

Fiscal Strategy Town of Newmarket



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3. Fiscal strategy framework
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Part C: The Fiscal Strategy In Practice

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Outline continued

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Part A

Introduction

1. The concept of financial sustainability

Financial sustainability is about the stewardship of the long term

- Financial sustainability requires long-term planning; it does not just happen
- It is mostly about managing two things: service levels and infrastructure
- Service level and infrastructure decisions both typically have operating and capital dimensions
- The key to financial sustainability is taking the necessary steps now to manage **both** short and long-term risks

There are plenty of conceptual definitions of financial sustainability

“...a government’s ability to manage its finances so it can meet its spending commitments, both now and in the future. It ensures future generations of taxpayers do not face an unmanageable bill for government services provided to the current generation”.

Source: Local Government Association of Australia

A pragmatic approach to financial sustainability focuses on capabilities

In practical terms, a municipality is financially sustainable if....

1. Its tax effort and other revenues are commensurate with its level of service aspirations
2. It can adjust its capital plan, its operating programs and its service levels in response to changes in economic conditions (e.g., pandemic) or transfer payments
3. It can keep its infrastructure in a state of good repair and replace it at the right time
4. Financial responsibility is shared fairly between current and future residents (inter-generational equity)

And a couple more for growing municipalities

Additional conditions need to be met for financial sustainability in growing municipalities:

5. Growth can be accommodated without unacceptable tax levy, user rate or debt increases
6. Service levels can be increased as the municipality urbanizes

There are potential challenges to municipal financial sustainability

1. The future cost of infrastructure investments, particularly asset management
2. A mismatch between level of service aspirations and fiscal capacity
3. Unforeseen shocks to revenue or spending, such as an economic downturn or a reduction in transfer payments
4. Growth that does not materialize as expected
5. Water rates that are set at less than full cost recovery
6. Inadequate revenue

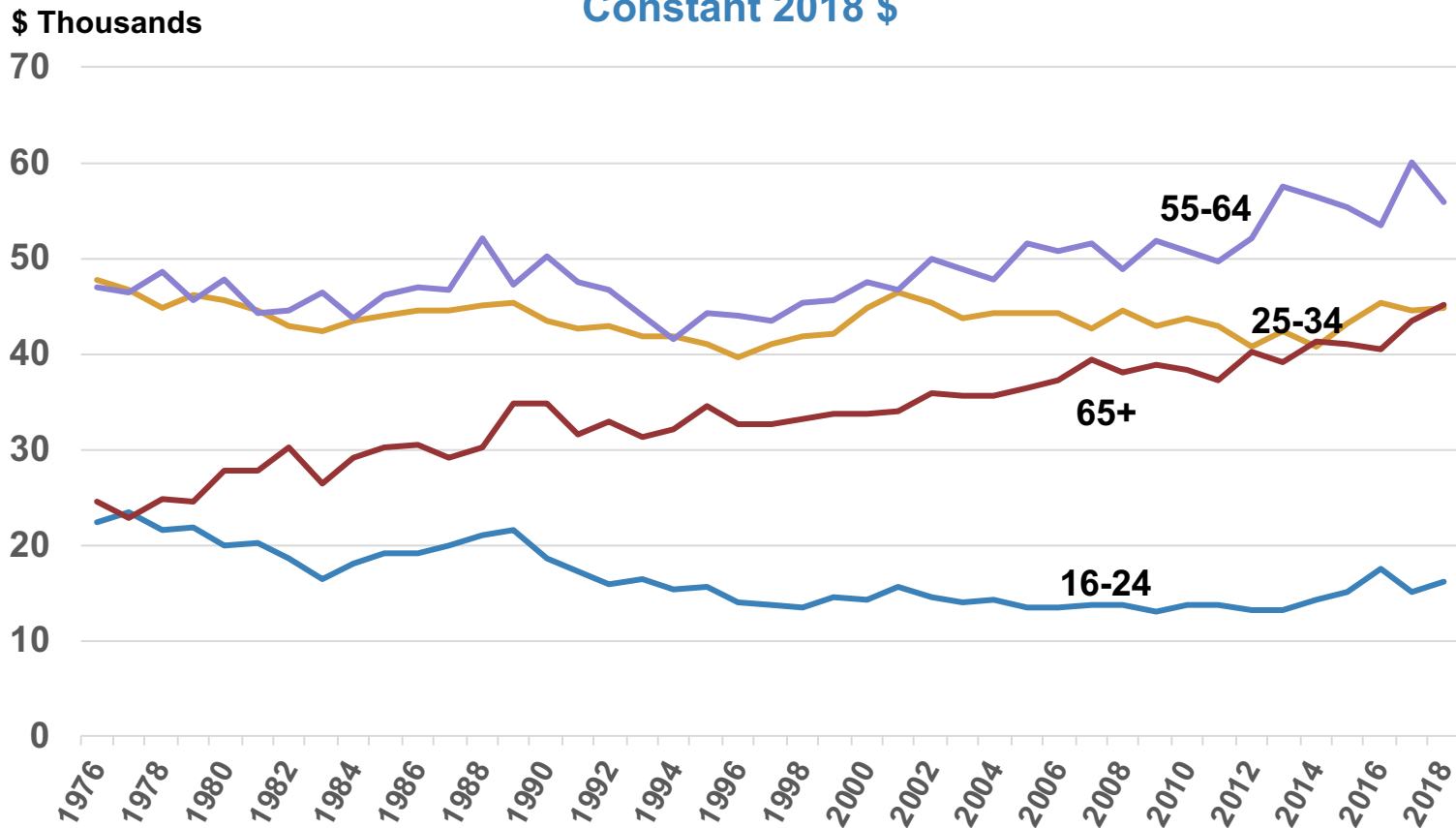
2. Inter-Generational Equity

Inter-generational equity is a sleeper issue

- Good fiscal planning means that the generation of people who benefit from an asset is also the one paying for it
- However, several sources suggest that the children of baby boomers will be the first generation in recent history to have lower lifetime income than their parents
- The introduction of municipal tangible capital asset accounting in 2009 is helping municipalities realize that a “pay-as-you-go” philosophy substantially disadvantages future generations

Income gains are going to the older generations

Average Annual Individual Income
By Age Group, Ontario, 1976-2018
Constant 2018 \$

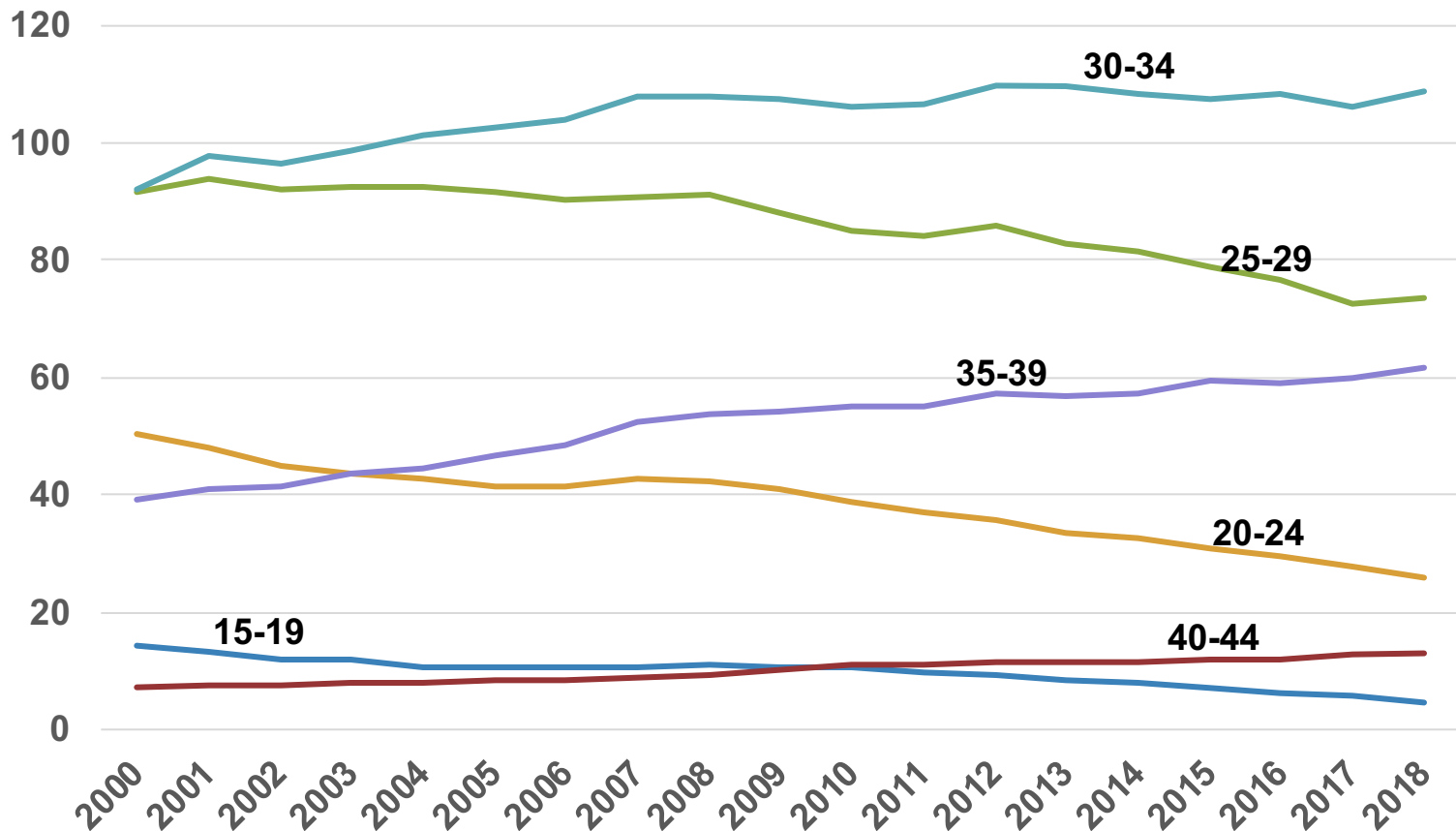


Source: Income Statistics Division, Statistics Canada

Does not include impact of TFSA's, which increase incomes among older people especially

Family formation is being delayed

Age-Specific Fertility Rates
Live Births per 1000 by age
Ontario, 2000-2018



Commentary on previous slides

- Since 1976, income gains have gone to the 55-64 and 65+ age groups, whereas the incomes of younger age groups have stagnated or fallen
- Fertility rates of women in their 20s have fallen significantly since 2000, a comparatively short period in demographic trend analysis
- During the same period, fertility rates for women in their 30s and early 40s have risen, with an especially sharp rise in the 35-39 age group
- These trends are inter-related and indicate that younger people are having a harder time making headway in the labour market

Inter-generational equity has profound implications for municipal finance

- There is a growing realization in municipal circles that meeting future asset management needs is going to be very expensive
- Because infrastructure is less expensive in the early part of its life and more expensive later when life cycle rehabilitation and replacement expenses occur, it is easy for today's generation of tax- and rate-payers to pay significantly less than the true cost of their use of infrastructure
- The implication for municipal finance is that robust saving for future asset management needs is a matter of inter-generational fairness


Part B

Fiscal Strategy

3. Fiscal strategy framework

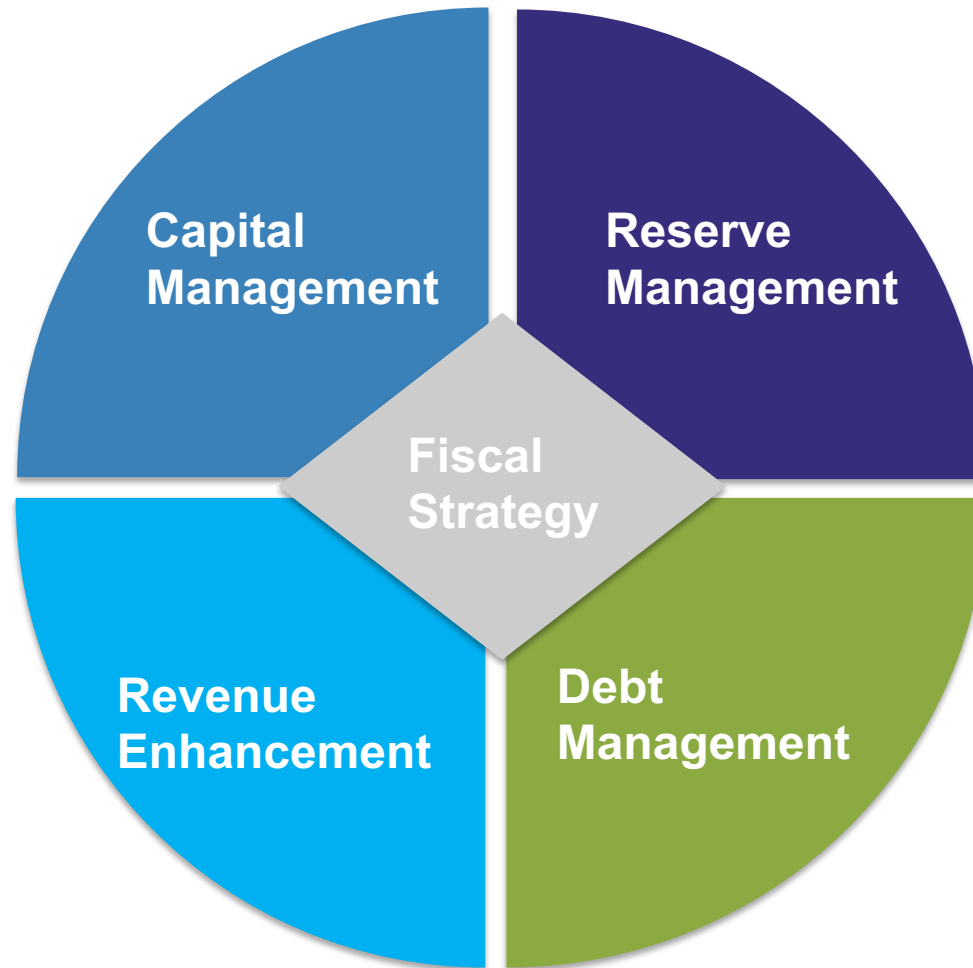


The purpose of a fiscal strategy is to provide a path to financial sustainability



The elements of a sound fiscal strategy for Newmarket are straightforward in high level concept but complex in execution: (1) management of the capital plan, (2) reserve management, (3) debt management, and (4) revenue enhancement

The key elements of a Fiscal Strategy for Newmarket



4. Comparative Fiscal Diagnostics: Newmarket's financial situation in perspective

Newmarket in comparison to others

- It is helpful to compare Newmarket's financial situation with other municipalities
- This requires establishing a comparator group
- Municipalities have both commonalities and differences—there is no perfect comparator group
- For the purposes of this analysis, Newmarket's comparator group will be defined as lower tier municipalities within regions (including the District of Muskoka) and separated cities
- Separated cities typically have relationships with their neighbouring counties

Municipalities in the comparator group

Lower Tiers in the GTA

Pickering
Ajax
Whitby
Oshawa
Clarington
Scugog
Uxbridge
Brock
Vaughan
Markham
Richmond Hill
Whitchurch-Stouffville
Aurora
Newmarket
King

East Gwillumbury

Georgina

Mississauga

Brampton

Caledon

Oakville

Burlington

Milton

Halton Hills

Lower Tiers outside the GTA

Fort Erie

Port Colborne

Wainfleet

West Lincoln

Pelham

Welland

Thorold

Niagara Falls

Niagara-on-the-Lake

St. Catharines

Lincoln

Grimsby

North Dumfries

Cambridge

Kitchener

Waterloo

Wilmot

Wellesley

Woolwich

Gravenhurst

Bracebridge

Lake of Bays

Municipalities in the comparator group

Lower Tiers outside the GTA continued

Huntsville

Muskoka Lakes

Georgian Bay

Separated Cities

Cornwall

Brockville

Kingston

Belleville

Quinte West

Peterborough

Guelph

Stratford

St. Thomas

Windsor

London

Barrie

Orillia

Pembroke

**Lower Tiers in the GTA:
24**

**Lower Tiers outside the
GTA: 25**

Separated Cities: 14

Total: 63

Fiscal diagnostic charts are revealing

- The following pages provide a series of charts comparing Newmarket to its comparator group
- The charts are in pairs---one with lines showing the Ontario average and one with lines showing the comparator group average
- The **orange dots** are GTA municipalities; the **blue dots** are the remainder of the comparator group
- The findings arising from the fiscal comparator diagnostics inform the fiscal strategy

Newmarket's rankings in the comparator group (of 63)

- Population: 24th
- Population growth 2001-2016: 18th
- Households: 25th
- Land area: 58th
- Population density: 3rd
- Weighted assessment: 23rd

Data Sources

- The data sources for the fiscal diagnostic charts are:
 - The Ministry of Municipal Affairs and Housing's Financial Information Returns, which consist of comprehensive self-reported financial information from municipalities using templates provided by the ministry
 - Statistics Canada's 2016 Census data

A few definitions

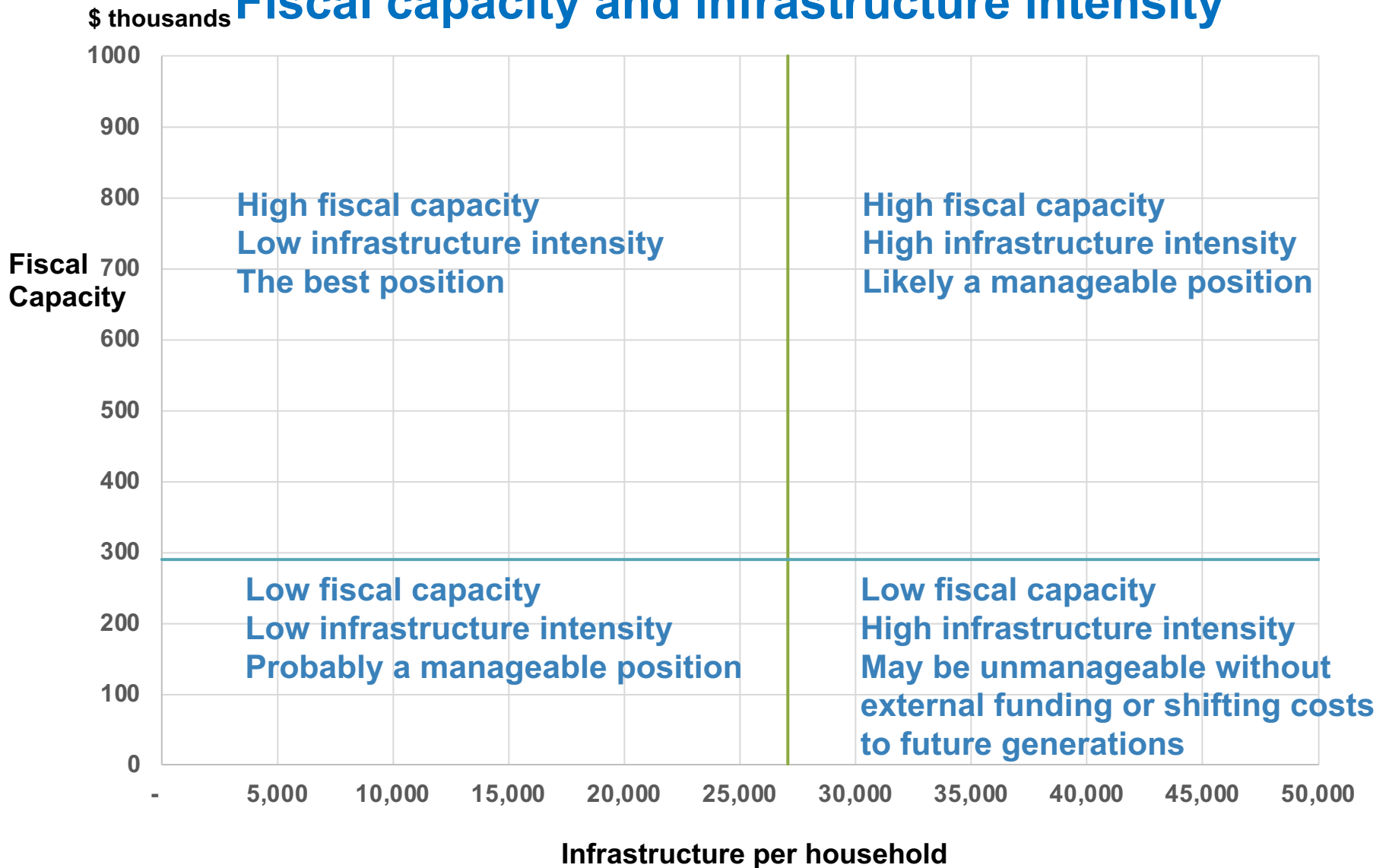
- Fiscal capacity is weighted assessment per household. Weighted assessment is the sum of assessment for each property class multiplied by the tax ratio for the class
- Infrastructure intensity is tangible capital assets per household
- Remaining useful life of infrastructure is the percentage of the asset's cost that has not yet been amortized
- Selected municipalities are labelled for reference purposes
- Newmarket is always labelled

More explanation

- The charts are divided into quadrants
- Before the comparative charts are presented, an explanatory slide describing how to interpret positioning in the various quadrants of the chart is provided
- These interpretive charts are always labelled “Understanding the quadrants in the charts”
- The next slide is the first of these interpretive charts

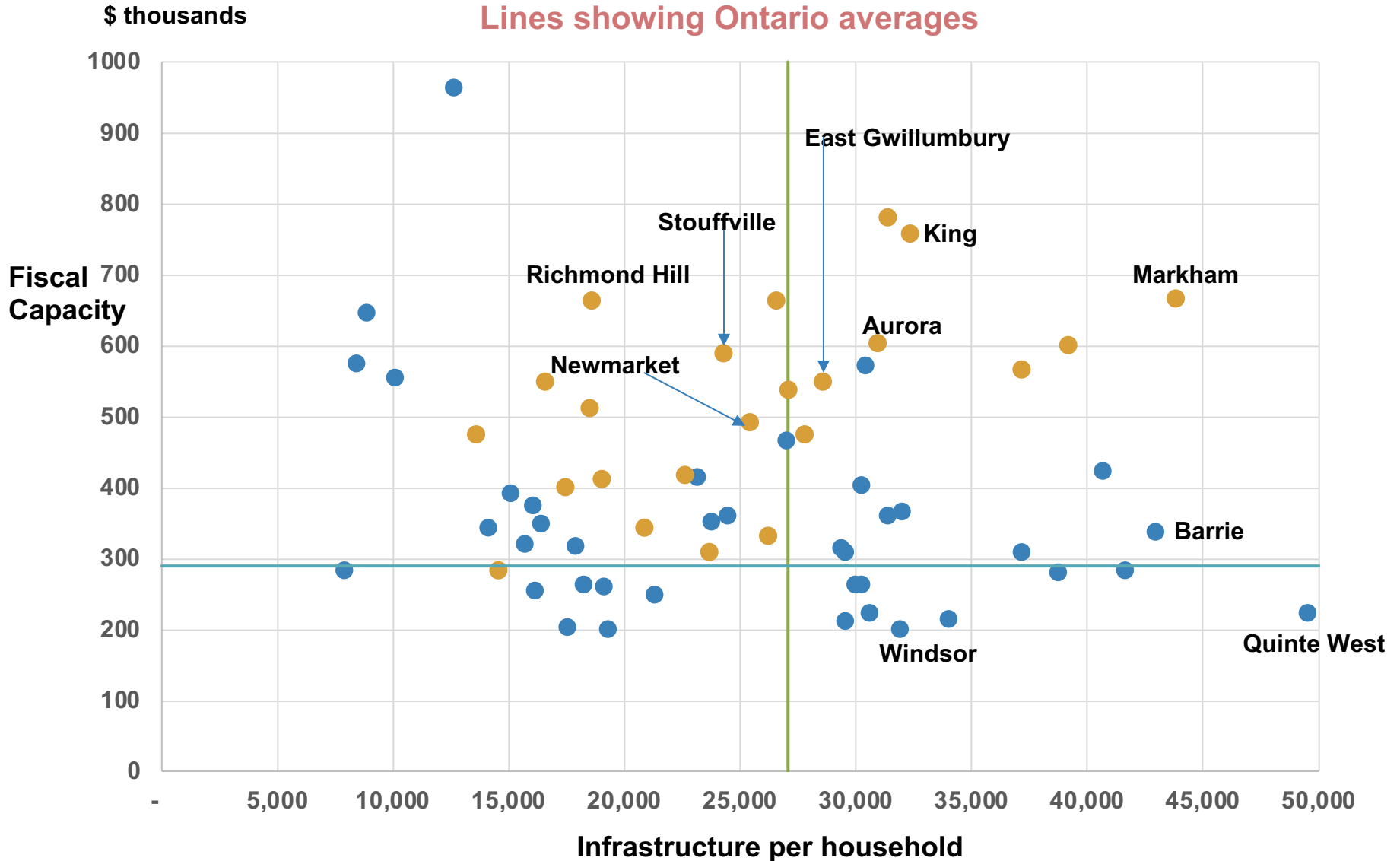
Understanding the quadrants in the charts

Fiscal capacity and infrastructure intensity



Fiscal Capacity and Infrastructure Intensity Lower Tiers and Separated Cities, 2016

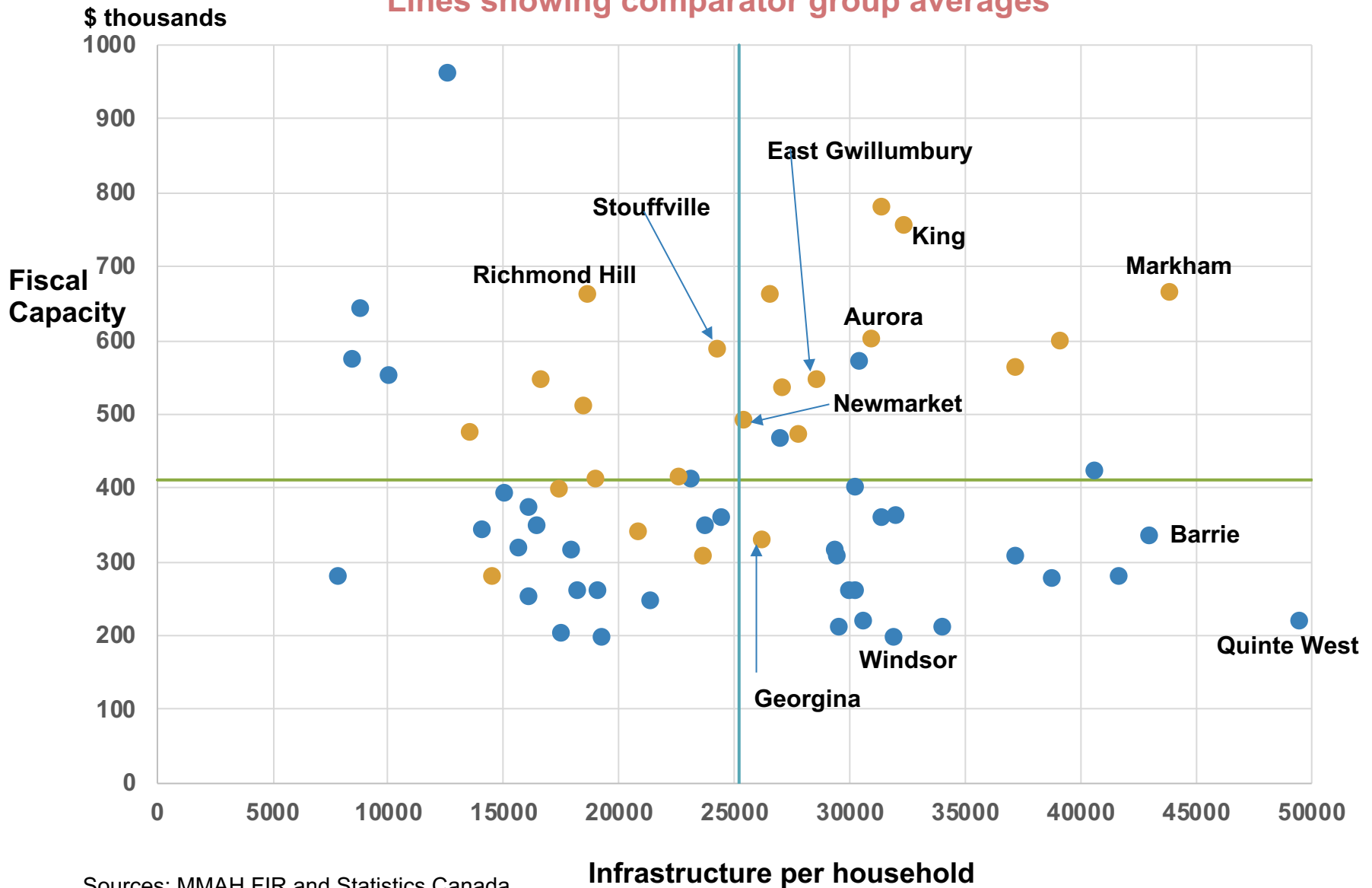
Lines showing Ontario averages



Sources: MMAH FIR and Statistics Canada

Fiscal Capacity and Infrastructure Intensity Lower Tiers and Separated Cities, 2016

Lines showing comparator group averages



Sources: MMAH FIR and Statistics Canada

Newmarket's fiscal capacity is good

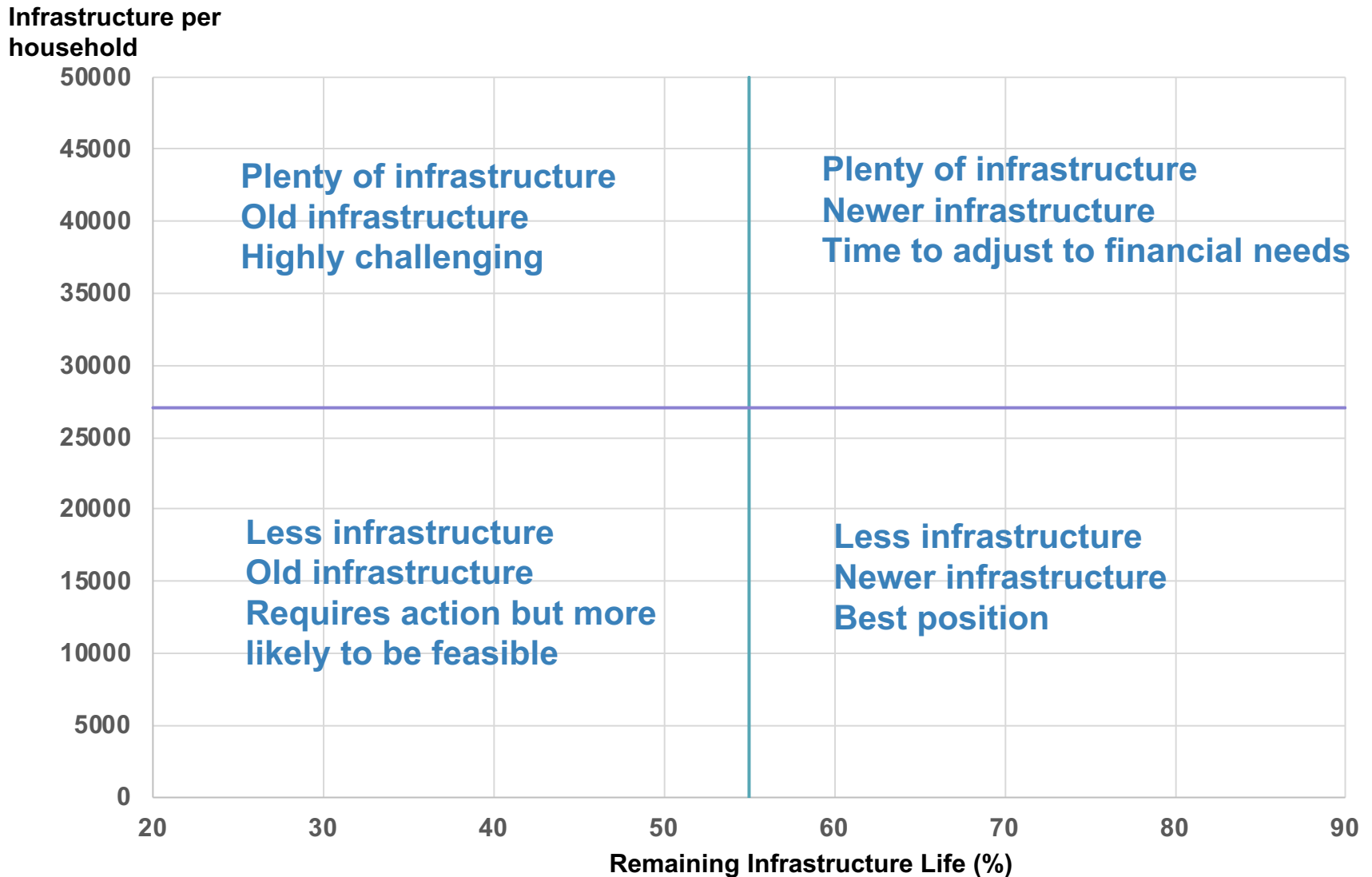
- Newmarket's fiscal capacity is above the average for both Ontario and its comparator group
- Newmarket is in the “high fiscal capacity, high infrastructure intensity” quadrant (barely) when measured against its comparator group
- When measured against all Ontario municipalities, Newmarket is in the “high fiscal capacity, low infrastructure intensity” quadrant
- The Town has somewhat less fiscal capacity than most of its York Region counterparts

Higher infrastructure intensity means that more fiscal capacity is needed

- Newmarket's infrastructure intensity is about average for its comparators and other GTA municipalities (exactly at the median)
- It is below average for Ontario
- Newmarket is in a fairly good position—above average fiscal capacity and average infrastructure intensity

Understanding the quadrants in the charts

Infrastructure intensity versus remaining life



Infrastructure Intensity per household versus Remaining Life Lower Tiers and Separated Cities, 2016

Lines showing Ontario averages

Infrastructure Intensity



Sources: MMAH FIR and Statistics Canada

Infrastructure Intensity per household versus Remaining Life (%) Lower Tiers and Separated Cities, 2016

Lines showing comparator averages

Infrastructure Intensity

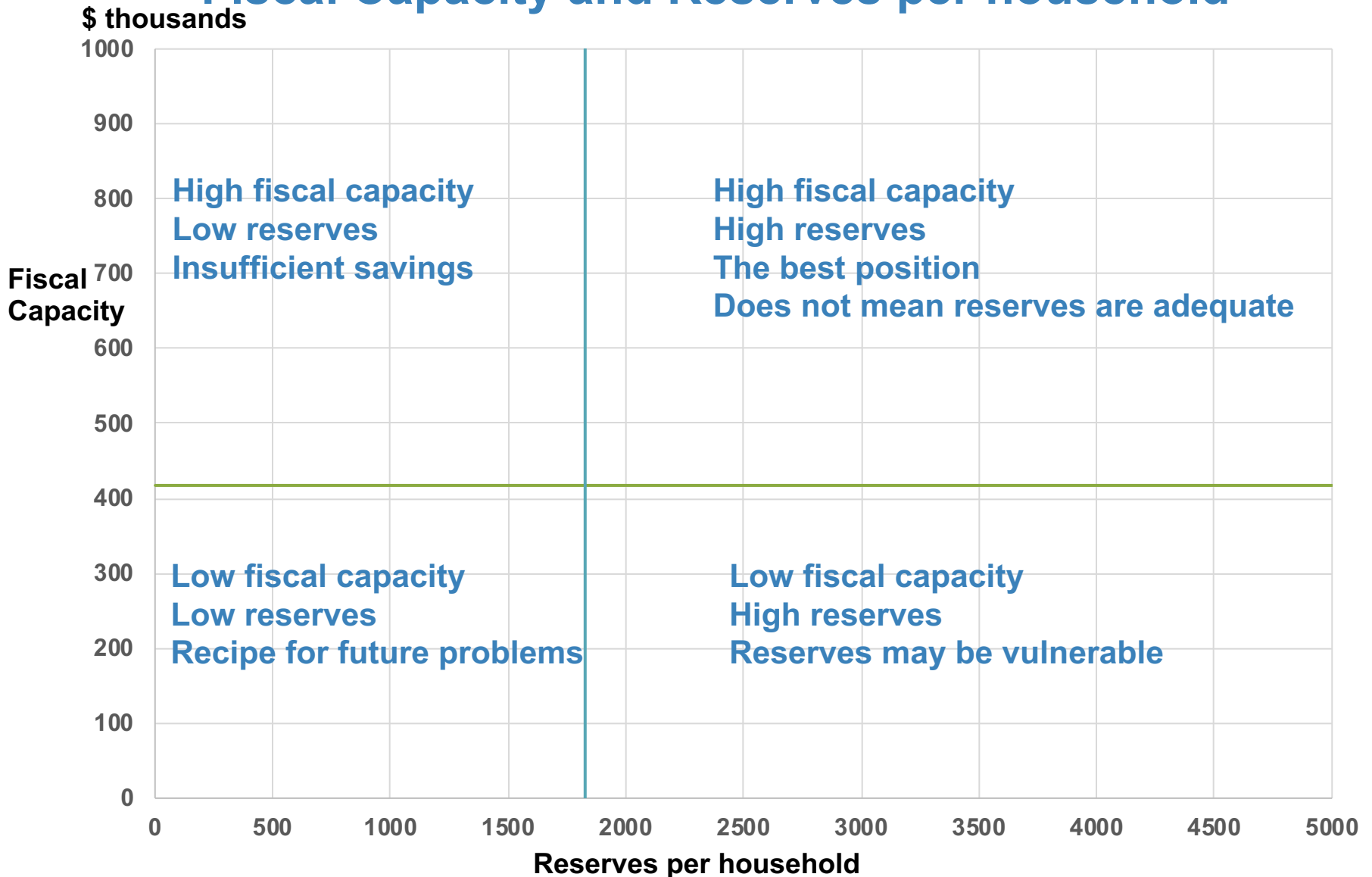


Newmarket's infrastructure position is reasonable

- Newmarket has an average amount of infrastructure per household
- The Town's infrastructure is noticeably newer than the Ontario average and slightly newer than the comparator group average
- Newmarket is in the lower right quadrant in relation to the Ontario average
- This is good news—it means that the Town has time to build funds to meet its future infrastructure rehabilitation and replacement needs

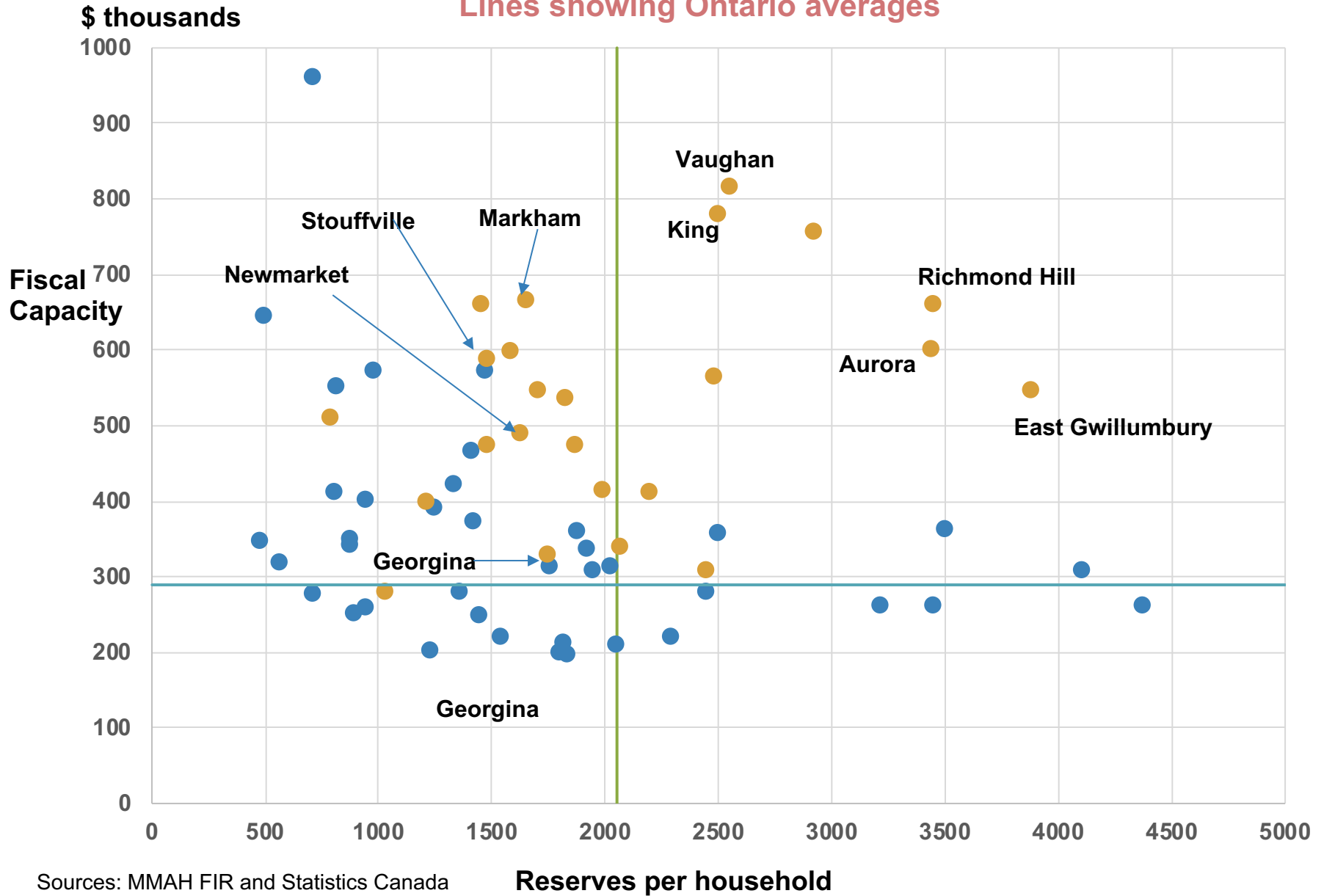
Understanding the quadrants in the charts

Fiscal Capacity and Reserves per household



Fiscal Capacity and Reserves per household Lower Tiers and Separated Cities, 2016

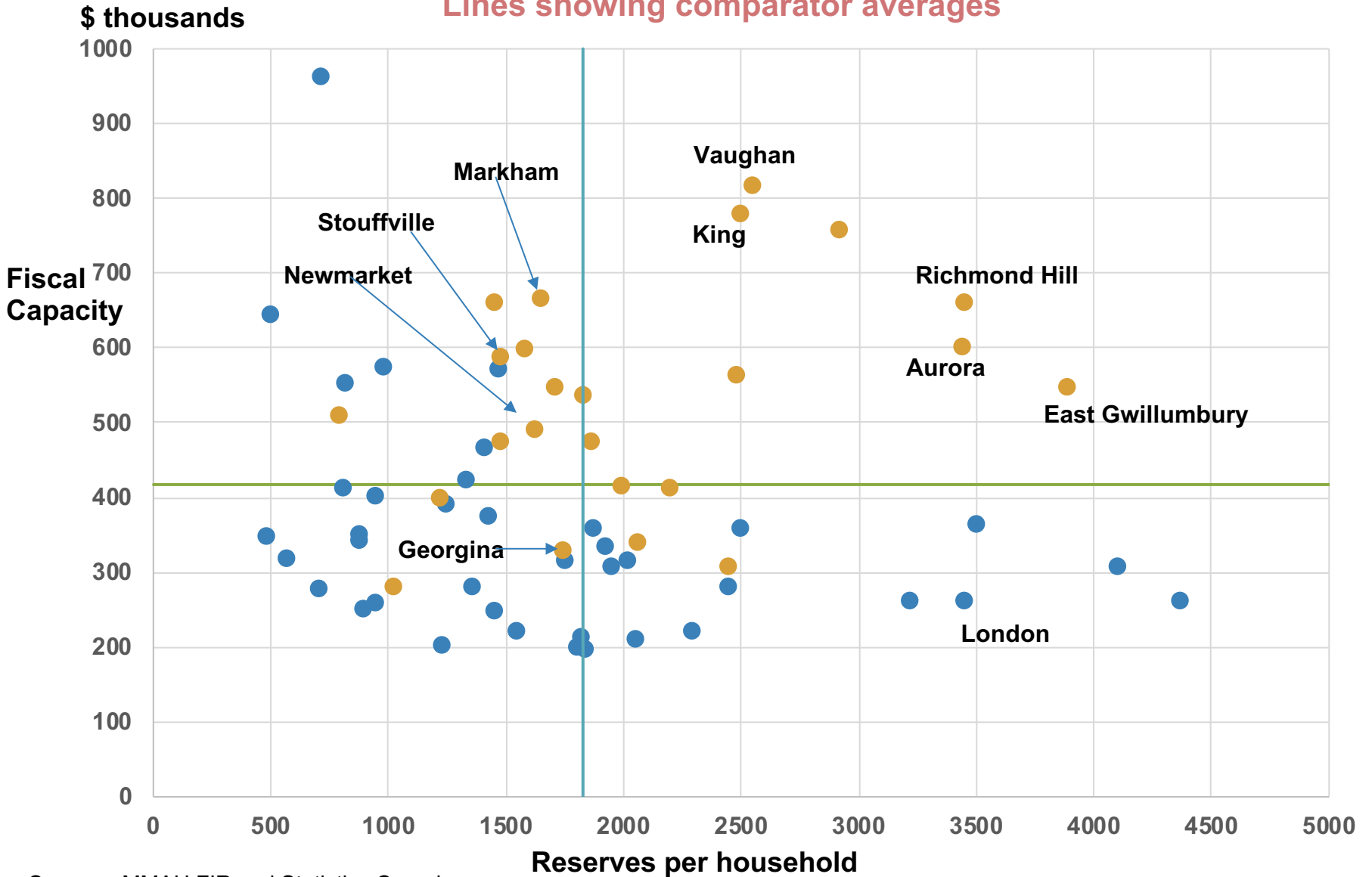
Lines showing Ontario averages



Sources: MMAH FIR and Statistics Canada

Fiscal Capacity and Reserves per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages



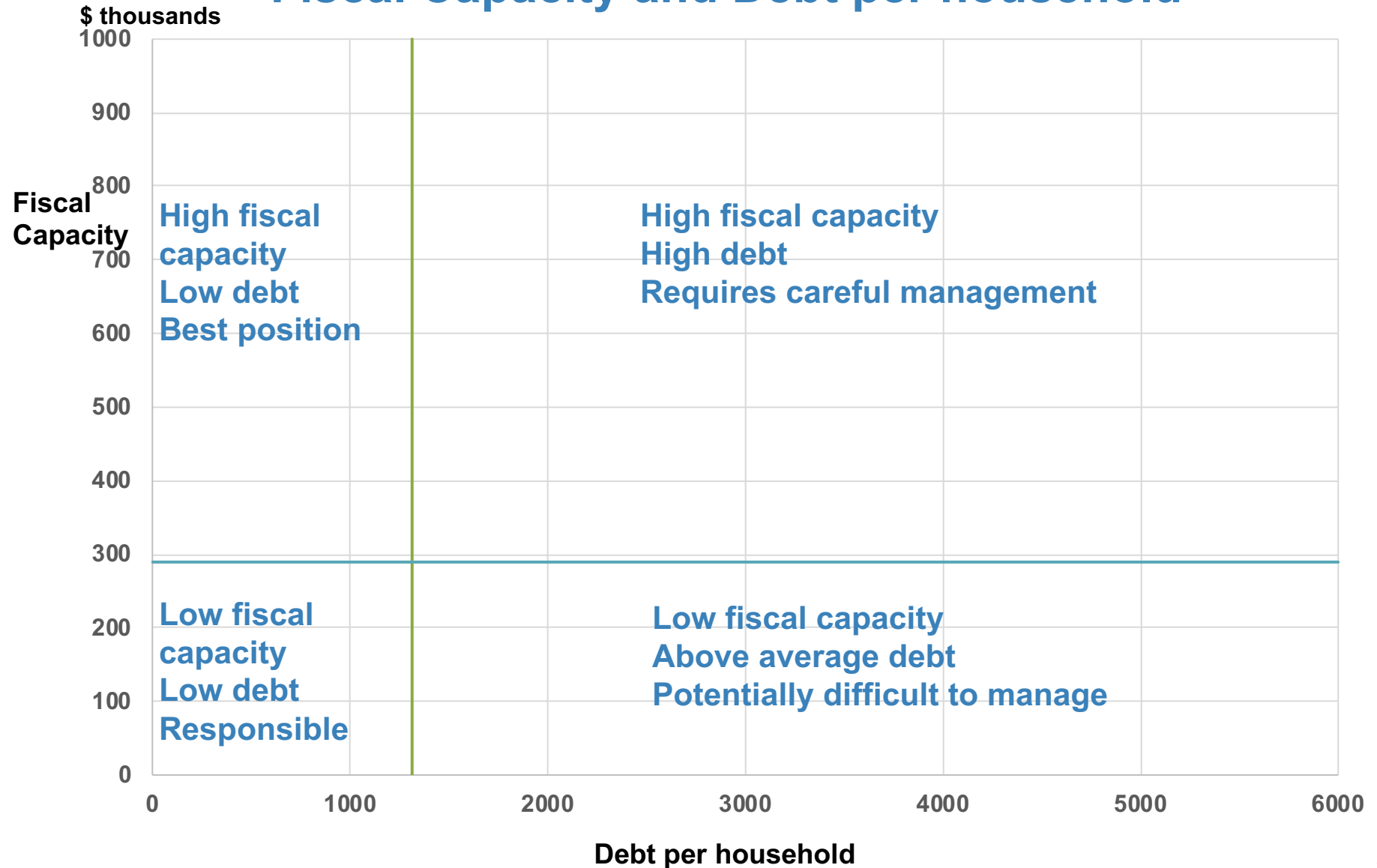
Sources: MMAH FIR and Statistics Canada

Reserves are an issue for Newmarket

- Newmarket has below average savings in relation to both Ontario and the comparator group
- Two thirds of GTA lower tier municipalities have more savings per household
- Aurora, Richmond Hill and East Gwillumbury have more than twice Newmarket's reserves per household, while Vaughan and King have 50% more
- Even municipalities that already have above average reserves almost certainly need to save more

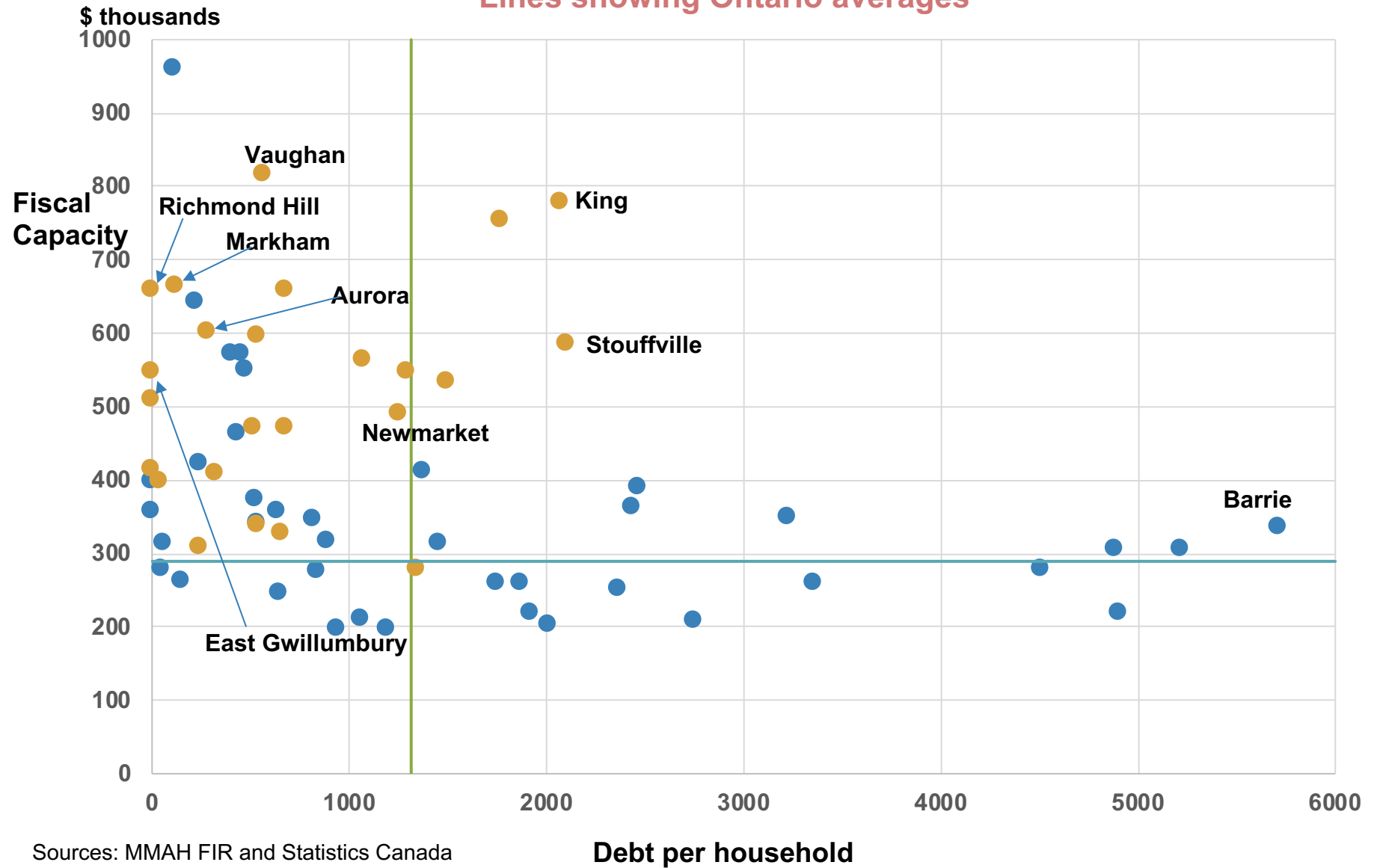
Understanding the quadrants in the charts

