary item – the cost for the new waste management contract is projected to be \$515,000 more than the 2017 budget. \$27,000 of that can be attributed to growth, but the remaining \$488,000 is the 2017 cost of all aspects of providing the service (including increased costs for vehicles, equipment, labour, disposal, customer service, etc.) However, there may not be a significant change in LOS.

\$448,000 cannot be reasonably borne by the base budget. A 2.35% tax increase would generate \$1.4 million, but after allocations to wages and benefits, library and fire services, there are insufficient funds to cover this item. On this basis, it is recommended for consideration as an extraordinary item.

What is the threshold for extraordinary items?

For 2018, we are recommending that increases in excess of the inflationary increase and greater than \$100,000 be considered as extraordinary. This also includes the \$130,000 savings from the expiration of Phase 1 of the Honeywell project.

What is being proposed for the infrastructure levy?

This can be broken down into two separate requests:

1. That Council endorse the principle of annual infrastructure levy increases of 1%.

The Capital Financing Sustainability Strategy recommended annual increases in the Asset Replacement Fund (ARF) contributions equal to an annual tax increase of 1%. From 2013 to 2016, there have been infrastructure levies in the 0.74% to 1.00% range. This first request seeks to formalize that practice.

2. That Council determine how to fund the enhancements and extraordinary items.

The 2018 budget potentially has \$155,000 in enhancements carried over from previous years, and a net \$855,000 in extraordinary items. Options include:

- a. A separate tax levy – this would be for \$390,000 (0.70%) to \$1,010,000 (1.80%) depending upon the mitigation measure employed (per report 2017-29).
- b. Reducing the infrastructure levy to offset the additional levy for enhancements and extraordinary items.
- c. Some combination of the above options.

For the 2017 budget, Council adopted option “b”. The Asset Replacement Fund Strategy, which will be presented in June, will demonstrate how this can be a viable option without putting our asset management plans at risk.

On Monday May 29, Committee of the Whole will be asked to give direction on these two requests.

CONTACT

For more information on this report, contact: Mike Mayes at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca



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Esther Armchuk, LL.B.
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