Fiscal Capacity and Debt per household



Fiscal Capacity and Debt per household Lower Tiers and Separated Cities, 2016

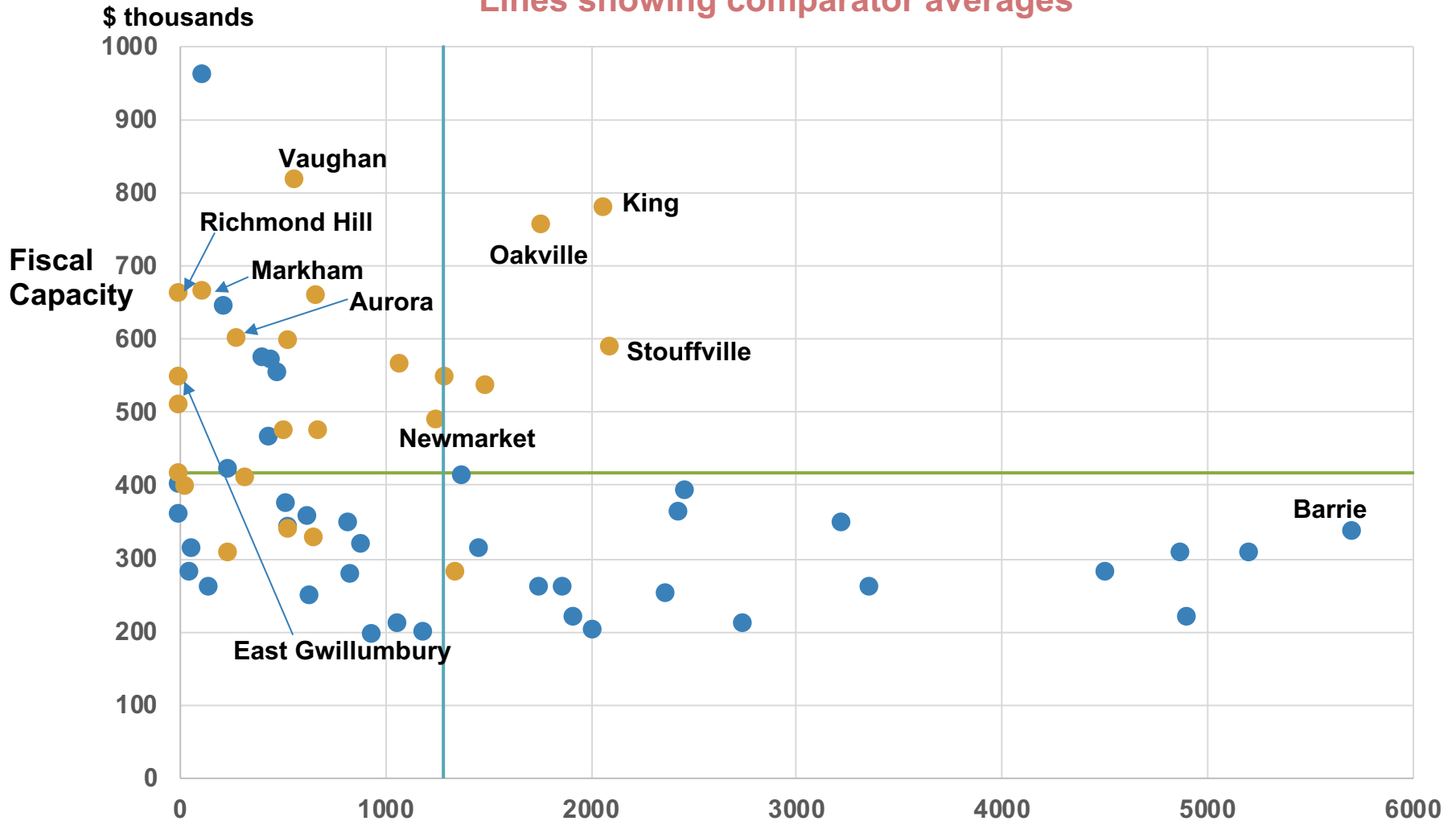
Lines showing Ontario averages



Sources: MMAH FIR and Statistics Canada

Fiscal Capacity and Debt per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages



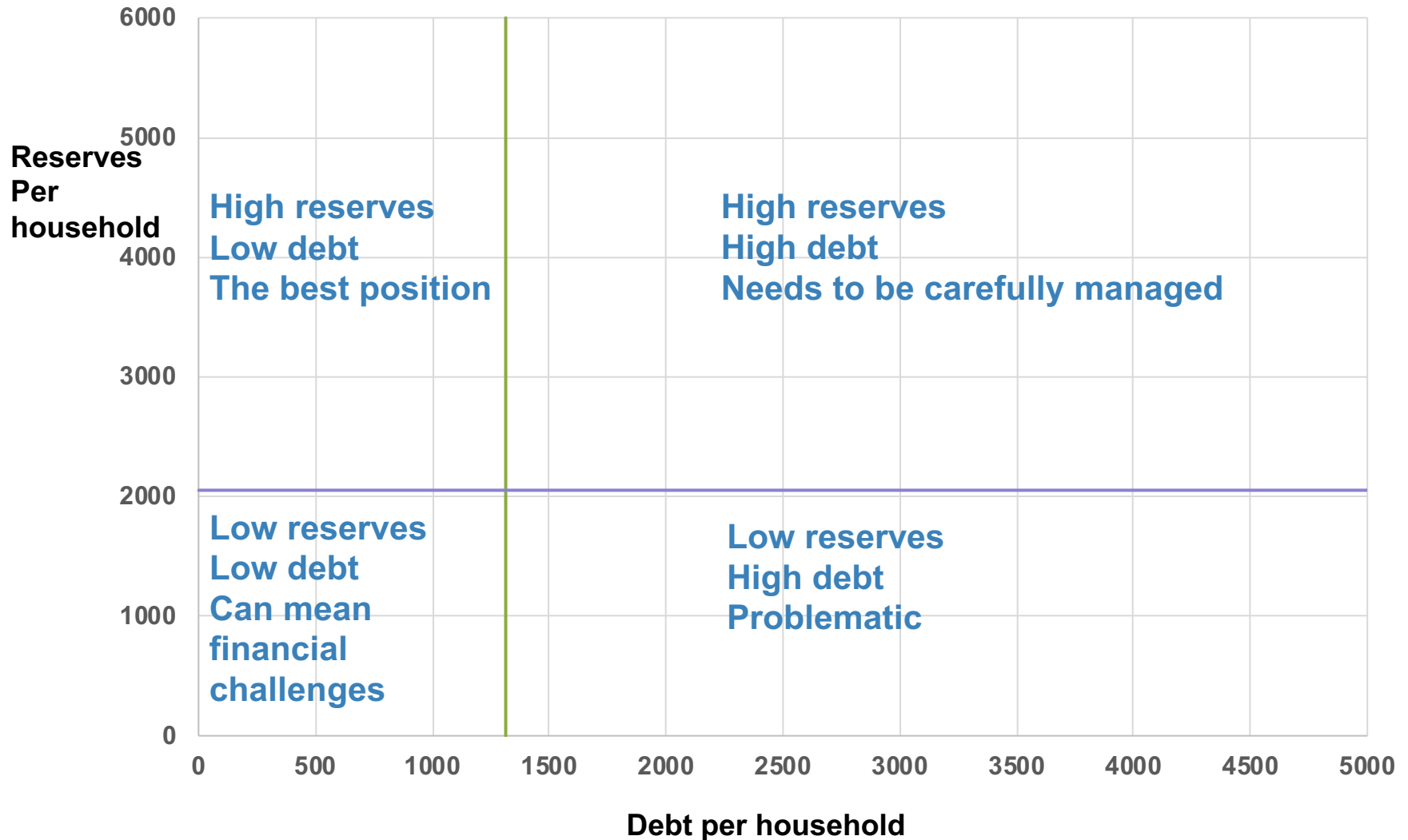
Sources: MMAH FIR and Statistics Canada

Newmarket's debt is reasonable

- Newmarket's debt is slightly below the provincial and comparator averages, which are about the same
- Combined with its higher than average fiscal capacity, it is in the upper left quadrant of both charts, the best position
- However, it has more debt than 17 of the 24 lower-tier GTA municipalities, so debt levels should be carefully watched
- Seventeen of the 39 non-GTA lower tiers in the comparator group are in the "low fiscal capacity, high debt" quadrant, so some may be challenged

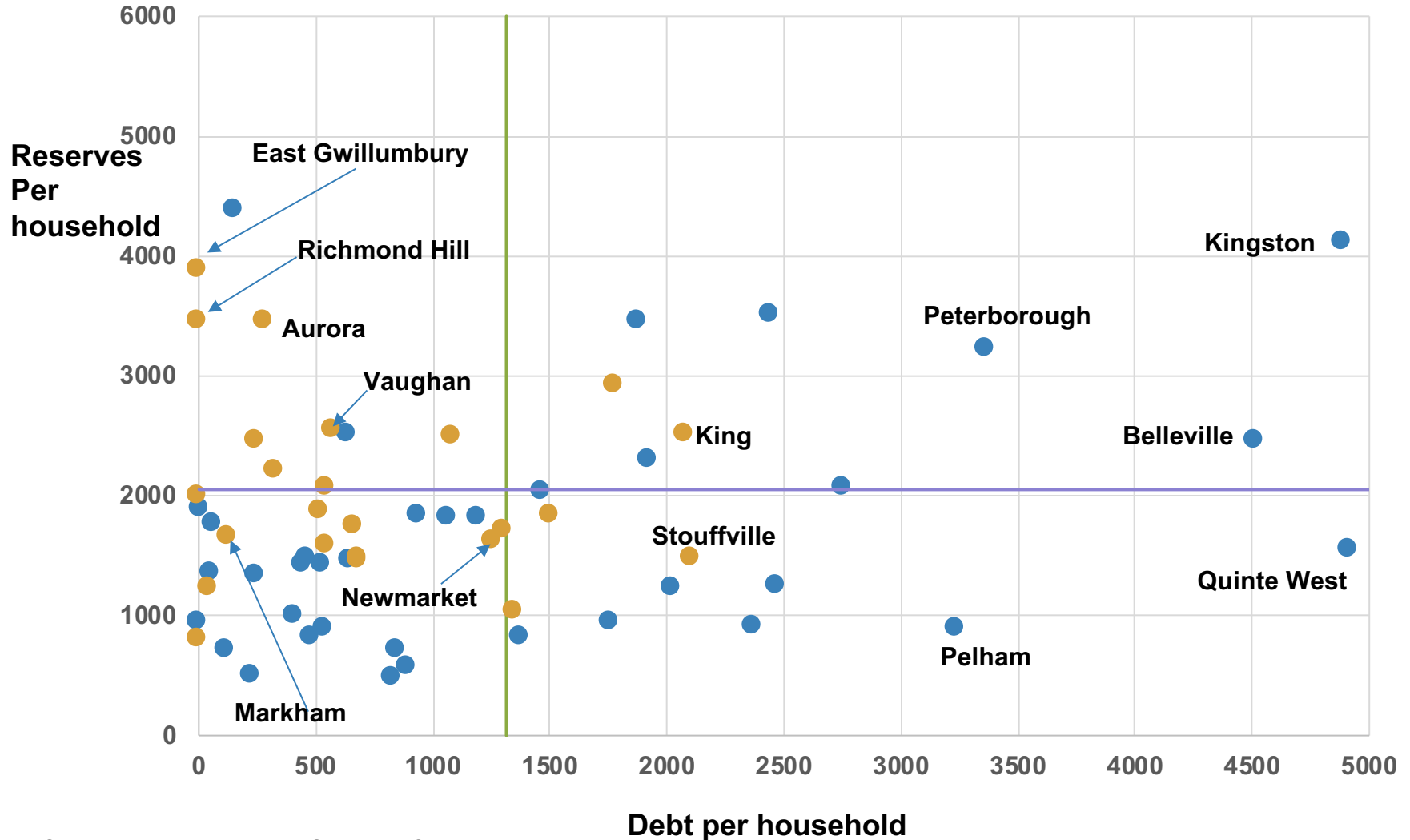
Understanding the quadrants in the charts

Reserves versus Debt per household



Reserves versus Debt per household Lower Tiers and Separated Cities, 2016

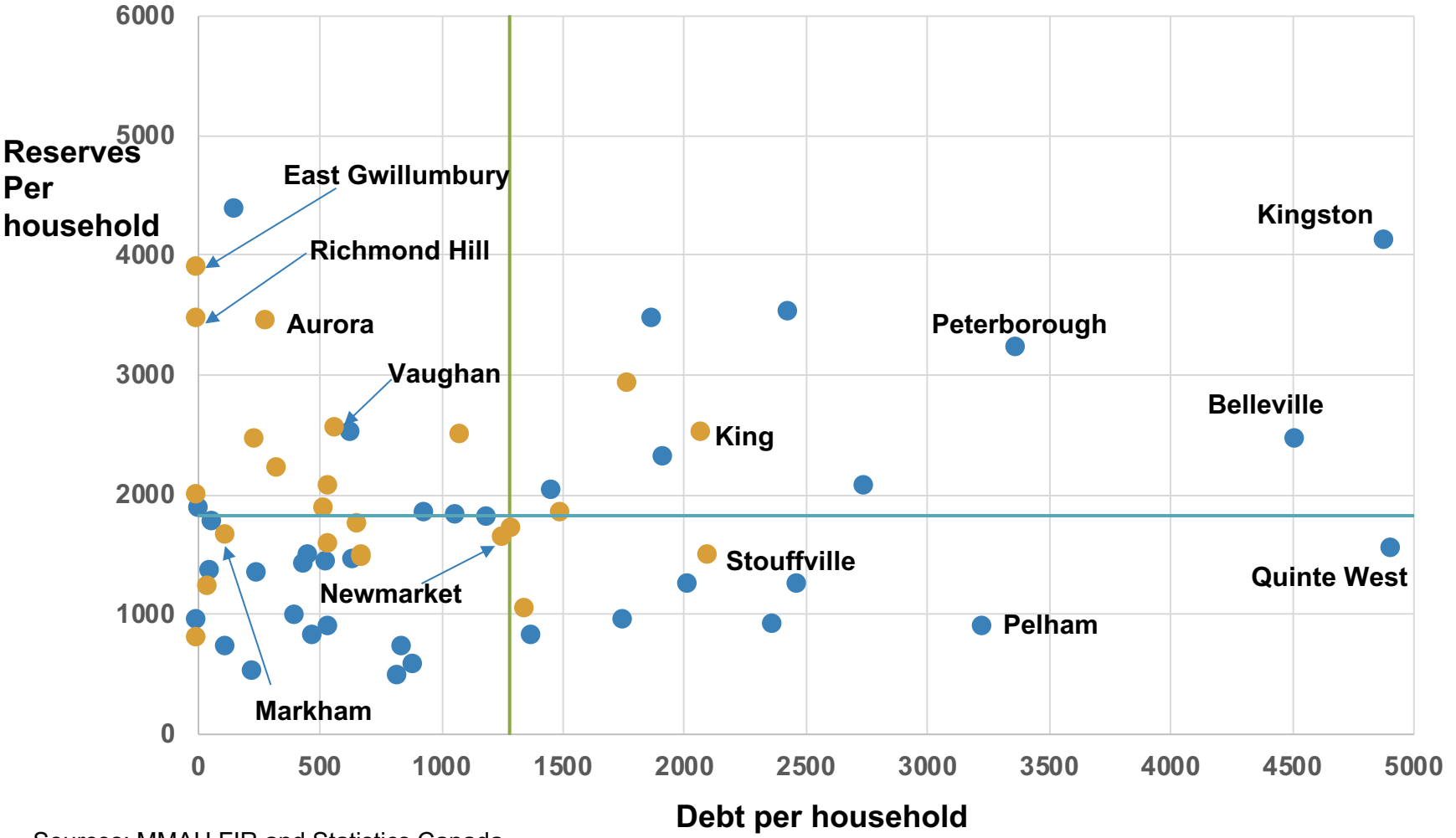
Lines showing Ontario averages



Sources: MMAH FIR and Statistics Canada

Reserves versus Debt per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages



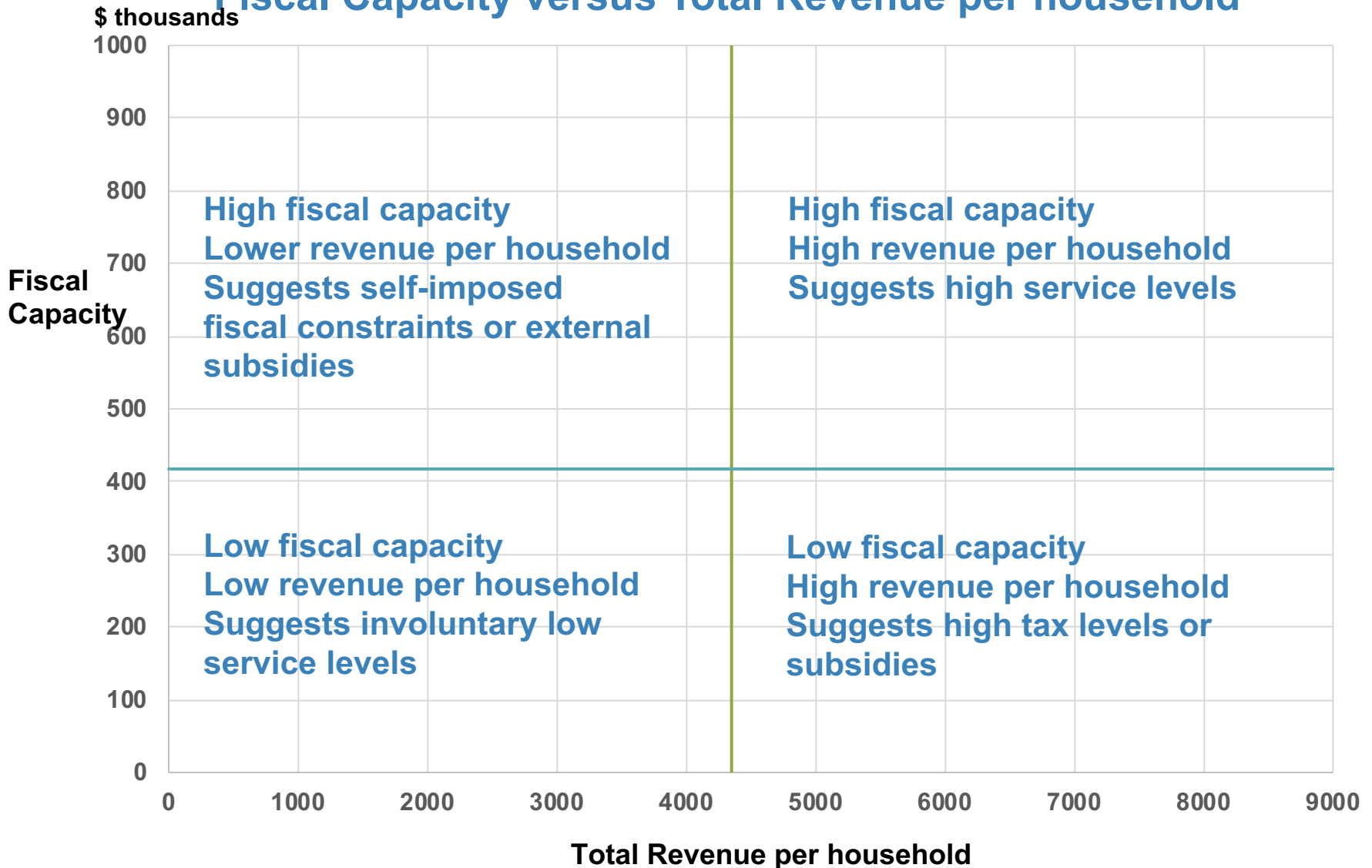
Sources: MMAH FIR and Statistics Canada

Room for improvement in the reserve-debt relationship

- Newmarket is in the lower left quadrant of both charts (barely)—lower than average reserves and slightly lower than average debt
- While it is acceptable, Newmarket's reserve/debt position has room for improvement in relation to other GTA municipalities

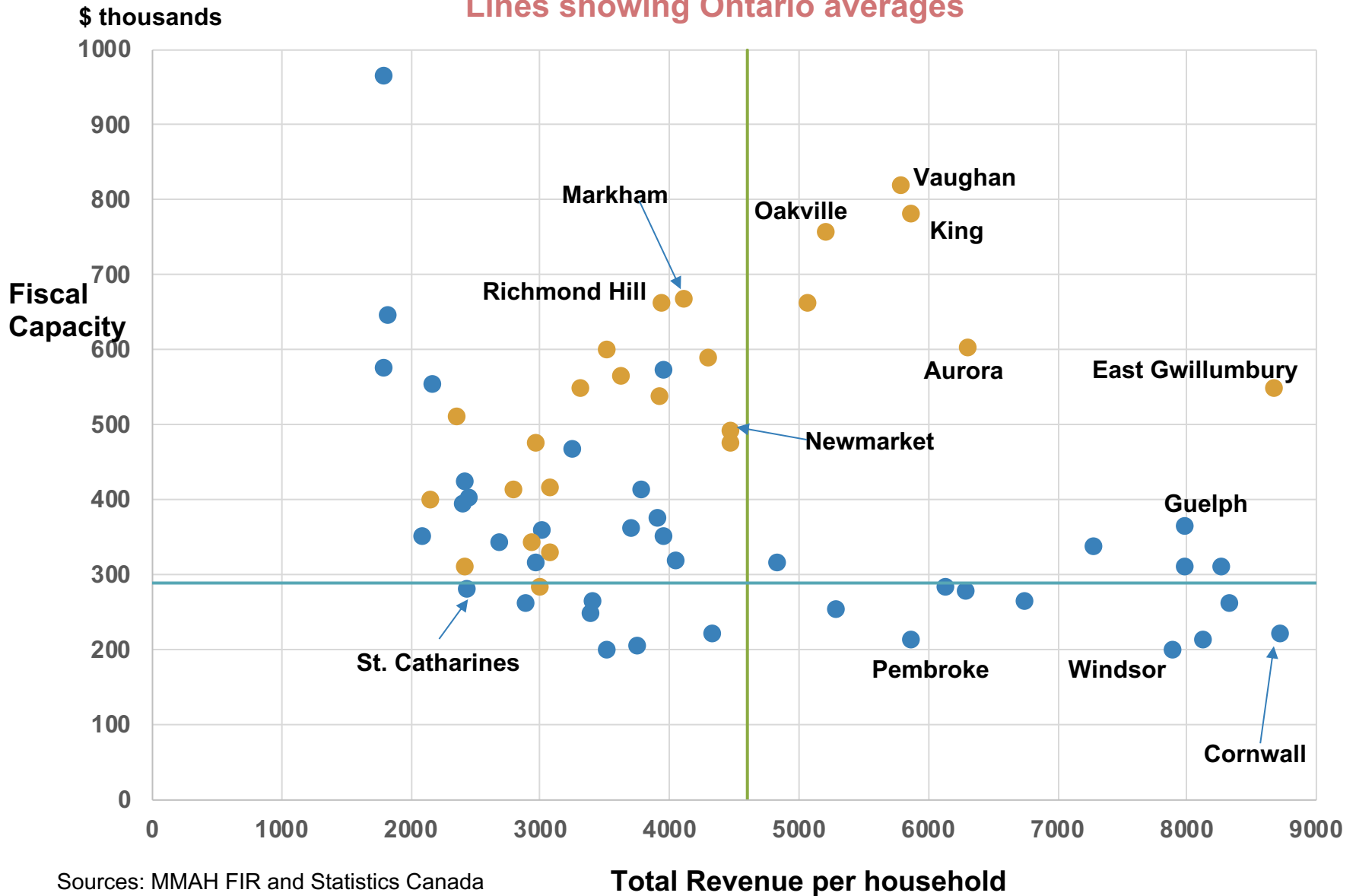
Understanding the quadrants in the charts

Fiscal Capacity versus Total Revenue per household



Fiscal Capacity versus Total Revenue per household Lower Tiers and Separated Cities, 2016

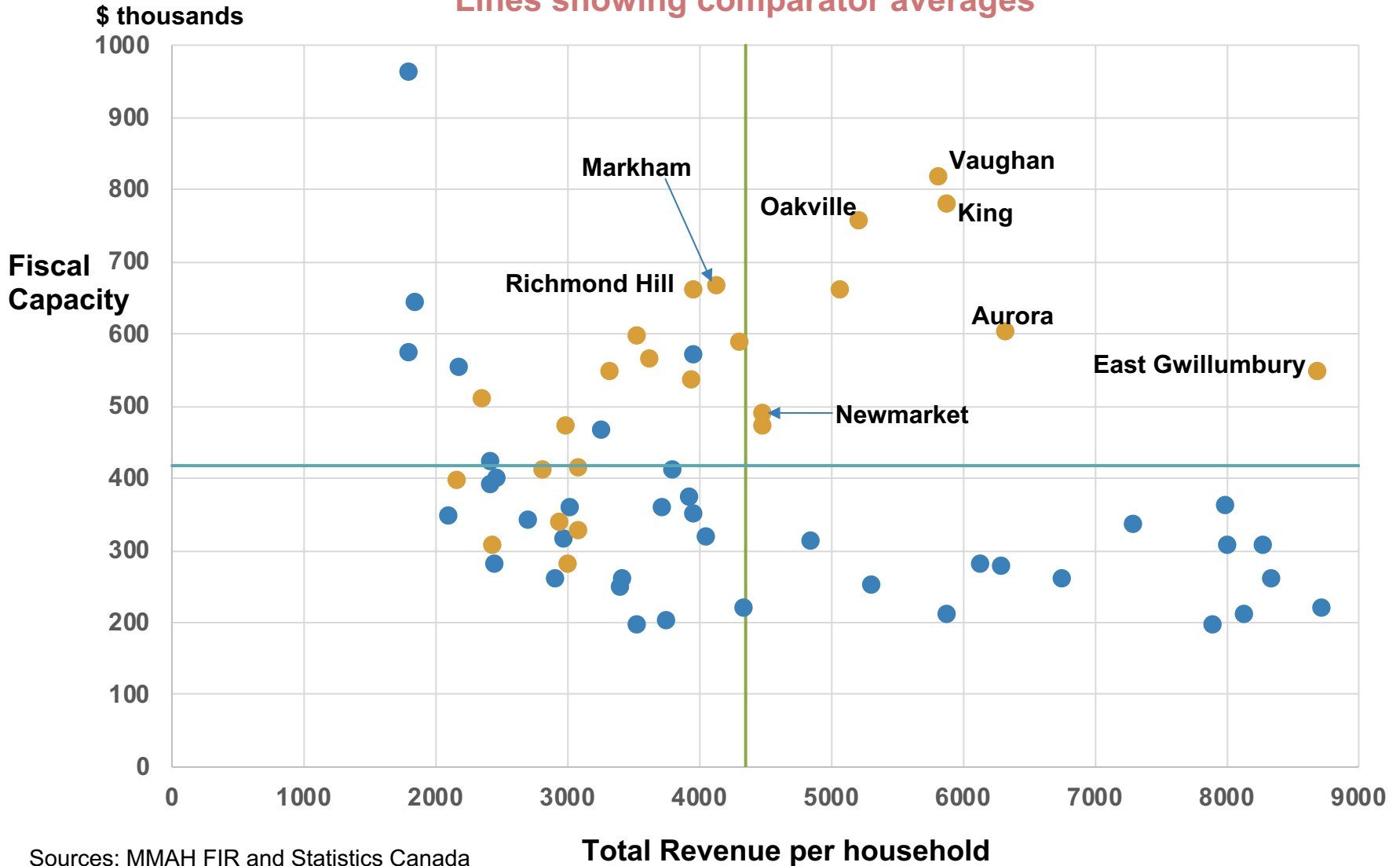
Lines showing Ontario averages



Sources: MMAH FIR and Statistics Canada

Fiscal Capacity versus Total Revenue per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages

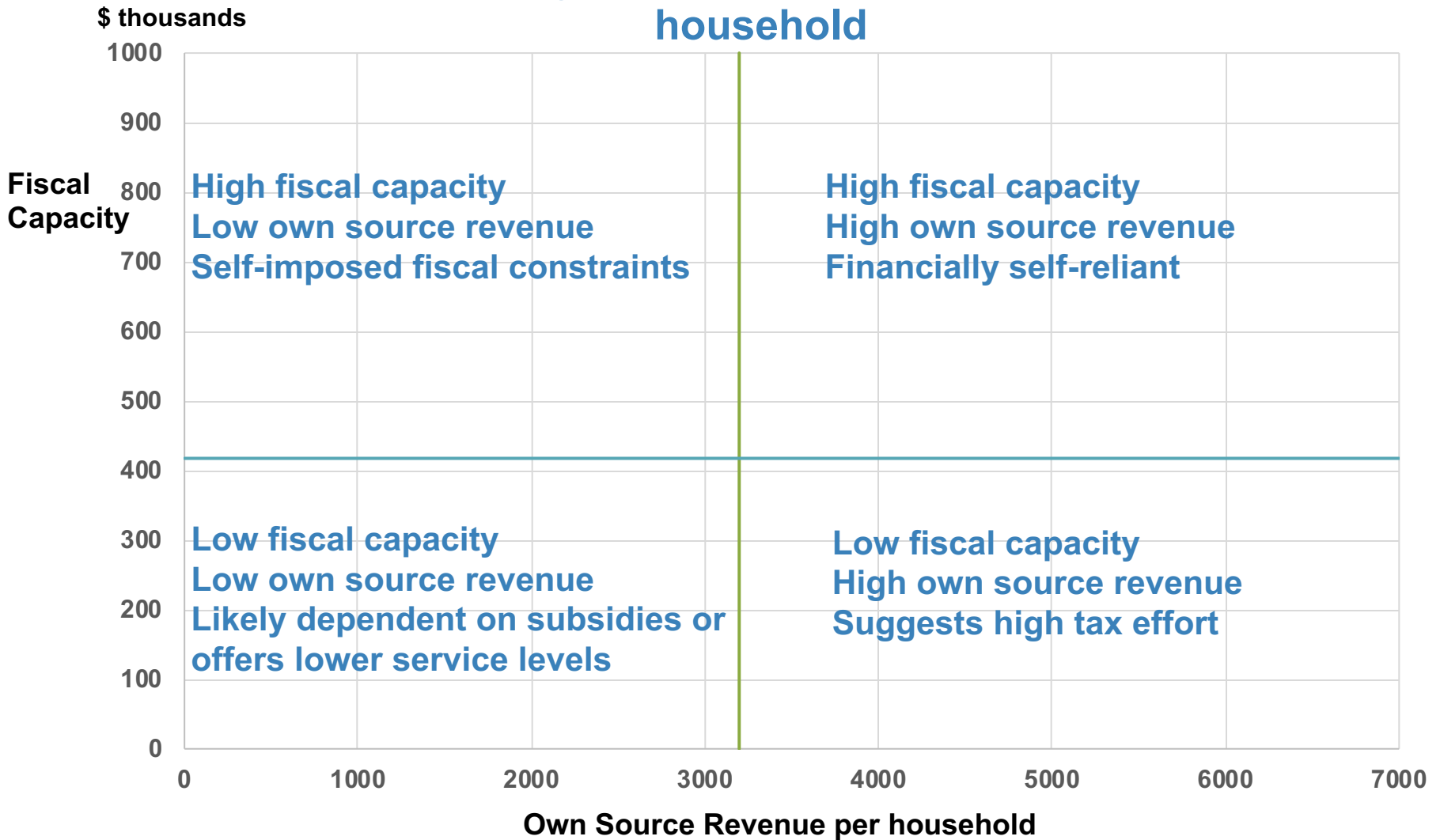


Newmarket's total revenue per household is about average, despite higher-than-average fiscal capacity

- When compared to Ontario, Newmarket has high fiscal capacity but slightly below average revenue per household, which suggests self-imposed fiscal constraints
- When compared to the comparator group, Newmarket has slightly above average revenue per household
- In the comparator group chart, only GTA municipalities are in the upper right quadrant (high-high) and only non-GTA municipalities are in the lower right quadrant (low-high)
- In both charts, the median is below the average

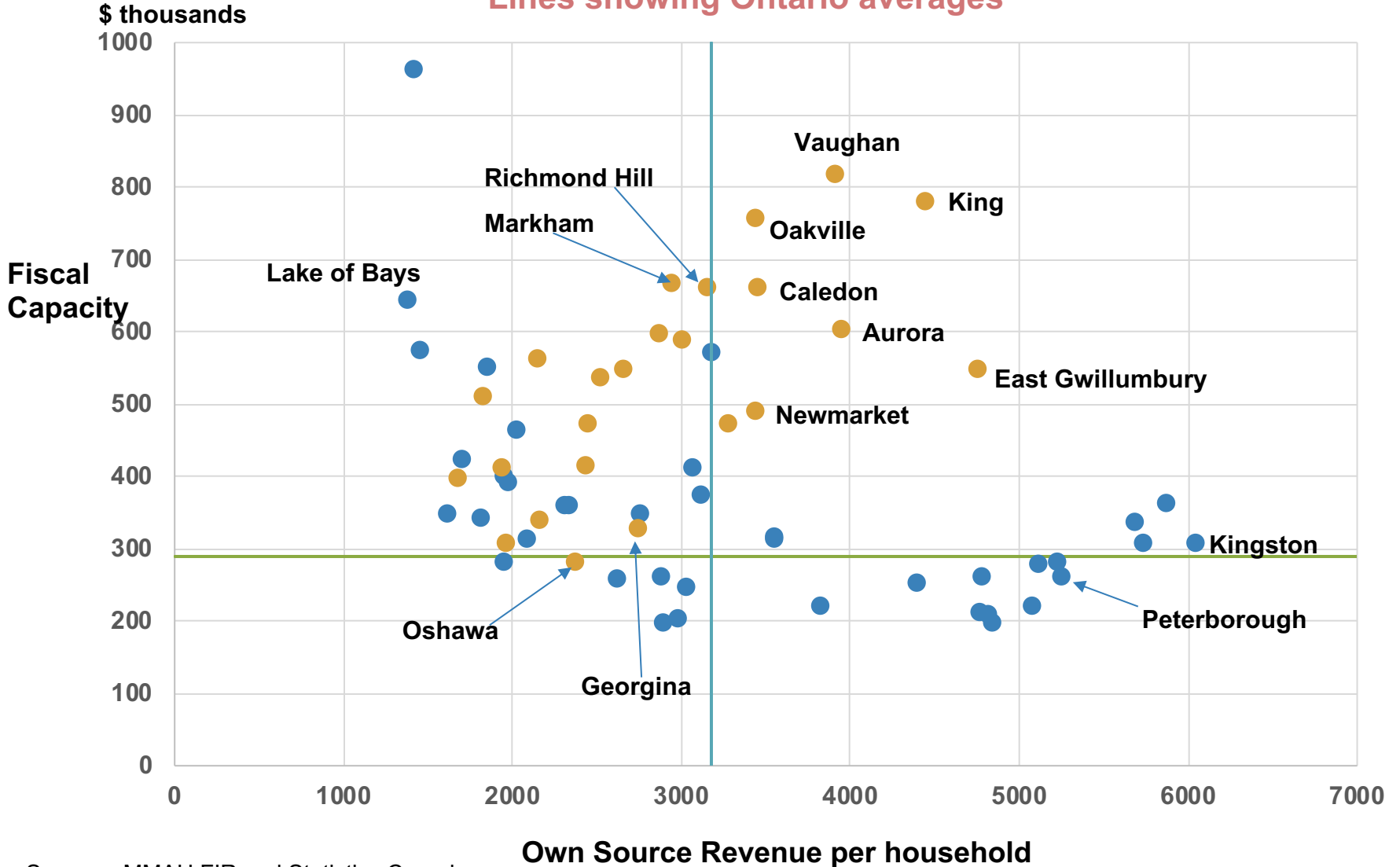
Understanding the quadrants in the charts

Fiscal Capacity versus Own Source Revenue per household



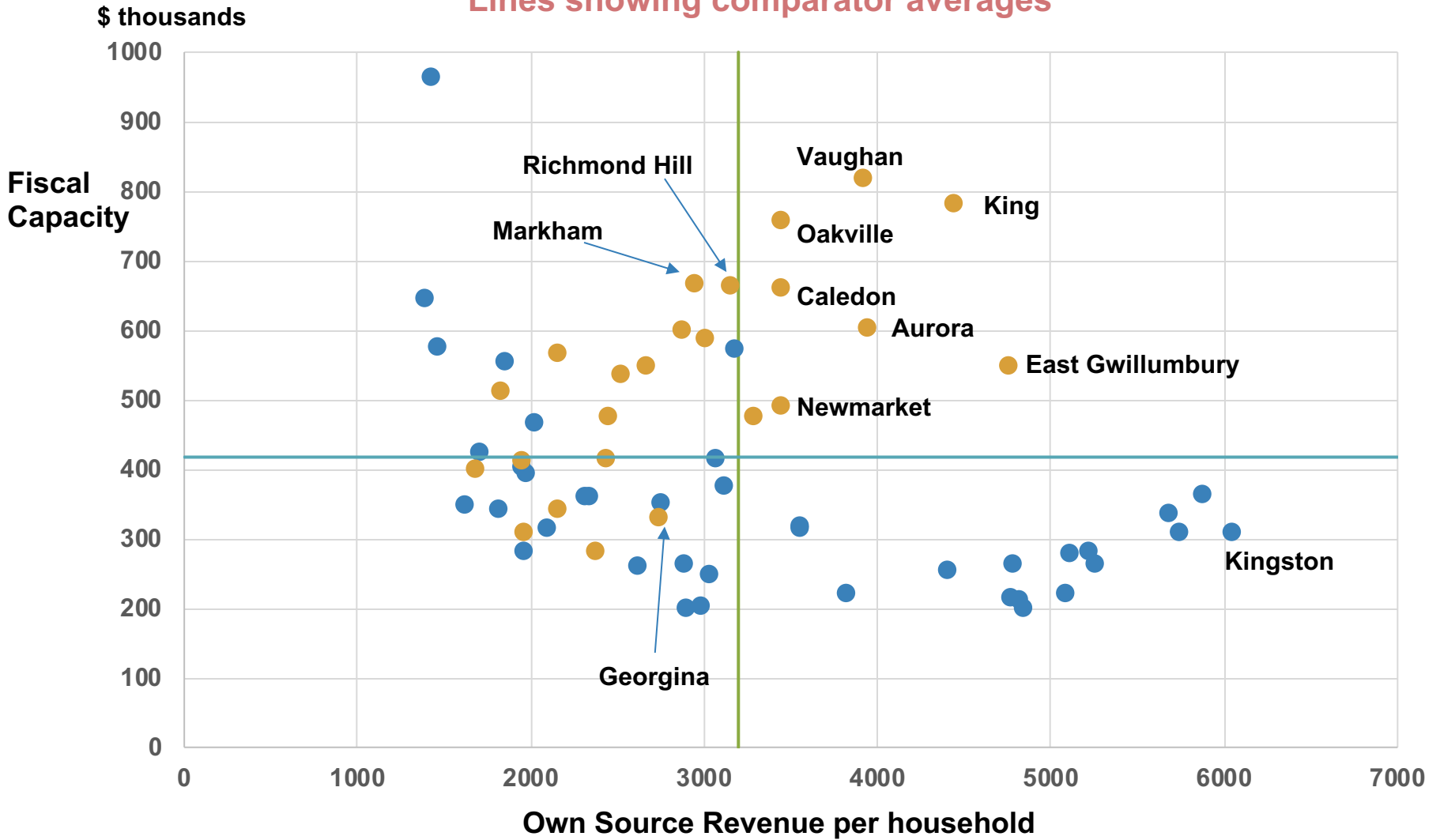
Fiscal Capacity versus Own Source Revenue per household Lower Tiers and Separated Cities, 2016

Lines showing Ontario averages



Fiscal Capacity versus Own Source Revenue per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages

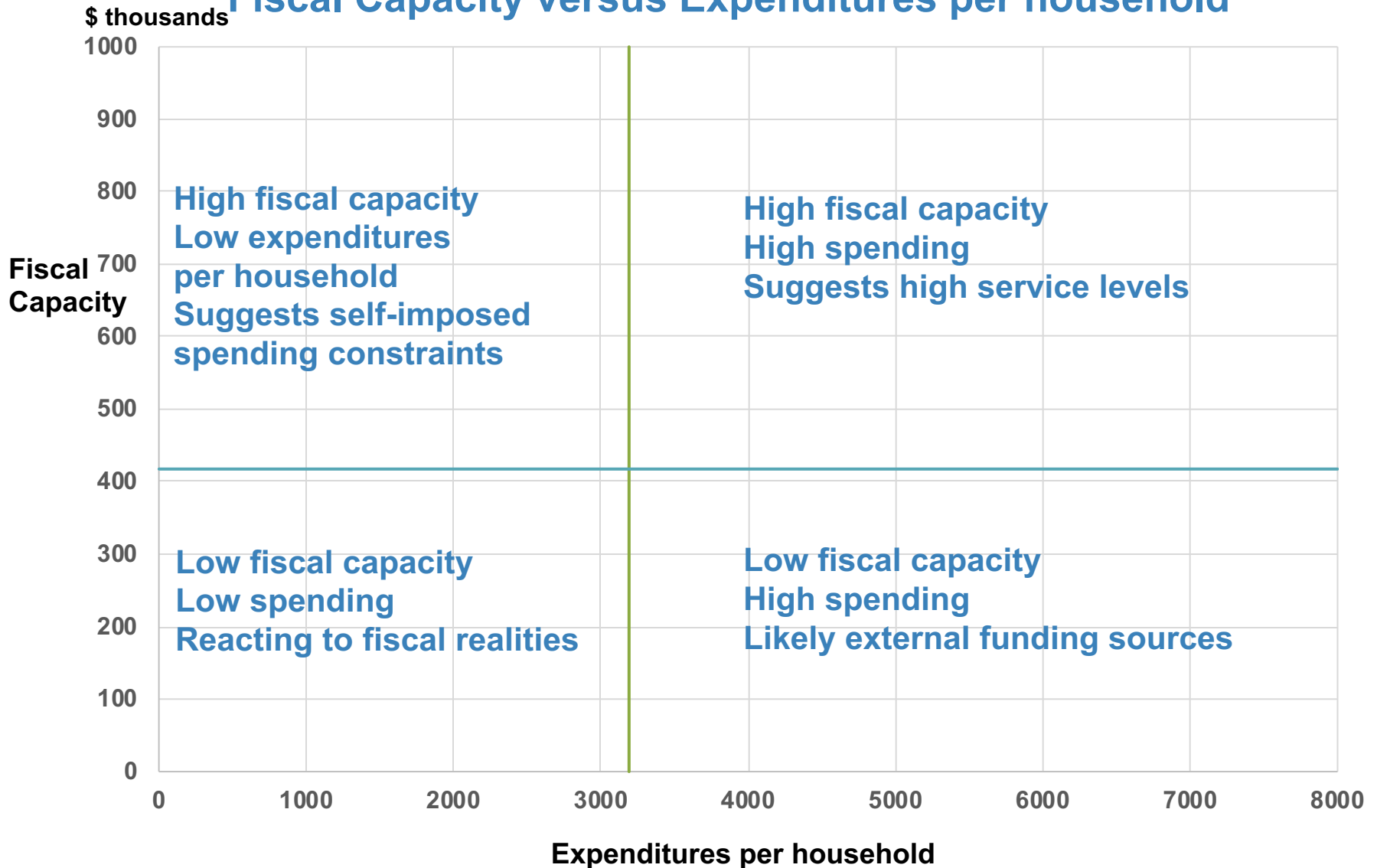


The Town is quite reliant on own source revenue

- Newmarket is in the top right quadrant (high-high), suggesting that it is relatively self-reliant
- Approximately 77% of the Town's revenue is own source revenue, above the average for the comparator group
- Some municipalities with own source revenue per household higher than Newmarket are paradoxically less reliant on own source revenue as a percentage of total revenue (e.g., all the municipalities in the upper right quadrant, although King is about the same)

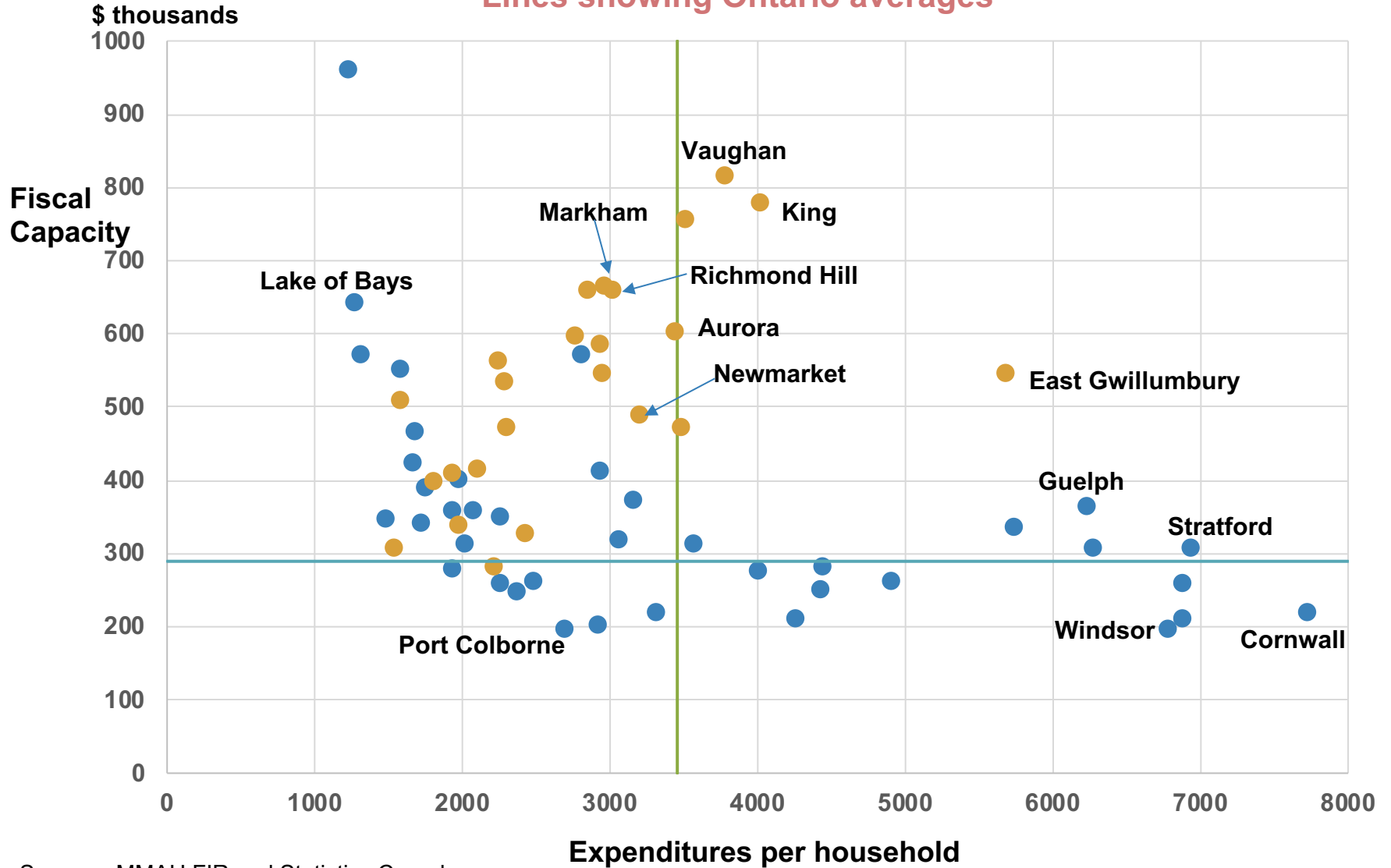
Understanding the quadrants in the charts

Fiscal Capacity versus Expenditures per household



Fiscal Capacity versus Expenditures per household Lower Tiers and Separated Cities, 2016

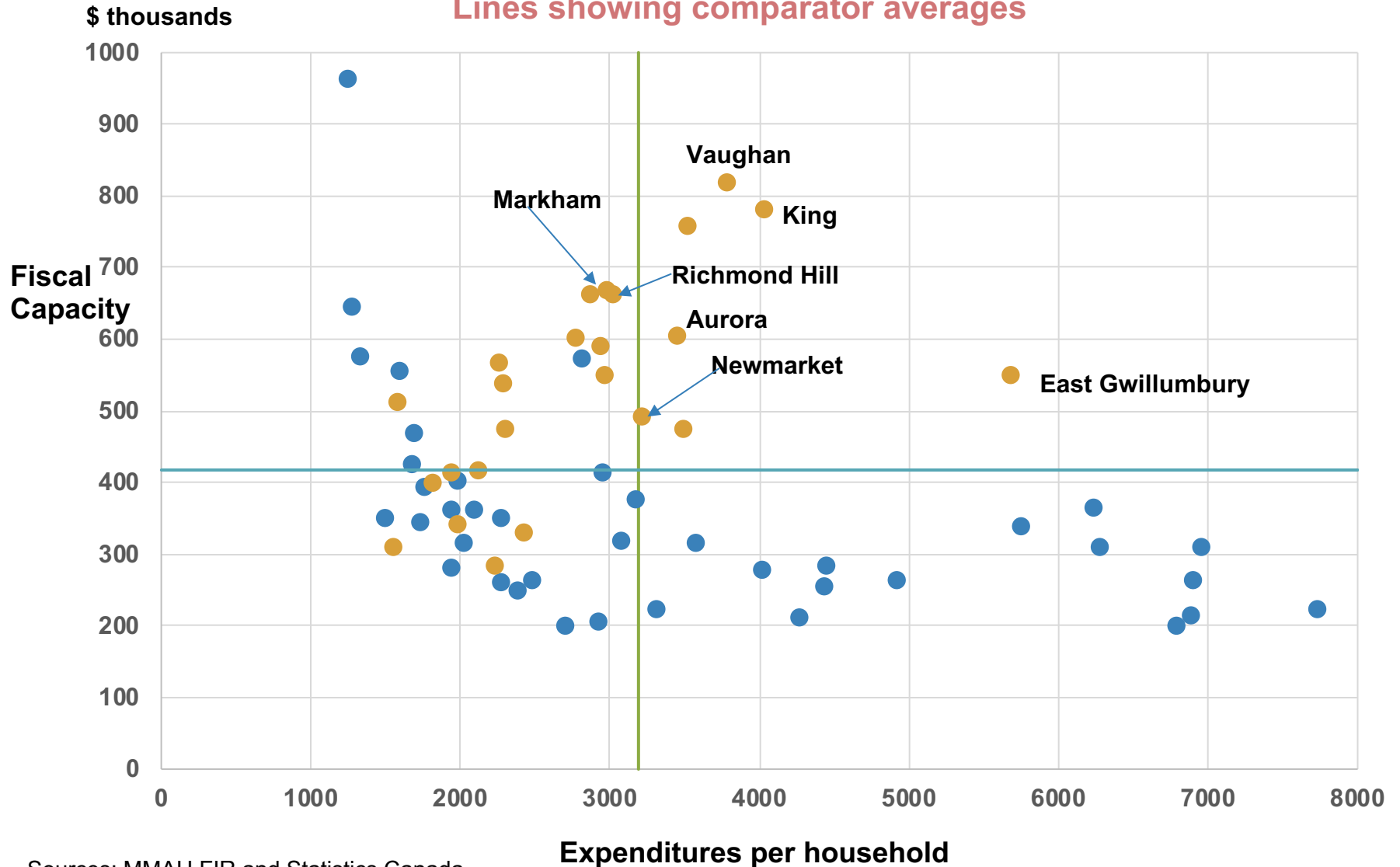
Lines showing Ontario averages



Sources: MMAH FIR and Statistics Canada

Fiscal Capacity versus Expenditures per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages



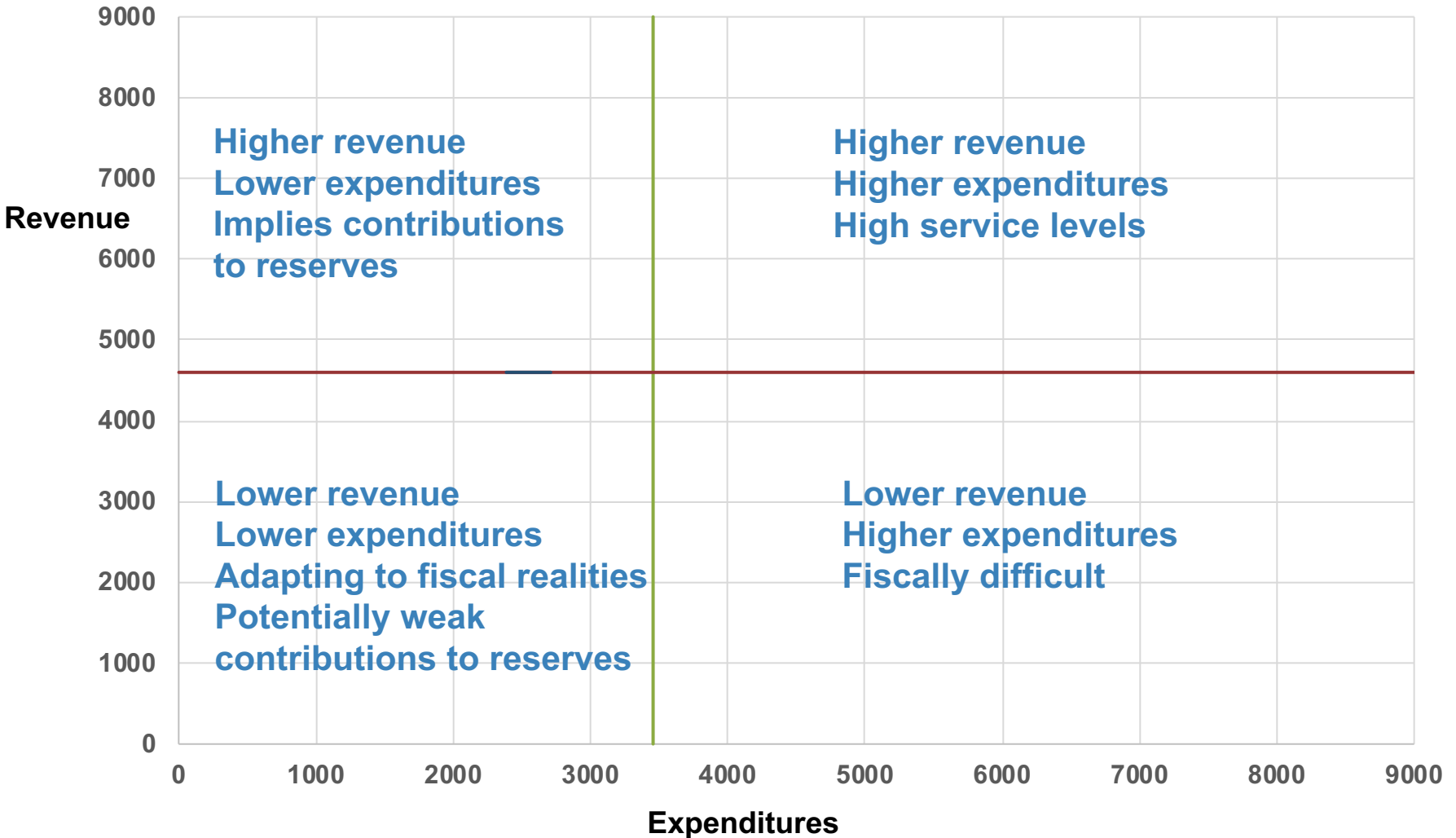
Sources: MMAH FIR and Statistics Canada

Newmarket's spending is average to below average

- Despite higher than average fiscal capacity, Newmarket's expenditures per household are below the Ontario average and at the comparator group average
- Most GTA municipalities spend less than Newmarket, possibly showing the impact of economies of scale and the fact that most do not have responsibility for water and wastewater
- Municipalities with lower fiscal capacity and higher spending per household tend to be separated cities

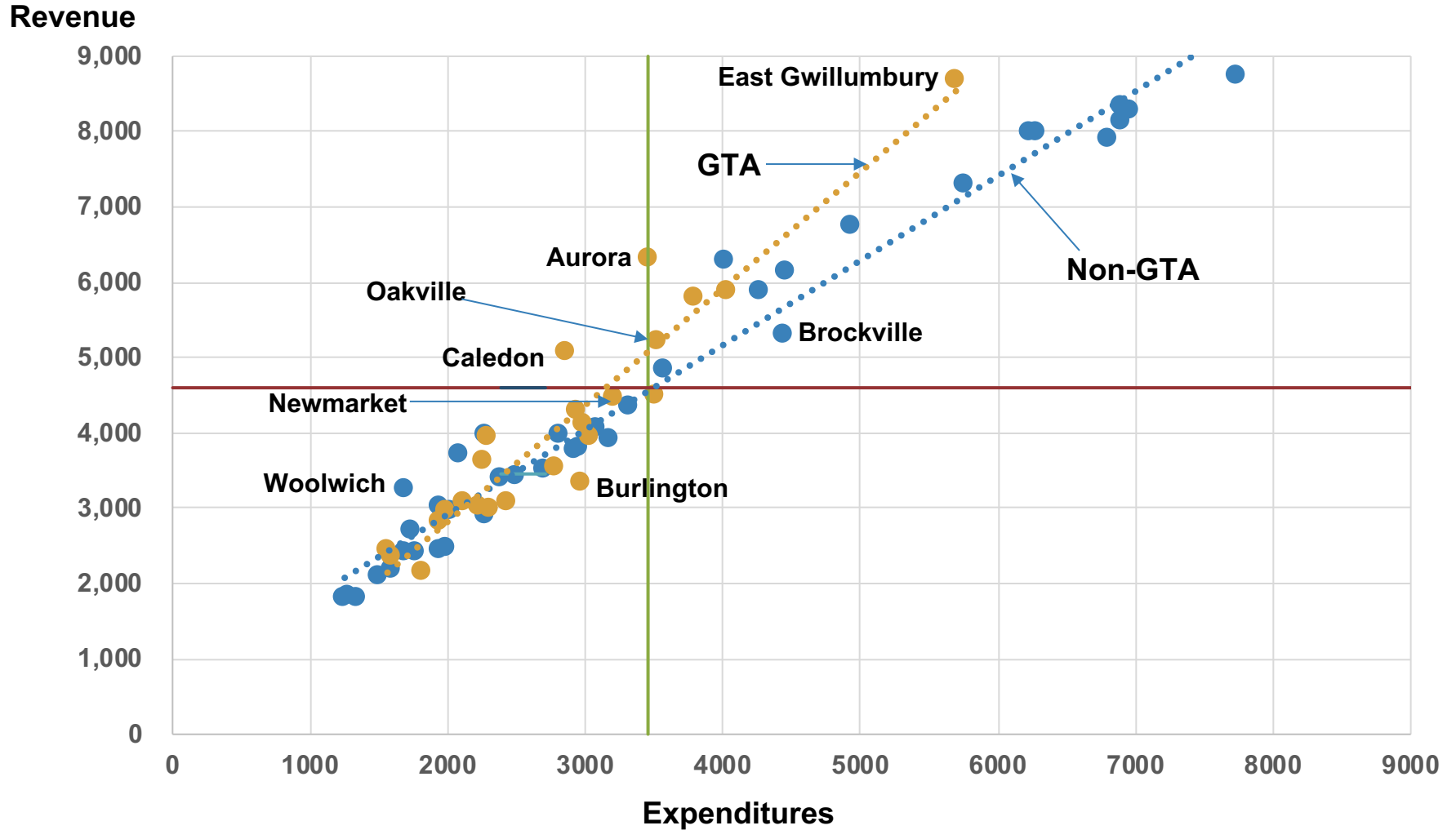
Understanding the quadrants in the charts

Total Revenue versus Expenditures per household



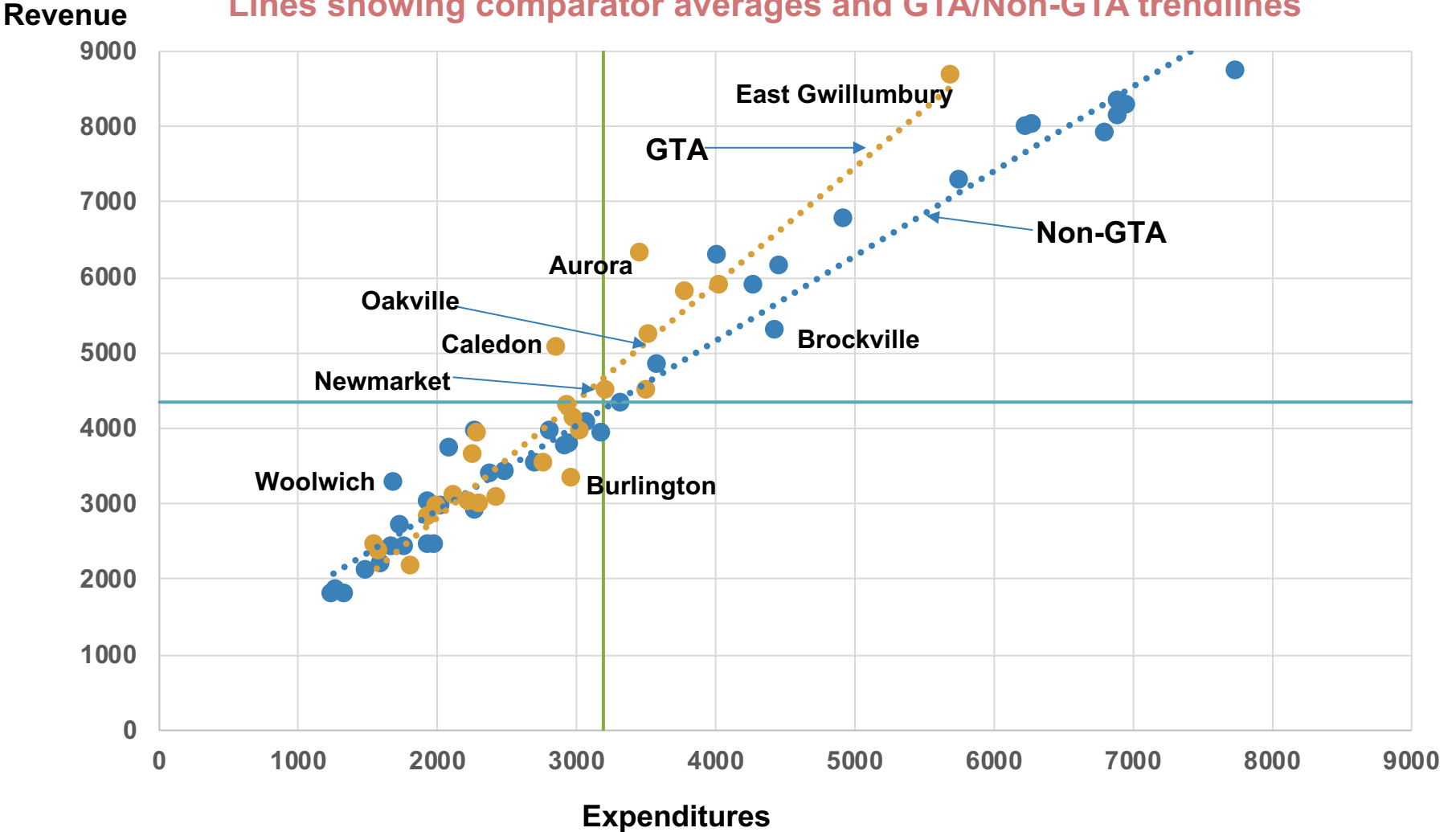
Total Revenue versus Expenditures per household Lower Tiers and Separated Cities, 2016

Lines showing Ontario averages and GTA/Non-GTA trendlines



Total Revenue versus Expenditures per household Lower Tiers and Separated Cities, 2016

Lines showing comparator averages and GTA/Non-GTA trendlines



Newmarket's revenue-expenditure relationship is fairly average

- When compared to the Ontario averages, Newmarket has close to average revenue and below average expenditures
- When compared to the comparator group, Newmarket has approximately average revenue and expenditures
- It is above the non-GTA trendline and below the GTA trendline
- Almost all municipalities have higher revenue than expenditures. The difference consists of contributions to reserves, capital spending and the annual surplus.

Key findings

- Newmarket has moderately high fiscal capacity and average to slightly below average infrastructure intensity
- This may be partly because of its compact geography, which requires less infrastructure, but that is offset to some extent by its responsibility for water and wastewater distribution and collection infrastructure (shared by the separated cities and by the lower tiers in Waterloo and Niagara Regions, but by no other municipalities in the comparator group)

Key findings continued

- In addition to having average to below average infrastructure intensity, Newmarket has newer than average infrastructure
- This is a good position, because it means there is time to build reserves
- Despite its positive fiscal capacity, Newmarket has below average reserves
- Only four of the lower-tier GTA municipalities in the comparator group have lower reserves per household

Key findings continued

- Newmarket has roughly average levels of debt
- However, 18 of the 24 municipalities in the comparator group with above average fiscal capacity (based on the comparator group) have less debt than Newmarket
- This suggests that Newmarket's debt needs to be carefully managed
- When reserves and debt are examined together, Newmarket's overall reserve/debt position has room for improvement, particularly in comparison to other GTA lower tiers

Key findings continued

- Newmarket's above average fiscal capacity does not result in significantly above average total revenue (slightly below average in relation to Ontario and slightly above average in relation to the comparator group)
- Newmarket is generating slightly above average own source revenue per household, but almost a third of the comparator group municipalities generate more own source revenue, even though many have less fiscal capacity

Key findings continued

- Newmarket's expenditures are relatively low given its fiscal capacity
- Newmarket tracks below the revenue-expenditure trend line for its GTA comparators

Conclusions

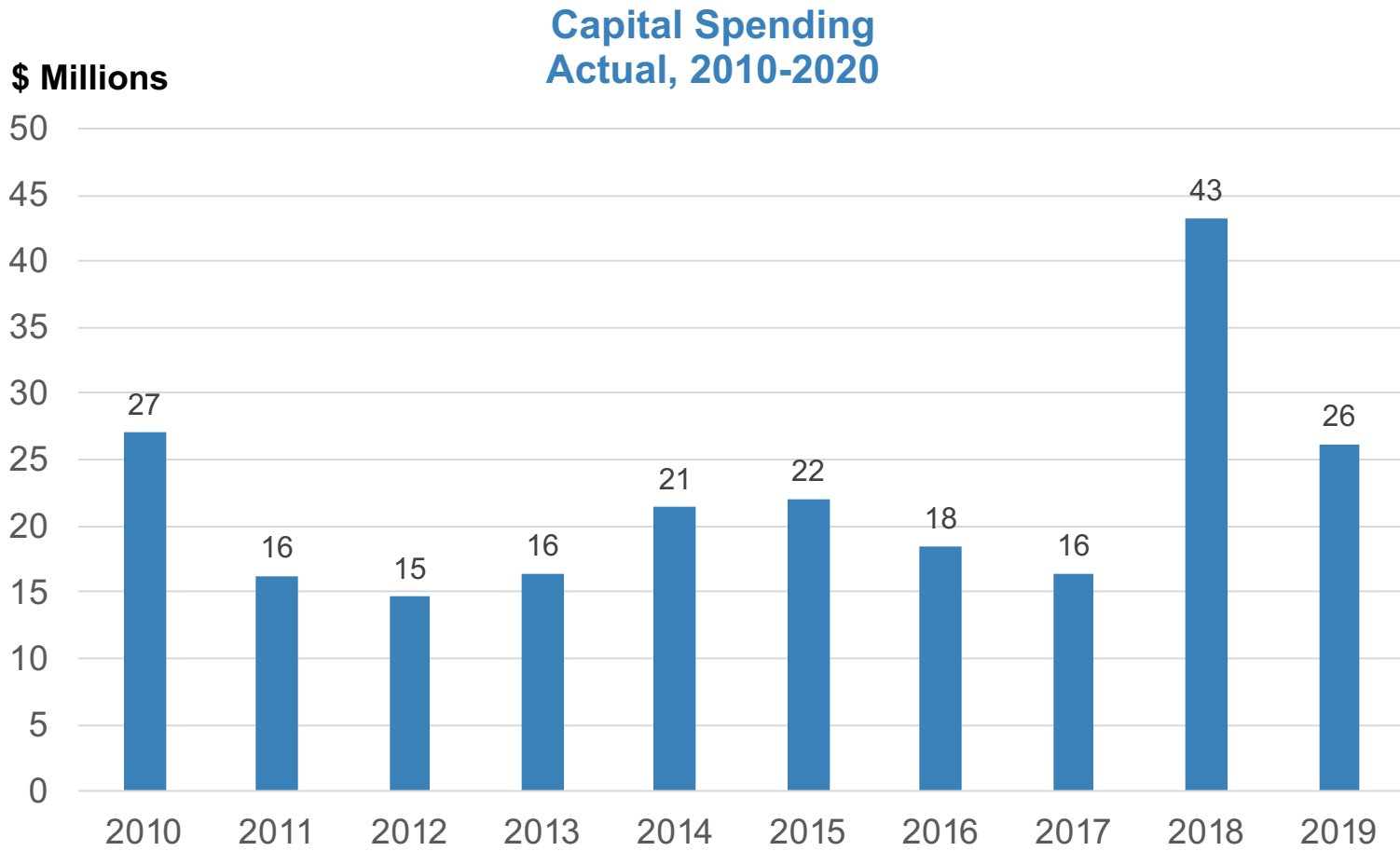
- Newmarket's overall financial picture is reasonably good
- It is well-positioned to implement a sound long-term fiscal strategy
- The strategy should seek to:
 - Manage the capital plan to balance demand, service levels, delivery ability and financial capacity
 - Price water and wastewater correctly
 - Aggressively build reserves, particularly for future asset management needs and contingencies
 - Keep a watchful eye on debt levels
 - Identify additional sources of revenue

Part C

The Fiscal Strategy in Practice

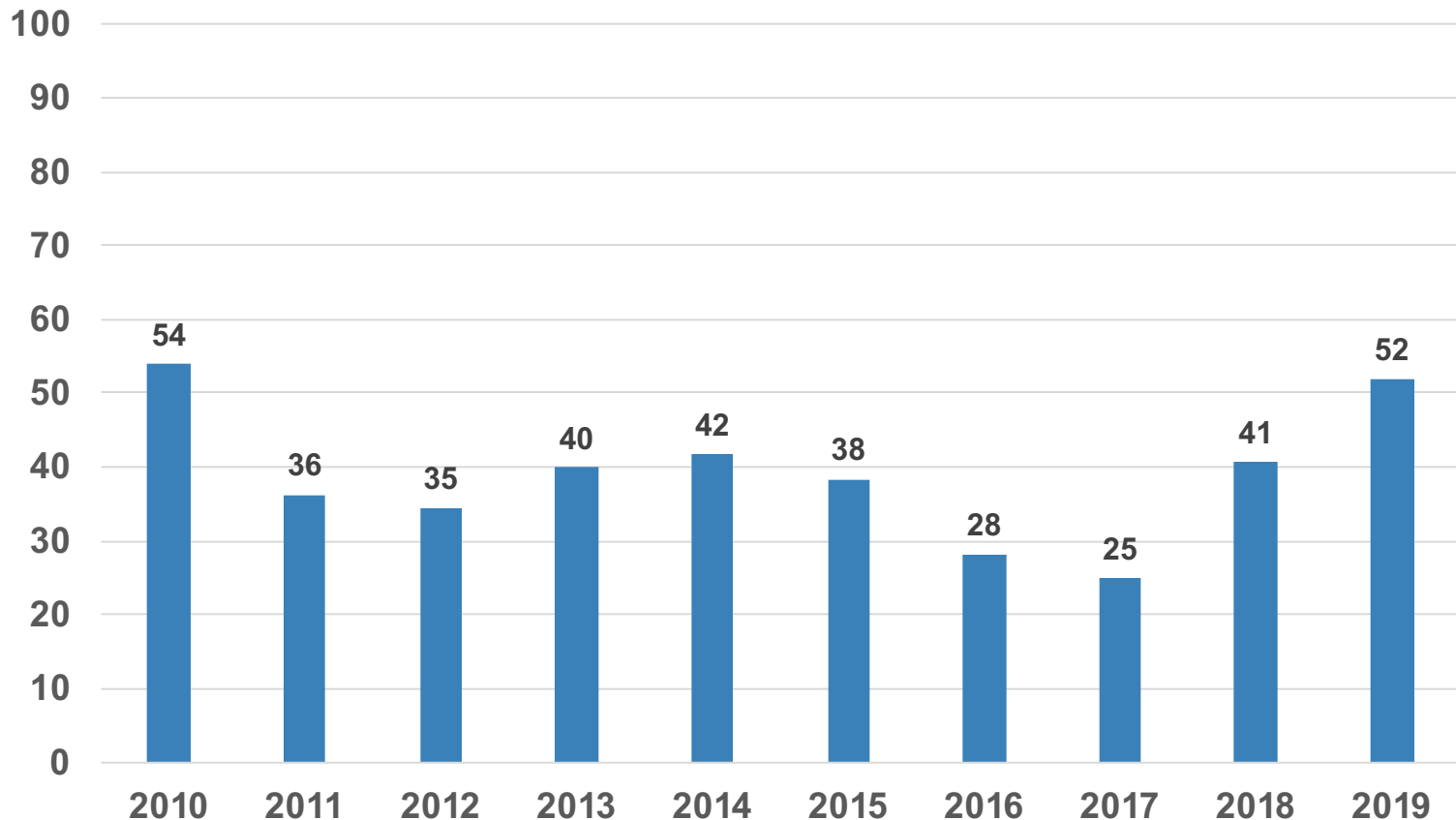
5. Managing the capital plan

Capital spending is usually between \$15 and \$27 million

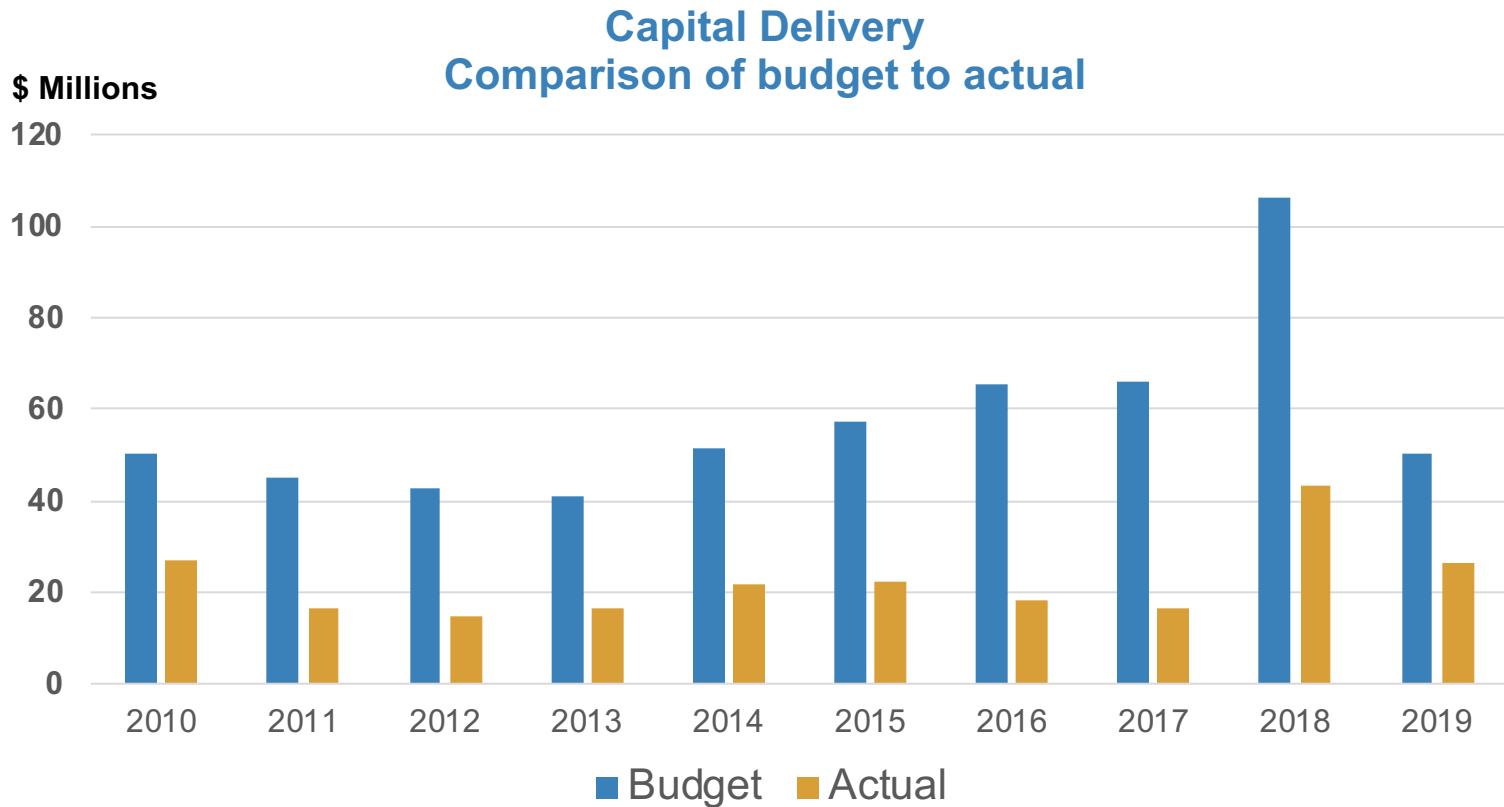


Less than half the capital budget is delivered in most years

Capital Delivery
Percentage of Budget



Capital budgets have exceeded delivery capacity



Some areas have delivered more of their budget over the past nine years

Best performers (although none are good)

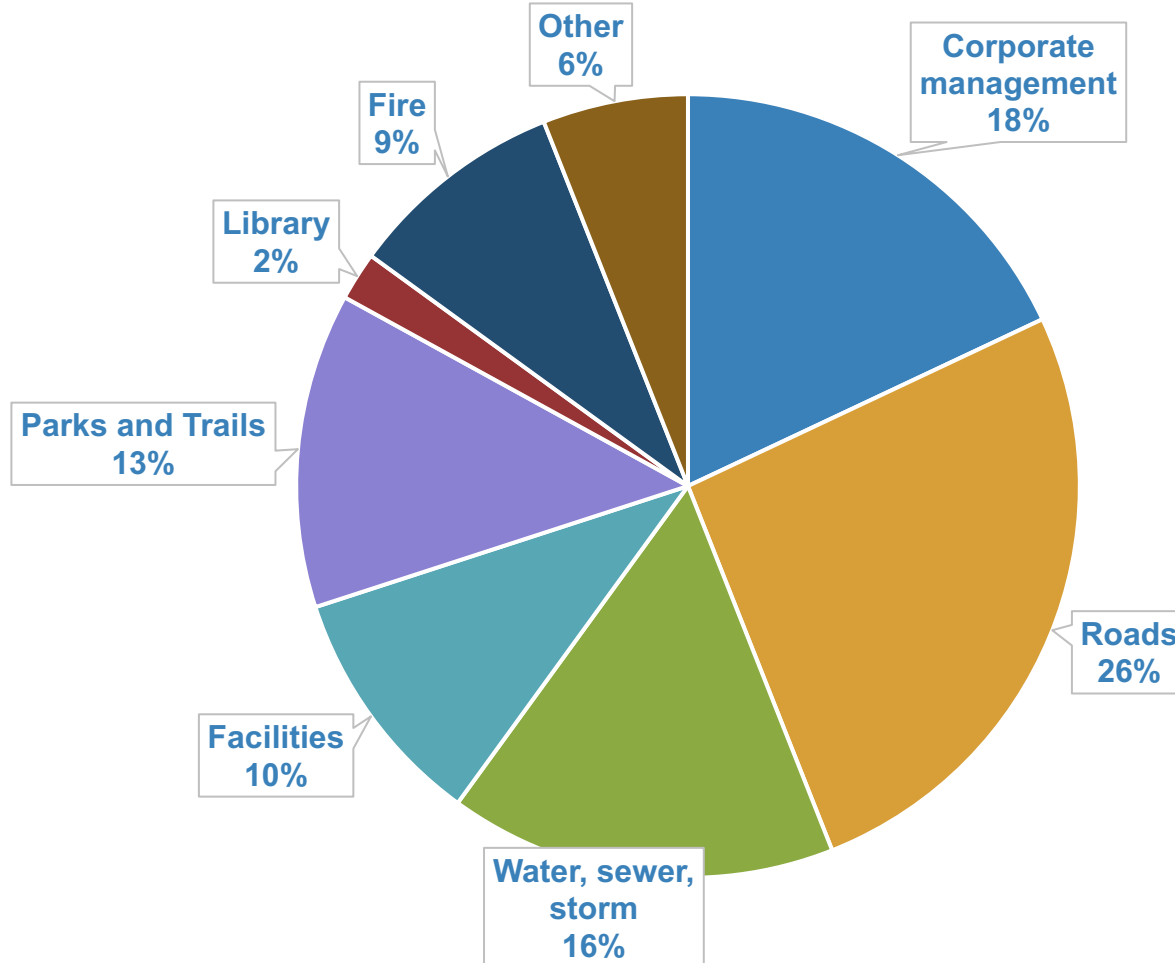
- Roads
- Facilities
- Corporate management

Most challenged to deliver

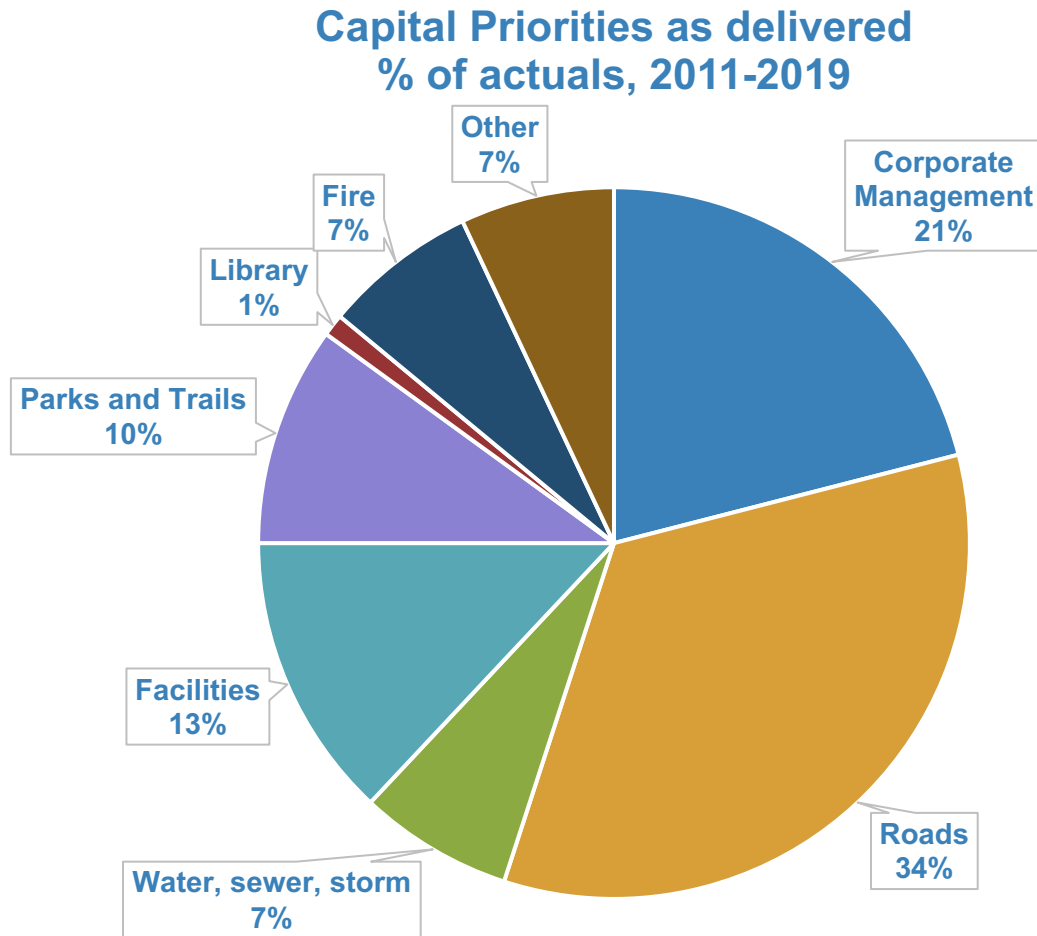
- Water
- Library
- Parks and trails
- Fire

Capital priorities over the last nine years as approved in the budget

Capital Priorities based on the budget
% of approved budgets, 2011-2019



But differences in the capital delivered shifts those priorities



Capital delivery affects implementation of Council priorities

- Low and differential rates of capital delivery mean that Council priorities are not being implemented as planned
- For example, Roads was 26% of the nine-year budget, but ended up at 34% of delivered capital
- On the other hand, water, sewer and stormwater were 16% of the budget, but only 7% of delivered capital
- The Town took a positive step forward in 2019 with \$24 million of in-year downward revisions in the capital plan. After these changes are taken into account, capital delivery was 99%

Setting priorities for capital budgets is not a simple matter

- While calculations of discounted cash flows and internal rates of return can be useful, they typically have difficulty assigning adequate weights to social, environmental and other difficult-to-quantify public costs and benefits
- Rank-ordered, criteria weighted schemes have found favour with some, but results can vary widely with the weights assigned to criteria

Things to consider in setting capital priorities

- The total capital budget
- Growth versus rehabilitation and replacement
- Sector investment needs (roads, water, parks, etc.), including master plans if available
- Individual project merits
- Funding sources
- Future obligations (operating costs, asset management costs)
- Optimal timing

Capital Spending Authority allows better management of the capital plan

- Capital Spending Authority is simply the authority Council gives to spend money on capital
- In a Capital Spending Authority model, Council gives authority to spend the entire capital budget in the first year plus multi-year spending authority for projects with existing contracts that stretch beyond the current year or projects where it is reasonably anticipated that there will be multi-year contracts in place during the current year

The Town is implementing Capital Spending Authority

- Capital Spending Authority replaces the practice of budgeting the total cost of multi-year projects in the current year
- The Town has already taken steps towards a Capital Spending Authority model
- The next step is to define it more narrowly so that Capital Spending Authority in future years is restricted to existing contracts (projects already under way) or contracts that can reasonably be expected during the year

Realistic Capital Budgeting

- The Town needs to set more realistic capital budgets or increase the capacity of staff to deliver (or both)
- Part of this involves eliminating capital carryovers, which the Town is doing with the 2020 budget
- Capital carryovers allow departments to carry over unspent money to future years

Setting targets for capital delivery

- There are problems with capital carryovers: accumulation of ability to spend, no budgetary incentive to deliver on a timely basis, lack of accountability
- Capital carryovers are no longer needed with the introduction of Capital Spending Authority and can be safely eliminated
- A reasonable target for delivery of the capital budget would be 80-90%
- This target may need to be scaled up over several years

Ten and Twenty-Year Capital Plans

- Short-term capital priorities should be informed by longer-term plans, especially since it can take multiple years for a project to obtain all the necessary approvals
- In addition, funding sources need to be carefully managed over time
- For these reasons, it makes sense for staff to provide Council with a well-developed ten-year capital plan as part of the budget process, complete with project-by-project funding sources
- In addition, staff can maintain a similar twenty-year plan for internal purposes (longer for asset management purposes, but with less detail)

Council approvals of capital

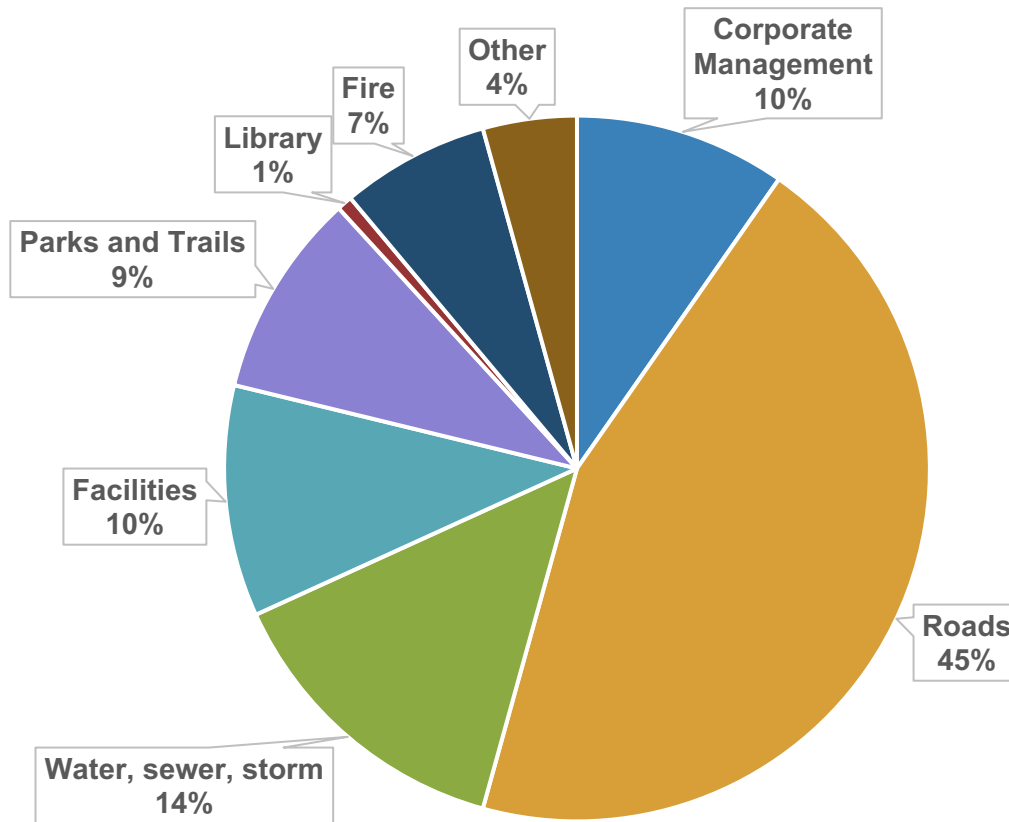
- Council should approve three things as part of capital budget approvals:
 - Capital Spending Authority, which includes the capital budget for the budget year
 - A ten-year capital plan (note that approval of the ten-year plan does not constitute authority to spend on projects that are not part of Capital Spending Authority)
 - Funding sources by project for both Capital Spending Authority and the ten-year plan

Structuring Capital Budgets

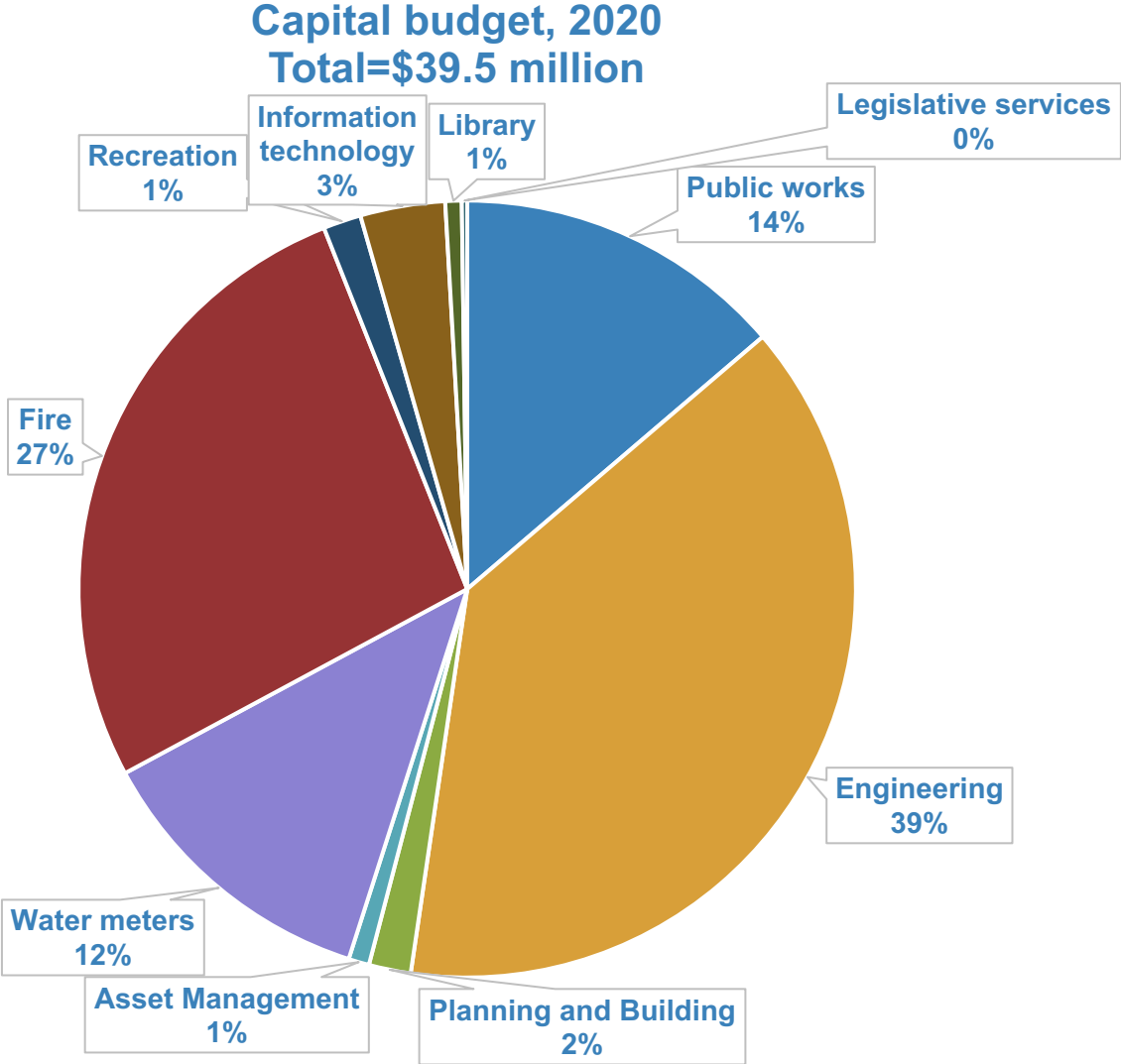
- To help Council set capital priorities, the capital budget should include:
 - Growth versus rehabilitation and replacement
 - Pre-construction versus construction
 - Funding source analytical overview (to summarize project-level information)
 - Departmental/functional area information

Composition of 2019 actual capital spending

Actual capital spending, 2019
Total = \$26.2 million



Composition of 2020 capital budget



Consistency of information contributes to better decision-making

- The formats of the 2019 actuals and the 2020 budget are different
- This makes comparison and therefore decision-making difficult
- It would be useful to have both a departmental and a functional/sectoral breakdown of both the budget and actuals

Recommendations

1. Council approval of Capital Spending Authority in the budget should constitute the authority to spend on a capital project
2. In the case of multi-year projects, Capital Spending Authority can extend for the full term of the project. Normally this would involve multi-year contracts
3. Capital Spending Authority for multi-year projects should automatically be built into the budget if the projects are already in progress

Recommendations continued

4. Council should approve both the annual capital budget and Capital Spending Authority each year
5. Council should publish a ten-year capital plan with complete project-by-project funding sources as part of the budget process
6. Staff should maintain an internal 20-year capital plan (and longer for asset management purposes)

Recommendations continued

7. Capital carryovers should be eliminated (achieved in the 2020 budget process but needs to be continued). If a project has not been started, it should go through the budget process again
8. Capital projects should be divided into pre-construction and construction components wherever appropriate (i.e., where environmental assessments, land acquisition, engineering design and so on are required)

Recommendations continued

9. Council should approve pre-construction and construction activities separately for the same project
10. Construction of a capital project should only be approved once pre-construction activities and approvals are complete. Both pre-construction and construction can be approved for the same budget year if there is a solid expectation that pre-construction activities will be completed during the year and the project will start construction

Recommendations continued

11. Business cases should be required for projects over \$100,000. These could be incorporated in the Town's decision packages
12. The capital budget should include breakdowns of growth versus rehabilitation and replacement
13. The budget process should include an analysis of the factors affecting capital priority setting and a discussion of the rationale for the capital projects selected for both Capital Spending Authority and the Ten-year Plan

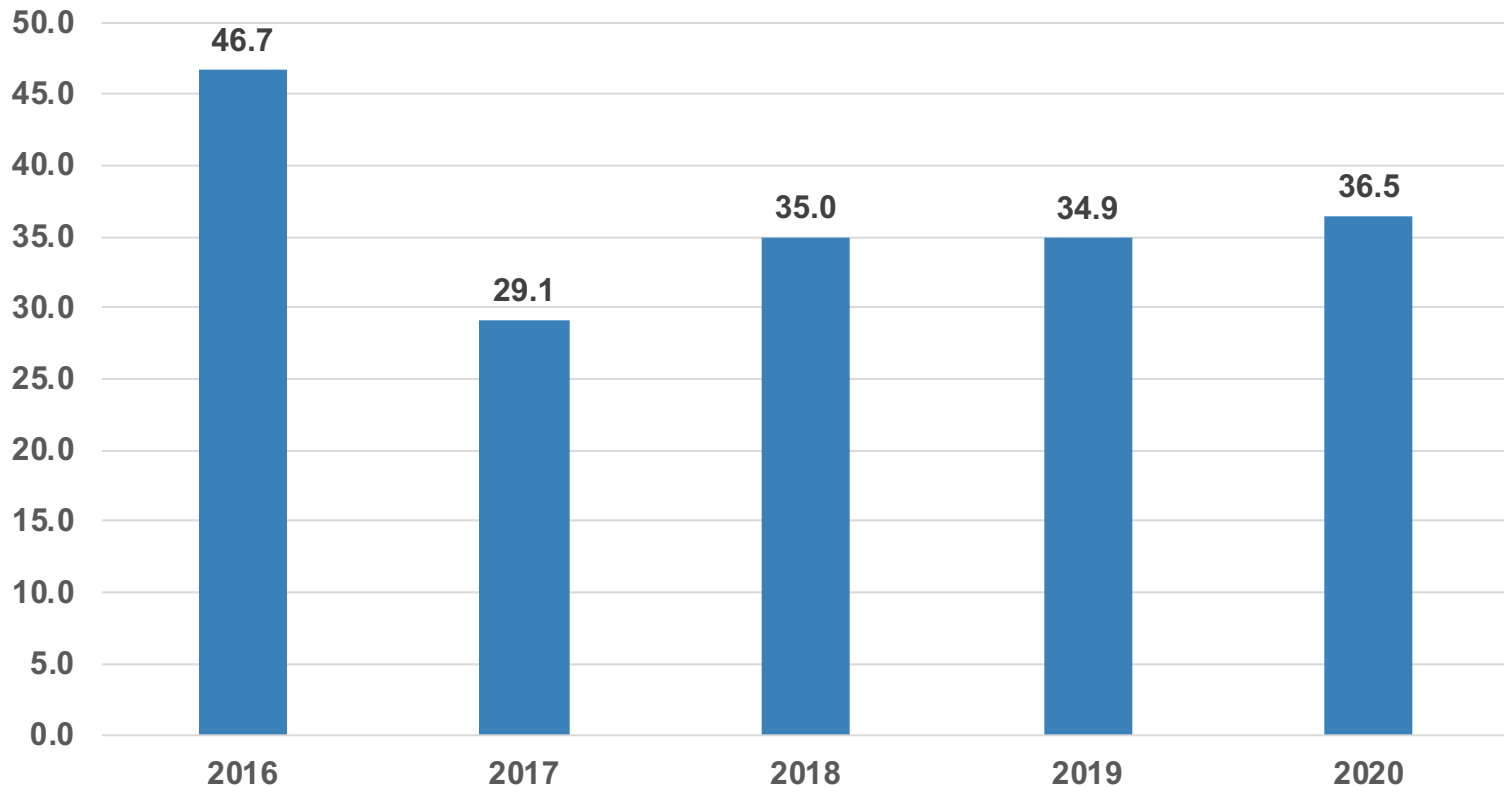
Recommendations continued

14. As part of the budget process, Council should see a “best estimate” of year-end capital spending, showing the portion expected to be delivered by functional area/priority, pre-construction versus construction, growth versus rehabilitation and replacement, and anything else that would help with priority-setting
15. The capital budget overview should include both a departmental and a functional/sectoral breakdown
16. The budget and the actuals from the previous year should be presented on a consistent basis

6. Growth Capital

About 36% of the capital budget is typically allocated to growth projects

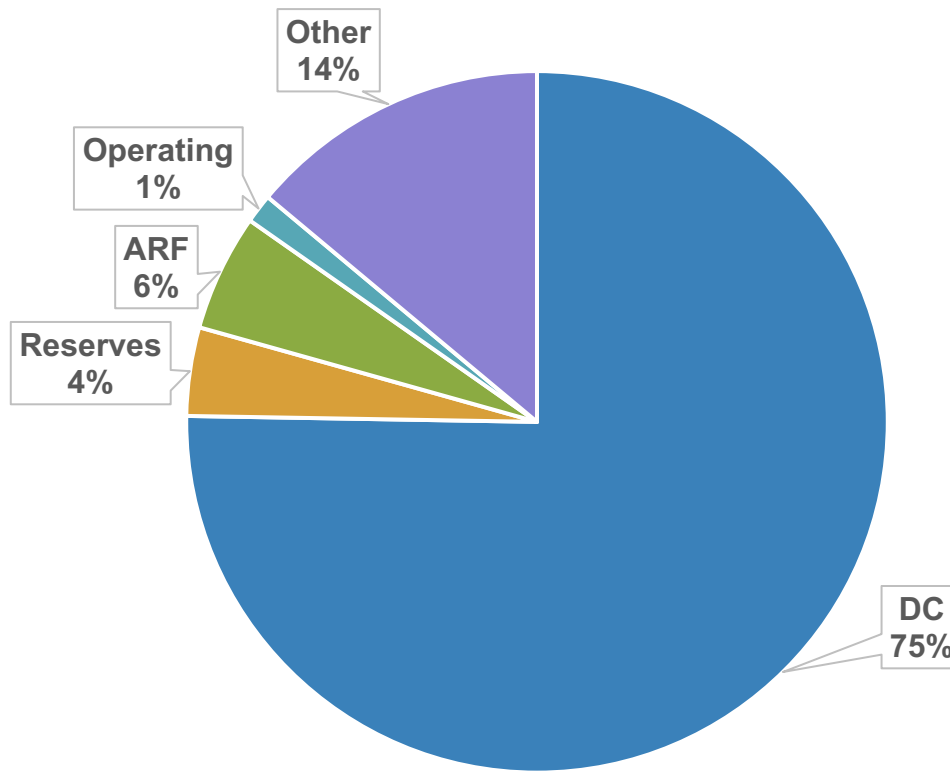
Growth Capital as a percentage of total
2016-2020



Note: These numbers are estimates based on the recommended budget in the capital budget detail appendices. Growth as a percentage of actual is not available

Three quarters of budgeted funding for growth projects is from DCs

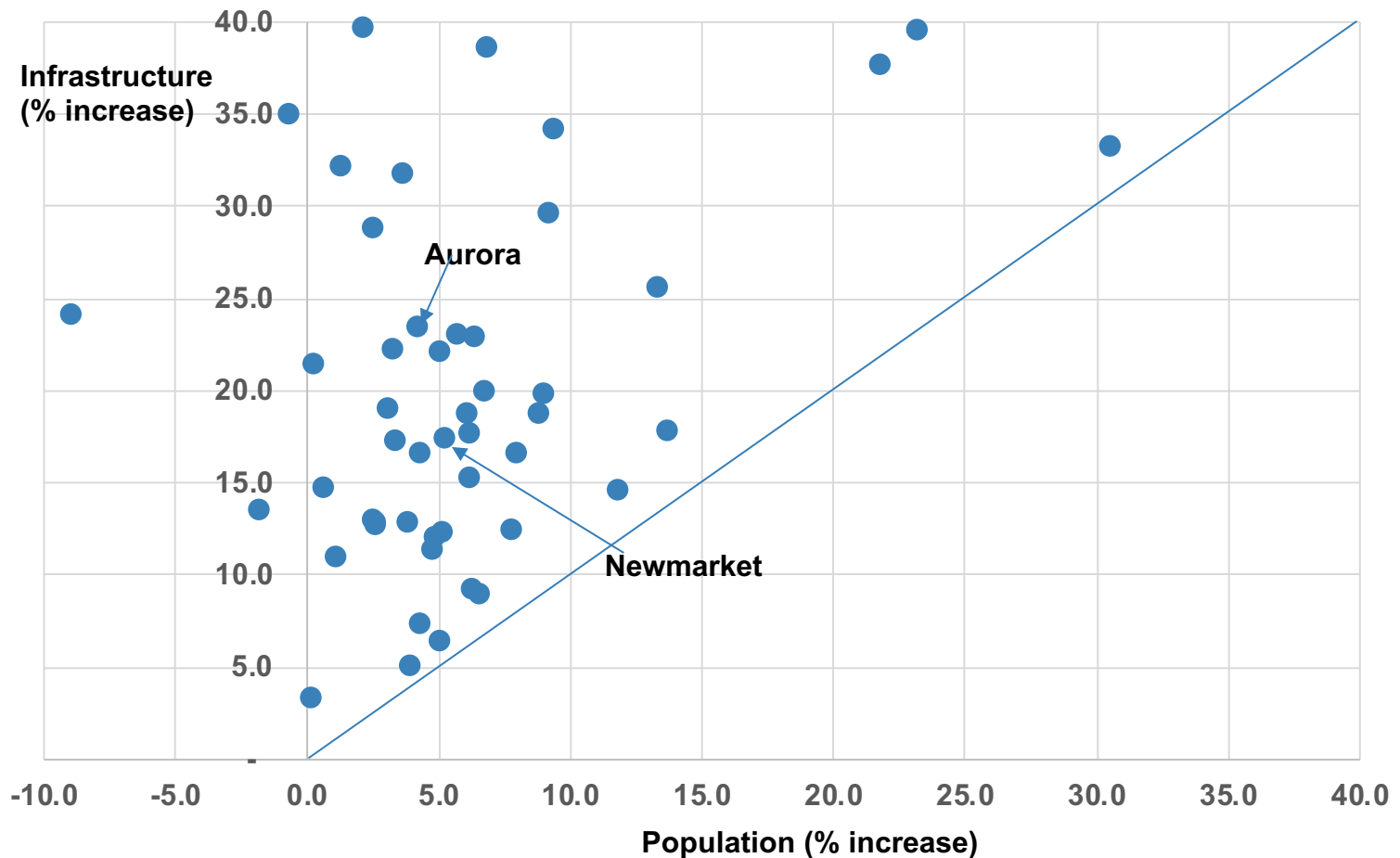
Shares of funding for growth projects
2016-2020



Note: These numbers are estimates based on the recommended budget in the capital budget detail appendices. Funding based on actuals is not available.

Infrastructure growth exceeds population growth in most municipalities

Increase in population versus infrastructure per capita
Lower Tiers in Regions, 2011-2016



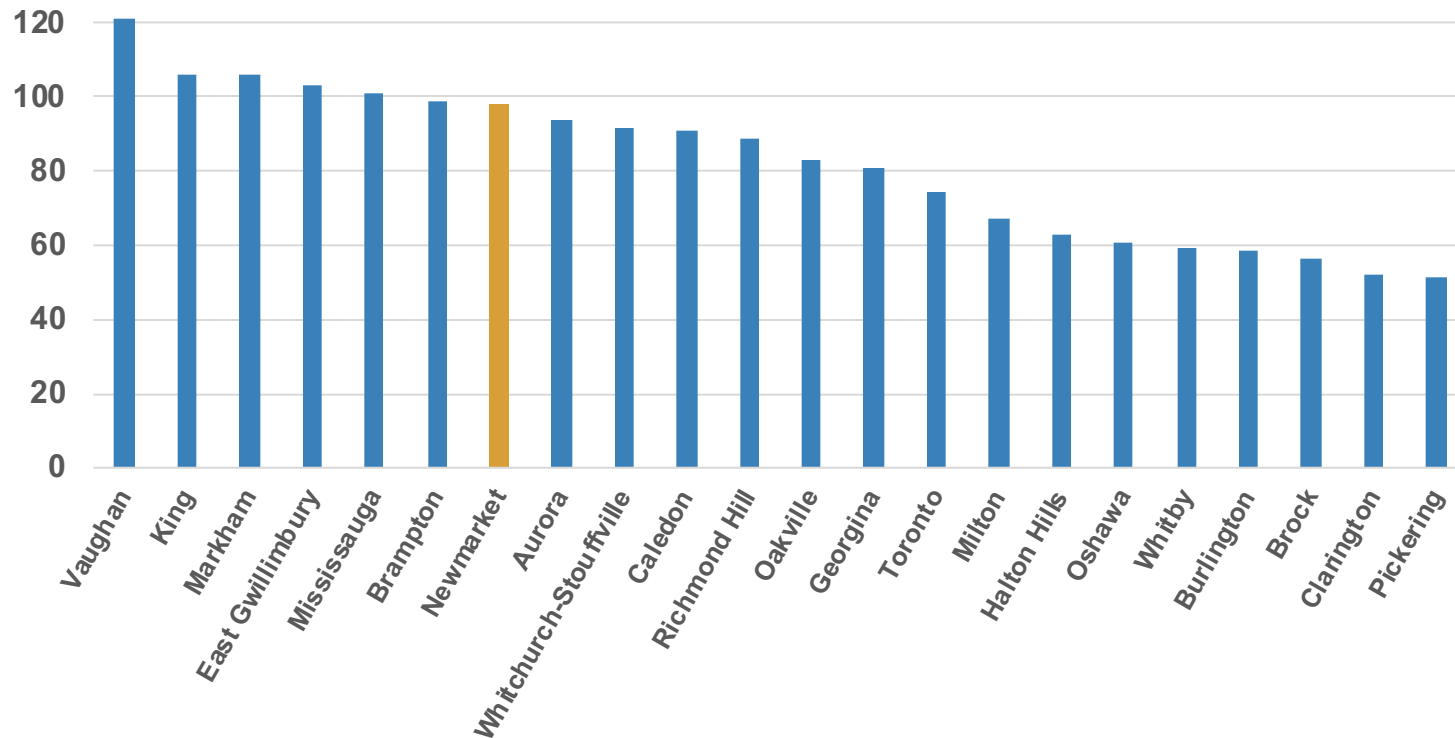
Increasing investment in infrastructure is creating financial pressure

- The previous slide showed that most municipalities, including Newmarket, increased their infrastructure per capita faster than their population growth between 2011 and 2016 (the period for which data were available)
- This was part of a longer-term trend towards increased municipal investment in infrastructure
- Some of it may be catch-up investment as municipalities became more aware of the need to invest in asset management
- It could also reflect the replacement of older infrastructure at higher cost or infrastructure contributions from developers in growing municipalities
- More infrastructure translates to higher asset management costs and higher operating costs

Newmarket's \$98,079 combined single-family DC is 8th of 22 in the GTA

Single Family Detached DCs
Combined Upper and Lower-Tier
GTA Municipalities, 2019

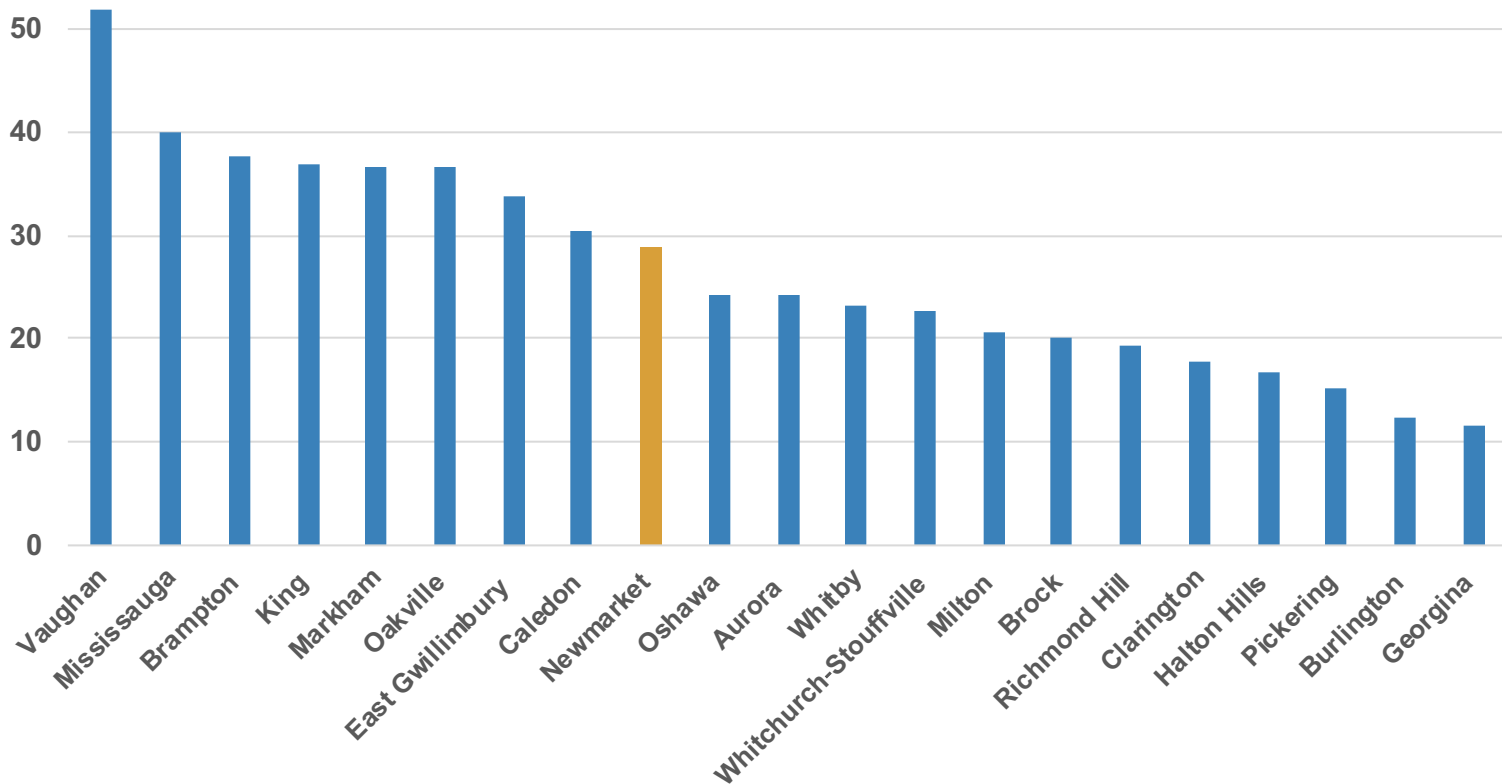
Thousands



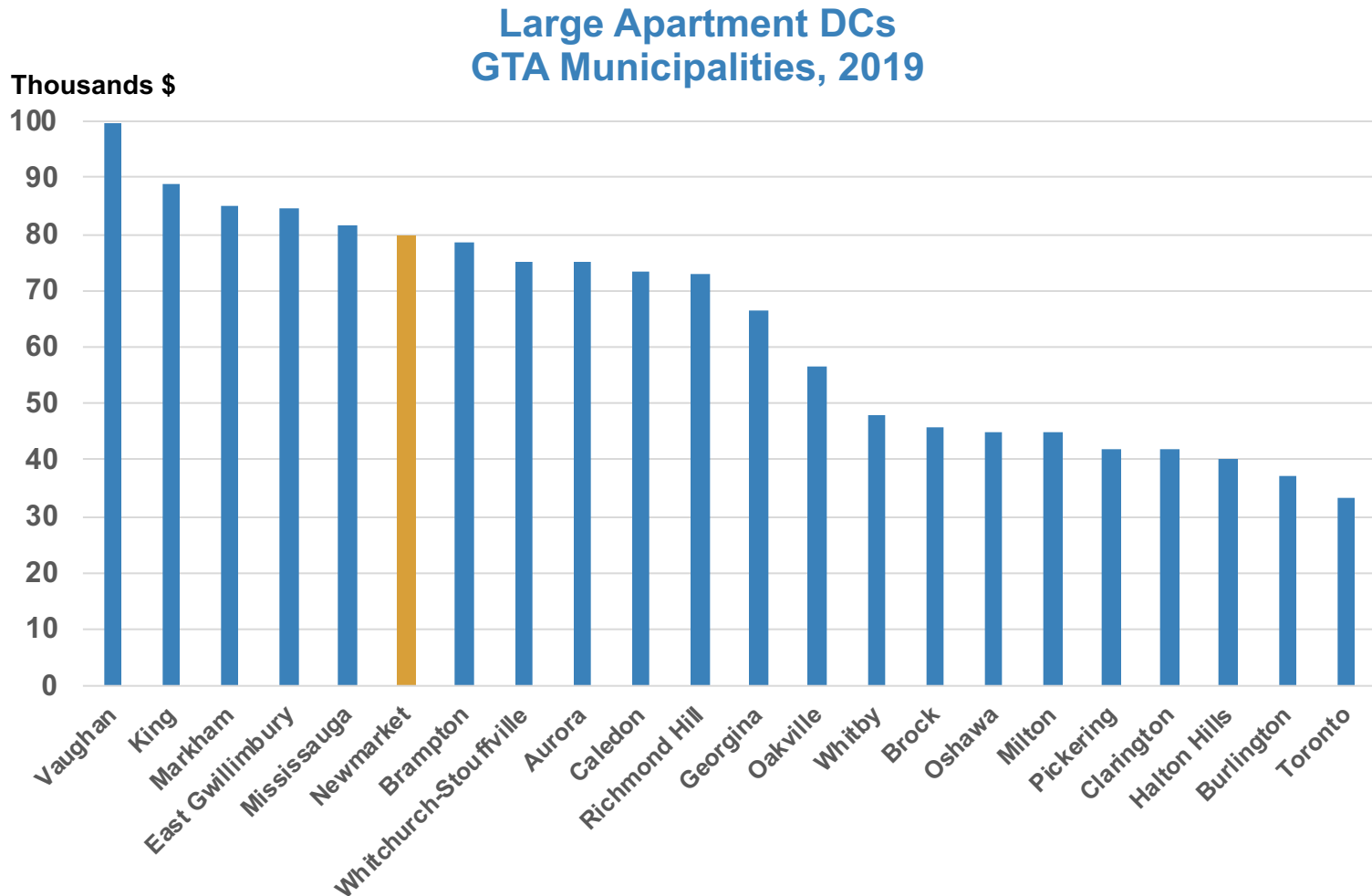
Newmarket's \$28,902 lower tier charge is 9th of 21 in the GTA

Single Family Detached DCs
Lower Tier Only
GTA Municipalities, 2019

Thousands

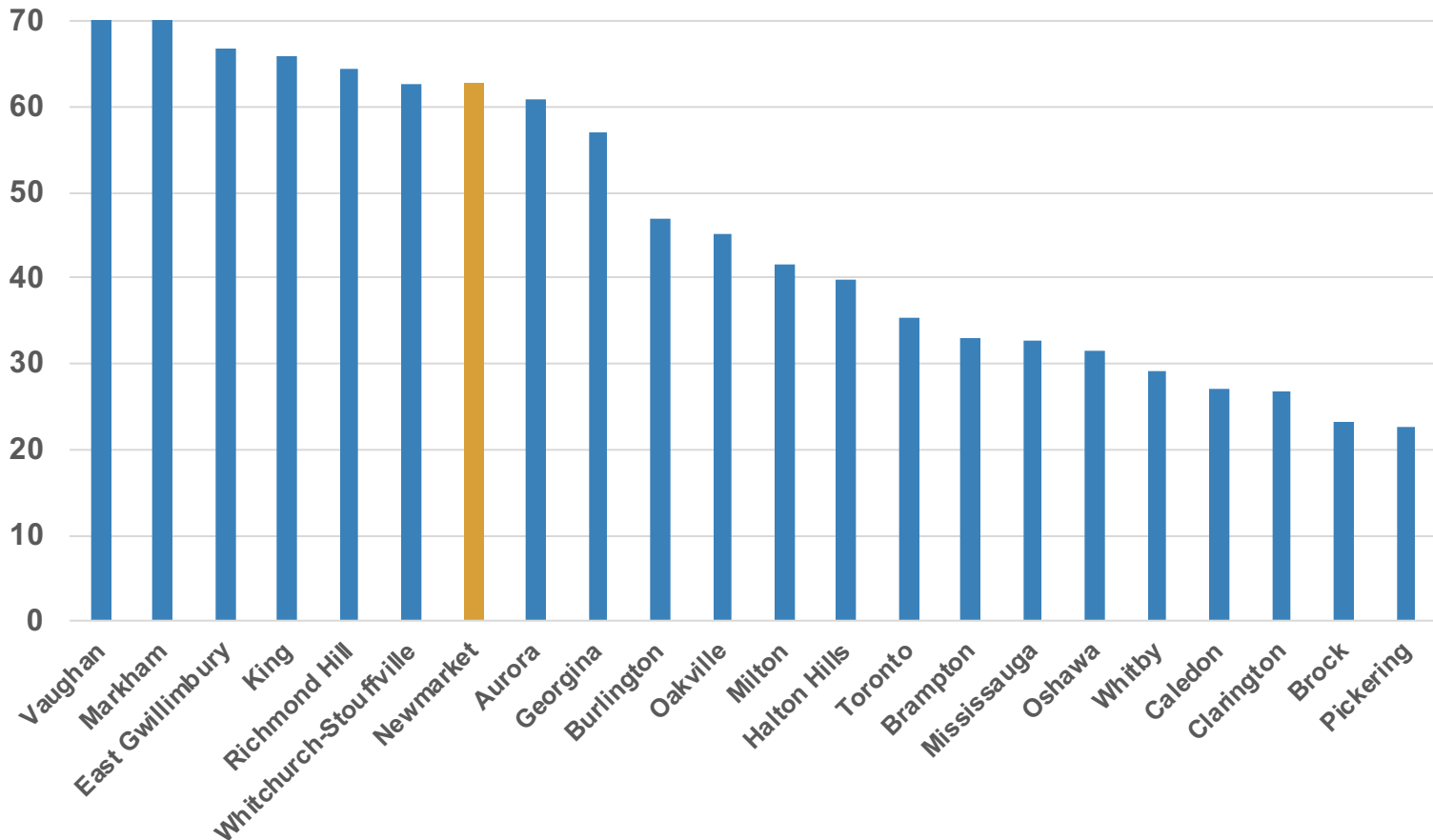


Newmarket's \$79,717 large apartment charge is 6th of 22 GTA municipalities

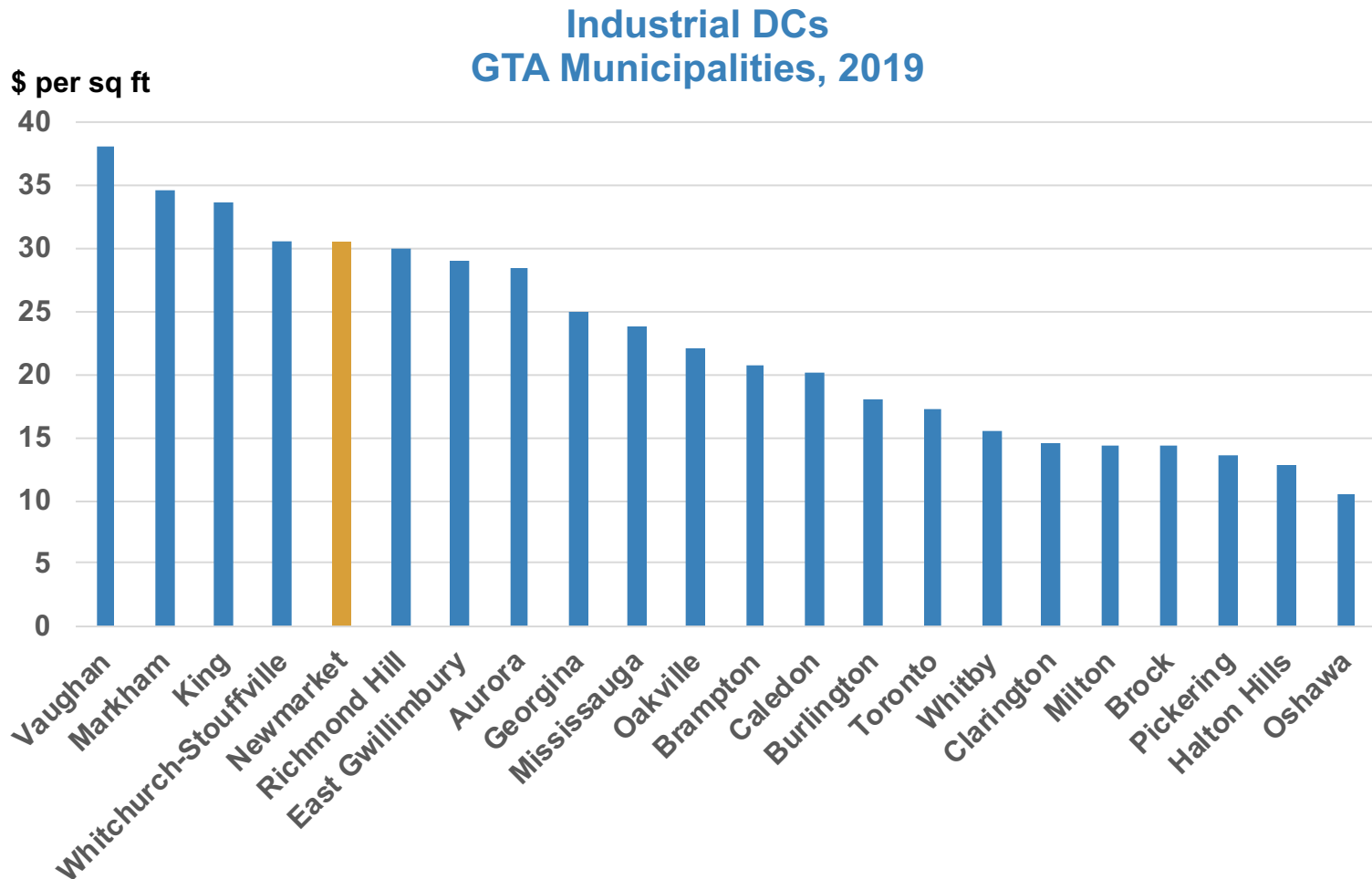


Newmarket's \$62.75 per square foot retail DC is 7th of 22 in the GTA

Retail DCs
GTA Municipalities, 2019



Newmarket's \$30.50 per square foot industrial DC is 6th of 22 in the GTA



Components of Newmarket's development charges

Description	Residential Amount per capita (\$)	Non-Residential Amount per Sq meter (\$)	Residential share %	Non-Residential share %
General Government	73.75	1.35	71.2	28.8
Library	281.26	0	100	0
Fire	251.92	4.69	71.2	28.8
Parks and Recreation	4069.91	0	100	0
Yards and Fleet	209.83	3.85	71.2	28.8
Parking	128.62	2.36	71.2	28.8
Waste collection and transfer	46.57	0	100	0
Roads, sidewalks, water, sewer, storm	3108.00	57.55	71.2	28.8

DCs do not cover all new infrastructure

- Newmarket typically receives local water and wastewater systems and local roads through subdivision agreements with developers
- Development charges therefore cover the portion of other Town-owned infrastructure attributable to growth (minus various deductions related to historical service levels, benefit to existing development and post-period benefit)

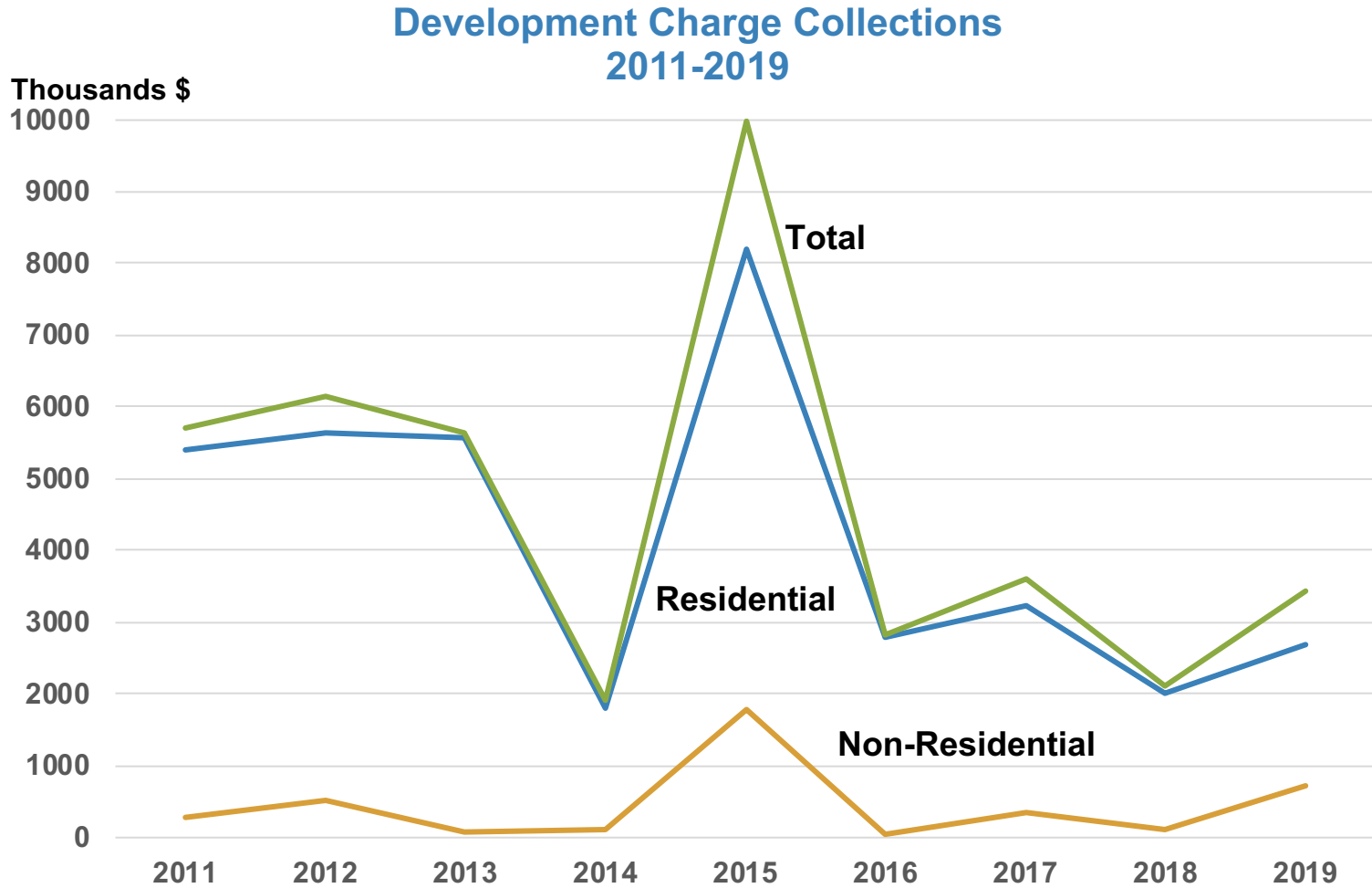
Newmarket's development charge bylaw is current

- Newmarket has an up-to-date development charge bylaw (2019)
- Its development charge rates tend to be in the top third of GTA municipalities
- This may be partly due to timing differences in when municipalities are updating their DC bylaws (required every five years)
- It is also related to the Region's relatively high DCs
- The Region's capital costs are higher because of its distance from Lake Ontario, which is its water source and location of its wastewater treatment

The Town has a single non-residential DC

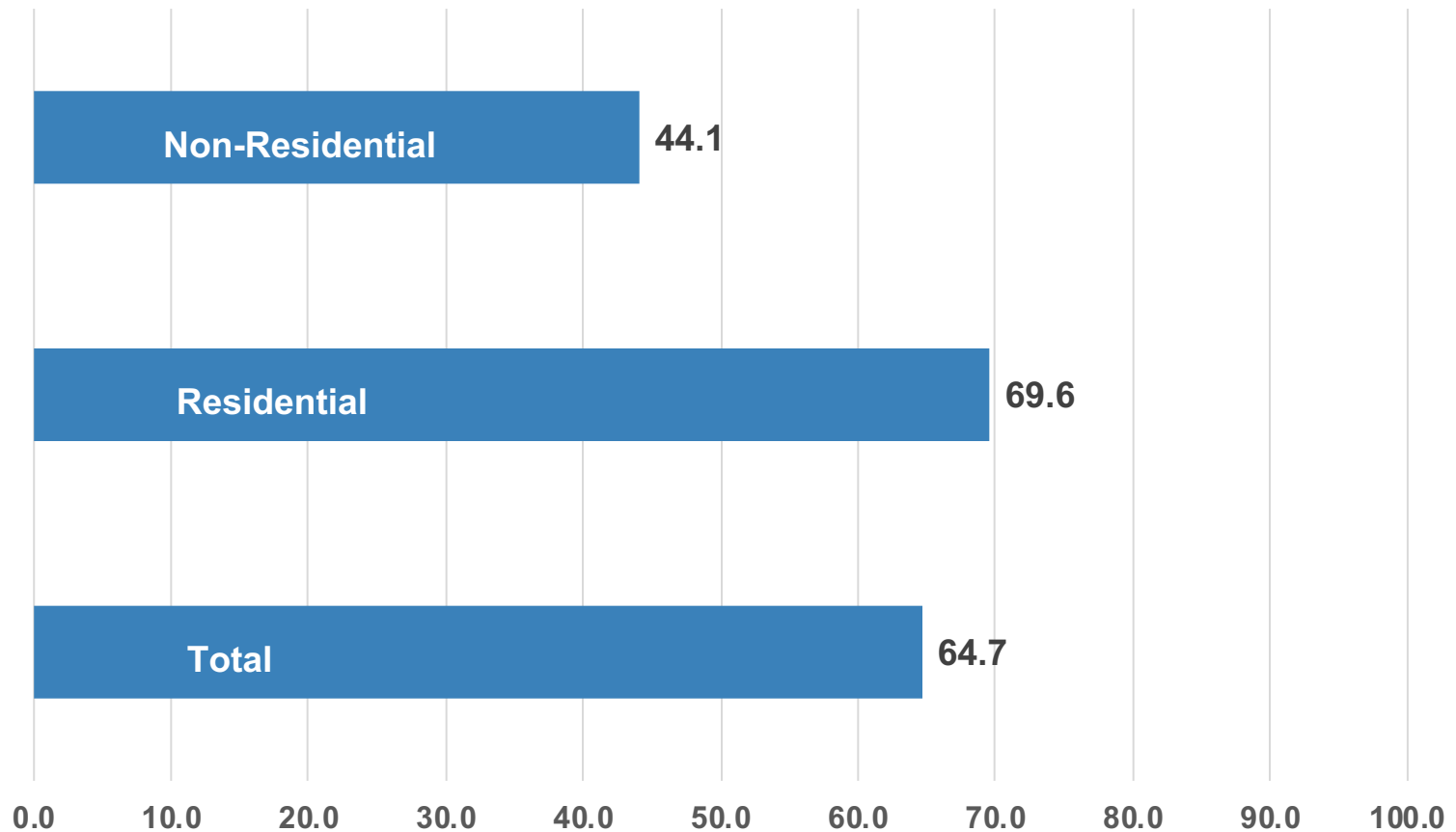
- Newmarket has differentiated residential charges that closely follow the Region's structure of residential charges
- However, unlike the Region, Newmarket has a single non-residential charge
- The Region separates retail from other kinds of non-residential development (offices, industrial) because the infrastructure associated with retail contributes to a higher non-residential charge, disadvantaging office and industrial
- Separating retail from office and industrial results in a higher charge for retail but a lower charge for office and industrial

90% of Newmarket's DC collections have been residential



\$13 million shortfall in expected DC collections over the last five years

Percentage of Actual compared to expected DC Collections
2014-2019



Percent of expected DC collections that were actually collected

The biggest shortfall is in non-residential collections

- Over the past five years, the Town has collected well under half the expected non-residential DC revenue
- There are two main reasons for this: (1) slower-than-expected growth, and (2) changes in the structure of employment that cause over-estimates in DC Background Studies

Work-at-home is becoming more common

- The 2014 Background Study does not appear to have included any allowance for work-at-home employment
- The 2019 Background Study assumed work-at-home of about 10%
- The Region of Peel has estimated work-at-home and “no fixed place of work” at about 18%
- Work at home will likely grow much more rapidly than previously thought due to the effects of the pandemic. Some of the current changes in work are likely to become permanent

Space per worker is falling

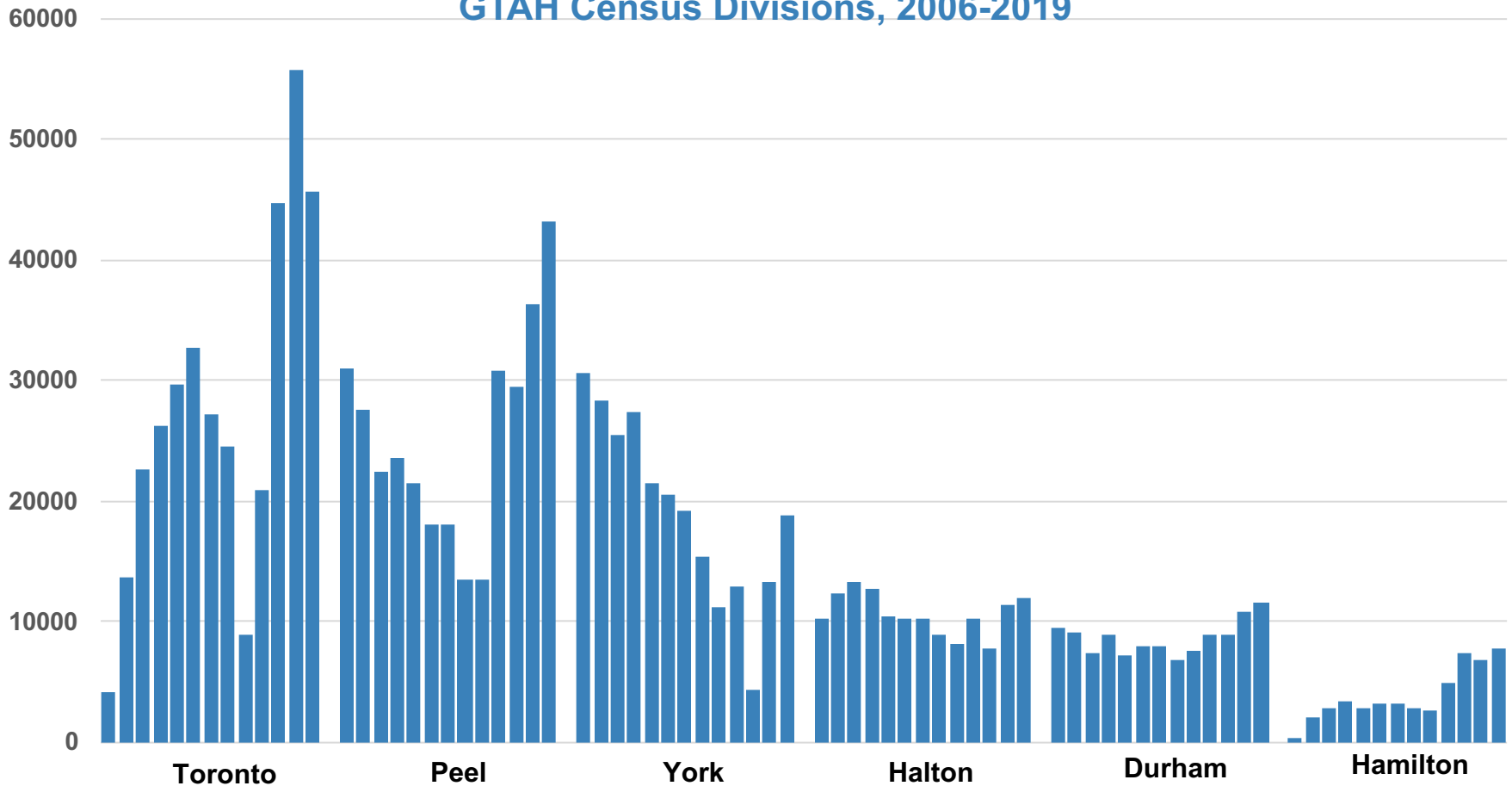
- Those who do not work in business establishments do not require space. If the work-at-home/no fixed place of work are underestimated, the number of employees who require floor space is over-estimated and non-residential DCs are set too low (and capital requirements may be set too high)
- Furthermore, there is a trend towards increasing densification of office space (less space per worker), which means less office space is needed and DC rates therefore tend to be set too low for a given amount of infrastructure investment

There are structural problems with non-residential DC calculations

- The factors that affect the non-residential DC calculation are based on historical data. Future changes are not captured
- As a result, DC rate-setting does not adequately consider trends in floor space per worker
- If floor space per worker is over-estimated, non-residential development charges are set too low

Toronto and Peel are capturing an unexpectedly large share of growth

Annual Population Change
GTAH Census Divisions, 2006-2019

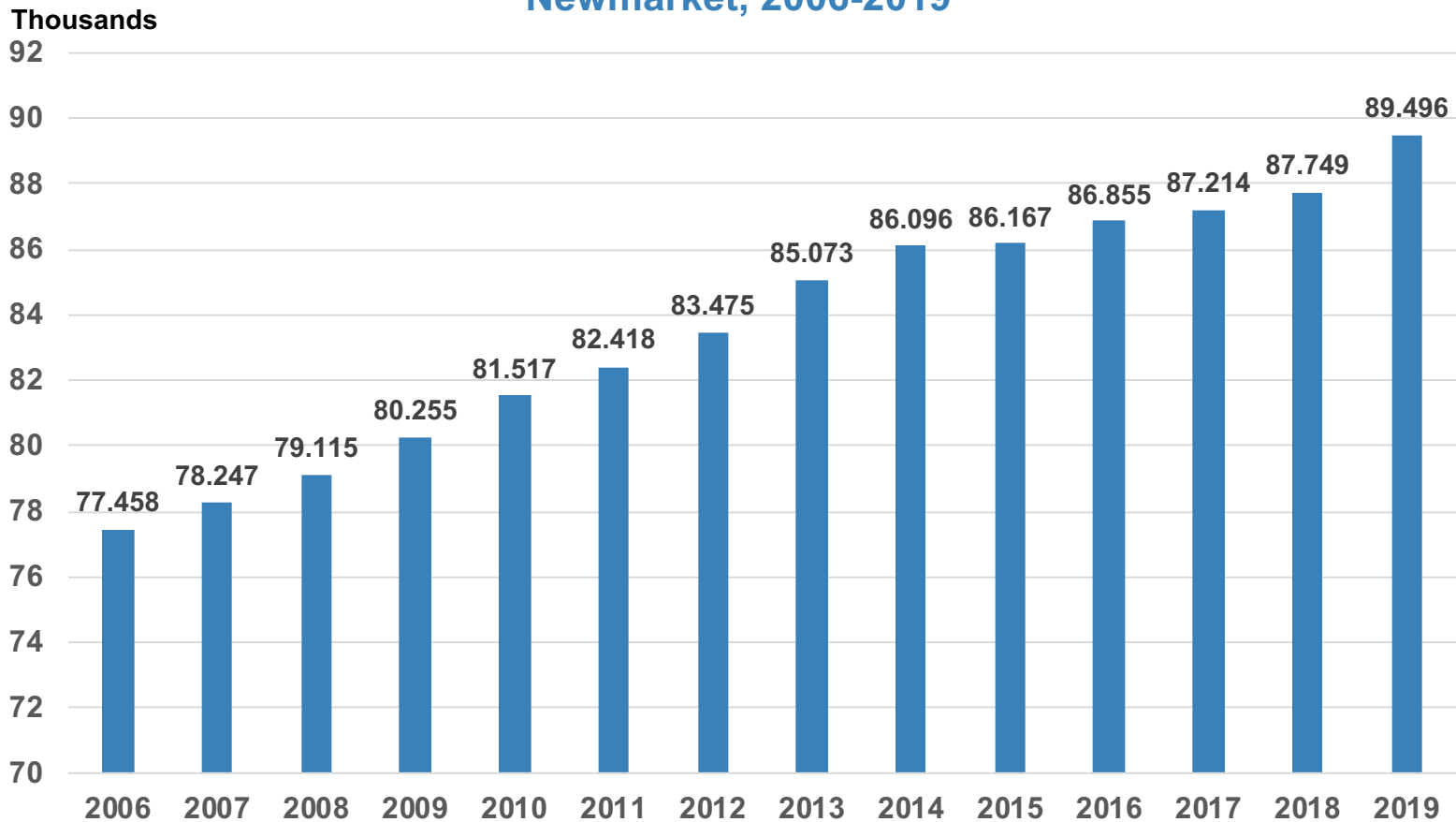


York Region is tracking below Growth Plan expectations

- The Growth Plan allocates 20% of population growth and 26% of employment growth to York Region between 2016 and 2041
- However, between 2011 and 2019, York Region grew by a little over 15,000 people per year, only about 60% of the annual growth projected by the Growth Plan

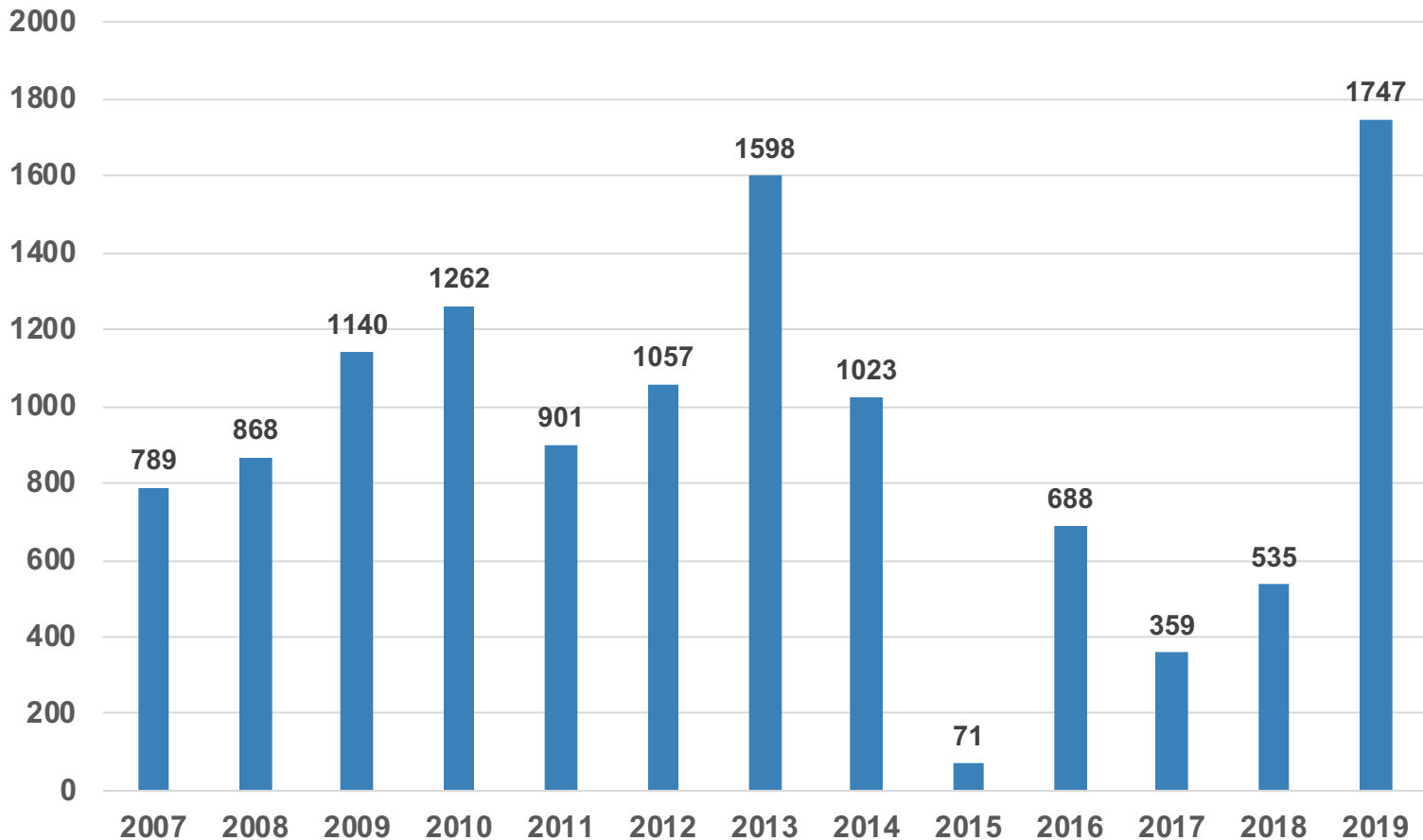
Newmarket's population is growing

Annual Population
Newmarket, 2006-2019



But growth has been uneven and reflects the Region's slower growth

Annual population change
Newmarket, 2006-2019

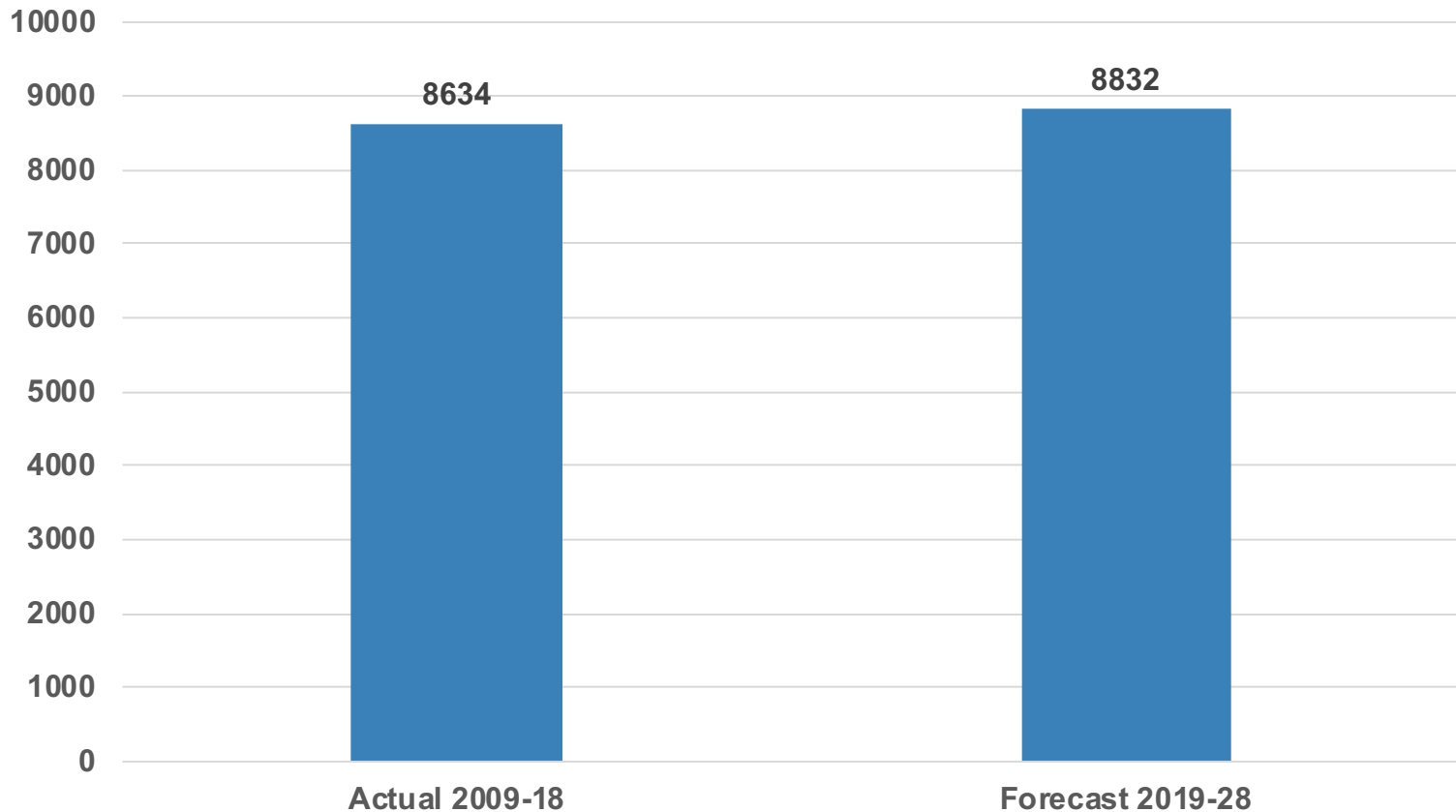


Development charge collection timing is more important to the Region

- The slower-than-expected pace of growth matters less to Newmarket than to York Region because of differences in infrastructure responsibilities
- The Region must install high-cost water and wastewater treatment and pipe systems in advance of growth, as well as build arterial roads
- Because these investments happen before development charges are collected, in some cases many years before, the Region issues debt to finance infrastructure
- If development charge collections are reduced or delayed, this can affect the Region's debt servicing costs

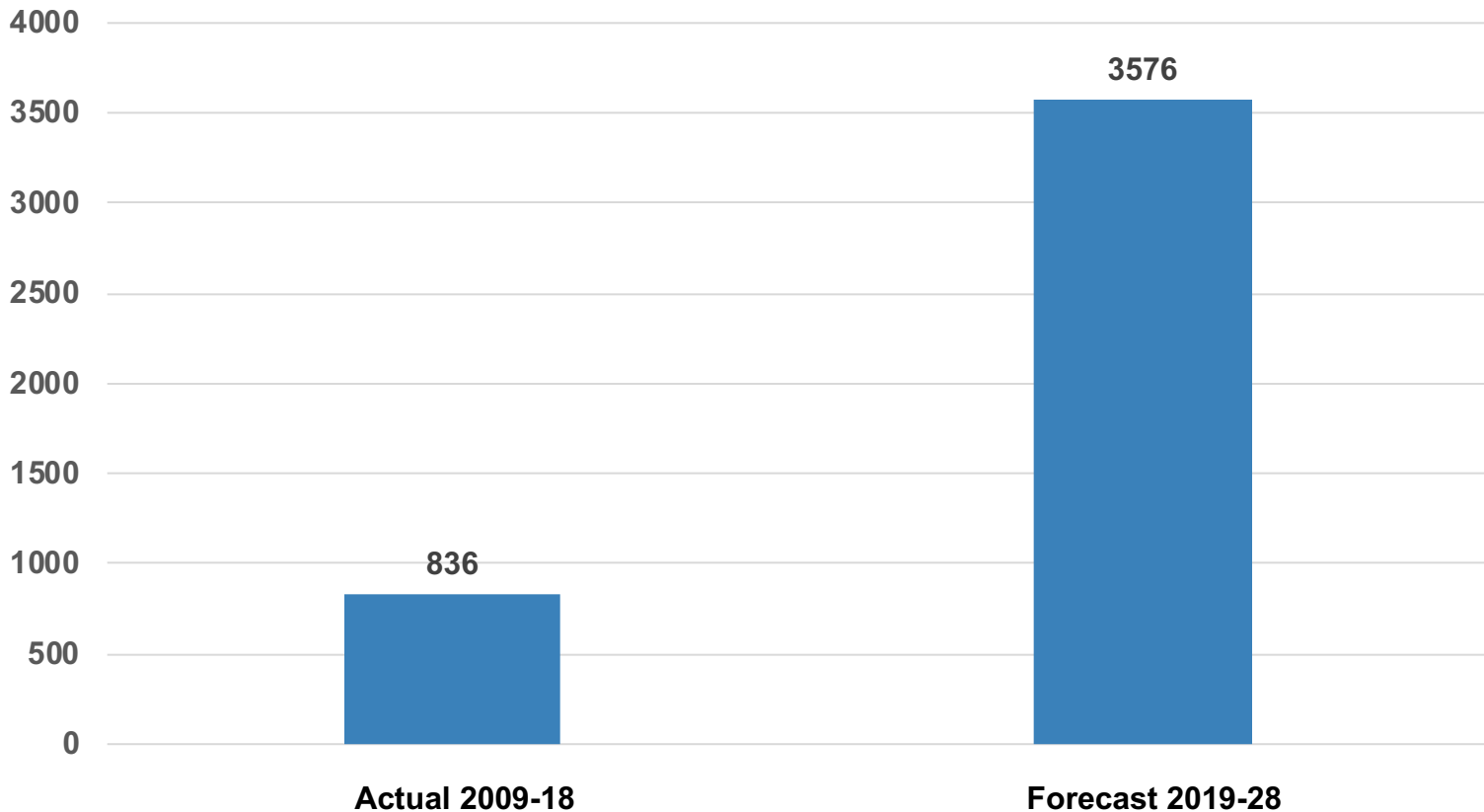
The residential growth forecast for Newmarket seems reasonable

**Population Growth, Newmarket
Historical versus Forecast
Development Charge Background Study, 2019**



The employment forecast in the DC Background Study is highly optimistic

**Employment Growth, Newmarket
Historical versus Forecast
Development Charge Background Study, 2019**



Note: Excludes work from home

Development charge forecasts inform capital planning

- Development charge forecasts are useful in planning the capital program, especially in developing a ten-year capital plan
- Changes to the *Development Charge Act* introduced through Bill 108, including a freeze on development charge rates as of the date of site plan or rezoning application, and provisions for the phased payment of development charges for rental housing, institutional and non-profit development may affect future development charge collections (in addition to York Region's deferral of office development charges)

The Province's omnibus COVID legislation affects development charges

- Bill 197, *The COVID-19 Economic Recovery Act, 2020*, received Royal Assent in July 2020
- This Act amends and rolls back many of the changes introduced through Bill 108 in 2019

The new legislation affects Newmarket

- The new legislation does several things relevant to Newmarket:
 1. It includes a prescribed list of services for which charges are allowed under the *Development Charges Act*
 2. It eliminates the 10% deduction for soft services under the *Development Charges Act*
 3. It narrows the scope of the new Community Benefits Charge to high density residential development and allows blending of development and community benefit charges
 4. It essentially preserves the existing parkland dedication regime (in contrast to Bill 108)

Services for which DCs are allowed

Water supply services, including distribution and treatment services

Wastewater services, including sewers and treatment services

Storm water drainage and control services

Services related to a highway

Electrical power services

Policing services

Ambulance services

Fire protection services

Transit services

Waste diversion services

Library services

Long-term care

Parks and recreation services, except for the acquisition of parkland

Public health services

Childcare and early years programs and services

Housing services

Services related to provincial offence proceedings, including by-law enforcement services and municipally administered court services

Emergency preparedness

The current DC service categories will need to be reviewed

- It is unclear whether all of the items currently categorized as “general government” in the 2019 DC Background Study would be eligible. Some may need to be recategorized and some may not be eligible
- The treatment of municipal parking may also need to be reconsidered. Parking may need to be recategorized as “services related to a highway” or as a park improvement.

Elimination of the 10% discount creates an opportunity

- The new legislation eliminates the 10% discount for soft services
- This creates two opportunities:
 - To increase DC rates to cover more of the cost of growth
 - To increase contributions to the asset replacement fund using assessment growth revenue, a portion of which is no longer needed to pay for the 10% discount (see section on reserves)

The Act provides substantially more flexibility in the design of DCs

- A new schedule repeals and replaces section 7 of the current Act and provides for services to be included in classes
- Classes can be composed of any number or combination of services, including parts or portions of the services listed in subsection 2 (4) of the Act or parts or portions of the capital costs listed in subsection 5 (3) in respect of those services
- A class is deemed to be a single service for the purposes of the Act in relation to reserve funds, the use of money from reserve funds and credits

The community benefits charge applies to high density residential development

- The community benefits charge will not apply to:
 - Development of a proposed building or structure with fewer than five storeys at or above ground
 - Development of a proposed building or structure with fewer than 10 residential units
 - Redevelopment of an existing building or structure that will have fewer than five storeys at or above ground after the redevelopment
 - Redevelopment that proposes to add fewer than 10 residential units to an existing building or structure
 - Types of development or redevelopment prescribed in a future regulation.

The Community Benefits Charge is broad in scope but narrow in application

- A Community Benefits Charge can be imposed to pay for the capital costs of facilities, services and matters required because of development or redevelopment
- Before a by-law imposing a CBC is enacted, the municipality must complete a strategy that assesses the services and costs to be funded by the CBC
- However, the same rules and restrictions that apply to the calculation of development charges do not apply to community benefits charges
- A CBC by-law is subject to appeal to the LPAT

CBCs and DCs can both be used

- The Community Benefits Charge will be capped based on a percentage of the land value prior to rezoning or site plan application (percentage to be prescribed by regulation)
- A CBC can be used to fund services eligible for DC funding, but the actual capital costs intended to be funded by a CBC cannot overlap with those intended to be funded by a DC (no double dipping)
- A CBC can cover parkland, but the capital costs included in a CBC cannot overlap with costs funded through the municipality's cash-in-lieu of parkland account (requires provincial clarification)

Recommendations

1. Staff should monitor residential versus non-residential development charge collections and compare the results to expected ratios from the Development Charge Background Study
2. The annual development charges report should include a breakdown of residential versus non-residential collections and disbursements

Recommendations continued

3. If the results of the residential compared to non-residential analysis show that non-residential development charge collections continue to lag, the Town should shift costs to residential in the next Development Charge Background Study to the extent that is fair and reasonable
4. Recognizing that non-residential development charge collections may be permanently impaired, the Town should develop a plan to address the tax levy impact of the shortfall, either by constraining the capital program or raising additional revenue to compensate for the shortfall

Recommendations continued

5. Staff should prepare forecasts of development charge collections and present them as part of the budget process
6. In the next development charges update, the Town should require a reconciliation of post-period benefits identified in the 2019 Development Charge Background Study with the new development charge to ensure that previously identified post-period benefits are being appropriately captured in the new bylaw

Recommendations continued

7. In the next development charges study, the Town should require Town-wide engineered services to be calculated separately (roads and associated infrastructure, water, sewer, stormwater all treated separately)
8. The Town should monitor growth trends and adjust the capital plan so that it is reasonably commensurate with the rate of growth
9. The Town should consider a non-residential development charge structure that parallels the Region's

Recommendations continued

10. As soon as is practicable, Newmarket should revise its development charge bylaw to incorporate the beneficial changes with respect to the elimination of the 10% discount for soft services, adjust the services eligible for DC recovery, and consider introducing a class-based approach to DCs
11. Staff should prepare a community benefits charge strategy and bylaw for Council's consideration

7. Asset Management

The Province has mandated municipal asset management planning

July 1, 2019

Strategic asset management policy

July 1, 2021

Asset management plan for core infrastructure.
Includes inventory, current service levels and costs to maintain service levels

July 1, 2023

Asset management plan for all infrastructure

July 1, 2024

Adds proposed levels of service and financial strategy

The Town has made good progress on asset management

1998: Creation of the Asset Replacement Fund in response to Provincial transfer payment cuts

2009: Introduction of tangible capital asset accounting

2013: Introduction of infrastructure levy

2014: First asset management plan, focused on core infrastructure. No substantive financial strategy

2014: Capital Financing Sustainability Strategy by Hemson Consulting

Continued progress on asset management

2016: Integrated asset management strategy developed by Yaku Consulting and Cole Engineering. Prior to Provincial regulatory regime. Characterized Newmarket as between 2 (Establishing) and 3 (Developing) on a five-point maturity scale. No financial content.

2017: Council approves integrated asset management strategy

2017: Provincial municipal asset management planning regulation passed (December)

2017: Level of service analysis (December 2017)


Continued progress on asset management

2019: Council approves a strategic asset management policy in compliance with the Provincial municipal asset management planning regulation

2020: Town begins work on the second stage of Provincial regulation dealing with core infrastructure

Creation of a dedicated asset management team is a positive step

- The Town has established a Corporate Asset Management Office
- In July 2020, the Office developed a project charter for the work needed to comply with the second stage of the Provincial requirements (asset management plans for core infrastructure must be in place by July 2021)
- Core infrastructure includes water, wastewater, stormwater, roads, bridges and culverts



The big challenge for asset management will be to achieve integration between asset management plans and financial plans

Asset management plans need to be fully funded

- This means:
 - Asset management plans need to be integrated with the capital budget
 - Capital plans (budgets) need to have long time horizons: 10 years, 20 years, even longer for some assets
 - Funding sources need to be identified as part of the capital budget
 - Funding sources for costs beyond the capital plan horizon need to be rigorously estimated

Cost estimates need to be realistic

- Book values developed to meet tangible capital accounting needs result in large under-estimates of asset management costs
- As a last resort, book values can be inflated to present day dollars
- A better approach is to use engineering estimates of current replacement values and life cycle costs that can be empirically validated

Level of service decisions are crucial

- Most municipalities have what is commonly termed a “deferred maintenance backlog”, which is really an asset management backlog
- One of the issues in asset management planning is whether the current backlog is acceptable or whether a reduction in the backlog is desired
- This is a level of service decision with significant financial implications

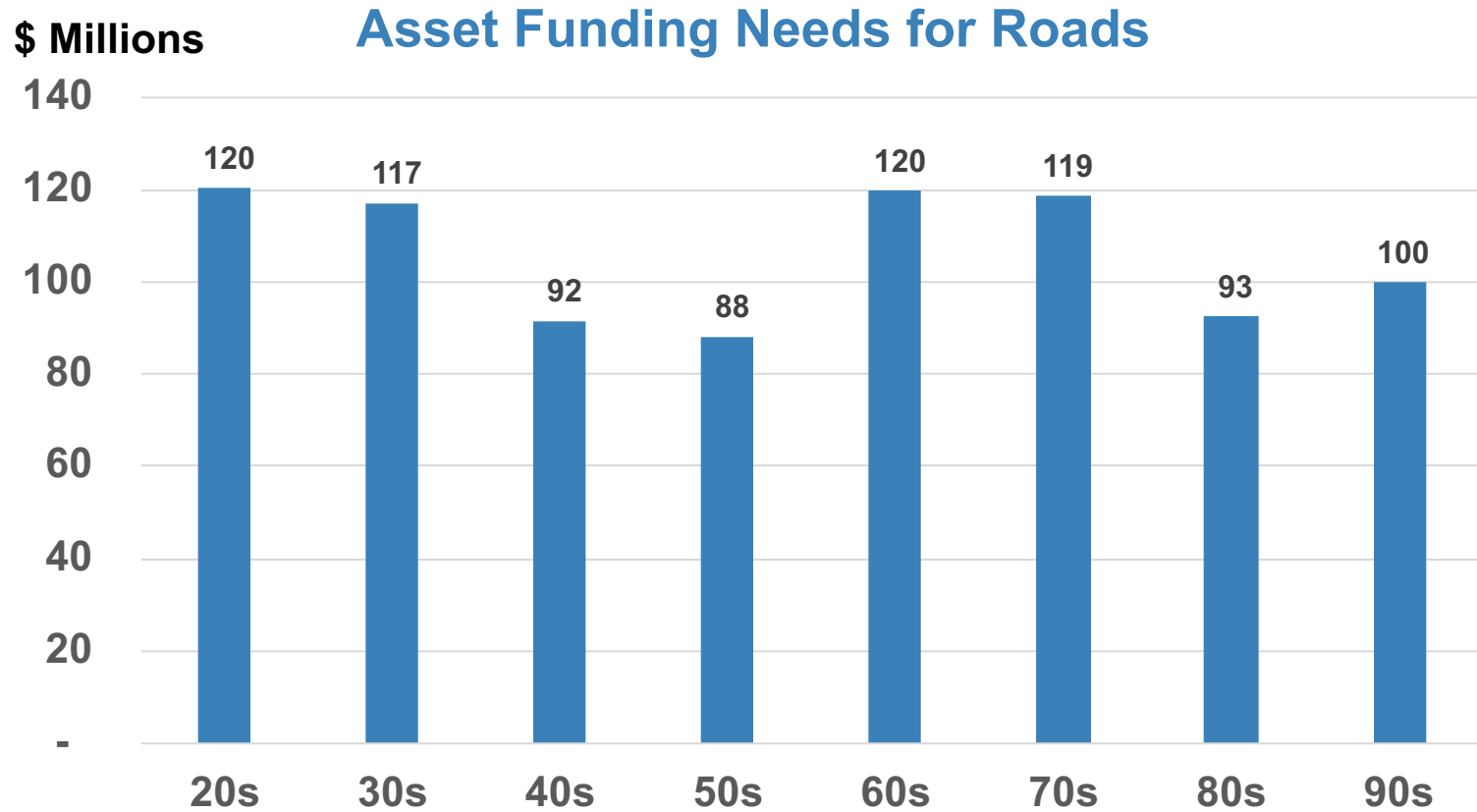
Good asset management planning requires a commitment to savings

- Some municipalities may need to simultaneously reduce a deferred maintenance backlog and save for future asset management needs
- Most, and possibly all, municipalities will have to save much more aggressively to meet future asset management needs and achieve reasonable intergenerational equity

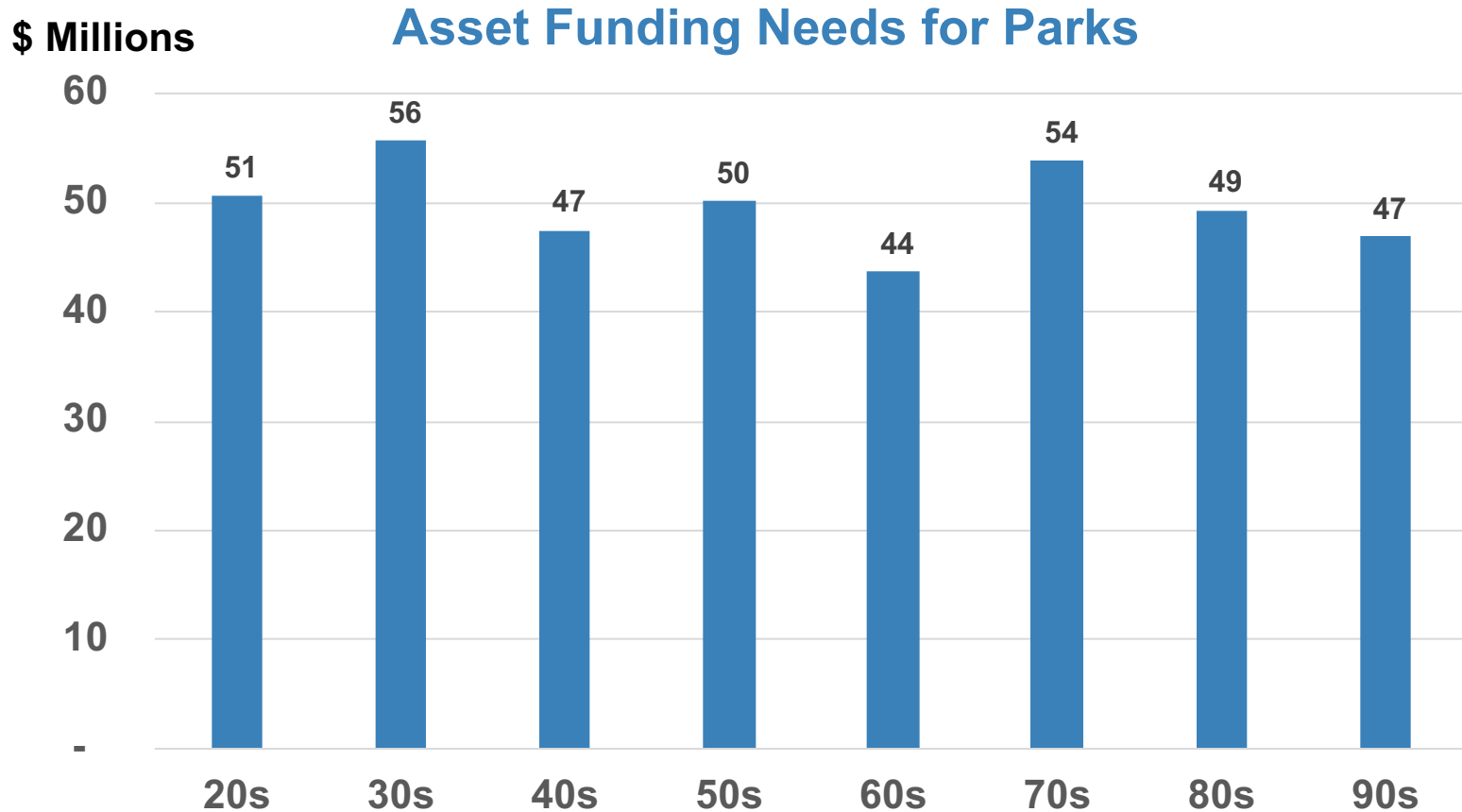
Asset funding needs estimates

- The following slides show decade-by-decade estimates of Newmarket's funding needs for various kinds of infrastructure
- Year-to-year estimates were prepared by Town staff using the best information available to them at the present time. They were translated to decades estimates by the consultant
- These estimates will be refined as asset management plans are developed in detail
- Water, wastewater and stormwater are dealt with in the next section of this report

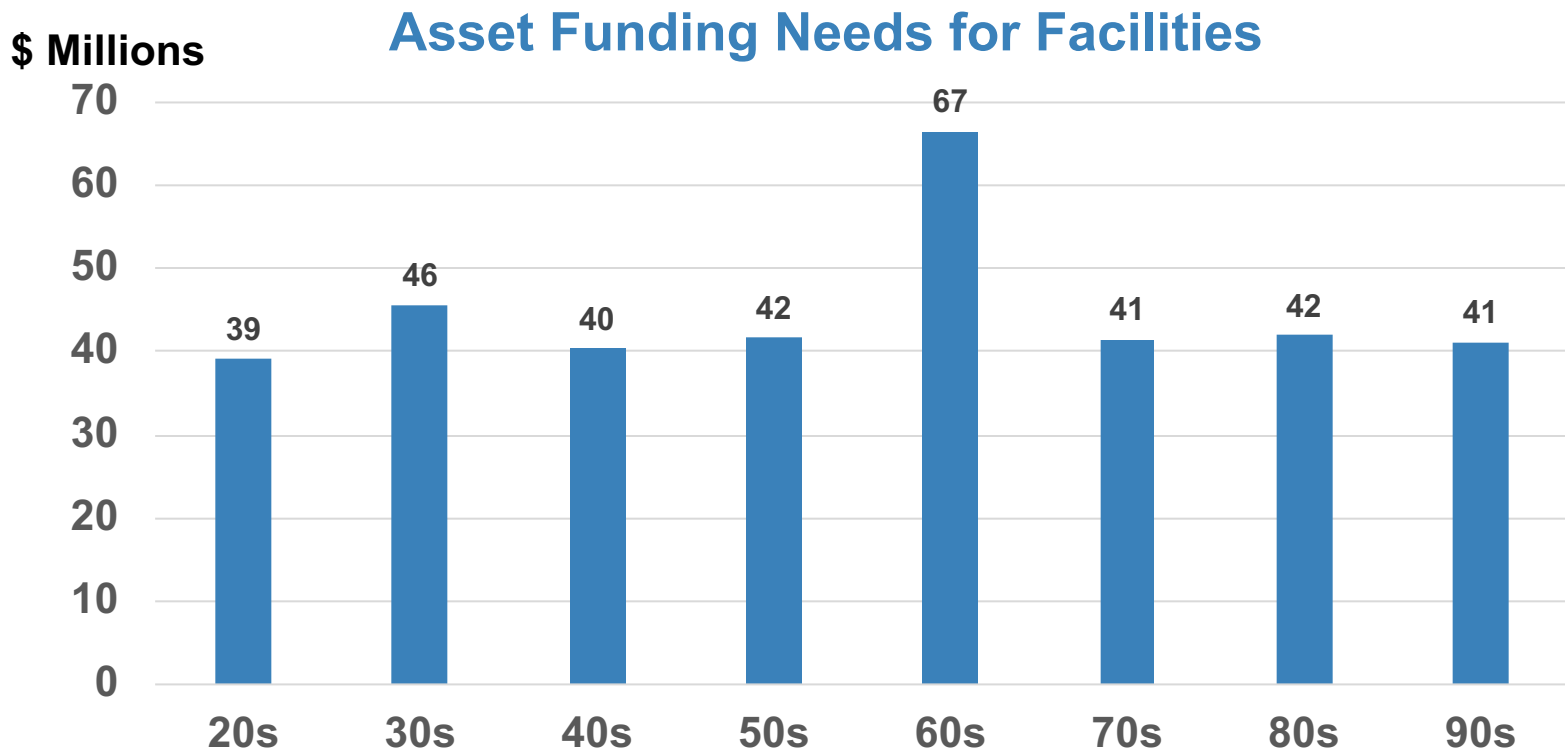
Funding needs for roads come in waves



Funding needs for parks are reasonably consistent over time

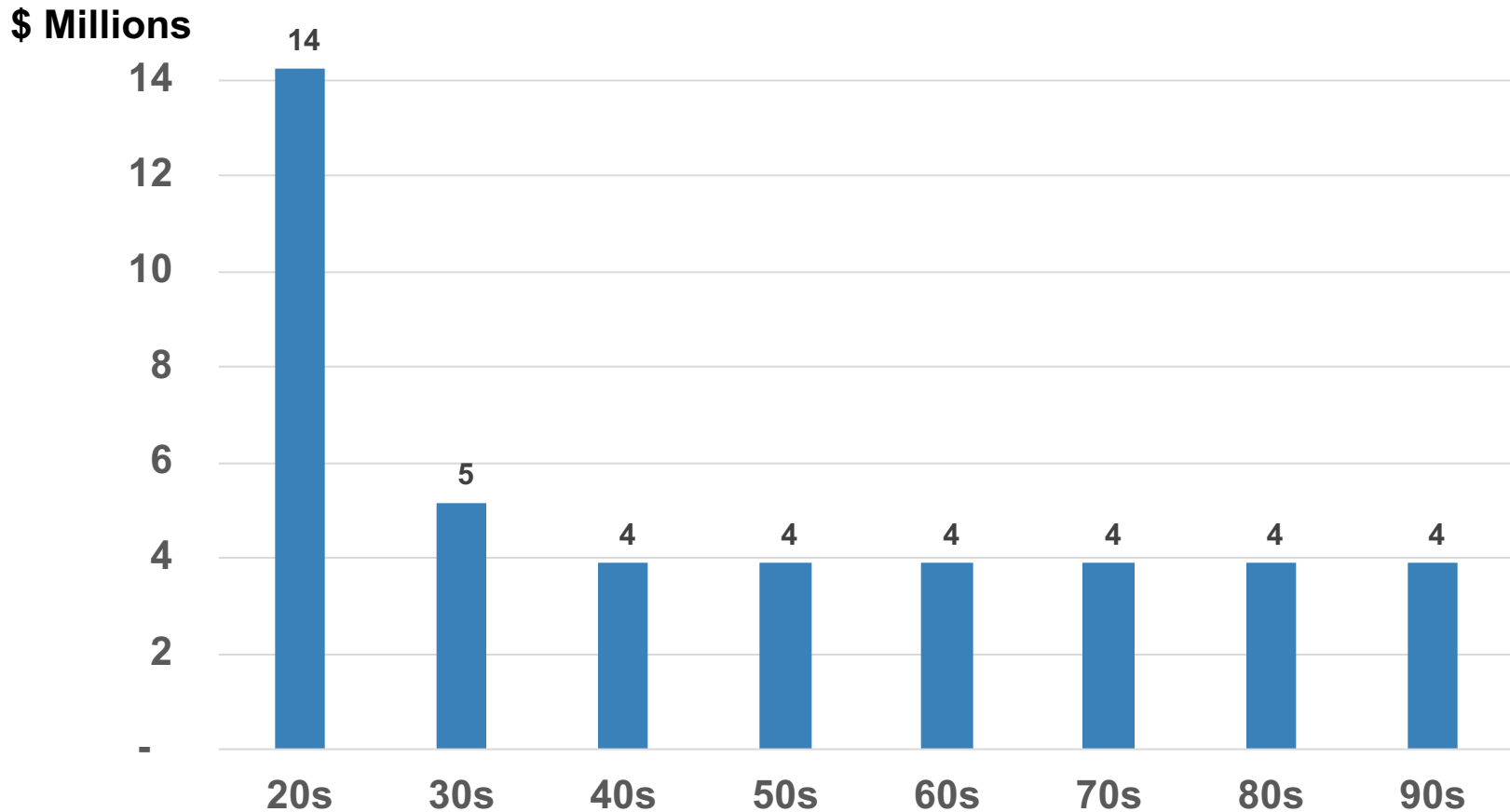


Funding needs for facilities are around \$40 million per decade, except for a bump in the 2060s



Funding needs for fire are about \$4 million per decade, except for the 2020s

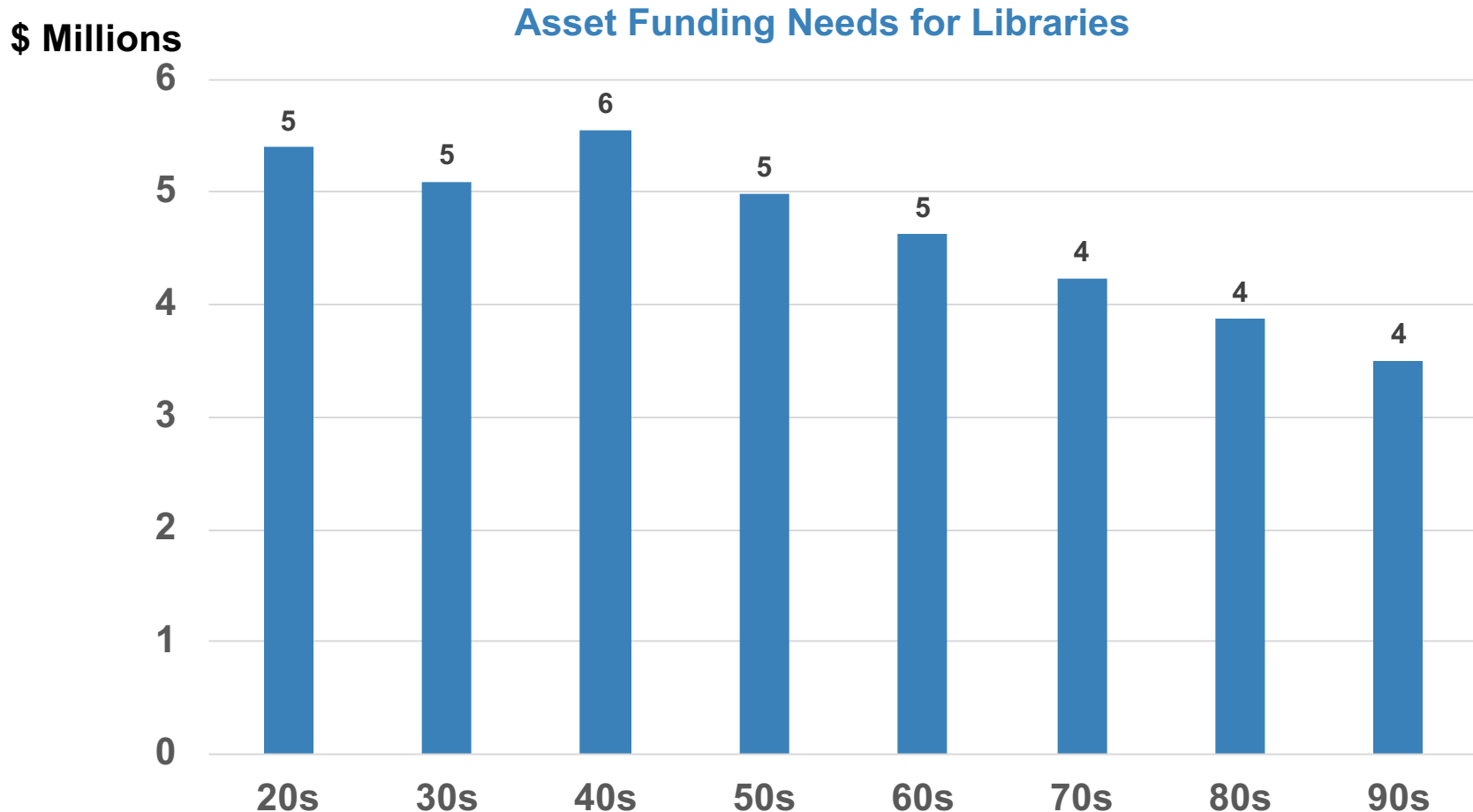
Asset Funding Needs for Fire



A note on fire

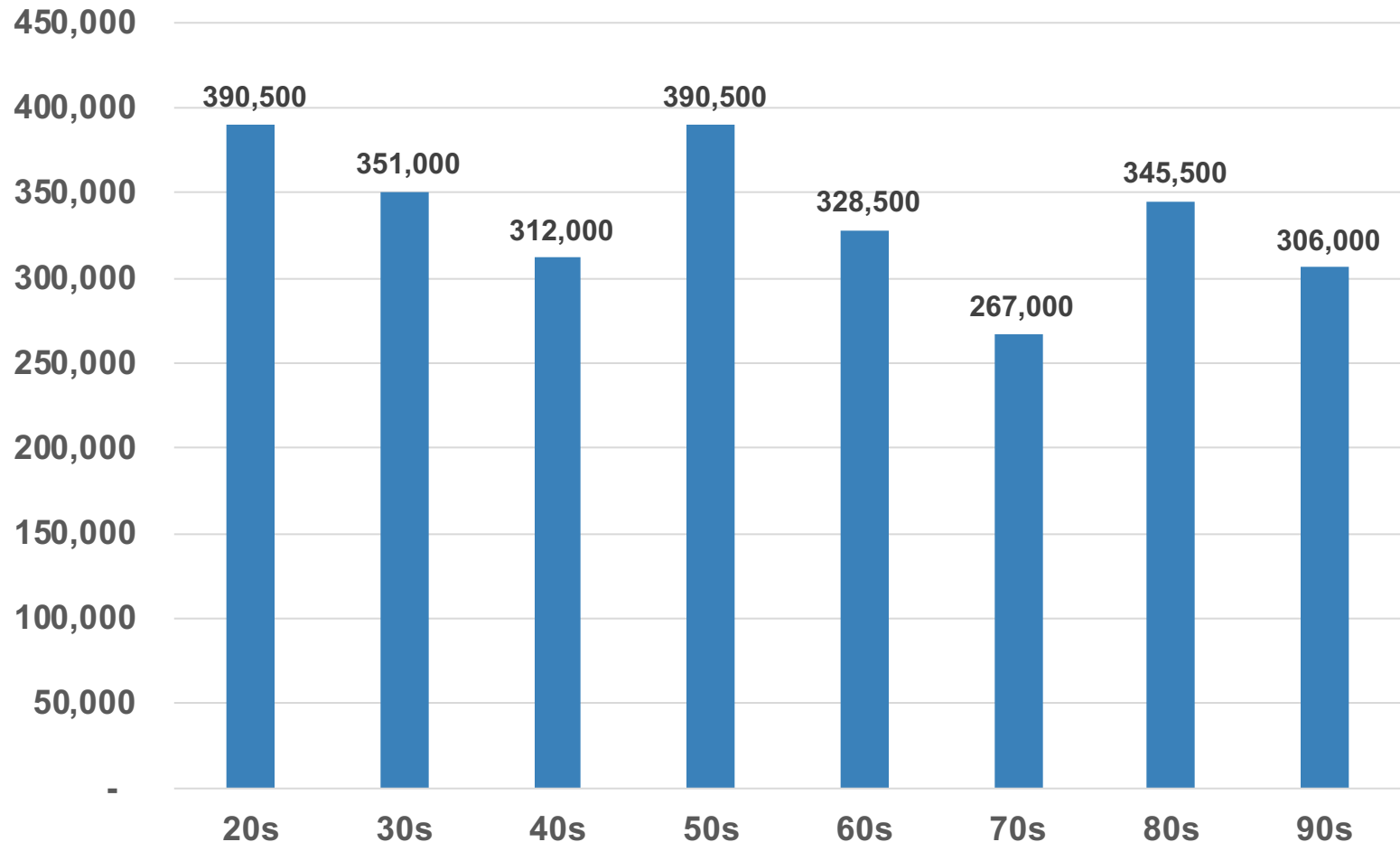
- Funding needs for fire may be under-estimated in future decades, given the large discrepancy between near-term needs in the 2020s and future needs
- These estimates may need to be reassessed as part of asset management plan development

Funding needs for libraries are about \$5 million per decade, declining in the later decades

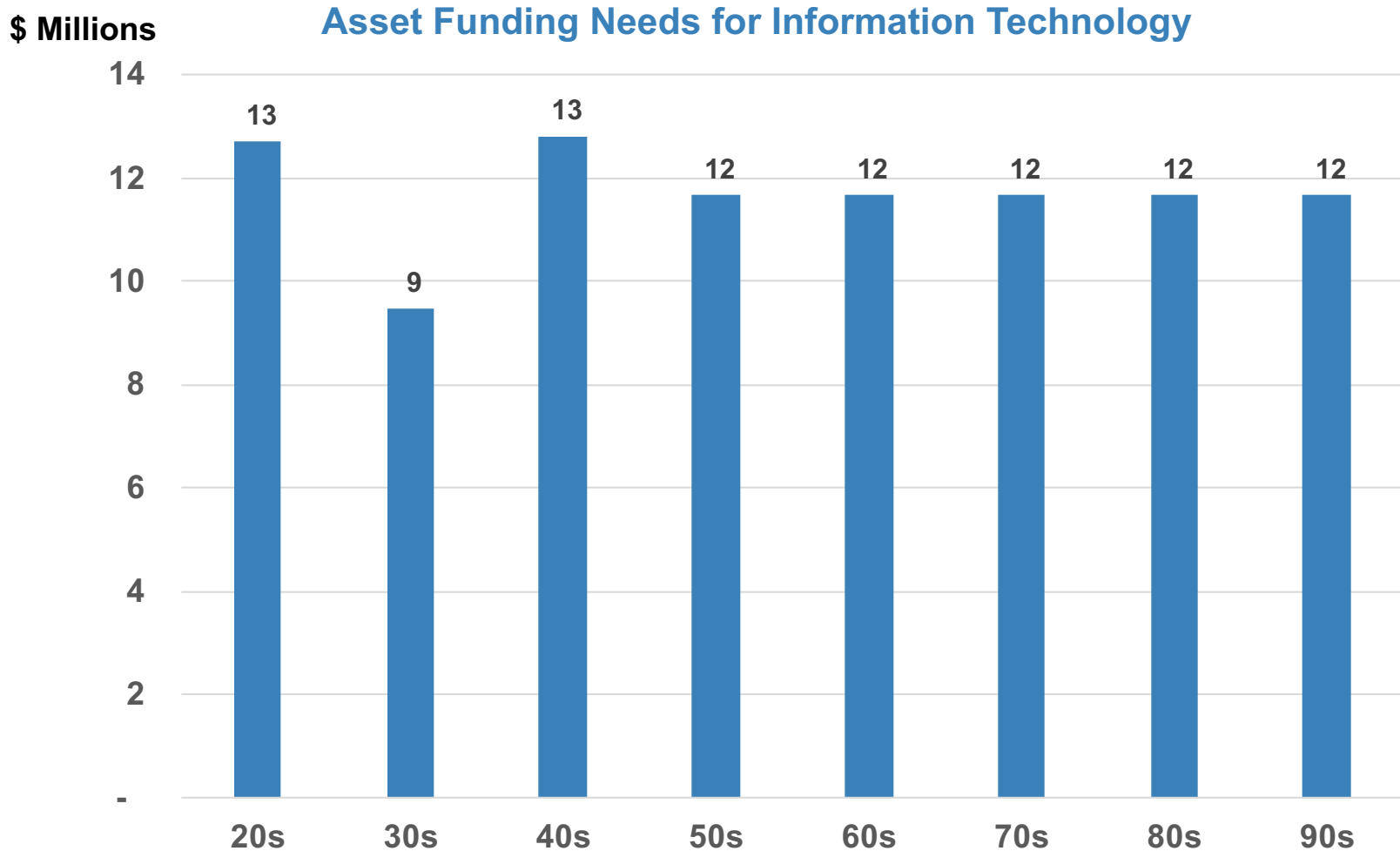


Funding needs for fleet are less than \$400,000 per decade

Asset Funding Needs for Fleet

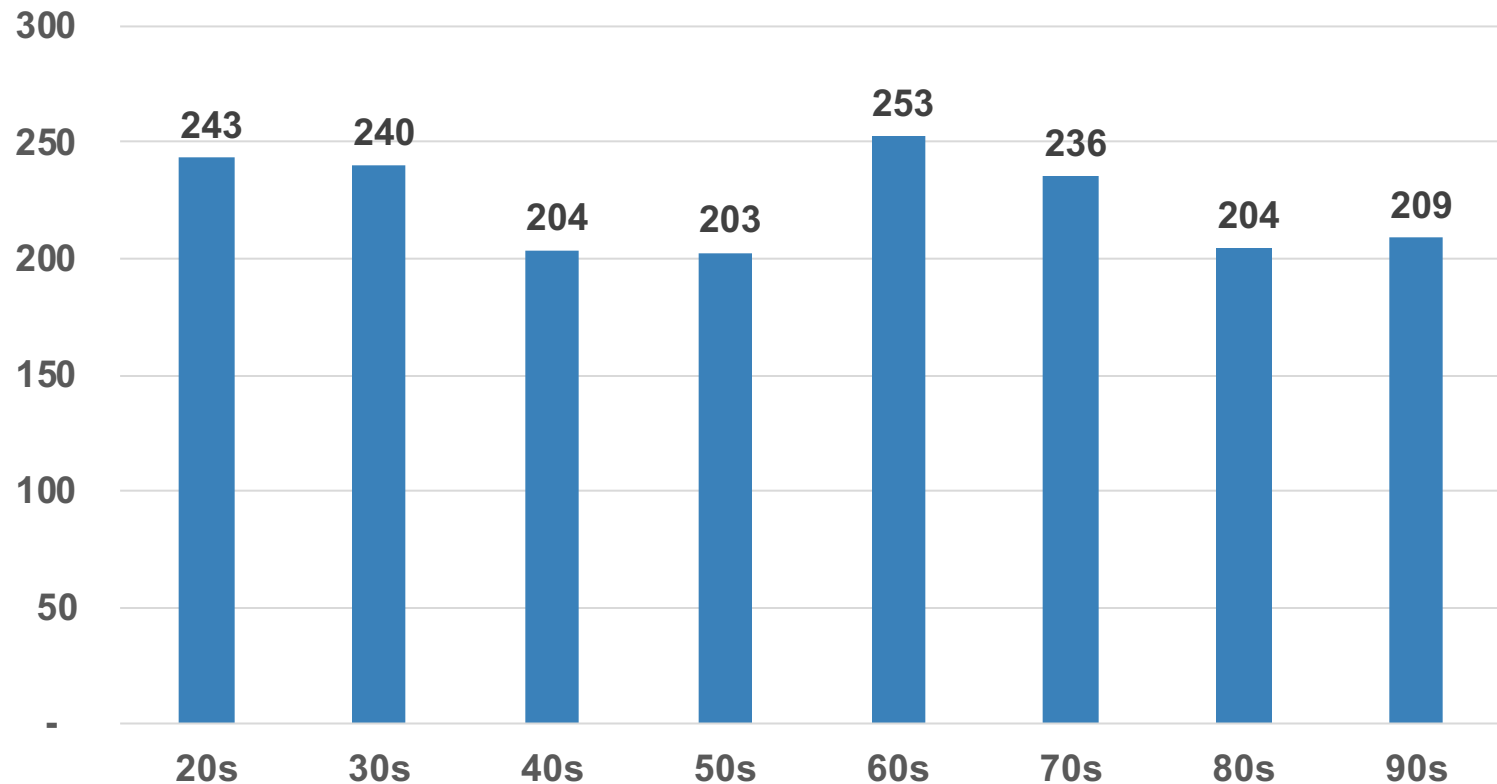


Funding needs for IT are about \$12 million per decade



Funding needs for asset management for all tax-supported infrastructure are over \$200 million per decade

Asset Funding Needs for All Tax-Supported Infrastructure



These estimates may be low

- It is likely that most of the estimates in the asset funding plan are too low
- They do not appear to include future assets—assets that will be needed as the Town grows and that will have rehabilitation and replacement needs (and associated costs)
- The current replacement values on which these estimates were based may also be too low

Current replacement values almost doubled between 2013 and 2020

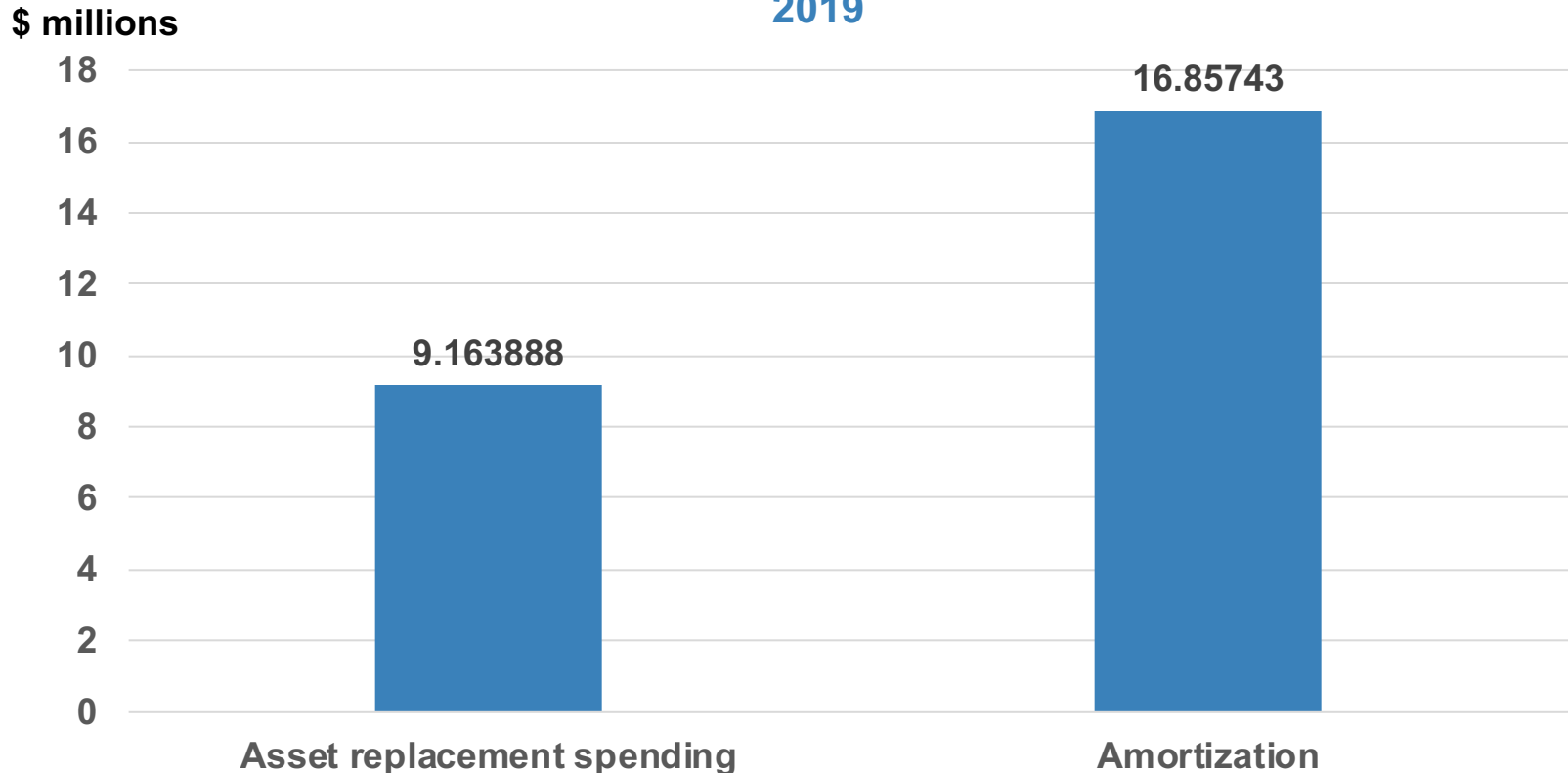
Infrastructure Category	2013 Replacement Value \$ Millions	2020 Replacement Value \$ Millions
Water	131.5	356.9
Wastewater	183.3	346.9
Stormwater	113.8	520.2
Roads	308.3	308.3
Bridges and Culverts	14.8	61.9
Roadside	67.3	78.6
Facilities	188.1	205.8
Parks and trails	54.7	53.8
Parking lots	7.7	18.5
Fleet	28.5	18.7
IT	na	9.4
Fire	na	14.2
Library	na	3.7
Total	1098.0	2009.8

The increase in current replacement value is significantly under-estimated

- The estimate of current replacement value is considerably higher than in 2013 due to improved estimates and the inclusion of more assets
- The main source of the increase is in water, wastewater and especially stormwater
- However, the estimates for facilities and roads have not been updated since 2013 and funding needs have almost certainly increased substantially

Newmarket's replacement investment in 2019 was well below amortization

Asset Replacement Spending versus Amortization
2019



Notes: Includes, water, sewer and stormwater.

Asset replacement estimated from capital budget detail and delivery ratio.

Planned 2020 spending is below 2% of replacement value, a common metric

2020 Planned Asset Replacement Spending compared to 2% of Current Replacement Value

\$ Millions

45

40

35

30

25

20

15

10

5

0

21.851992

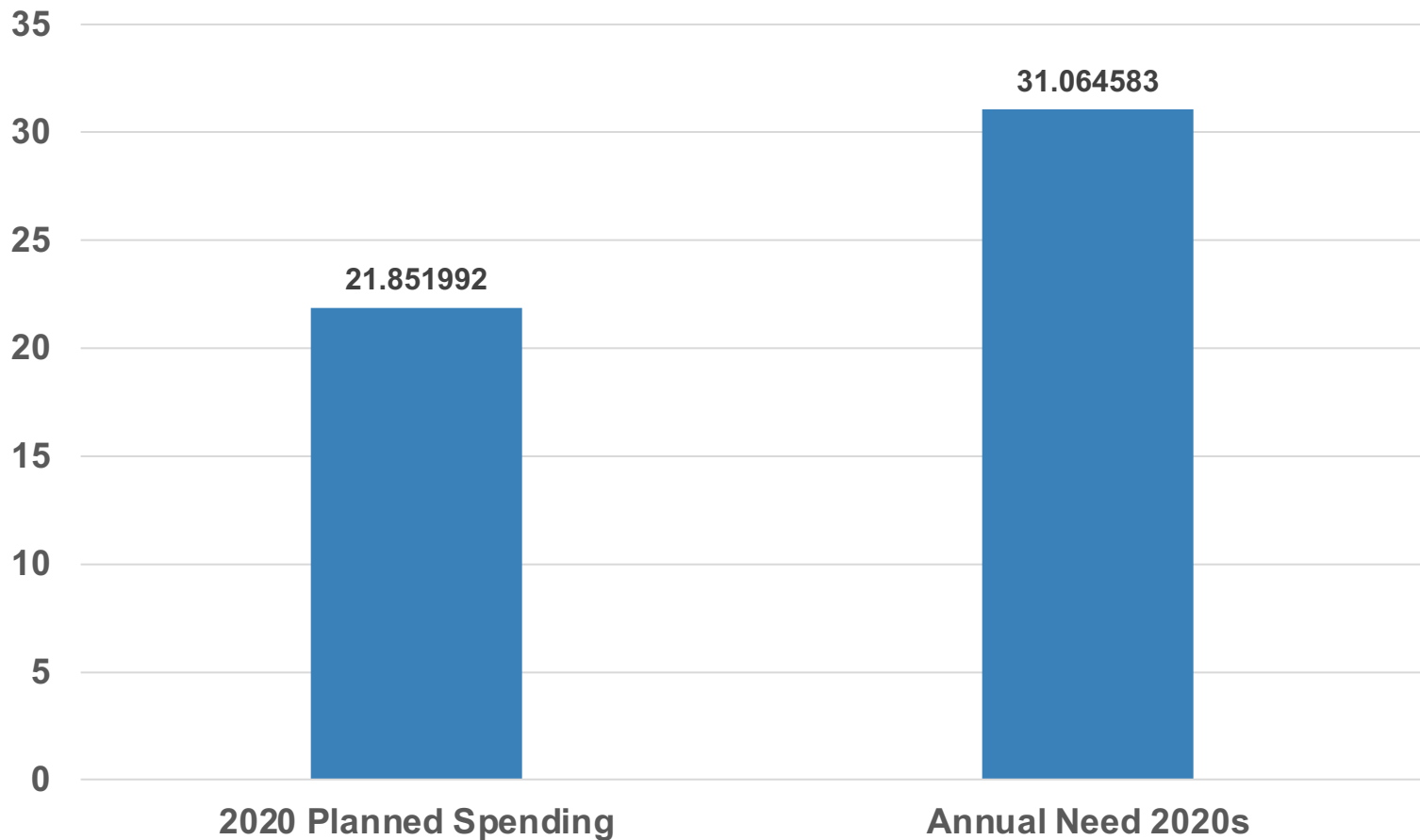
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2020 Planned Spending

2% of Current Replacement Value

It is below the average annual need for the 2020s identified by staff

2020 Planned Replacement Spending compared to average annual needs in the 2020s



Asset management investment will need to increase over time

- If capital delivery is less than the amount budgeted, the gaps shown on the previous two pages will be even larger
- The 2% comparison slide does not take adequate account of life cycle costs (or shorter life cycles). If it did, the gap would be larger
- It is safe to conclude that Newmarket is not investing enough in asset management, given current service levels and infrastructure condition

Asset management plans involve tradeoffs

- An asset management plan that is both useful and of high quality necessarily involves tradeoffs
- As the Town develops its overall asset management plan, Council will need to consider the relationships between:
 - Quantity of infrastructure
 - Level of service (desired level informed by financial constraints)
 - Acceptable level of infrastructure deficit
 - The cost of building adequate asset management reserves

Asset management plans should be integrated

- Under the Provincial regulation, level of service and financial strategy considerations are separated from the initial development of asset management plans and are delayed until 2024
- This separation does not make sense
- Newmarket should develop integrated asset management plans, meaning that they should incorporate levels of service considerations and a funding plan from the beginning

Recommendations

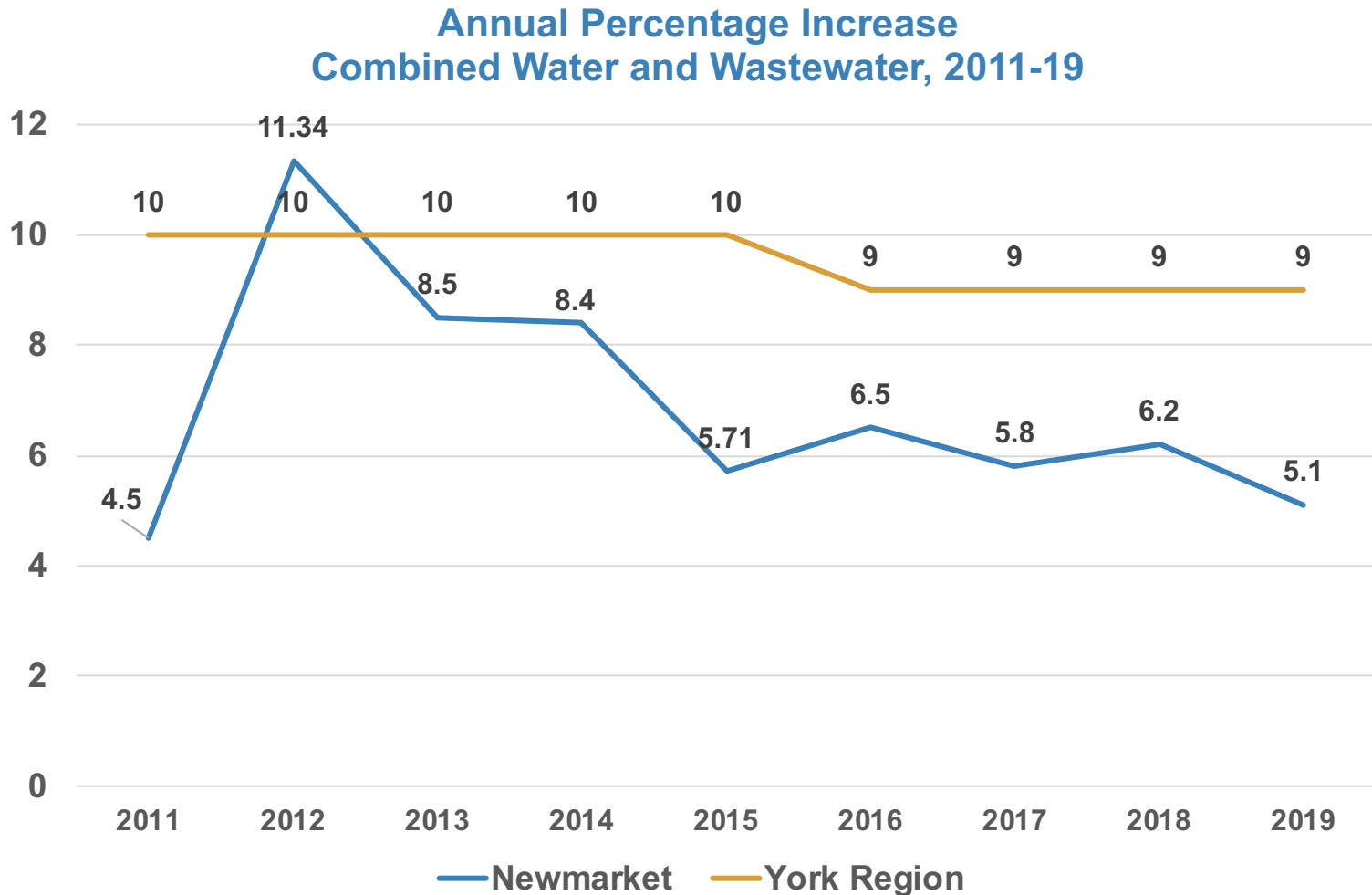
1. The Project Management Office should accelerate work on asset management planning so that initial integrated versions of all asset management plans are available for consideration in the 2023 budget cycle (beginning in Fall 2022)
2. Asset management plans should include level of service considerations and a funding plan from the beginning so that appropriate tradeoffs can be made
3. The funding strategy embedded in asset management plans should be integrated with the budget process and the next update of the Development Charges Background Study

Recommendations continued

4. Staff should carefully review and update current asset replacement values and the current long-term estimates of funding needs as part of the asset management planning process
5. The funding plan should include estimates of the asset management costs associated with infrastructure for future growth
6. The Town should plan to increase future spending on infrastructure rehabilitation and replacement and incorporate steady increases for that purpose in the capital budgeting process

8. Water, Wastewater & Stormwater

Newmarket's water rate increases have lagged York Region's



The effect is to squeeze Newmarket's own spending

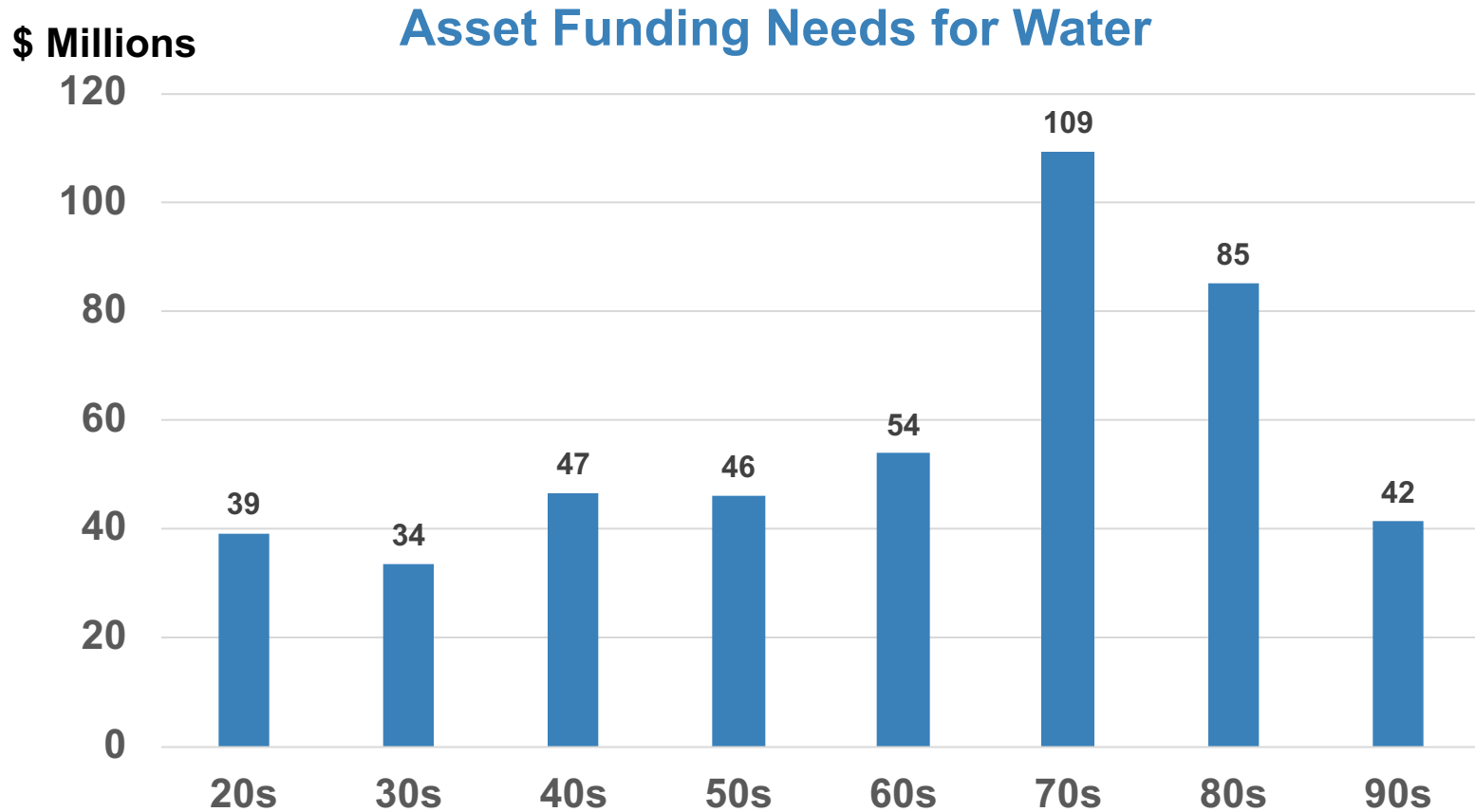
- York Region's water rates have been increasing at 9% per year for six years (2020 is the last year), following more than five years of 10% per year increases
- If Newmarket's water rates are rising more slowly than York Region's, then payments to York Region must be taking up a larger share of the water budget
- This necessarily constrains either the Town's own spending or its contributions to reserves

Is Newmarket at full cost recovery at current prices?

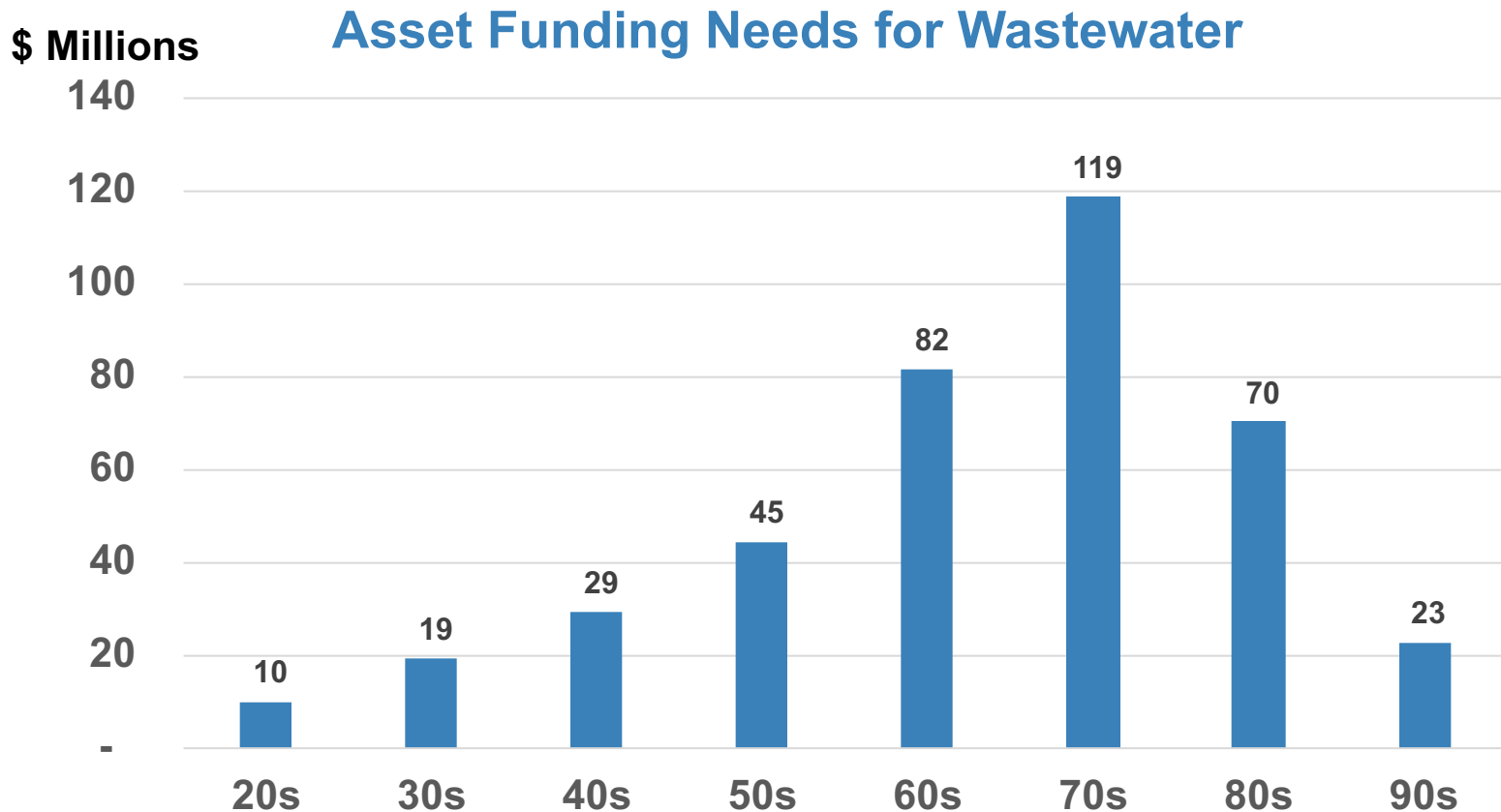
- The answer is “no”
- Although the water and wastewater financial plans show large surpluses, this relies on book value amortization
- If amortization is based on current replacement value and the expected life is shortened to 70 years (from 80) to account for the presence of some shorter-lived assets (such as valves), net income was almost \$3 million below full cost recovery in 2019

Note: This assumes the revenue and expenses found in the financial plans for 2019, as the segmented information in the financial statements includes waste management

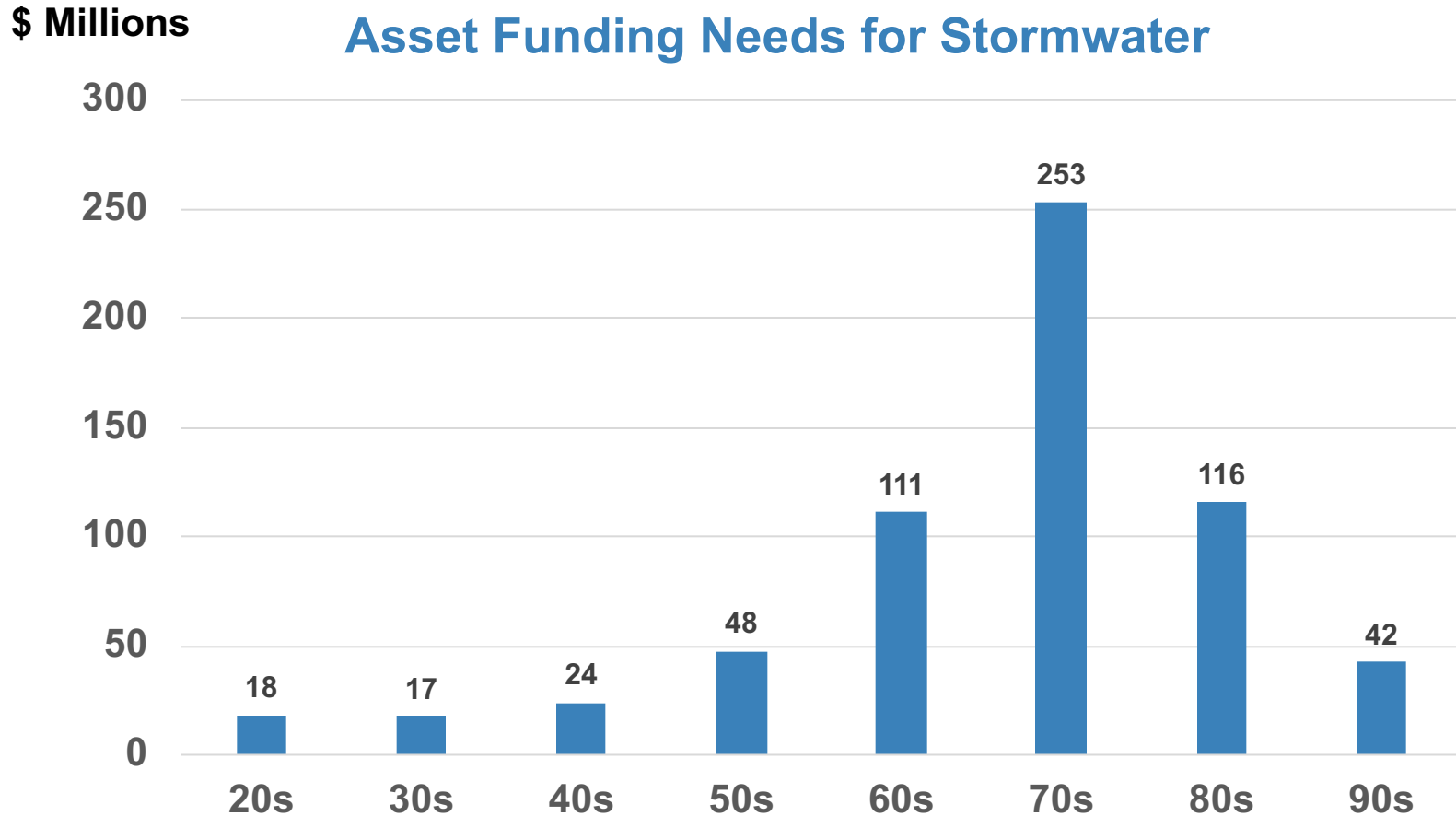
Asset funding needs for water balloon as assets age



Asset funding needs for wastewater almost double by the 2030s and then escalate rapidly until the 2080s



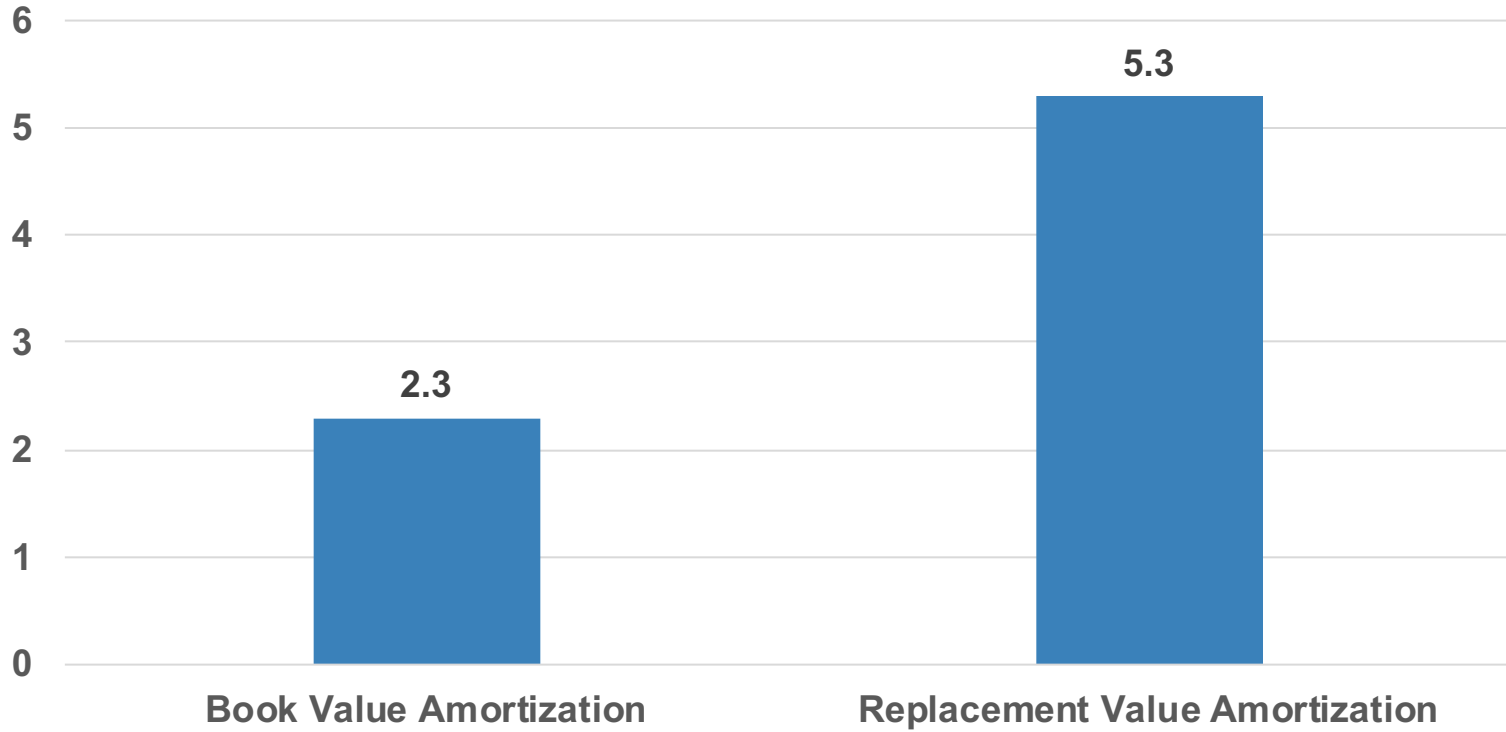
Stormwater needs are modest initially but then become very large in future decades



Saving or spending based on book value amortization is not enough

**Asset Management Needs
Water and Wastewater
2019 Estimates based on Amortization**

\$ Millions



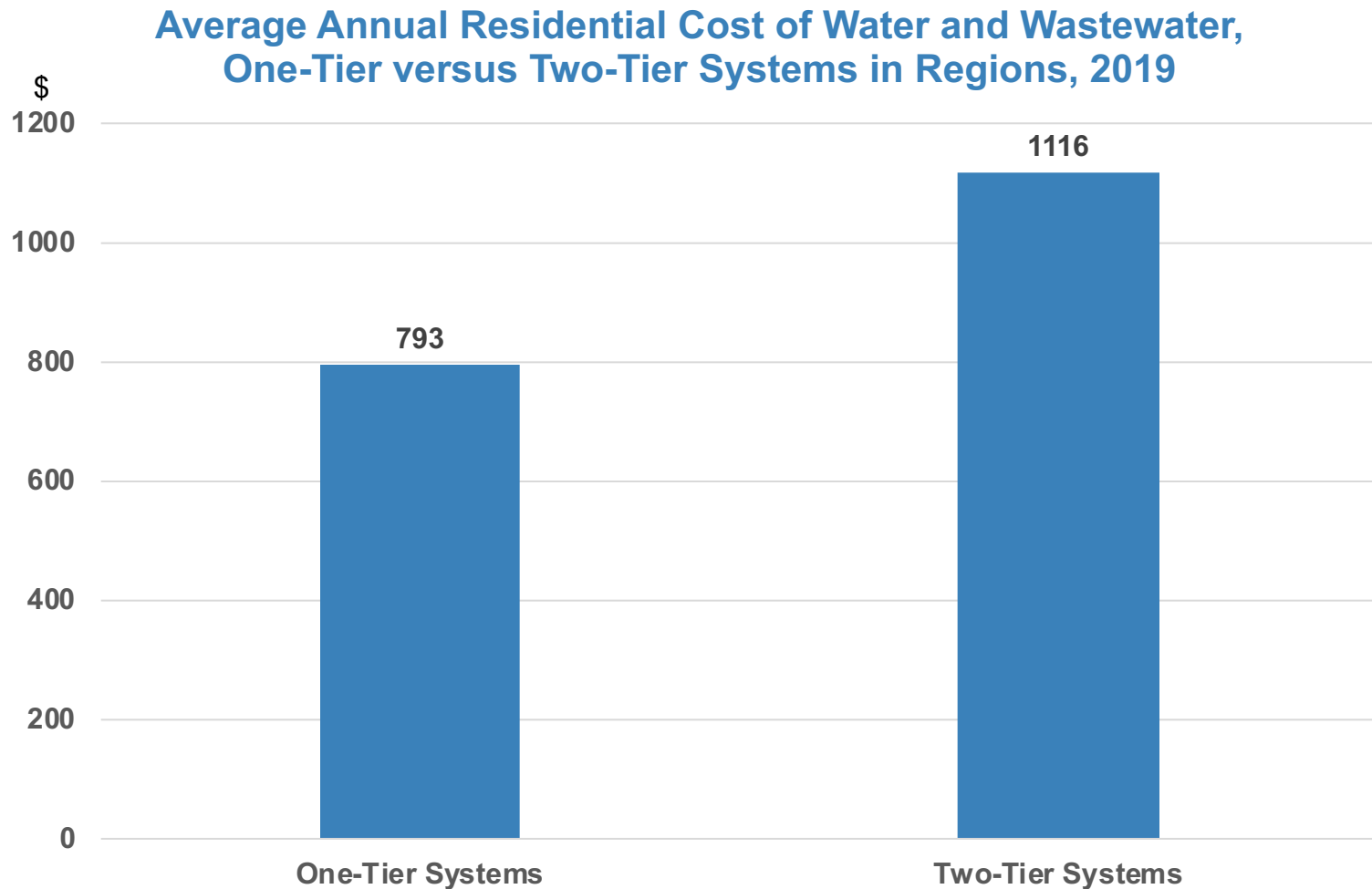
Fortunately, there is time to build reserves because Newmarket's infrastructure is young

Water and Wastewater		
Replacement Timing	Replacement Value in 2013	Percentage
1-10 Years	4,792,000	1%
11-20 Years	5,255,000	2%
21-30 Years	31,532,000	10%
31-40 Years	50,454,000	16%
41-50 Years	42,010,000	13%
51+ Years	186,744,000	58%
Total	320,787,000	100%

It may be worth looking at single-tier delivery

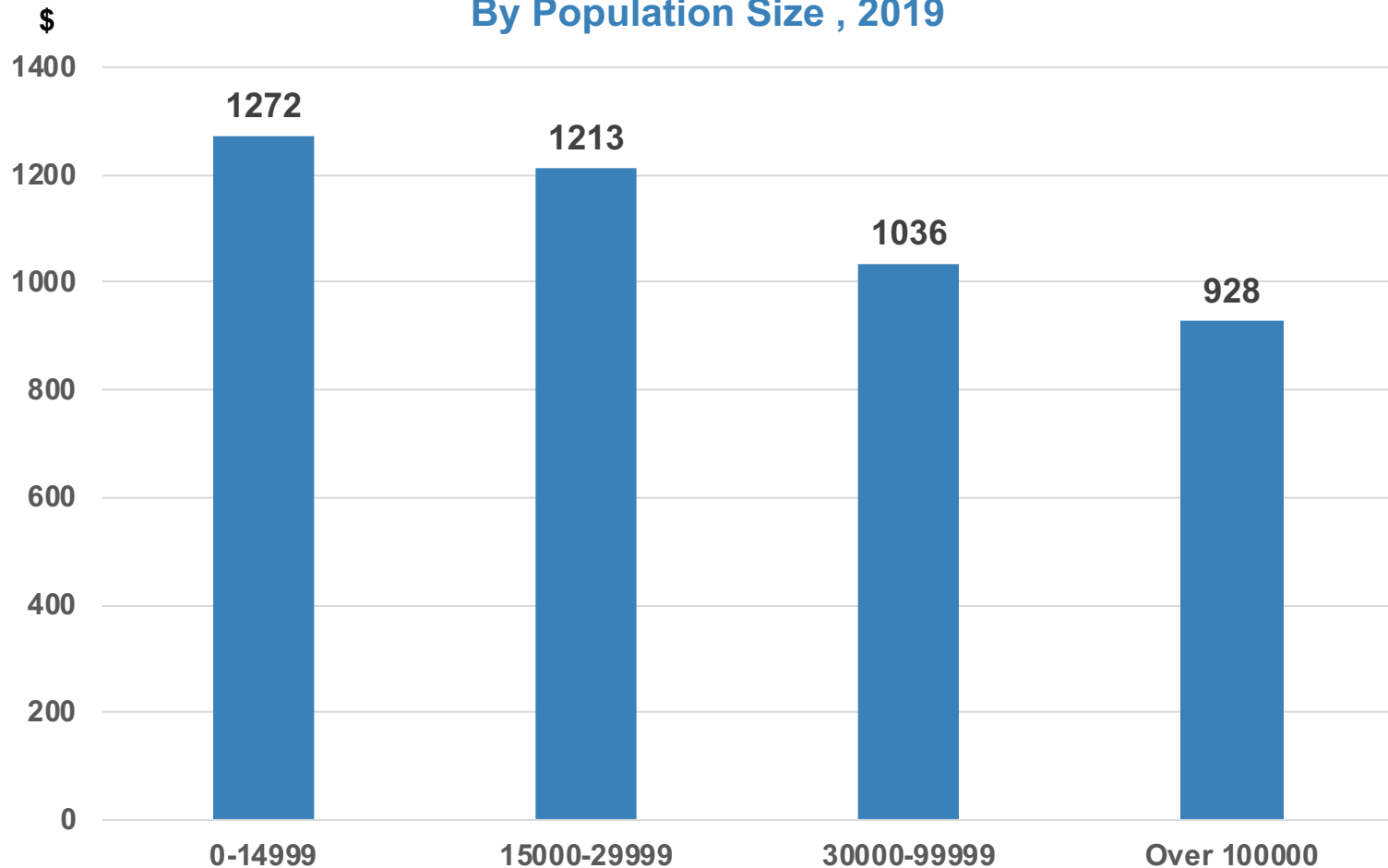
- York is one of only three regions in the province with two-tier water delivery
- The others are Niagara and Waterloo
- “Watertight”, the report of the Water Strategy Expert Panel, recommended consolidation of two-tier systems in 2005
- Hemson’s 2014 Capital Financing sustainability Strategy recommended that the Town look at uploading part or all of its water and sewer system

Two-tier systems are more expensive than one-tier systems in regions




There are economies of scale

Average Annual Residential Cost of Water and Wastewater
By Population Size , 2019



Source: BMA, 2019



*Newmarket's cost of water is
17% above the average for its
size category*

Newmarket's situation is something of a paradox

- Newmarket's cost of water is 17% above the average for its size category
- However, its water and wastewater price is still not high enough to build the reserves needed for future asset management needs
- York Region's costs are relatively high because the region does not have direct access to Lake Ontario and therefore must build and maintain long pipes
- The Region charges a uniform rate, so all of the local municipalities are equally affected by the Region's costs

Newmarket introduced a stormwater levy in 2017

- The new stormwater levy changes the funding for stormwater from the property tax base to a proxy user-pay regime
- As a transitional measure the Town reduced the property tax increase by 2.6%
- The Town is significantly increasing the stormwater levy (10.9% in 2020 and a projected 18.09% in 2021)
- These increases will need to continue, due to the forecast rise in asset management funding needs
- A rate study and financial plan will be needed, comparable to water and wastewater

Recommendations

1. Set water rates according to Newmarket's long-term needs
2. Commission or carry out a comprehensive rate-setting study that covers water, wastewater and stormwater rates
3. Ensure that the rate-setting study considers long-term asset management funding needs, inter-generational equity, water demand (impact of conservation), the cost of climate change adaptation, increased costs due to intensification, and a contingency factor for yet-to-be identified costs such as regulatory changes

Recommendations continued

4. Investigate the reasons for Newmarket's historically higher than average rates and address controllable factors
5. Develop 80- to 100-year asset management plans for water, wastewater and stormwater, and firm ten-year capital plans with funding sources identified
6. Integrate the rate plan with the ten-year capital plan and long-term asset management plans
7. Increase rate stabilization reserves to allow for economic as well as weather-related variations in revenues


Recommendations continued

8. Develop detailed financial plans for water and wastewater that include an analysis and forecast of capital and operating costs and incorporate the results of the rate-setting study
9. Extend the time horizon of the water and wastewater financial plans to ten years
10. Develop a financial plan for stormwater comparable to the plans for water and wastewater

Recommendations continued

11. Consider working together with the other “Northern Six” municipalities in York Region to investigate the benefits and costs of transferring local water and wastewater responsibility to the Region or cooperating in other ways

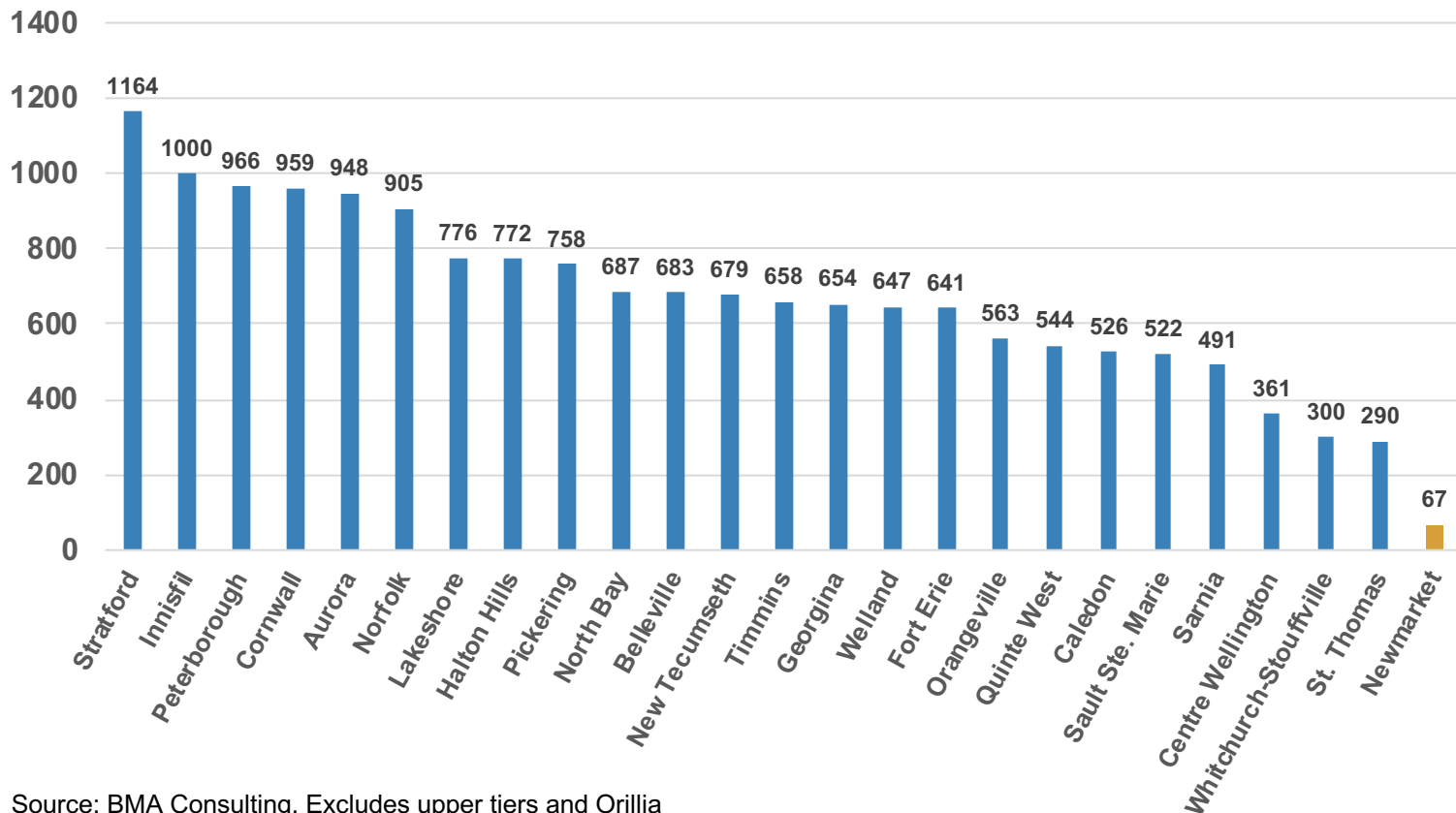
9. Building Reserves



*Building and managing reserves is
key to achieving financial
sustainability*

Newmarket's tax-supported reserves per capita are the lowest in its population size range

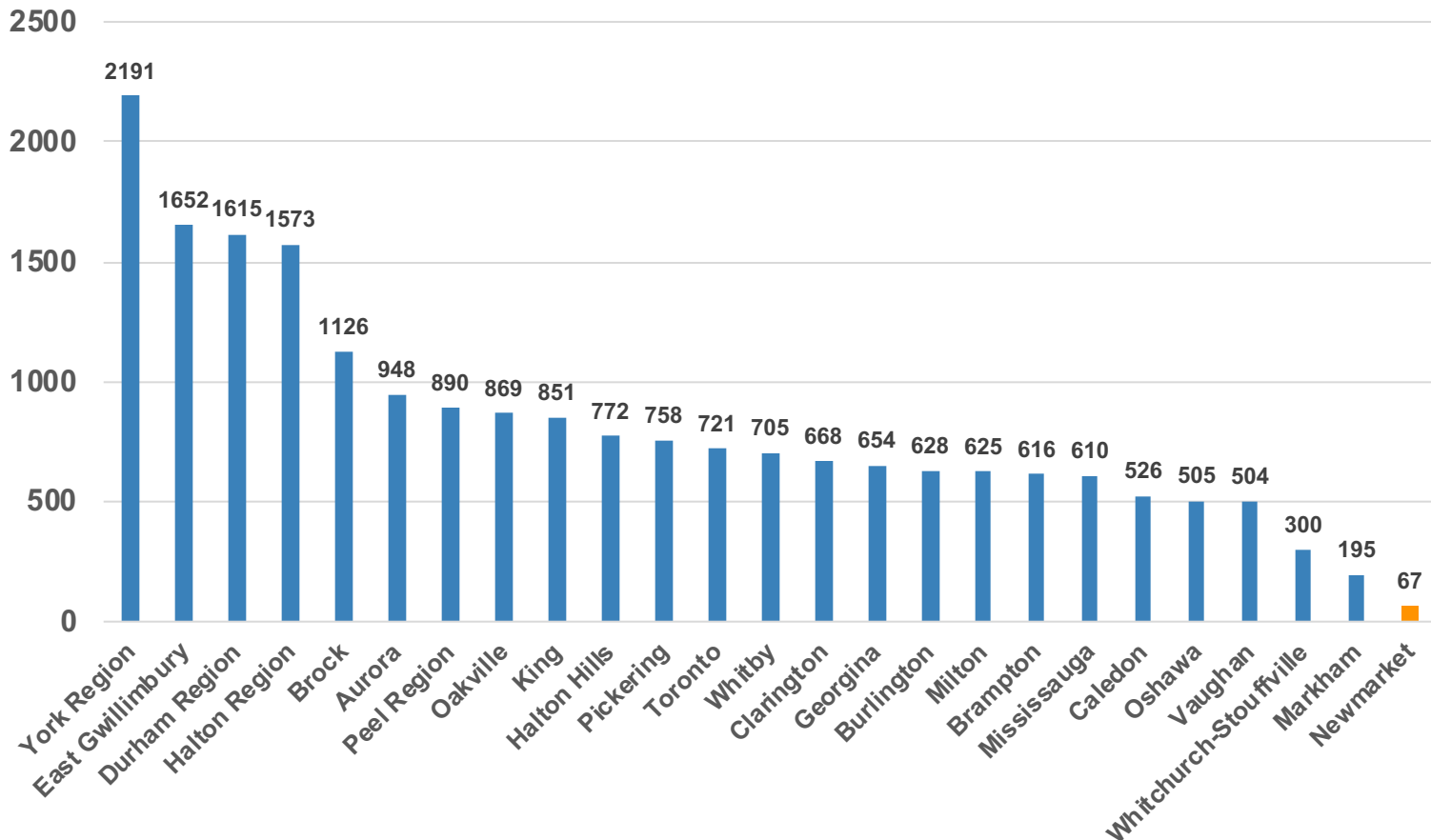
Tax-Supported Reserves per capita
Municipalities 30,000-99,999 population, 2019



Source: BMA Consulting. Excludes upper tiers and Orillia

Newmarket's tax-supported reserves per capita are the lowest in the GTA

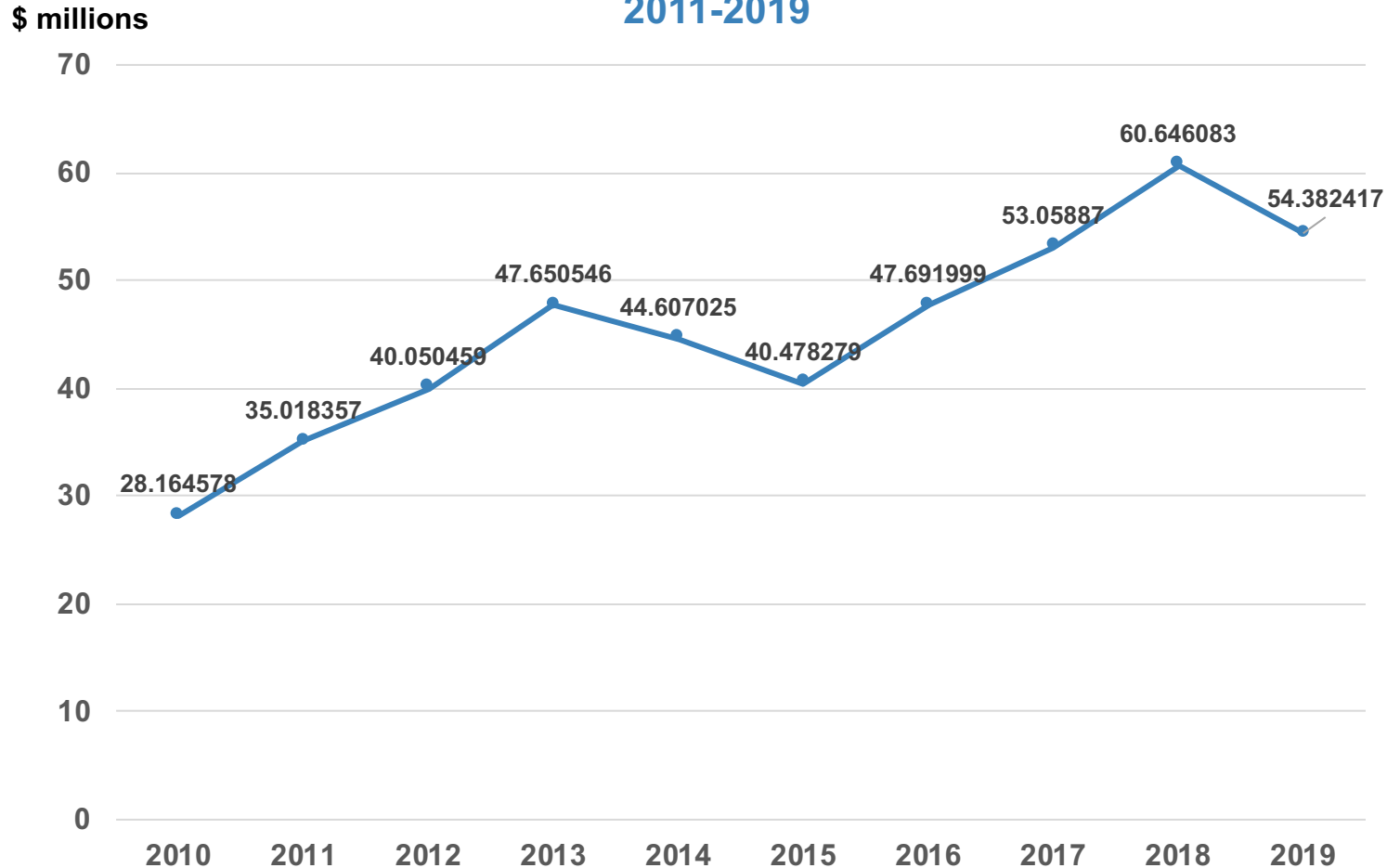
Tax-Supported Reserves per capita,
GTA municipalities, 2019



Source: BMA Consulting

Newmarket has almost doubled its total reserves over the last ten years

Growth in Total Reserves and Reserve Funds
2011-2019



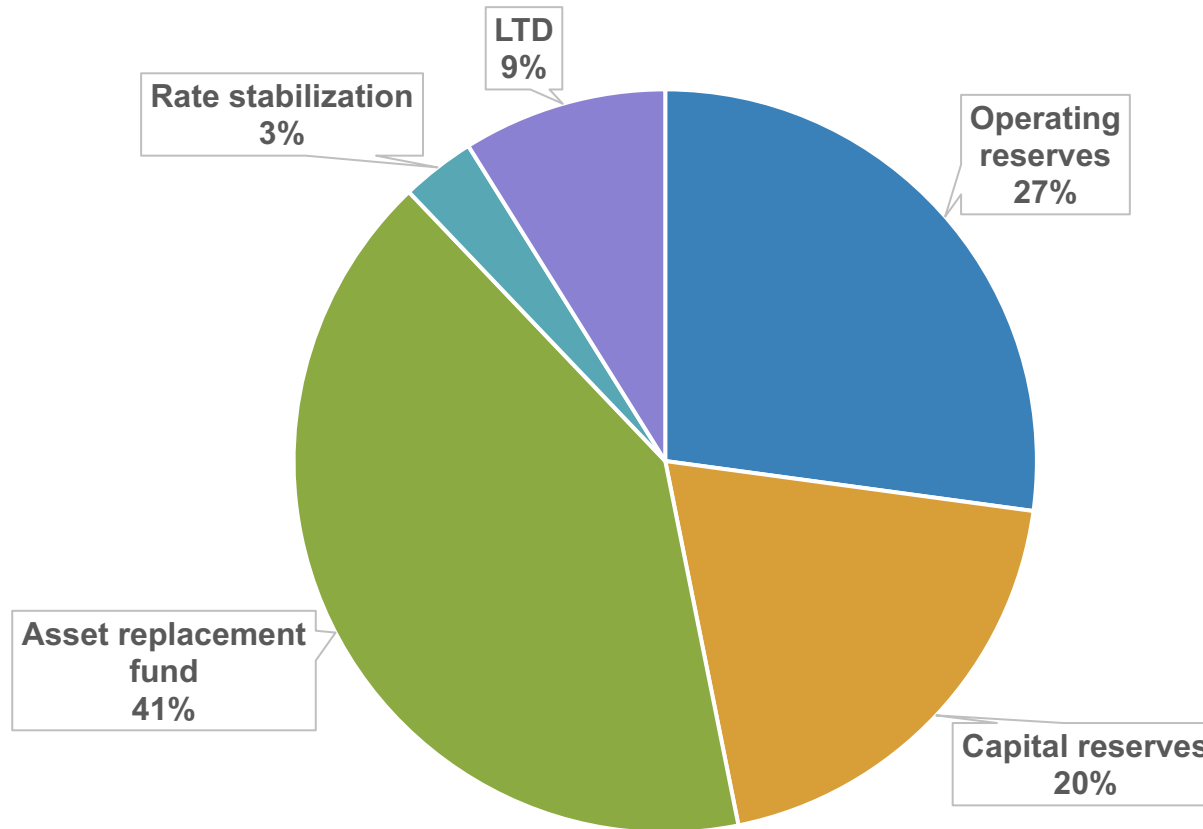
Note: Excludes obligatory reserves

Reserves are currently at just over \$54 million

- Reserves are down from their peak level and are currently about the same level they were in 2017
- A key factor in the accumulation of reserves has been under-delivery of the capital program

Over 60% of reserves are for capital purposes

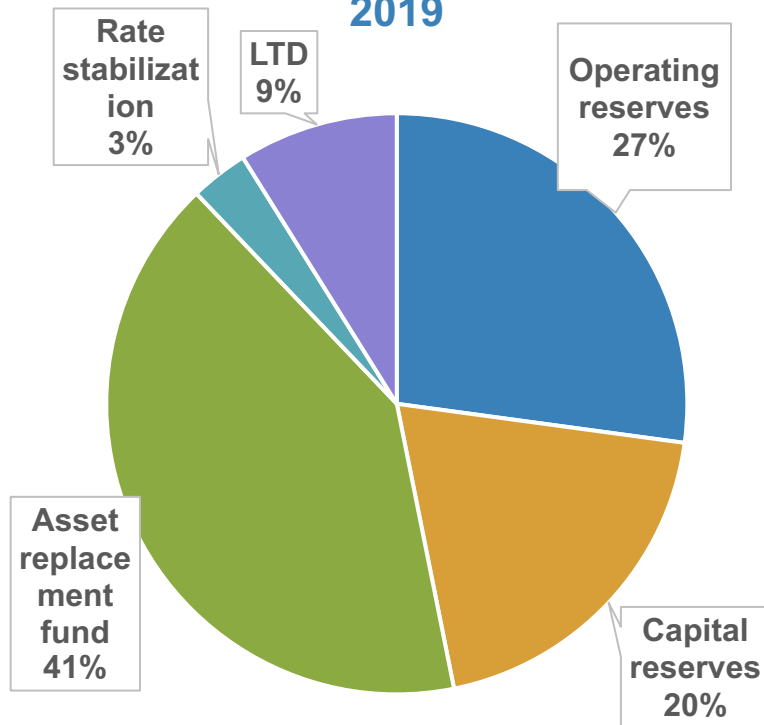
Composition of Reserves and Reserve Funds
2019



The proportion of capital reserves has increased in the last five years

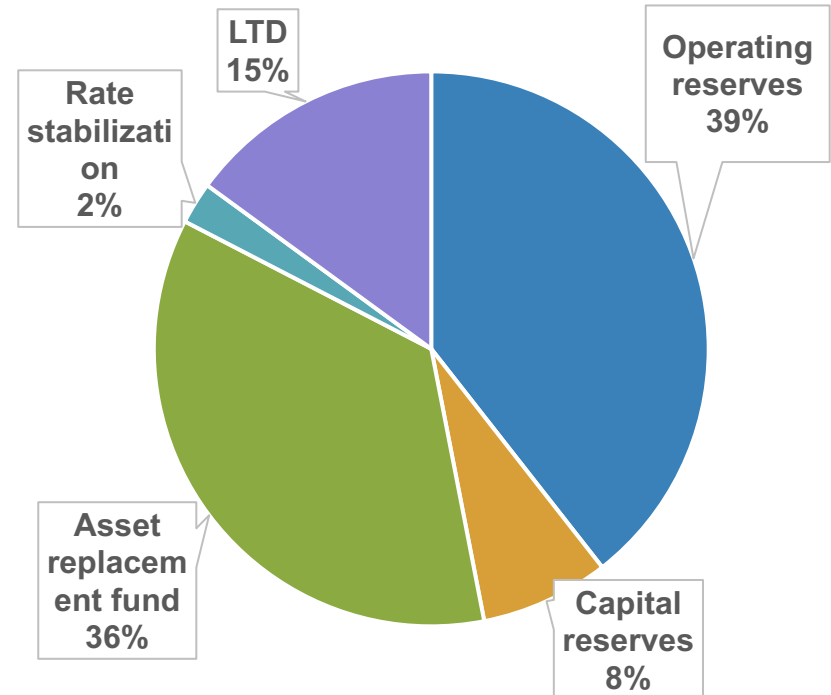
Composition of Reserves and Reserve Funds

2019



Composition of Reserves and Reserve Funds

2014



Newmarket has three key reserve challenges

- The main reserve-related issues for Newmarket to address are:
 - The need to build asset management reserves aggressively over time
 - Inter-reserve borrowing
 - Lack of reserves needed to manage newly realized future risks
- In addition, there has been a proliferation of reserves as the Town's needs have evolved

Elements of a reserve strategy

- The reserve strategy should have at least the following elements:
 1. A plan to build asset management reserves
 2. Resolution of the inter-reserve borrowing issue
 3. A new contingency reserve
 4. A new growth capital reserve to deal with protracted or permanent shortfalls in development charge collections and to pay for non-DC-eligible infrastructure

The Asset Replacement Fund has quite variable balances

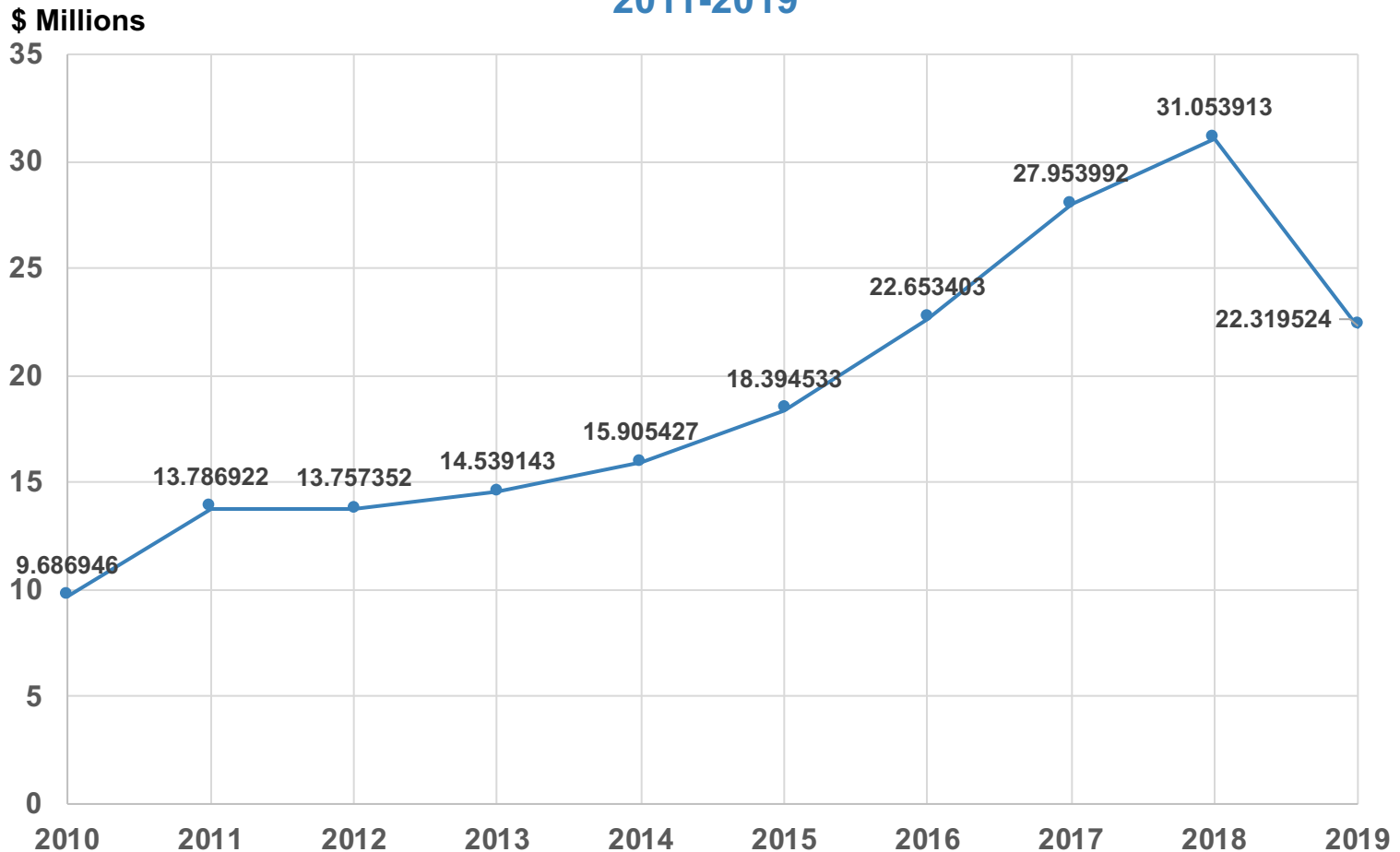
- The Asset Replacement Fund is divided into individual reserves intended to fund different types of capital
- The fund has reserves with positive balances of some \$57 million, offset by other reserves with negative balances of some \$35 million

Asset Replacement reserves are highly skewed

Asset Replacement Funds	
With Large Positive Balances	With Large Negative Balances
Water	Facilities
Wastewater	Parks

The current Asset Replacement Fund is just over \$22 million

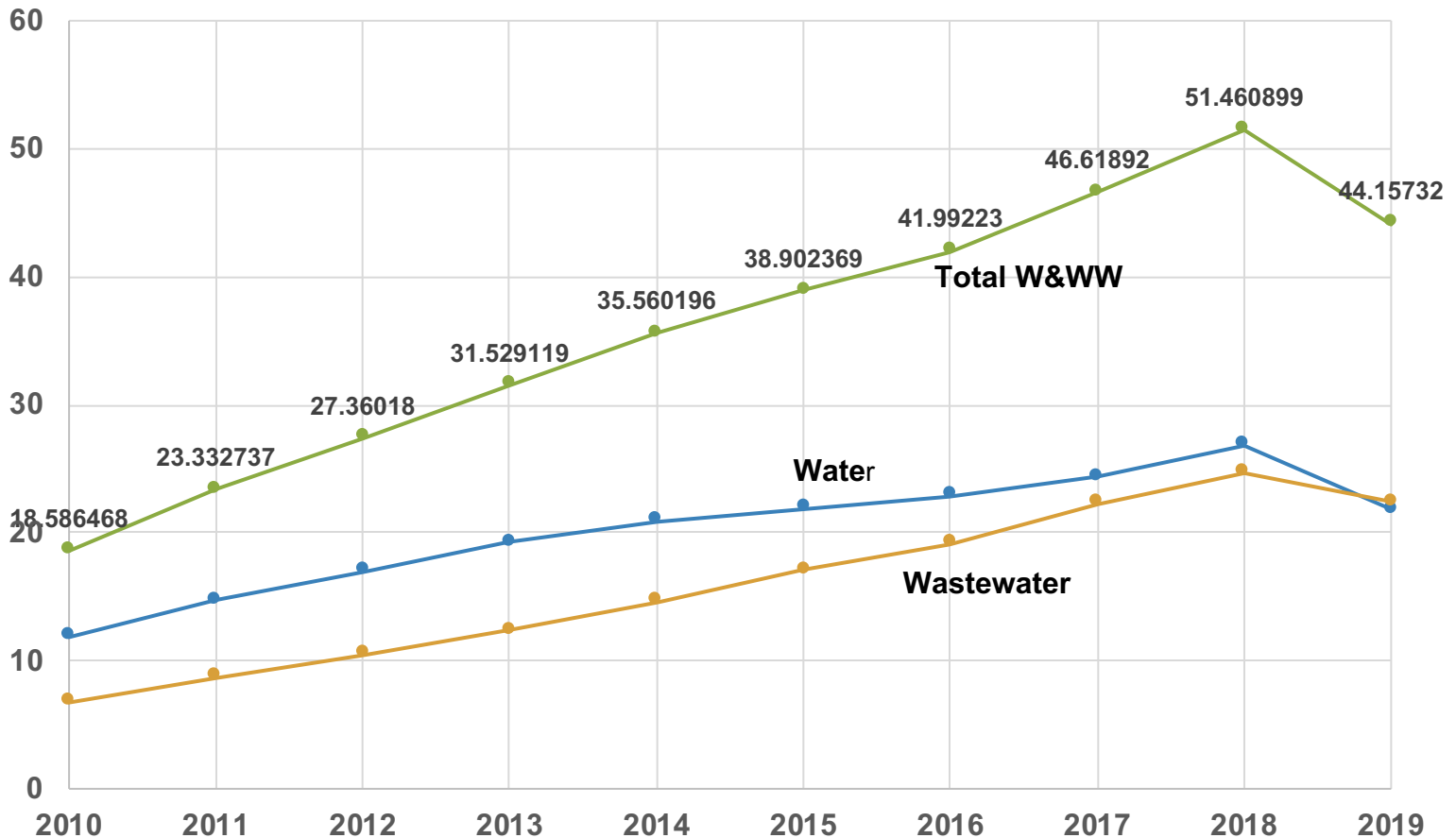
Growth in Asset Replacement Fund Balance 2011-2019



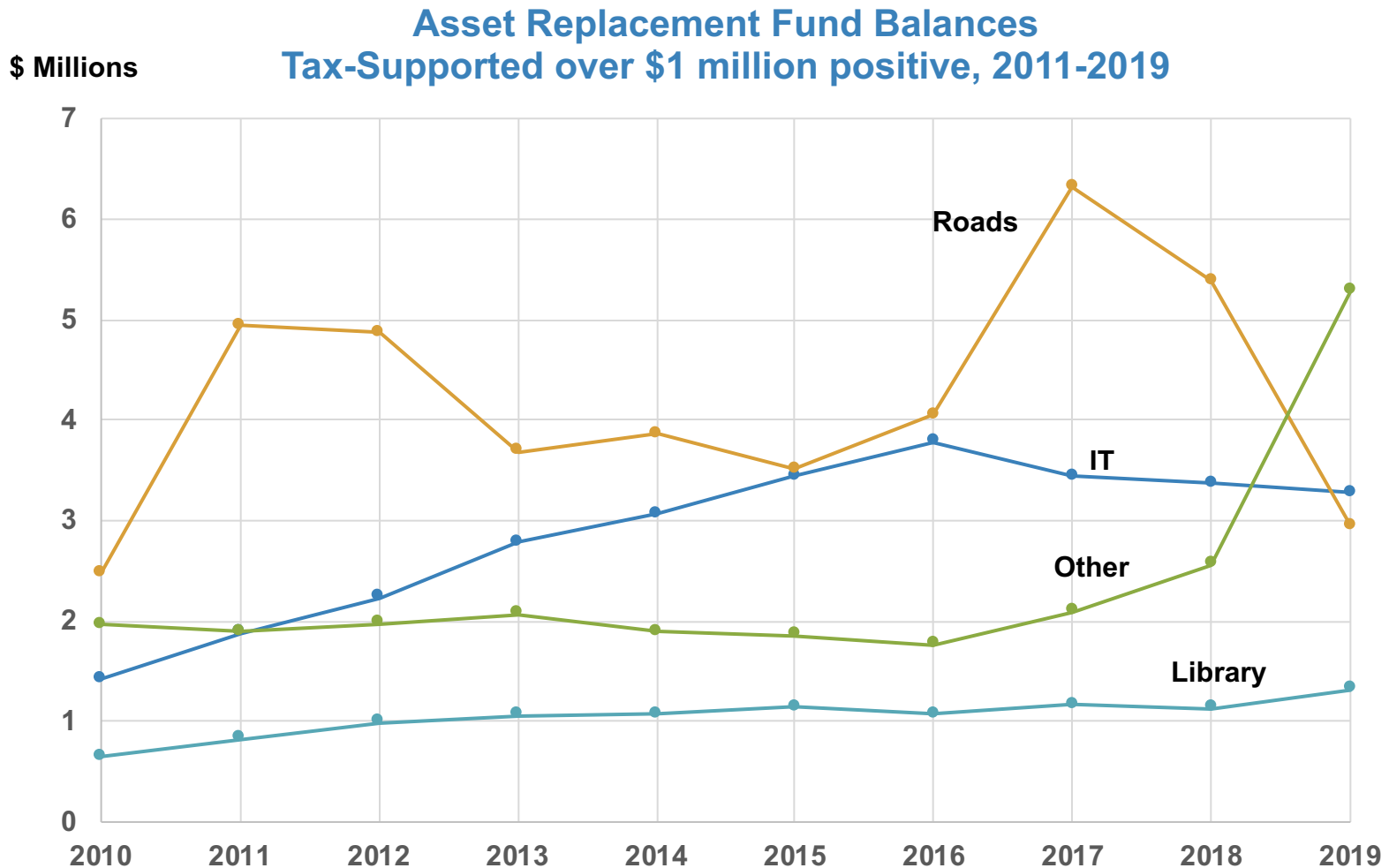
The water and wastewater ARF balances amount to \$44 million

Asset Replacement Fund Balances Water and Wastewater, 2011-2019

\$ Millions

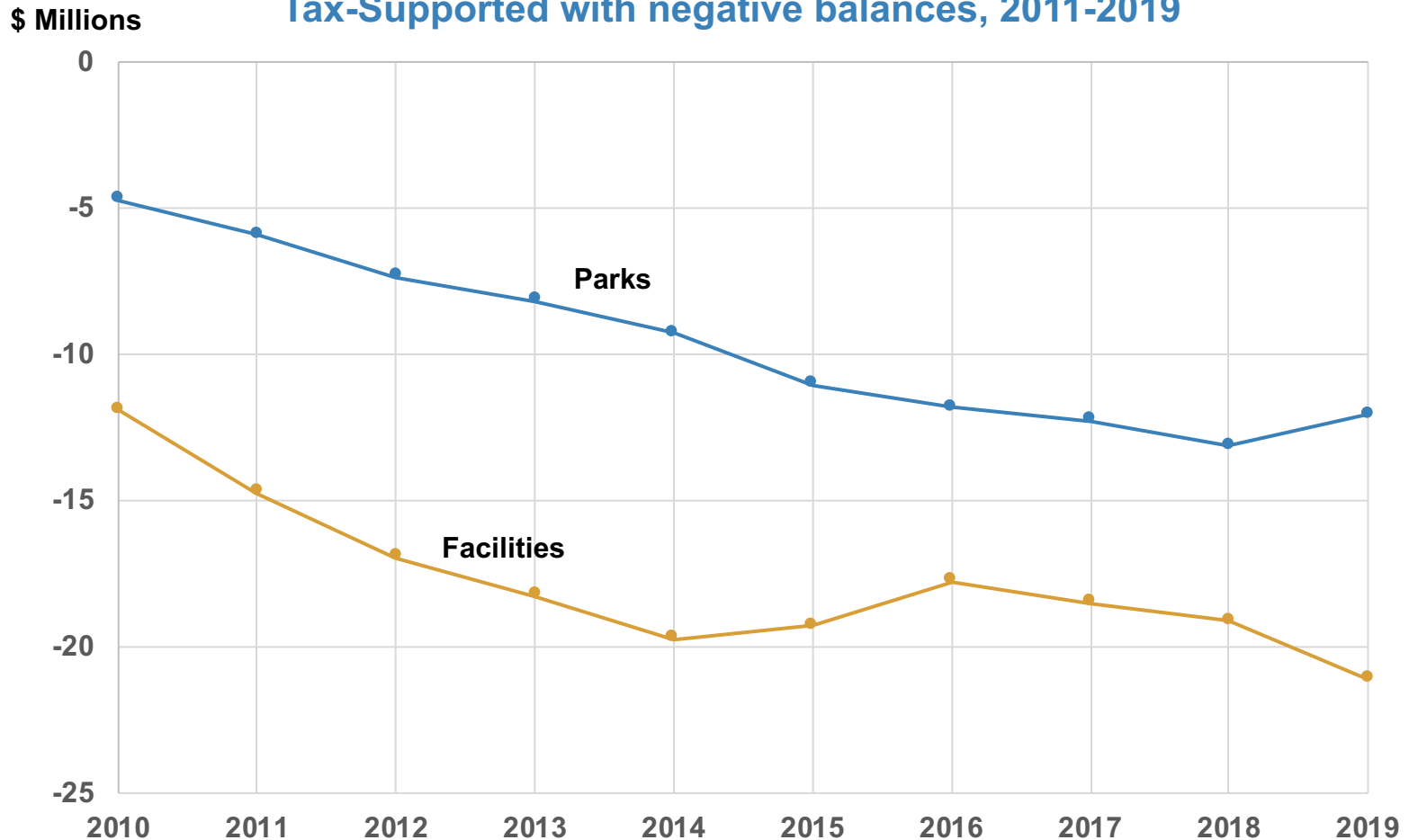


Several tax-supported ARF reserves have positive balances over \$1 million

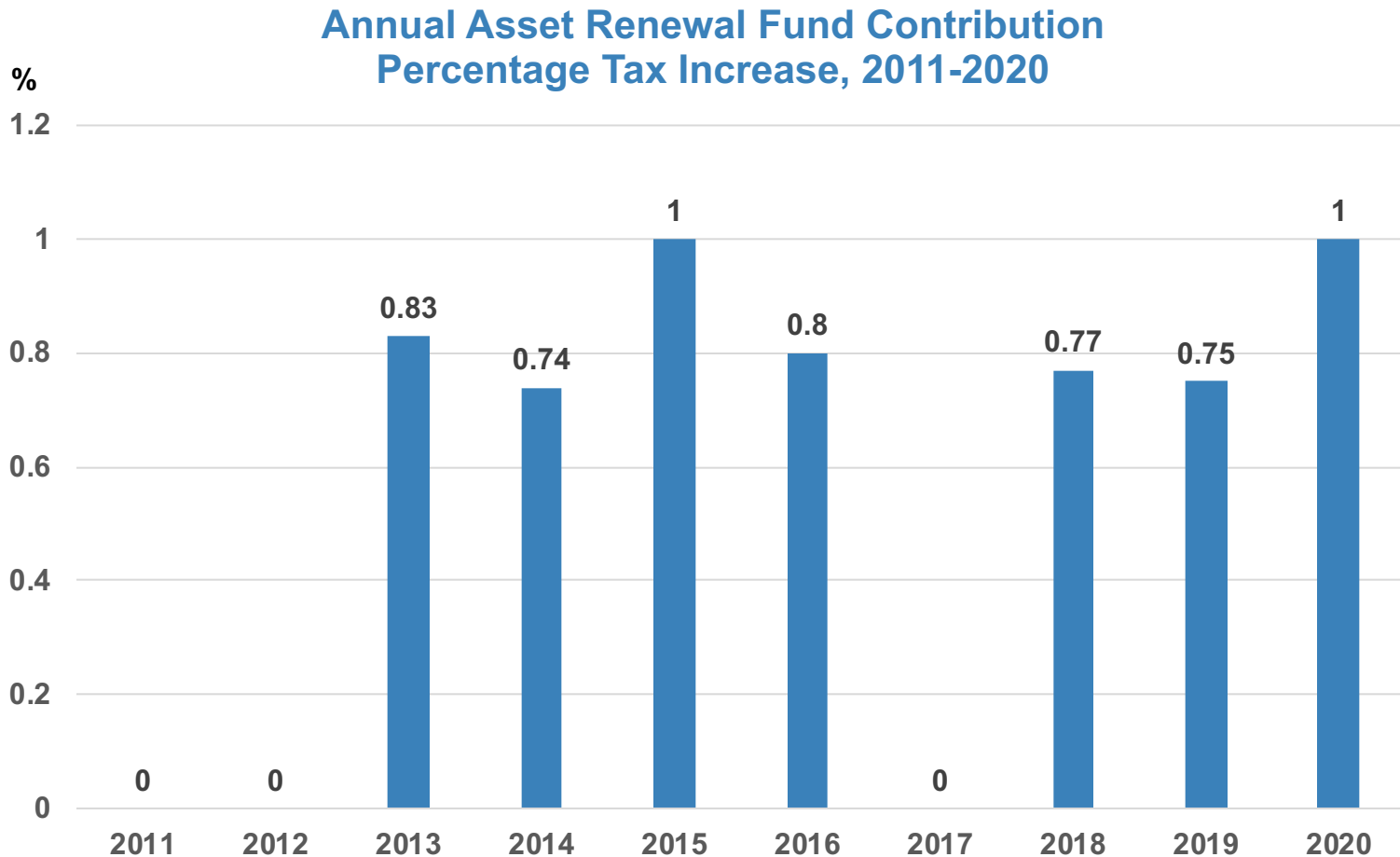


Parks and Facilities have large negative ARF balances

**Asset Replacement Fund Balances
Tax-Supported with negative balances, 2011-2019**



Contributions to the Asset Replacement Fund have been quite variable



Substantial savings for asset management needs to start now

- The previous sections showed that asset management needs will grow over time as assets age and new infrastructure is brought into service
- To avoid substantially disadvantaging future generations, it will be necessary to save significantly more than is currently needed for rehabilitation and replacement

Large intra-fund borrowing has developed in the ARF

- Tax-supported asset replacement reserves are currently borrowing about \$23 million from rate-supported asset replacement reserves
- There is little prospect that this internal “book-keeping” loan can be repaid in the foreseeable future, given that a 1% increase in the property tax levy yields about \$625,000

Restructuring the Asset Replacement Fund

- The Asset Replacement Fund needs to be restructured to address past imbalances between the various sectors of the fund
- This will involve eliminating the internal “book-keeping” loan, and adjusting the tax- and rate-supported portions of the reserve so that all sectors have a reasonable positive balance at the beginning of 2021

Restructuring the ARF should reflect asset management plans

- The pooling of rate-and tax-supported portions of the Asset Replacement Fund should be abandoned to avoid the practice of intra-fund lending between sectors of the ARF with different funding sources (tax versus rates)
- Finance should review the allocation of funds to the various sectors and recommend revised allocations to Council
- The allocation of contributions to sectors within the Asset Replacement Fund should be periodically reassessed based on asset management plans

Funding contributions to the Asset Replacement Fund

- Additional funding sources will be needed to build the Asset Replacement Fund
- These could include:
 - Repurposing the Hydro dividend over five years to contribute the entire dividend to the ARF, rather than using it to subsidize operating expenditures (possibly subject to a carve-out for the new Contingency Reserve)
 - Transitioning to allocating a consistent minimum of a 1% incremental tax levy to the ARF

Reducing draws from the Asset Replacement Fund

- To temporarily reduce draws on the Asset Replacement Fund, rehabilitation spending could be distinguished from replacement spending and draws from the ARF could be restricted to replacement spending only
- Rehabilitation spending would be funded directly from the tax levy or rates, as the case may be



Chaos theory and the butterfly effect

“Tiny differences in input could quickly become overwhelming differences in output—a phenomenon known as “sensitive dependence on initial conditions.” In weather, for example, this translates into what is only half-jokingly known as the Butterfly Effect—the notion that a butterfly stirring the air today in Peking can transform storm systems next month in New York.”

James Gleick, Chaos: Making a New Science

We are seeing chaos theory realized in municipal finances

- As a result of the COVID-19 pandemic, it is now clear that small, unexpected changes can materially affect municipal financial conditions
- Most municipalities will likely be able to cope with the financial effects of the pandemic, particularly with provincial assistance
- However, it is a warning that non-financial events can have significant financial impacts
- The exact nature of these events is inherently unpredictable (butterfly effect—they could be health-related, environmental, exogenous economic shocks, etc.)

Making provision for the unexpected and the unknown

- It would be prudent to establish a new contingency reserve of significant size to enable the Town to deal with unexpected revenue or expenditure shocks
- Such shocks could last for multiple years or occur in close succession
- The reserve could be used for either capital or operating purposes

A growth reserve is also needed

- The second new reserve could be a growth reserve
- This reserve would be designed to address shortfalls in growth-related revenue (see the previous chapter on growth) and growth-related costs that are not currently eligible for development charge funding
- It would also be a hedge against potential changes in the legislative or regulatory regime governing development charges

Funding sources for the new growth reserve

- The growth reserve could be funded through:
 - A budgetary allocation each year corresponding to the avoided cost of the 10% discount, once a new development charges bylaw has been passed
 - A share of the annual surplus

Reserve consolidation is in order

- Newmarket currently has 137 reserves and reserve funds (excluding deferred revenue)
- Many of these are small reserves with narrow purposes
- The effect of this is to reduce flexibility in the use of reserves and to increase administrative burden
- The current list of reserves could be reviewed with an eye to consolidation and reorganization
- Some reserves could be rolled into the new contingency reserve or the new growth reserve

Recommendations

1. A new Contingency Reserve should be established to provide support for unforeseen and currently unquantifiable needs (e.g., pandemic, climate change, disasters, emergencies, changes in Provincial funding)
2. A new Growth Reserve should be established to fund shortfalls in development charge collections and non-DC-eligible growth infrastructure
3. The new Growth Reserve should be funded by a budgetary allocation each year corresponding to a minimum of the avoided cost of the 10% development charge discount for planned growth projects that year plus an allocation from the annual surplus

Recommendations continued

4. A separate pay-as-you-go reserve should be established for ongoing rehabilitation spending to give the Asset Replacement Fund Reserves time to build
5. The pay-as-you-go capital reserve should be funded by allocations in the budget process
6. The Asset Replacement Fund Reserve should be restructured according to the estimated needs identified in preliminary asset management plans
7. Future contributions to the various sectors in the Asset Replacement Fund should be based on needs identified in asset management plans

Recommendations continued

8. The only draws from the Asset Replacement Reserve for the next ten years should be for replacement spending
9. The contribution to the Asset Replacement Fund should be increased by a minimum of 1% per year for the next ten years
10. Each year's incremental contribution should add to the base contribution to the Asset Replacement Fund

Recommendations continued

11. The contributions to the Asset Replacement Fund should be in addition to the funding needed for capital rehabilitation projects
12. After ten years, the contributions to the Asset Replacement Fund should be reassessed
13. After ten years, the condition of the Asset Replacement Fund should be evaluated in relation to then current asset management plans with a view to determining whether draws for rehabilitation purposes are feasible

Recommendations continued

14. The current internal loan between the rate- and tax-supported portions of the Asset Replacement Fund should be eliminated
15. The policy of pooling rate- and tax-supported Asset Replacement Fund reserves should be dropped, and intra-reserve borrowing between tax and rate-supported reserves should not be permitted

Recommendations continued

16. Over the next five years, the Hydro dividend should be transitioned to a contribution split 75:25 between the tax-supported Asset Replacement Fund and the new Contingency Reserve
17. Over the next five years, the annual surplus should be transitioned to a contribution split:
 - 50% to the new tax-supported Growth Reserve
 - 25% to the new Contingency Reserve
 - 25% to other reserves that are below target, and if none, to the Asset Replacement Fund

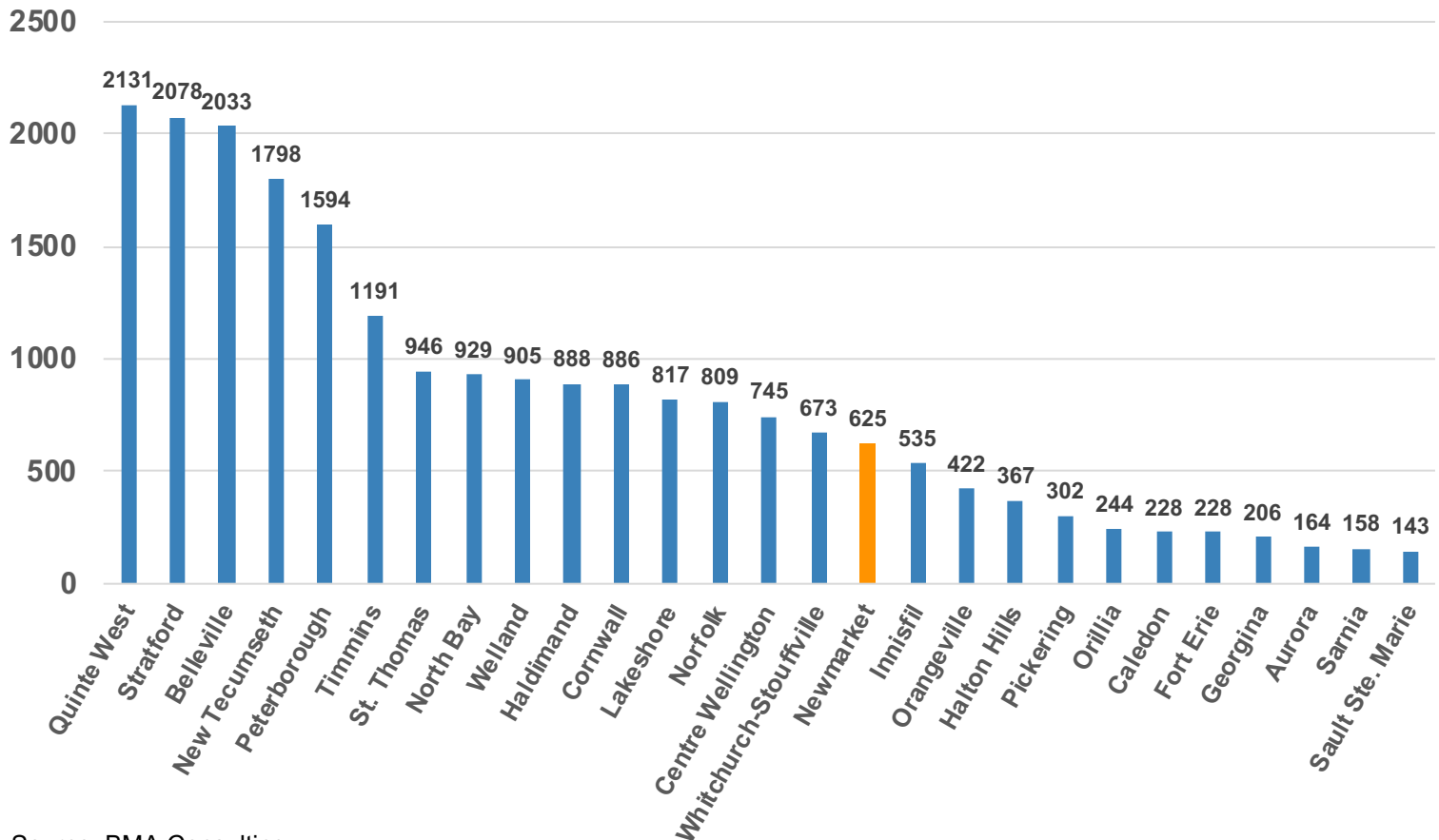
Recommendations continued

18. Finance staff should prepare long-term reserve forecasts and present them to Council as part of the fiscal strategy update during the budget process
19. The Town's Reserve Policy should be amended to reflect the recommended changes in this report
20. The Town's Surplus Policy should be updated to reflect the recommended changes in this report

10. Managing Debt

Newmarket's debt per capita is below the average and median in its size class

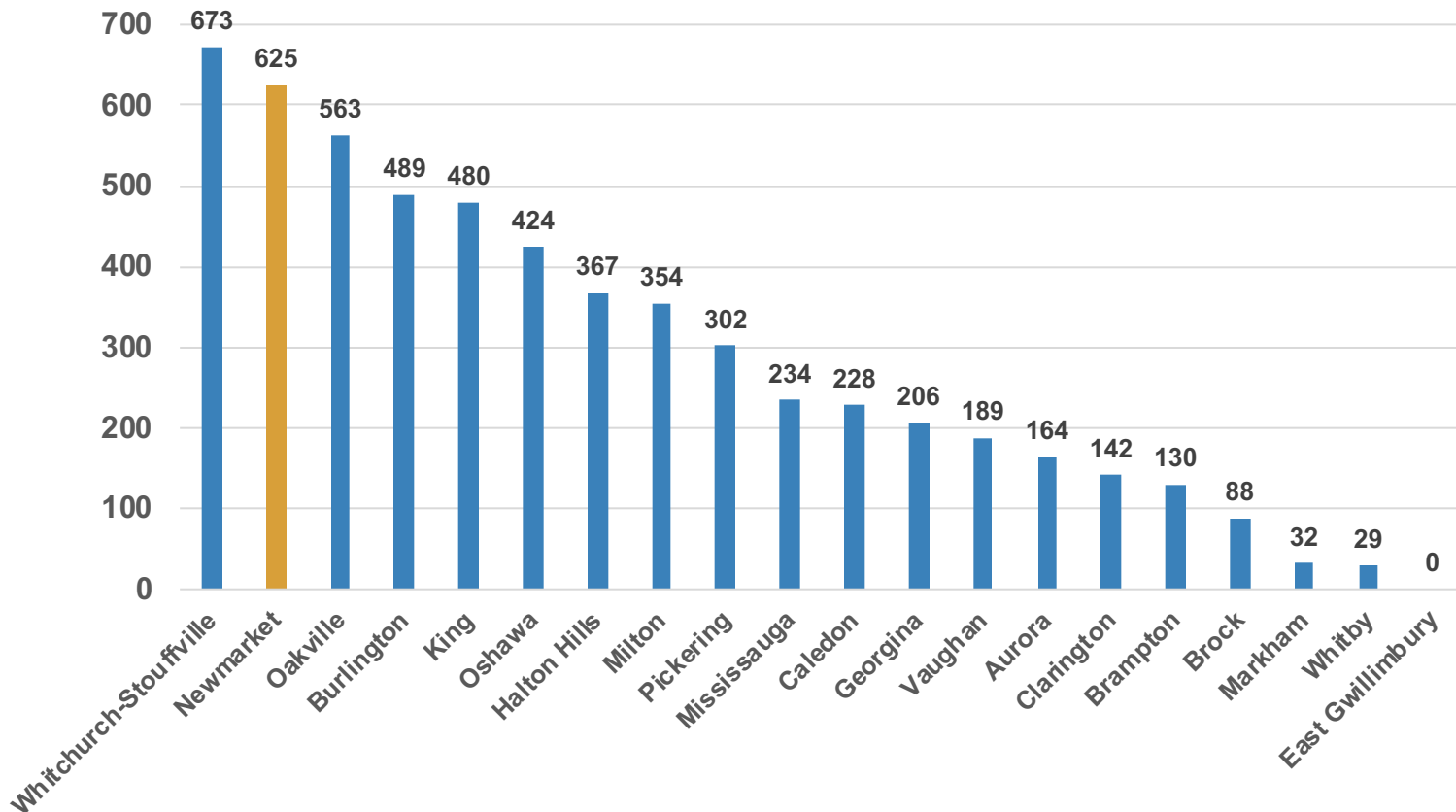
Total Debt Outstanding
Municipalities 30,000-99,999, 2019



Source: BMA Consulting

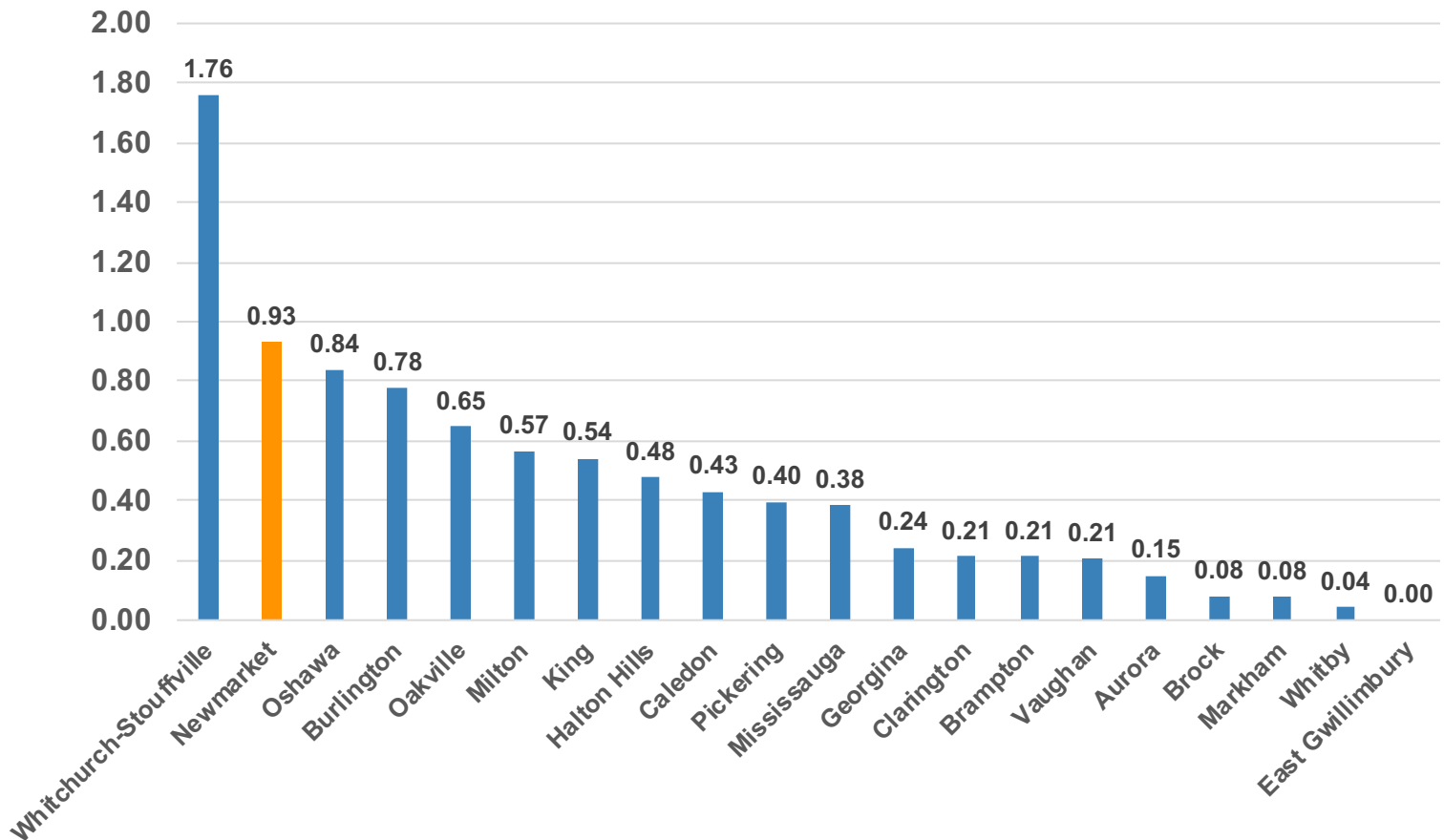
Newmarket's debt per capita is relatively high among lower-tier GTA municipalities

Total Outstanding Debt per capita
GTA Municipalities, 2019



Newmarket's debt to reserve ratio is relatively weak

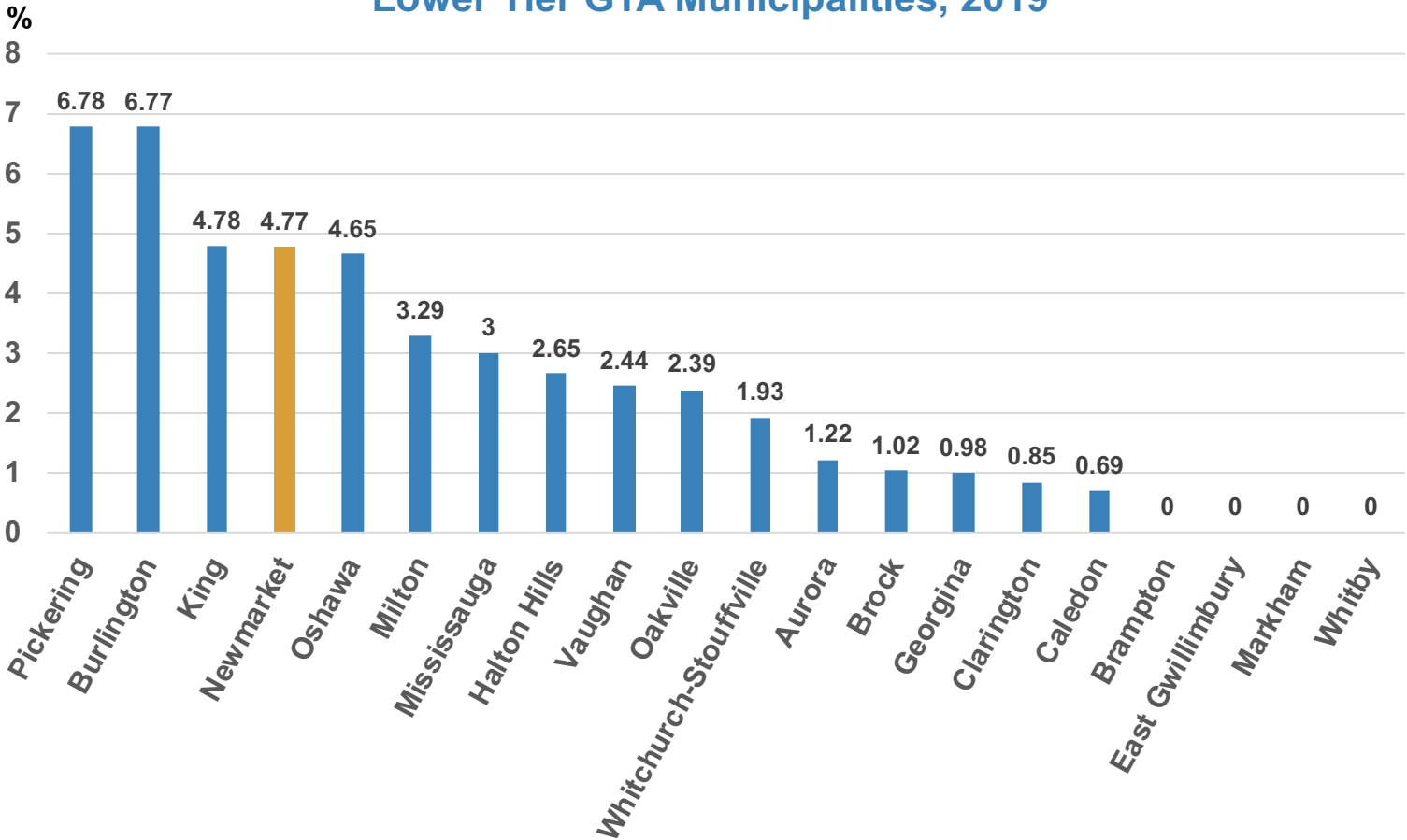
Debt to Reserve Ratio
Lower-Tier GTA Municipalities, 2019



Source: BMA Consulting

Debt servicing costs are relatively high

Debt Servicing Costs as a % of Own Source Revenue
Lower Tier GTA Municipalities, 2019



Newmarket's debt has increased in the last three years

- Newmarket's total outstanding debt at the end of 2019 was approximately \$45.1 million, down over \$11 million from the previous year
- However, at the end of 2017, the Town owed \$33.7 million in long-term debt
- The main reason for the increase is the purchase of the Mulock farm in 2018, which resulted in the issuance of a \$26 million 30-year debenture at 3.65%
- This increase was partially offset by a decision to pay off the remaining \$8.1 million owing for the Joint Operations Centre constructed in 2009

Excluding the debt for the Mulock Farm, much of the remaining \$20 million will be paid off by 2024

Project	Rate (%)	Maturity	Outstanding
Mulock Farm	3.490	2048	25,498,038
Land for recreational facilities	5.724	2024	4,469,874
Youth Center	5.724	2024	1,035,703
Downtown renewal	5.724	2024	328,518
Recreation facility	5.246	2024	4,243,900
Parkland	5.246	2024	902,182
Traffic flow improvements	5.246	2024	519,878
Downtown revitalization	5.246	2024	141,463
Recreation facility	4.756	2026	6,648,199
FCM loan	2.00	2031	1,293,960

The Mullock Farm debt is reasonable

- The rationale for the 30-year term of the Mullock Farm debt is sound, but the rate seems somewhat high in the current environment
- York Region recently issued a ten-year debenture at 1.49%
- It may be worth investigating the potential for refinancing at a shorter term and a lower rate

Newmarket's debt management policy is sound

- The Town's debt policy was updated in 2018
- It provides that annual debt servicing costs (principal and interest) plus annual capital lease payments must not exceed 10% of the previous year's own source revenue
- It also must not exceed the Provincially-assigned Annual Repayment Limit for the Town, but the Town's own criterion is more stringent
- Actual debt servicing costs were less than half that amount in 2019

Internal borrowing policy may need to be tightened

- The debt management policy allows internal borrowing from reserves with a payback period of no more than 10 years
- This is a long payback period. The Town may wish to consider a shorter payback period such as five or seven years to ensure that the investments make good financial sense
- The policy says that the reserves from which money is borrowed are supposed to earn an interest rate not less than prime. An alternative would be to charge the estimated market rate if the Town had borrowed the money or the Town's expected rate of return on its investments, so as not to have reserves unduly subsidizing internal borrowing

More on internal borrowing policy

- As discussed in the previous section, the practice of internal borrowing between tax- and rate-supported reserves should be eliminated
- The policy also provides that the total borrowing from reserve funds should not exceed 50% of the reserve fund balance. This could compromise the availability of reserve funds for future use
- Furthermore, as the Town accumulates more reserves, the 50% allowance could conflict with the debt servicing limits in the policy

Recommendations

1. The Town should stay on its current trajectory to pay off its existing debt by 2026, save for the Mulock Farm debt
2. The internal borrowing provisions of the debt management policy should be tightened with respect to payback period, interest rate earned, and portion of the reserve fund balance available for internal borrowing
3. Although the 10% limit on debt servicing costs as a share of own source revenue is reasonable, in practice the Town should strive to keep it below 5%

Recommendations continued

4. The Town should consult with York Region with respect to the potential for refinancing its Mullock Farm debt at a shorter term and a lower rate

11. Enhancing Revenue

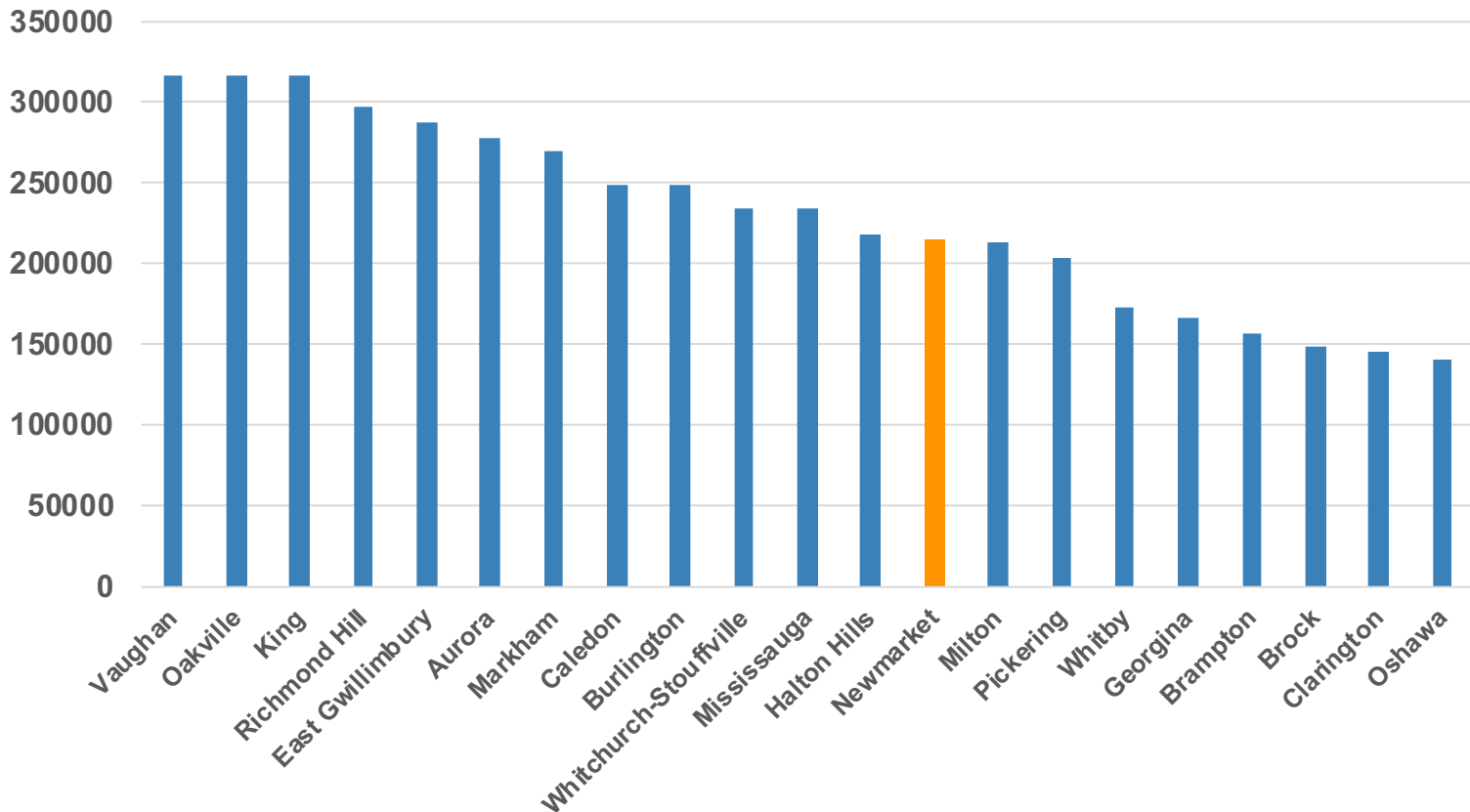
Implementing the fiscal strategy would be easier with more revenue

- Newmarket has several options available for increasing revenue:
 - a. Moderate increases in property taxes at the appropriate time
 - b. Revenue from assessment growth
 - c. Increases in the dividend from Newmarket Hydro or other means of extracting value
 - d. Higher investment returns

11a. Property tax revenue

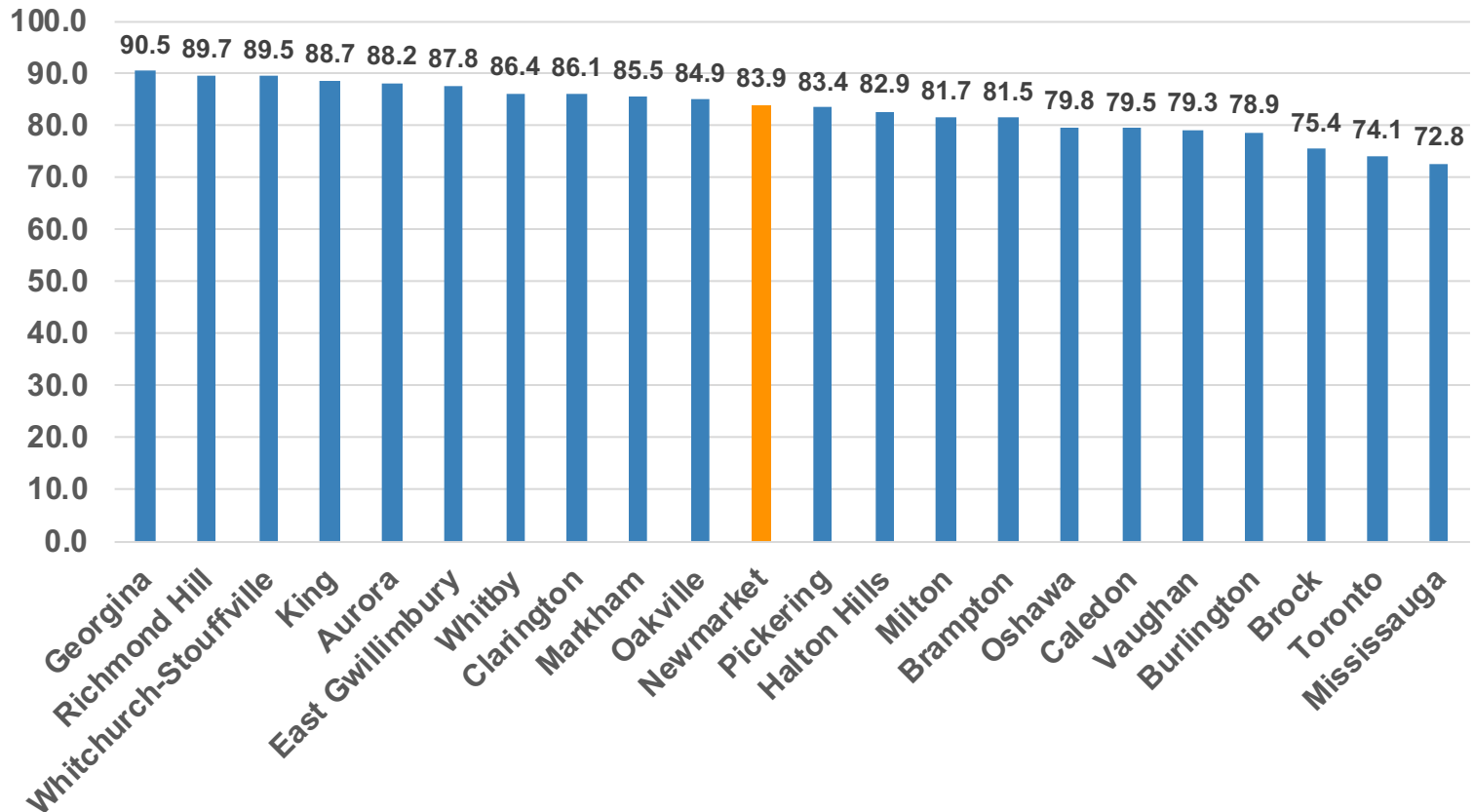
Newmarket has slightly below average assessment per capita compared to GTA municipalities

Weighted Assessment per capita
Lower-tier GTA municipalities, 2019



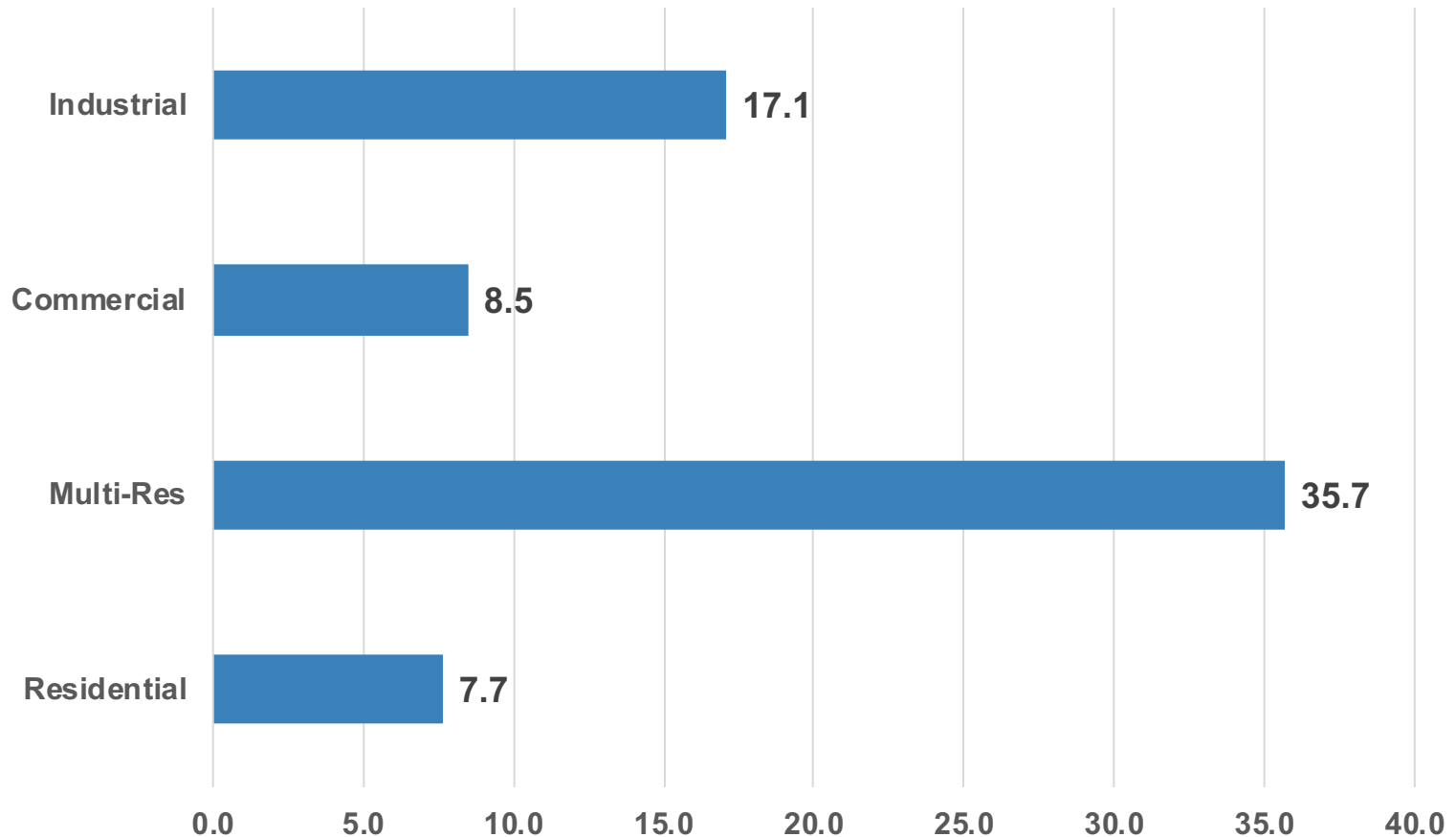
Newmarket's proportion of residential assessment is about average

Residential Share of Assessment
GTA Municipalities, 2019



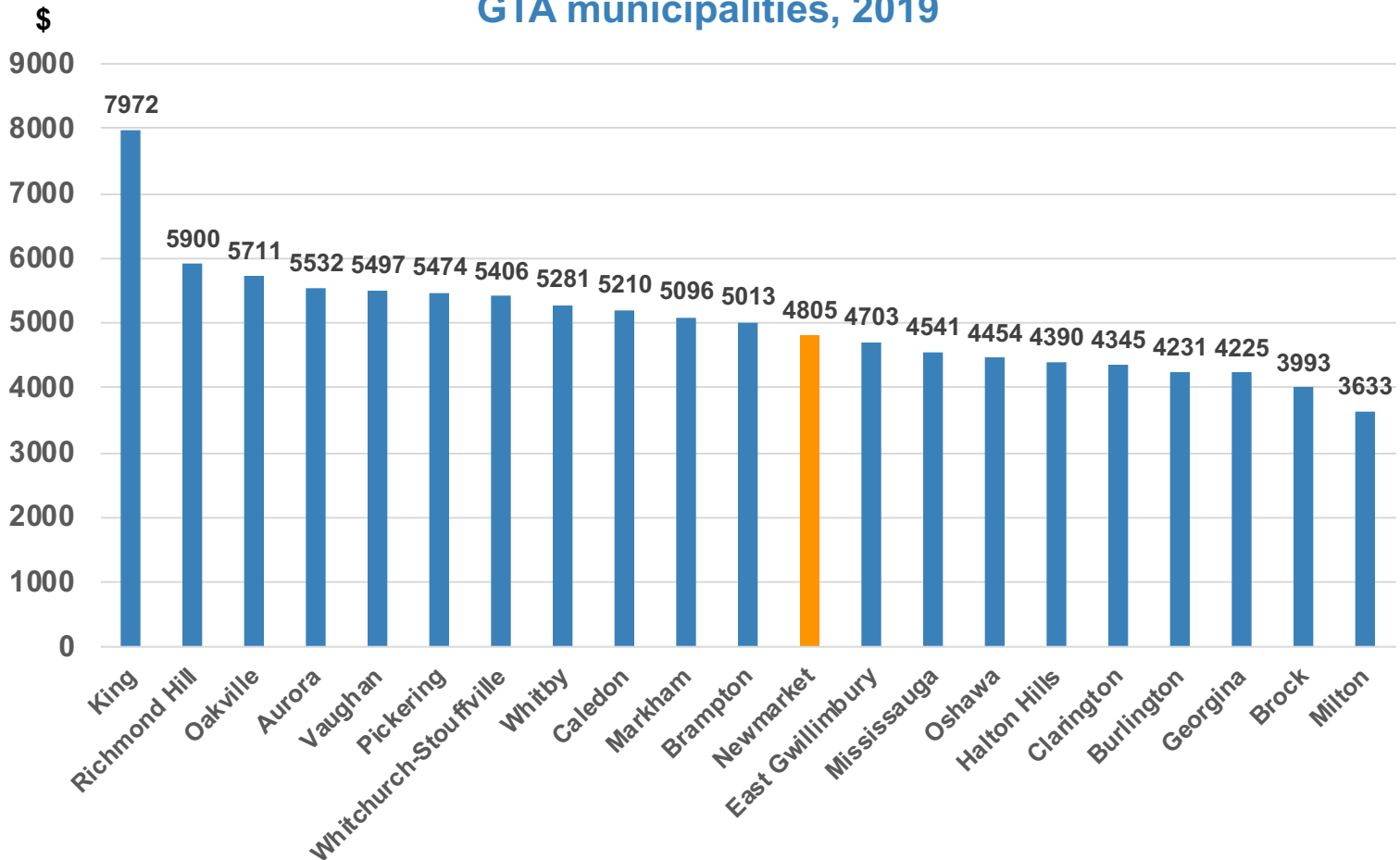
Newmarket's all-in tax rates are below the GTA average in all categories

All-in Tax Rates
% Newmarket is below GTA average, 2019



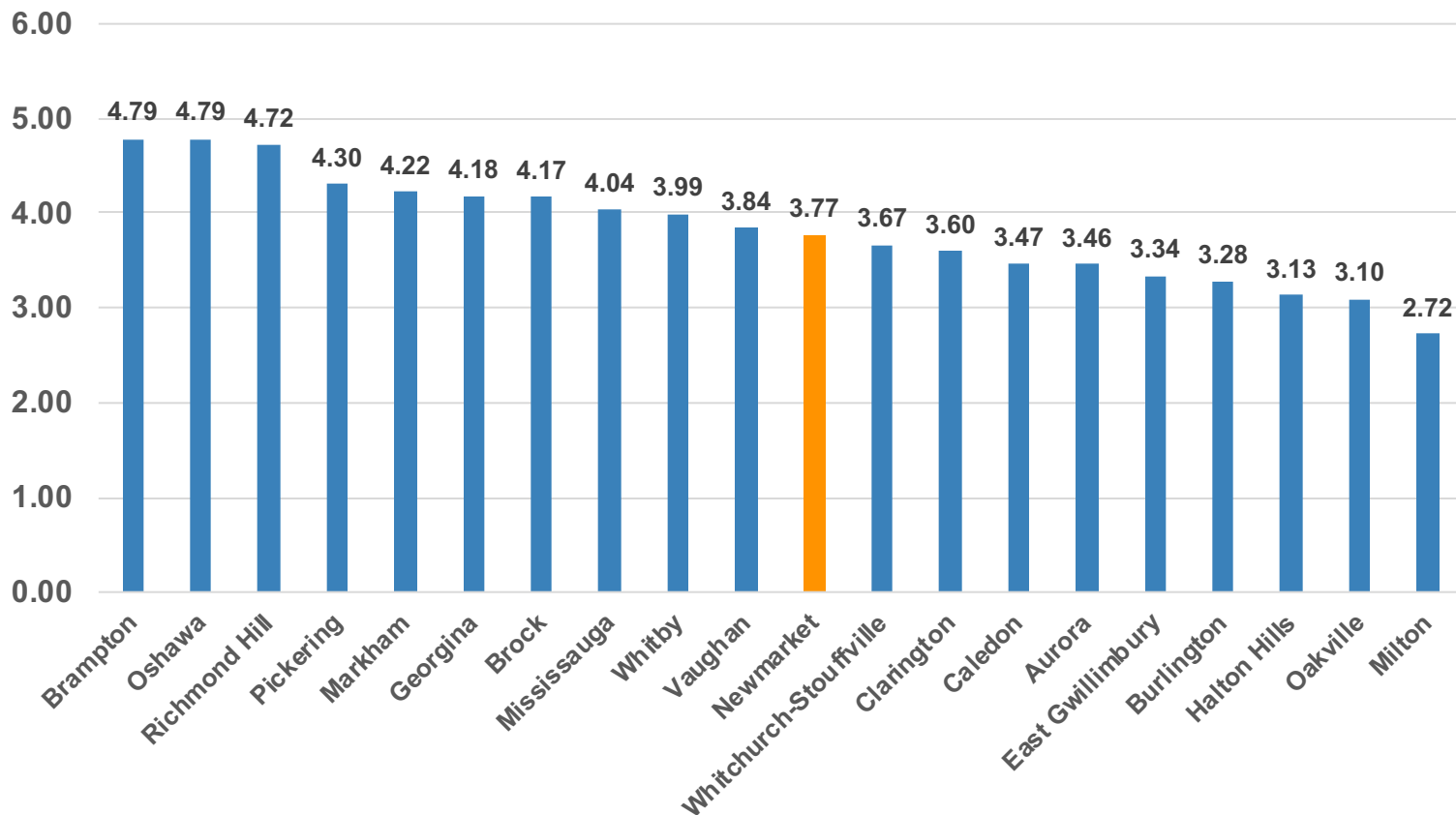
Newmarket's residential property taxes are about 5% below the GTA average

Residential Property Taxes
GTA municipalities, 2019



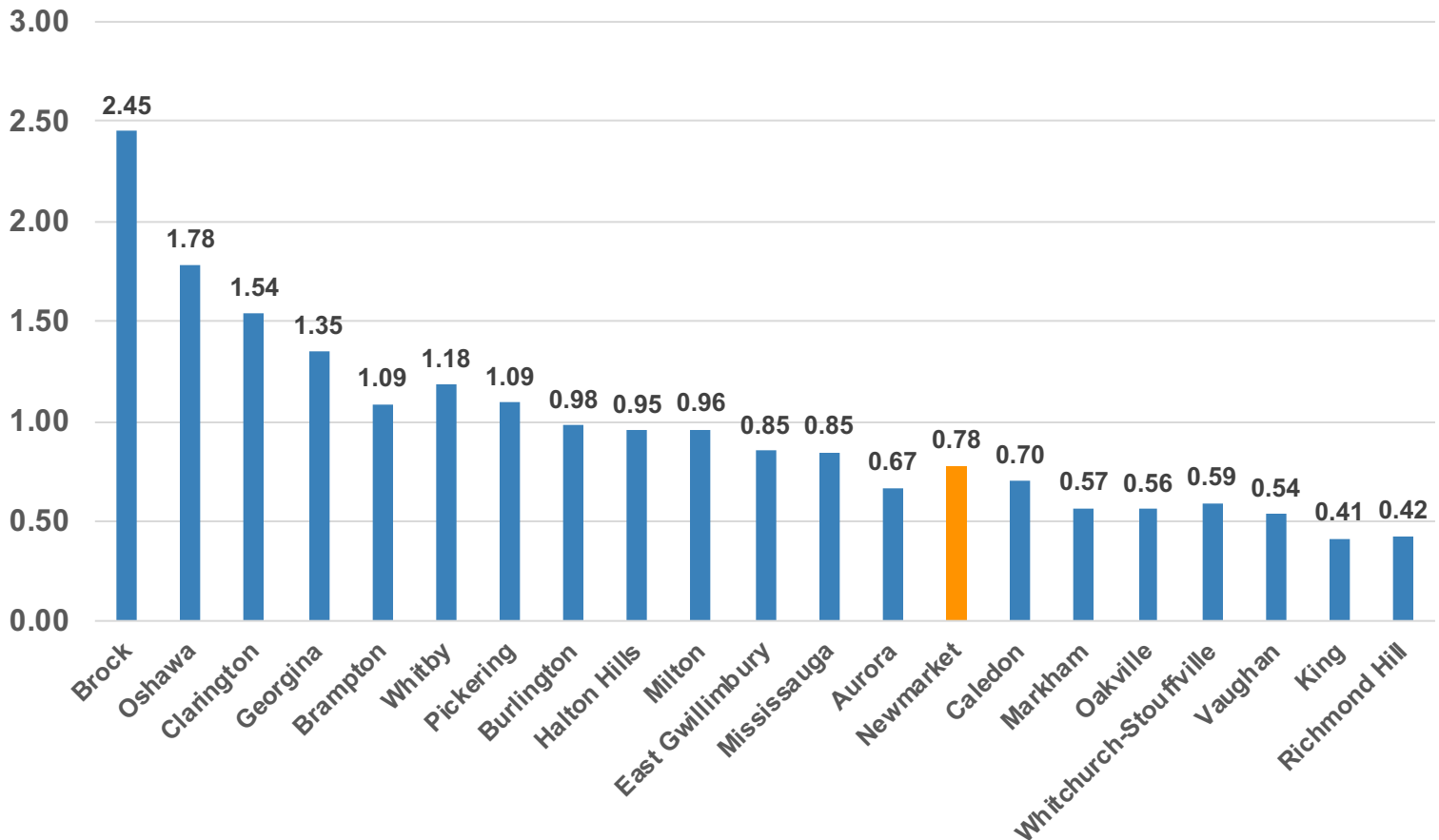
Newmarket's residential property taxes as a share of income are below the GTA average


Residential Property Taxes as a % of Income
GTA Municipalities, 2019



Newmarket's property taxes are quite low in relation to median house value

Property Tax as a % of Median Property Value
GTA municipalities, 2019

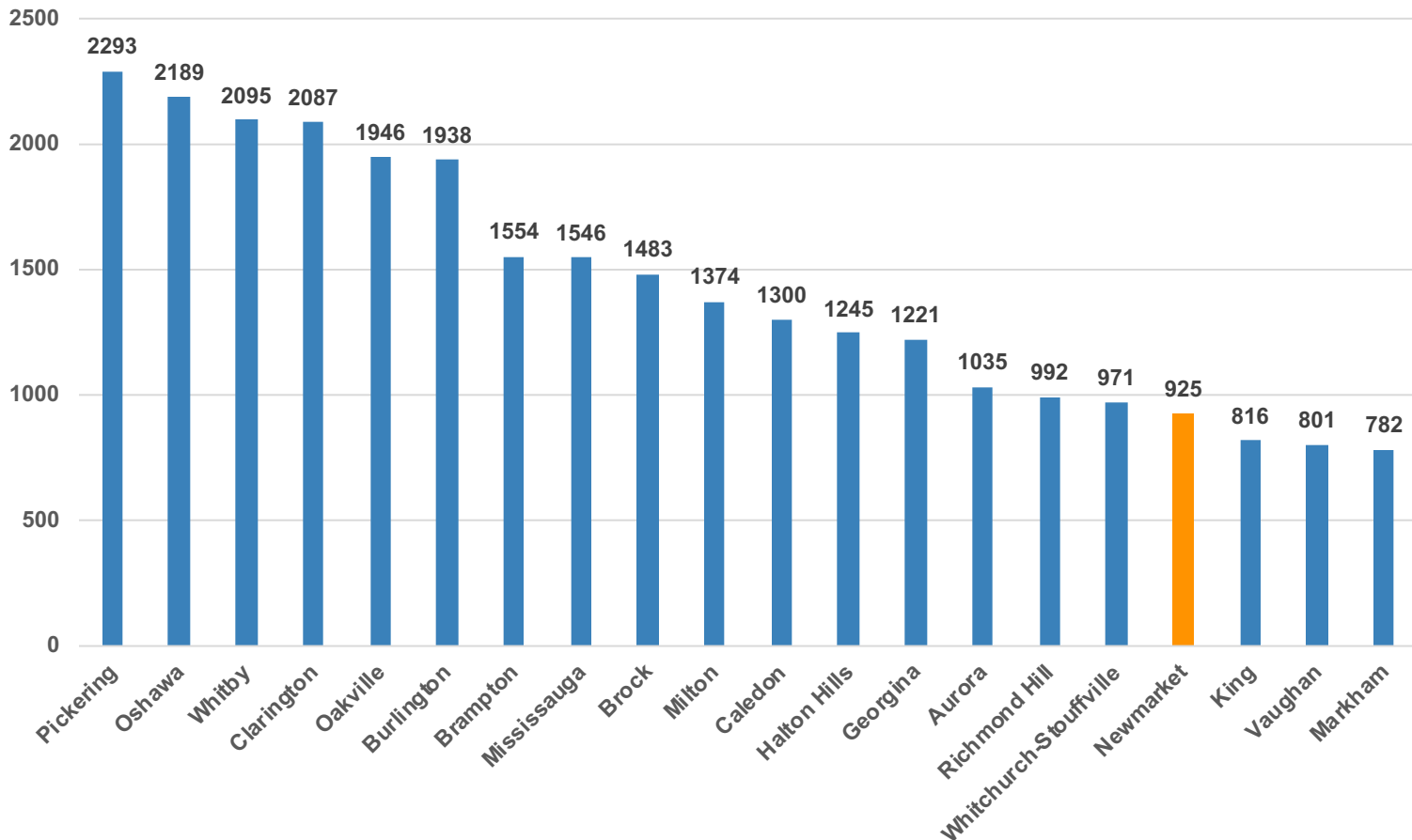




*By virtually any measure,
Newmarket's residential
property taxes are below the
GTA average*

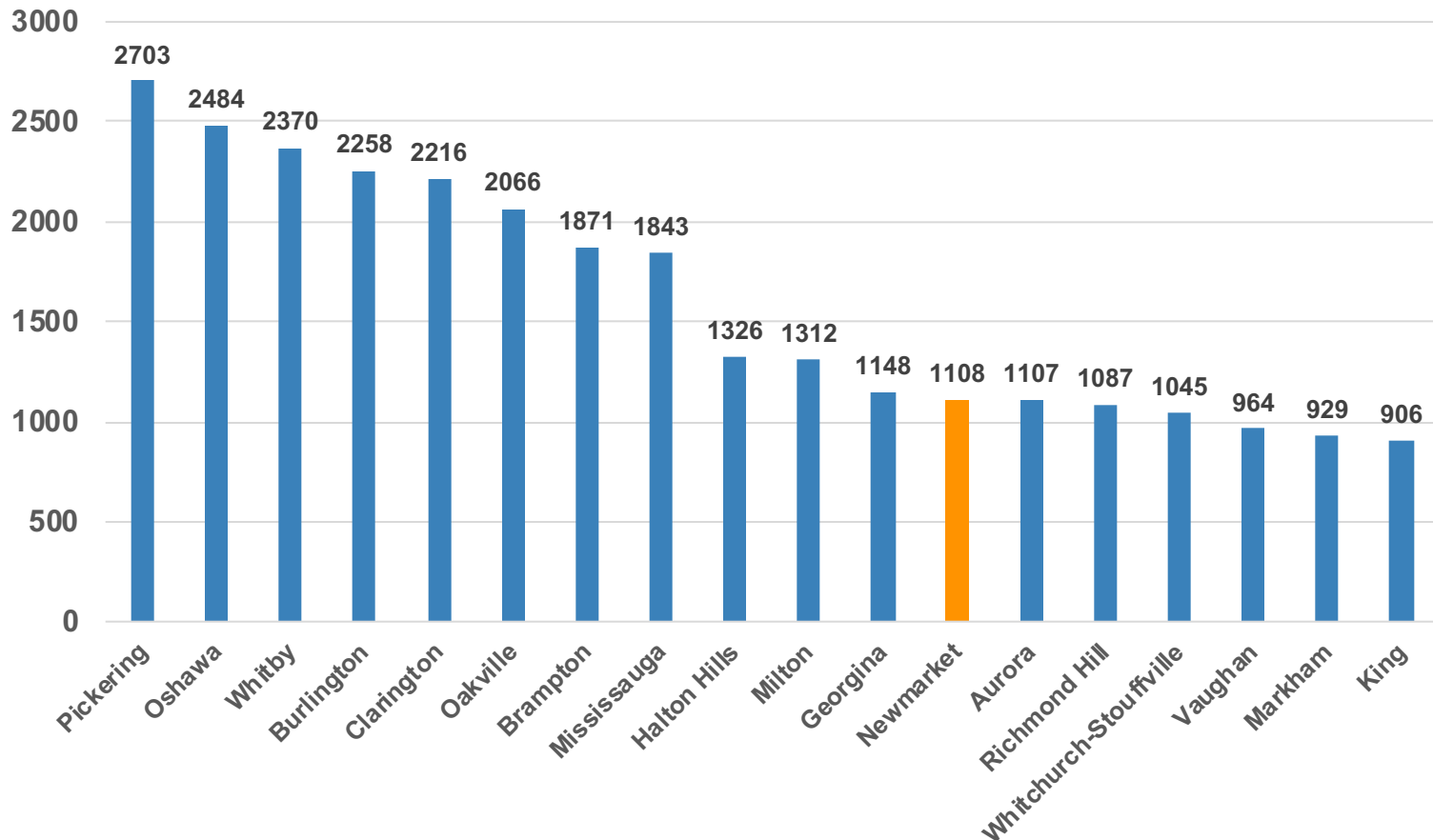
Newmarket's taxes on multi-res walk-ups are low

Property taxes for Multi-Res Walk-ups
GTA Municipalities, 2019



So are its taxes on multi-res high rise

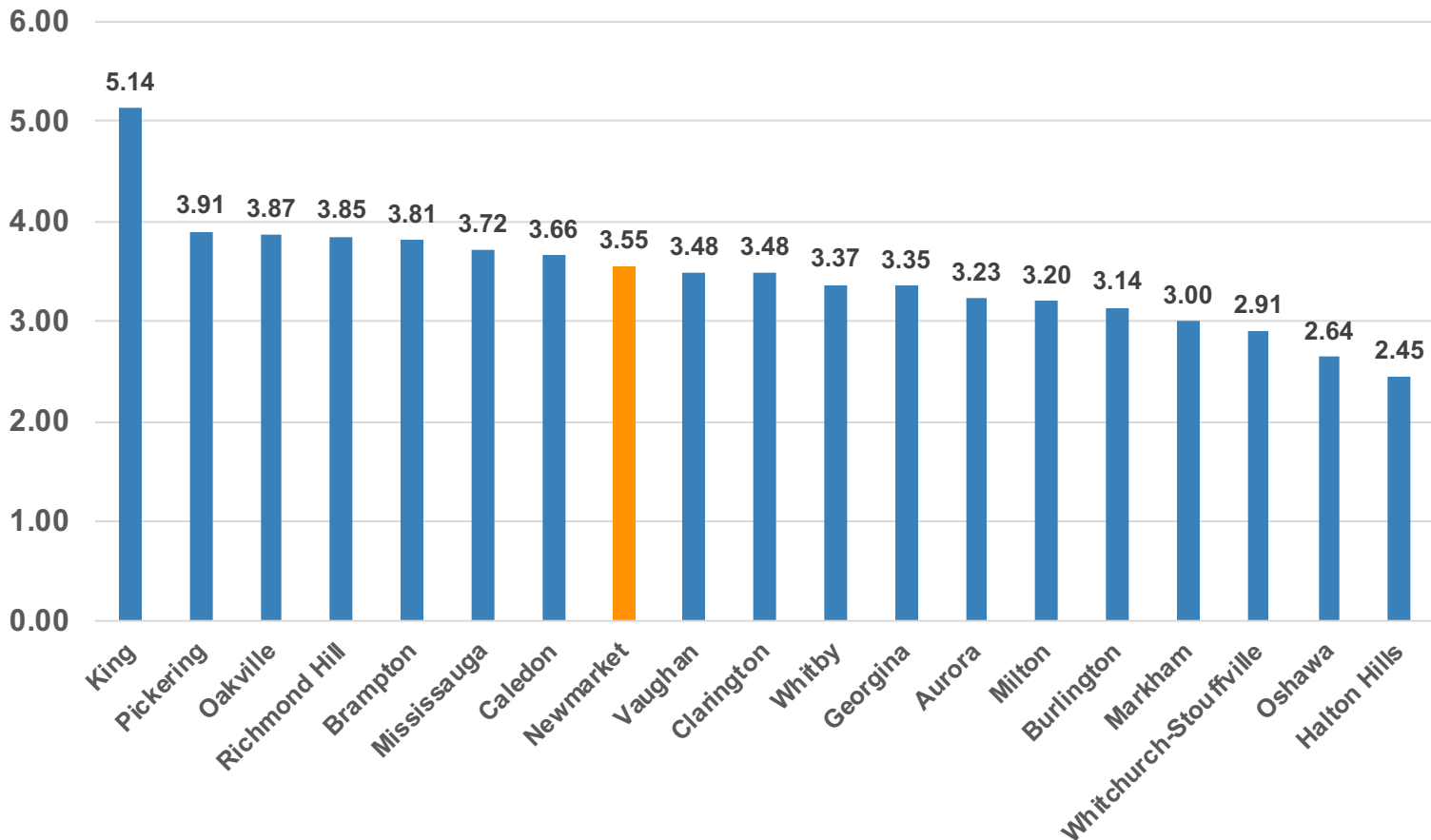
Property taxes for Multi-Res High Rise
GTA Municipalities, 2019



Taxes on offices are slightly above average

Property taxes for Offices
GTA municipalities, 2019

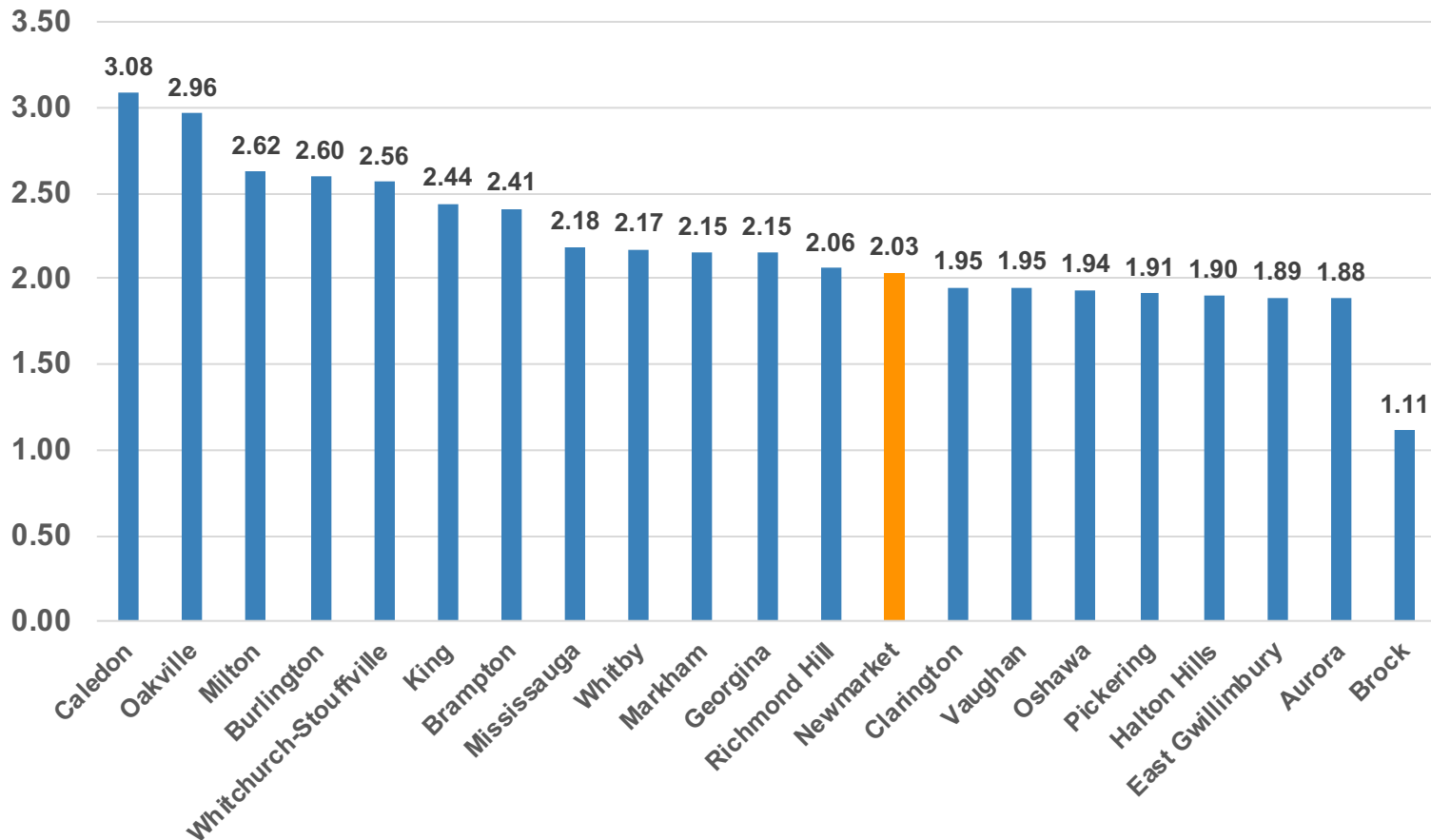
Per sq. ft.



Industrial taxes are lower than average

Property taxes for industrial (standard)
GTA municipalities, 2019

Per sq. ft.



Newmarket's non-residential property taxes are also comparatively low

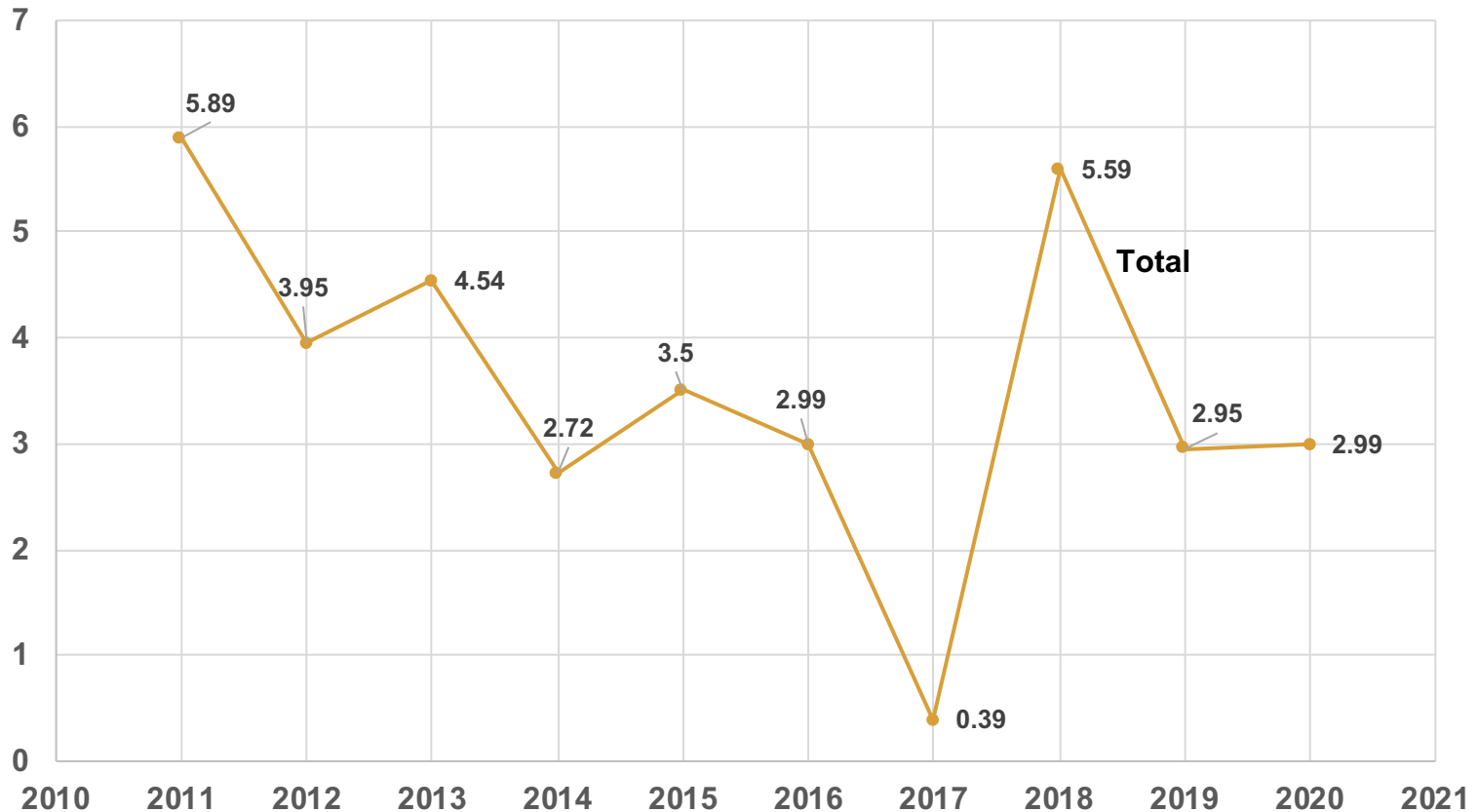
- York Region's tax ratios for multi-residential are set at 1.00, much lower than most other municipalities. This helps explain Newmarket's significantly lower multi-residential property taxes
- Newmarket's property taxes on offices are not materially above the GTA average (\$3.55 versus \$3.46 per square foot)
- Newmarket's property taxes are below the GTA average for standard industrial (\$2.03 versus \$2.19 per square foot) and slightly above the average for large industrial (\$1.66 versus \$1.58 per square foot)


Lower-than-average taxes are not necessarily positive

- Lower taxes suggest one or more of the following:
 - Fewer services
 - Lower service levels
 - More efficient delivery of services
 - Inadequate savings (contributions to reserves)
 - Or a combination of the above
- Lower residential taxes may also indicate a large commercial and industrial sector with high tax ratios (e.g., Toronto)

Current practice is to keep property tax increases below 3%

Newmarket Annual Property Tax Increases
Increase in Newmarket portion, 2011-2020



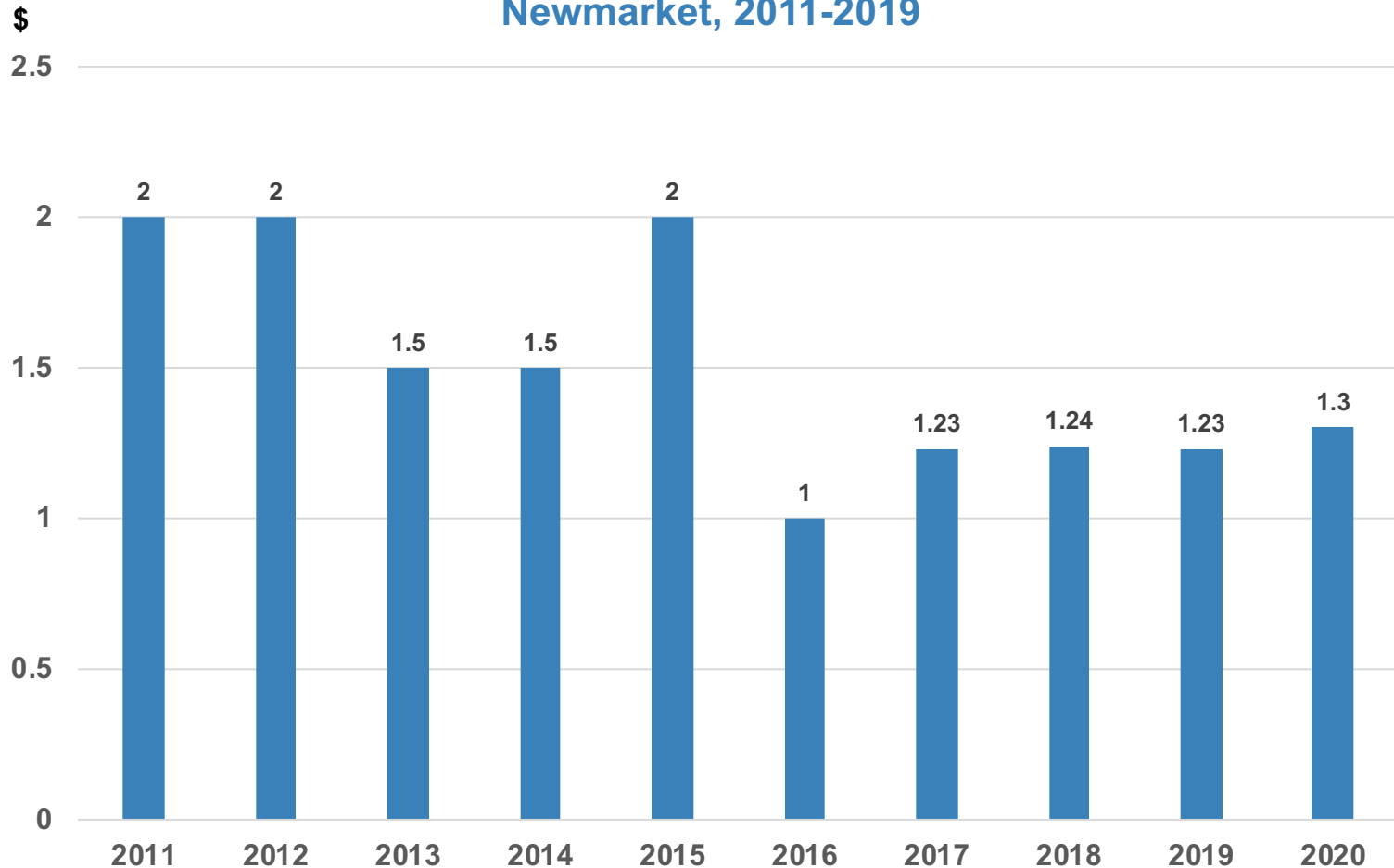


There is some room for property tax increases above the rate of inflation plus population growth when the economy improves

11b. Assessment growth

Annual assessment growth is typically in the 1-2% range—growing but not fast

Annual Assessment Growth
Newmarket, 2011-2019



The use of new revenue from assessment growth is restricted

- Newmarket has a policy of restricting the use of additional tax revenue generated by assessment growth to growth-related needs
- The tax impact of assessment growth is different than the absolute percentage change in assessment because of the impact of tax ratios. This is a more accurate measure

Only growth-related costs can be funded from assessment growth revenue

- Examples of growth-related costs that can be funded from assessment growth:
 - The operating costs of additional services for population growth resulting from new development
 - Non-DC-eligible capital, such as municipal administration buildings
 - Funding the 10% DC discount for soft services (see previous section for recommendations on this topic)

The Town's assessment growth policy is a good policy

- The assessment growth policy has the effect of imposing fiscal discipline on program areas
- Revenue from growth cannot be applied to increase levels of service
- There are two theoretical issues:
 - In some program areas in certain years there may be diseconomies of scale associated with growth that raise unit costs across the board
 - There may be municipal-level economies of scale or scope that departments do not consider when making their growth funding requests

Assessment growth revenue may increase

- If population growth picks up in York Region as expected in the Growth Plan, assessment growth in Newmarket may see a corresponding increase
- The pandemic and its associated changes in home and work preferences may contribute to growth in the Region

11c. Newmarket Hydro

Newmarket is active in the hydro business

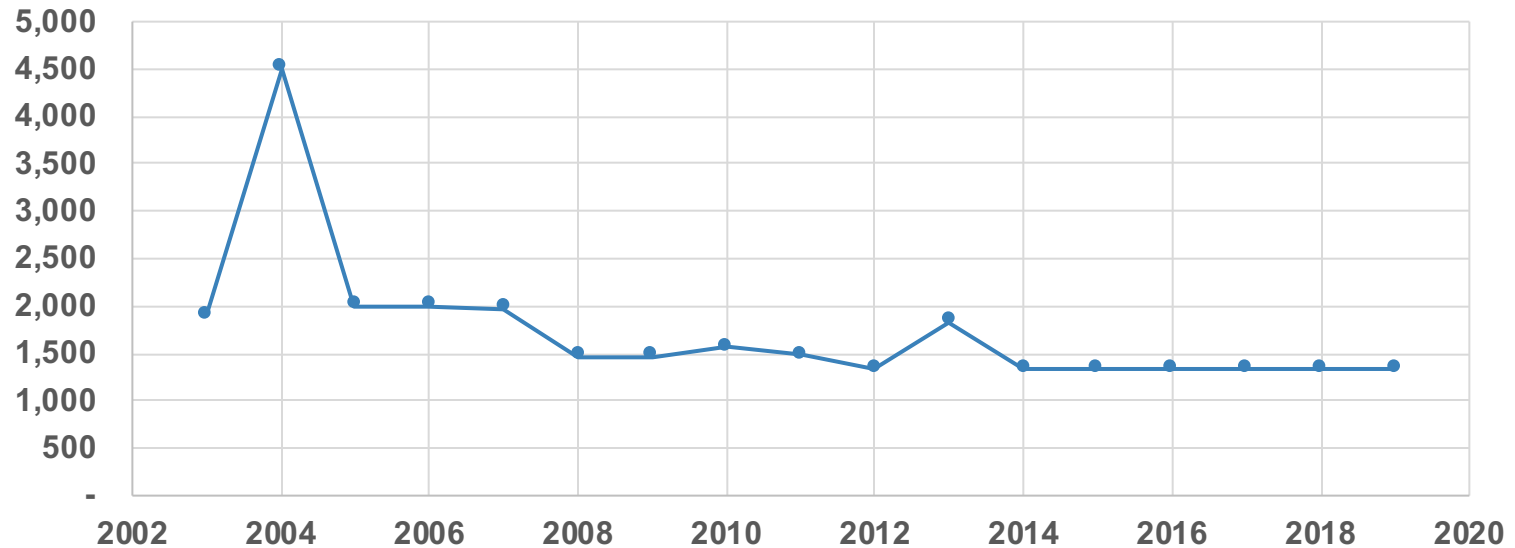
- The Town wholly owns Newmarket Hydro Holdings, which in turn owns Newmarket's local distribution company, Newmarket-Tay Power Distribution Limited
- Newmarket owns 93% of NT Power and Tay owns the other 7%
- NT Power purchased Midland Power Utility Company in 2018
- Envi Network, a local internet service provider, was established in 2018 as a wholly-owned subsidiary of Newmarket Hydro Holdings and Tay Hydro

NT Power distributes a dividend to the Town

- The dividend has stayed constant at \$1,336,000 since 2012, except for an uptick in 2013
- It is generally 40-60% of net income

**Newmarket Hydro and Related Payments
2003-2019**

\$ thousands



Some LDCs are able to provide significant dividends and even protect them in the face of income challenges

LDC	Total Revenue (2018 or 2019) \$ Millions	Net Income \$ Millions	Net Income as % of Revenue	Dividends \$ Millions
Alectra (2018)	3,452	109	3.2	69
Lakeland Power (2019)	45.9	1.7	3.7	1.5
Elexicon (2019)	53.8	-1.9	-3.5	7.0
Festival Hydro (2019)	84.3	2.2	2.6	1.0

Newmarket's hydro dividend is relatively low as a share of tax revenue

Selected Municipalities	Net Taxation (\$ millions) 2018 or 2019	Hydro dividend (\$ thousands)	Percentage
Centre Wellington	15.5	557	3.6
Huntsville	14.6	402	2.8
Whitby	86.7	2921	3.4
Vaughan (Alectra)	202.3	12651	6.3
Markham (Alectra)	162.5	8460	5.2
Orangeville	36.0	447	1.2
Orillia	59.8	800	1.3
Halton Hills	50.3	1692	3.4
Burlington	164.7	5687	3.5
Brantford	153.2	2221	1.4
Newmarket	63.6	1336	2.1

The Town is changing its treatment of the hydro dividend

- The board has been declaring the dividend for the previous year in December
- Until 2019, the Town's practice was to accrue the dividend on the basis that it was a consistent amount consistently paid by the board
- The Town did not accrue the dividend for the 2020 budget on the basis that it could not be guaranteed given the uncertainties created by the pandemic
- This is a positive change that should be retained

The Town could consider a comprehensive review

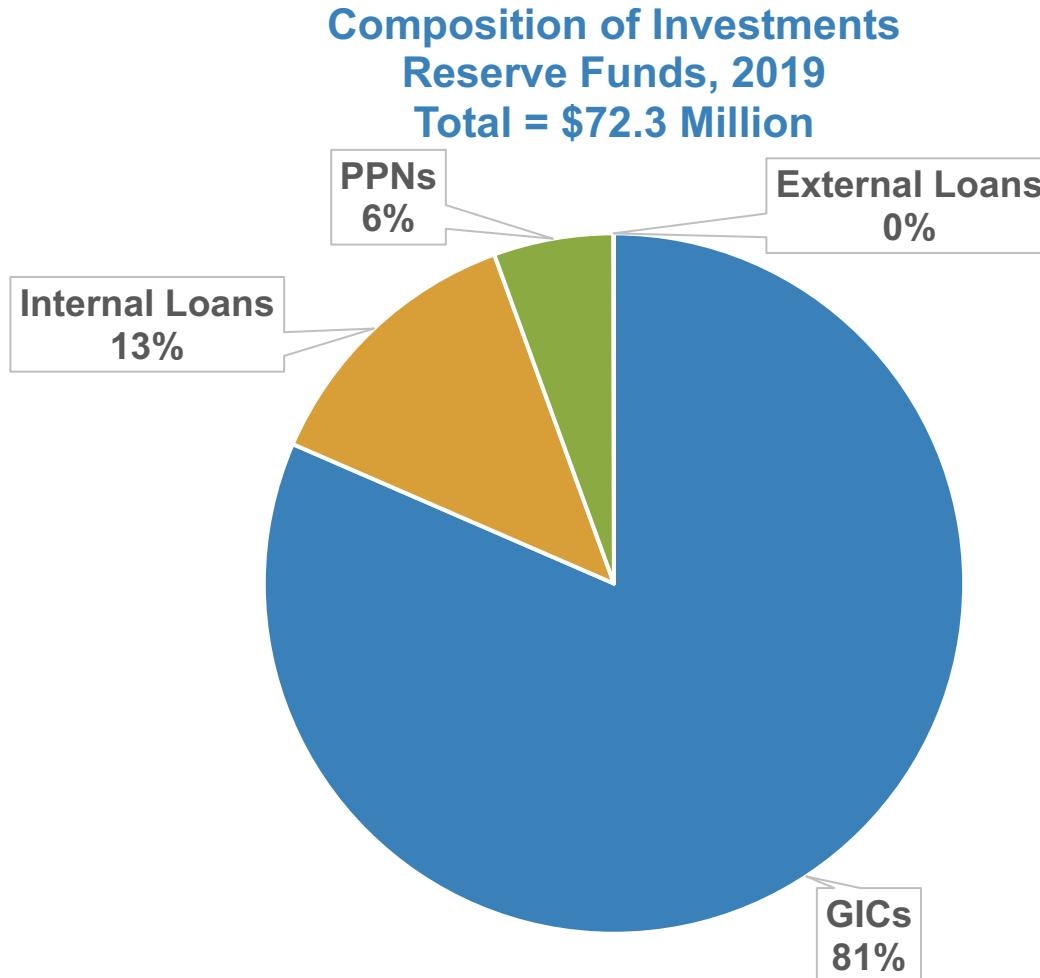
- A detailed review of the financial situation of NT Power or ENVI is beyond the scope of this report
- The Town may wish to undertake both a strategic/policy review and a financial review of these organizations
- These reviews could be done separately or together and commissioned by the Town or the boards
- The reviews should identify options for increasing the dividend or other revenue from NT Power
- In the meantime, the Town should move away from using the dividend to subsidize the operating budget, as previously discussed

11d. Investment

Newmarket has a passive approach to investing

- The Town currently employs a passive approach to investing, common in many municipalities
- This usually involves buying GICs or principal protected notes
- The advantage of this approach is that the municipality's principal is protected, and returns are certain (in the case of GICs)
- However, in a low interest rate environment, such as the one being experienced now, returns tend to be low and may not even keep up with inflation

Newmarket's investments are conservative



In December 2018, the Town invested \$30 million in a laddering strategy

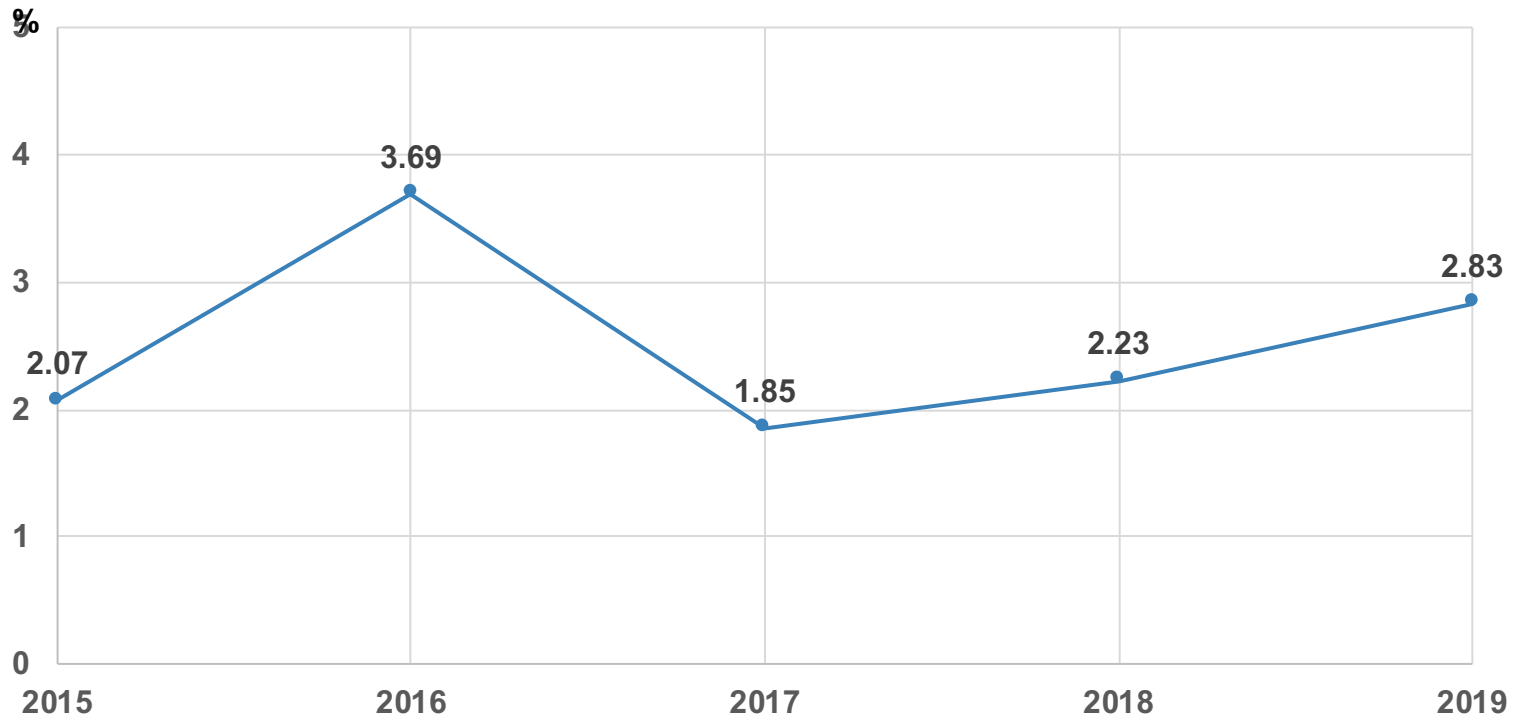
- The idea of a laddering strategy is to reduce risk by locking in interest rates, but also to keep flexibility to reinvest as rates rise
- It works less well when rates are falling, although the principal is protected

Newmarket Laddering Investments, 2018			
Issuer	Amount (\$)	Term	Interest rate (%)
BNS	6000000	1 year	2.85
BNS	6000000	2 years	3.26
BNS	6000000	3 years	3.33
BNS	6000000	4 years	3.43
CIBC	6000000	5 years	3.55

Newmarket's investment returns are consistent with its investment strategy

- Over the past five years, the Town's investment returns averaged 2.52%, with a median return of 2.23%

**Investment Returns on Reserve Funds
2015-2019**



The investment strategy prescribes how investment returns are to be used

- The Town's investment strategy was most recently updated in 2016
- It allows for investment income to be allocated to operating and reserve funds based on targets set in the budget process
- In practice, a distinction is drawn between earnings up to the benchmark level and earnings above the benchmark level, where the benchmark is defined as the return earned on the Town's bank balances (i.e., no investment effort)
- In 2019, the Town earned above-benchmark returns of \$273,370, \$75,000 of which was allocated to the operating fund and the rest to reserve funds

Investment returns are substitutes for future tax and rate increases

- Capital budgets and long-term capital plans are usually expressed in current dollars
- Investment returns can accomplish three things:
 - Increasing reserves to deal with inflation in capital costs
 - Providing for unanticipated increases in infrastructure costs (unrelated to inflationary increases)
 - Contributing to future asset management costs--as a substitute for a portion of the tax and rate increases that would otherwise be necessary

The Province provides municipalities with two broad options for investing

- Municipalities can choose to invest under the “Legal List” or the prudent investor standard
- In either case, municipalities are permitted to invest “money not required immediately”
- “Money not required immediately” is not defined in the Act or the regulation, so there is some scope for municipalities to define it according to their individual circumstances

Ontario Regulation 438/97 defines the “Legal List”

- Generally, municipalities can invest in the following securities: (1) government issued or guaranteed debt; (2) bank and financial institution debt; (3) corporate debt of up to five years; (4) certain asset-backed securities and corporate paper
- Under the Legal List, a municipality can only invest in Canadian equities or Canadian corporate bonds with maturities of more than five years through ONE Investment
- Investments must meet prescribed credit quality standards (ratings)

The prudent investor standard is new

- Effective January 1, 2019, a municipality that meets certain requirements can pass a bylaw enabling it to invest money that it does not require immediately in **any security** in accordance with the prudent investor standard and the applicable *Municipal Act* regulation
- Municipalities investing under the prudent investor standard must exercise the care, skill, diligence and judgement that a prudent investor would exercise in making an investment
- A municipality's investments must be diversified in a manner appropriate to general economic and market conditions

The requirements for prudent investing are deliberately onerous

- Municipalities must individually or collectively have at least \$100 million to invest or individually have net financial assets of at least \$50 million
- Newmarket qualifies on the second criterion
- A municipality must also establish its own Investment Board or participate in a Joint Investment Board with other municipalities
- The municipality must delegate control and management of the municipality's investments to the Investment Board (based on the municipality's definition of "money not required immediately")

The Investment Board is a municipal services board or a joint board

- Council members and municipal staff cannot be members of the board, except for the treasurer
- Council must approve an Investment Policy Statement describing the municipality's objectives for investment return, risk tolerance, liquidity and other relevant considerations
- The Investment Board then develops an Investment Plan, which must implement the Investment Policy
- The board also must report to Council at least annually

The best options for improving investment returns lie with external experts

- It is unrealistic to expect Newmarket to establish its own investment board or a team of staff to manage investments
- The best options to improve returns are:
 - Ask York Region to invest on the Town's behalf*
 - Invest through One Investment Legal List funds
 - Invest through One Investment Prudent Investor funds

*Although Regional Council approved investing on behalf of local municipalities some time ago, the \$100 million minimum has been a barrier

ONE Investment's Legal List Funds

Fund	Five-Year Annualized Return as of December 2019	One-Year Annualized Return as of December 2019	One-Year Annualized Return as of July 2020
High Interest Savings Account (HISA)		2.44	0.91 (current rate)
Canadian Government Bond	4.22	2.61	5.00
Canadian Corporate Bond	2.53	4.96	7.34
Canadian Equity	7.5	18.3	-2.53

Note that ONE also has a money market fund that is currently being phased out

ONE's Legal List funds have attracted many municipalities

As at December 31, 2019	HISA	Government Bond	Corporate Bond	Equity
Number of municipalities investing	118	68	50	57
Average balance per investor (\$ millions)	11.5	3.4	5.5	6.9
Total in fund (\$ millions)	1360.9	227.9	277.1	391.7

The ONE Joint Investment Board

- Six founding municipalities have cooperated with ONE Investment to establish the ONE Joint Investment Board: Bracebridge, Huntsville, Innisfil, Kenora, District of Muskoka and Whitby
- Others are expected to invest through the board
- The ONE Joint Investment Board option is open to all municipalities that have “money not required immediately” that they wish to invest under the prudent investor standard and who do not wish to establish their own Investment Board
- The Board consists of investment and municipal finance experts. Two treasurers from the founding municipalities are on the board


ONE Investment's prudent investor offerings

- Some “Legal List” funds are being mirrored under the prudent investor program during start-up
- ONE's HISA is also available to prudent investors

Mirrored Funds	New “prudent-only” funds
Canadian Government Bond	Global Fixed Income
Canadian Corporate Bond	Global Equity
Canadian Equity	

The ONE Joint Investment Board is brand new

- The ONE Joint Investment Board was legally established in May 2020
- With the Board's approval, ONE Investment has hired managers for the global equity and global fixed income offerings
- Investment returns are not yet available



The prudent investor standard holds the promise of higher risk-adjusted investment returns over the long term

Strictly as an illustration

- Newmarket had approximately \$54,082,164 invested throughout 2019
- The Town earned \$1.6 million on these funds
- As an illustration, if the Town had invested in ONE's Legal List offerings in the following ratios—20% HISA, 20% Government Bond, 40% Corporate Bond, 20% Canadian Equity—the return would have been over \$6.6 million
- Of course, this is a point-in-time illustration and it would be possible to have scenarios where the return would have been less than \$1.6 million

Recommendations

1. The Town should consider moderate increases in property taxes to support infrastructure investment, primarily asset management, after economic conditions have improved
2. The current policy governing the use of assessment growth revenue should be retained
3. Any portion of assessment growth revenue not needed for growth purposes in the budget should be allocated to the new Growth Reserve

Recommendations continued

4. The Town should request an analysis of the corporate strategy and financial situation and prospects of both NT Power and Envi Network from these companies
5. Depending on the results of the self-analysis, the Town should consider commissioning independent analyses of both companies with a view towards maximizing the value of NT Power and increasing the dividend it provides and assessing the market positioning of ENVI

Recommendations continued

6. The practice of allocating investment returns above benchmark to subsidize operating should be abandoned. Investment returns on reserves should be entirely allocated to reserves
7. The Town should consider allocating a portion of its investments to ONE Investment, either through the Legal List or prudent investor
8. The Treasurer should provide a stand-alone investment report to Council annually, including both realized and mark-to-market returns

12. Conclusion

Concluding Comments

- Newmarket is well managed financially and well positioned to adopt and implement a long-term fiscal strategy
- The key to a viable long-term fiscal strategy is to see the relationships between the elements of the strategy and to recognize that changes in one aspect of the strategy will have ripple effects on others
- The strategy is intended to mitigate significant future risks, especially related to asset management, financial pressures associated with growth, and contingencies that cannot be anticipated (such as pandemics)

Concluding Comments

- Over time, Newmarket has developed a variety of mechanisms to subsidize its operating budget. Most of these should be reversed in favour of building reserves
- A significant restructuring of the Town's reserve funds is needed
- The Town would benefit from a careful examination of options to increase revenue

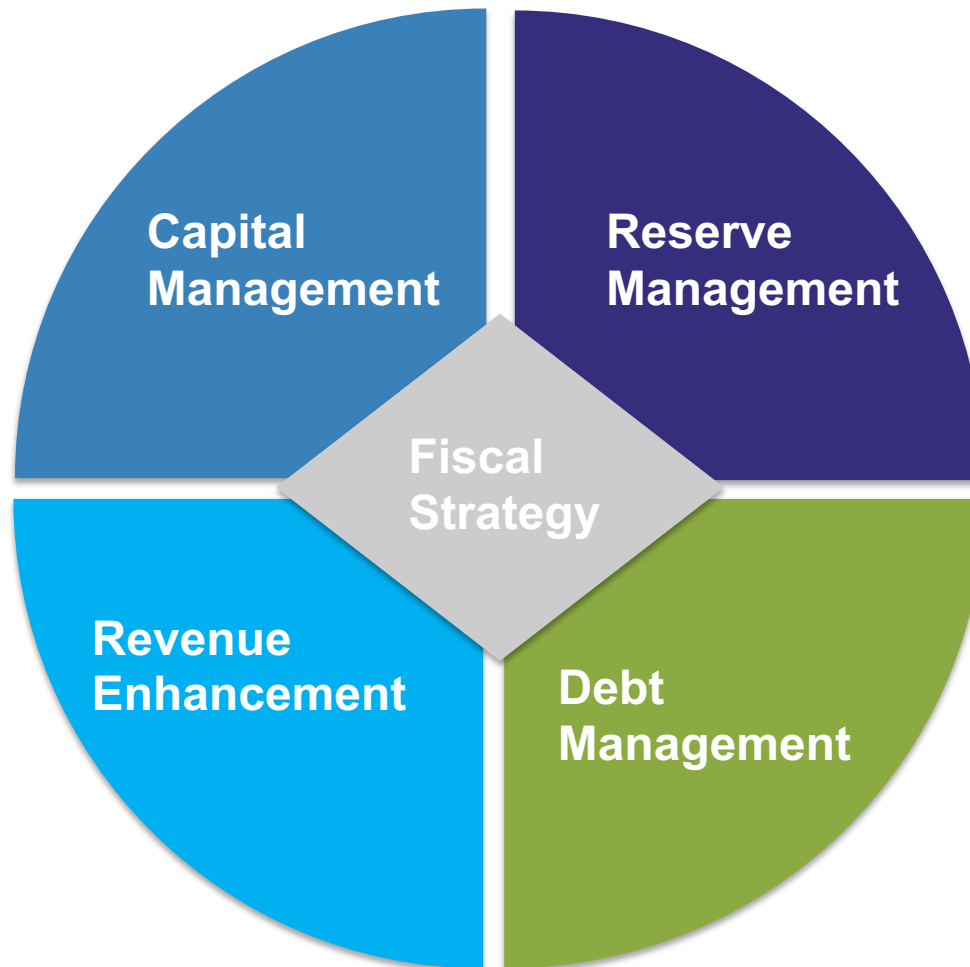
Concluding Comments

- Decisions related to the fiscal strategy should take into account inter-generational equity, so that current tax- and ratepayers are covering the true cost of the services they are consuming and not passing on hidden costs to future generations
- An annual fiscal strategy discussion can improve the budget process by lifting the discussion beyond a focus on scrutiny of tax-based expenditures
- Newmarket's budget process would benefit from an introductory presentation that included operating, capital and rate budgets

Concluding Comments

- This introductory presentation combined with a fiscal strategy update during the process would allow Council to consider the budget in an integrated manner and assess both the short and long-term impacts of their decisions
- Generally the Town would benefit from extending the time frame for its financial planning—multi-year operating budget, ten-year capital budget, long-term reserve and debt forecasts, DC revenue forecasts, and long-term asset management plans

Elements of a Fiscal Strategy for Newmarket



Recommendations

1. The Treasurer should provide an annual update of the fiscal strategy to Council as part of the budget process, and a detailed review of the strategy at the beginning of each Council's term
2. The budget process should include an introductory overview presentation of the entire budget in an integrated fashion—operating, capital and rate-supported
3. The Town should extend the time frames for its financial planning—multi-year operating budget, ten-year capital plan, long-term reserve and debt forecasts, DC revenue forecasts, and long-term asset management plans

Appendix A

List of Recommendations

List of recommendations

Chapter 5: Managing the capital plan

1. Council approval of Capital Spending Authority in the budget should constitute the authority to spend on a capital project
2. In the case of multi-year projects, Capital Spending Authority can extend for the full term of the project. Normally this would involve multi-year contracts
3. Capital Spending Authority for multi-year projects should automatically be built into the budget if the projects are already in progress
4. Council should approve both the annual capital budget and Capital Spending Authority each year
5. Council should publish a ten-year capital plan with complete project-by-project funding sources as part of the budget process
6. Staff should maintain an internal 20-year capital plan (and longer for asset management purposes)
7. Capital carryovers should be eliminated (achieved in the 2020 budget process but needs to be continued). If a project has not been started, it should go through the budget process again

List of recommendations

8. Capital projects should be divided into pre-construction and construction components wherever appropriate (i.e., where environmental assessments, land acquisition, engineering design and so on are required)
9. Council should approve pre-construction and construction activities separately for the same project
10. Construction of a capital project should only be approved once pre-construction activities and approvals are complete. Both pre-construction and construction can be approved for the same budget year if there is a solid expectation that pre-construction activities will be completed during the year and the project will start construction
11. Business cases should be required for projects over \$100,000. These could be incorporated in the Town's decision packages
12. The capital budget should include breakdowns of growth versus rehabilitation

List of recommendations

13. The budget process should include an analysis of the factors affecting capital priority setting and a discussion of the rationale for the capital projects selected for both Capital Spending Authority and the Ten-year Plan
14. As part of the budget process, Council should see a “best estimate” of year-end capital spending, showing the portion expected to be delivered by functional area/priority, pre-construction versus construction, growth versus rehabilitation and anything else that would help with priority-setting
15. The capital budget overview should include both a departmental and a functional/sectoral breakdown
16. The budget and the actuals from the previous year should be presented on a consistent basis

List of recommendations

Chapter 6: Growth Capital

1. Staff should monitor residential versus non-residential development charge collections and compare the results to expected ratios from the Development Charge Background Study
2. The annual development charges report should include a breakdown of residential versus non-residential collections and disbursements
3. If the results of the residential compared to non-residential analysis show that non-residential development charge collections continue to lag, the Town should shift costs to residential in the next Development Charge Background Study to the extent that is fair and reasonable
4. Recognizing that non-residential development charge collections may be permanently impaired, the Town should develop a plan to address the tax levy impact of the shortfall, either by constraining the capital program or raising additional revenue to compensate for the shortfall
5. Staff should prepare forecasts of development charge collections and present them as part of the budget process

List of recommendations

6. In the next development charges update, the Town should require a reconciliation of post-period benefits identified in the 2019 Development Charge Background Study with the new development charge to ensure that previously identified post-period benefits are being appropriately captured in the new bylaw
7. In the next development charges study, the Town should require Town-wide engineered services to be calculated separately (roads and associated infrastructure, water, sewer, stormwater)
8. The Town should monitor growth trends and adjust the capital plan so that it is reasonably commensurate with the rate of growth
9. The Town should consider a non-residential development charge structure that parallels the Region's
10. As soon as is practicable, Newmarket should revise its development charge bylaw to incorporate the beneficial changes with respect to the elimination of the 10% discount for soft services, adjust the services eligible for DC recovery and introduce a class-based approach to DCs
11. Staff should prepare a community benefits charge strategy and bylaw for Council's consideration

List of recommendations

Chapter 7: Asset Management

1. The Project Management Office should accelerate work on asset management planning so that initial integrated versions of all asset management plans are available for consideration in the 2023 budget cycle (beginning in Fall 2022)
2. Asset management plans should include level of service considerations and a funding plan from the beginning so that appropriate tradeoffs can be made
3. The funding strategy embedded in asset management plans should be integrated with the budget process and the next update of the Development Charges Background Study
4. Staff should carefully review and update current asset replacement values and the current long-term estimates of funding needs as part of the asset management planning process
5. The funding plan should include estimates of the asset management costs associated with infrastructure for future growth

List of recommendations

6. The Town should plan to increase future spending on infrastructure rehabilitation and replacement and incorporate steady increases for that purpose in the capital budgeting process

Chapter 8: Water, Wastewater and Stormwater

1. Set water rates according to Newmarket's needs
2. Commission or carry out a comprehensive rate-setting study that covers water, wastewater and stormwater rates
3. Ensure that the rate-setting study considers long-term asset management funding needs, inter-generational equity, water demand (impact of conservation), the cost of climate change adaptation, increased costs due to intensification, and a contingency factor for yet-to-be identified costs such as regulatory changes
4. Investigate the reasons for Newmarket's historically higher than average rates and address controllable factors

List of recommendations

5. Develop 80- to 100-year asset management plans for water, wastewater and stormwater, and firm ten-year capital plans with funding sources identified
6. Integrate the rate plan with the ten-year capital plan and long-term asset management plans
7. Increase rate stabilization reserves to allow for economic as well as weather-related variations in revenues
8. Develop a detailed financial plan for water and wastewater that includes an analysis and forecast of capital and operating costs and incorporates the results of the rate-setting study
9. Extend the time horizon of the water and wastewater financial plans to ten years
10. Develop a financial plan for stormwater comparable to the plans for water and wastewater
11. Consider working together with the other “Northern Six” municipalities in York Region to investigate the benefits and costs of transferring local water and wastewater responsibility to the Region or cooperating in other ways

List of recommendations

Chapter 9: Building Reserves

1. A new Contingency Reserve should be established to provide support for unforeseen and currently unquantifiable needs (e.g., pandemic, climate change, disasters, emergencies, changes in Provincial funding)
2. A new Growth Reserve should be established to fund shortfalls in development charge collections and non-DC-eligible growth infrastructure
3. The new Growth Reserve should be funded by a budgetary allocation each year corresponding to a minimum of the avoided cost of the 10% development charge discount for planned growth projects that year plus an allocation from the annual surplus
4. A separate pay-as-you-go reserve should be established for ongoing rehabilitation spending to give the Asset Replacement Reserves time to build
5. The pay-as-you-go capital reserve should be funded by allocations in the budget process
6. The Asset Replacement Reserve should be restructured according to the estimated needs identified in preliminary asset management plans

List of recommendations

7. Future contributions to the various sectors in the Asset Replacement Fund should be based on needs identified in asset management plans
8. The only draws from the Asset Replacement Reserve for the next ten years should be for replacement spending
9. The contribution to the Asset Replacement Fund should be increased by a minimum of 1% per year for the next ten years
10. Each year's incremental contribution should add to the base contribution to the Asset Replacement Fund
11. The contributions to the Asset Replacement Fund should be in addition to the funding needed for capital rehabilitation projects
12. After ten years, the contributions to the Asset Replacement Fund should be reassessed
13. After ten years, the condition of the Asset Replacement Fund should be evaluated in relation to then current asset management plans with a view to determining whether draws for rehabilitation purposes are feasible

List of recommendations

14. The current internal loan between the rate- and tax-supported portions of the Asset Replacement Fund should be eliminated
15. The policy of pooling rate- and tax-supported Asset Replacement Fund reserves should be dropped, and intra-reserve borrowing between tax and rate-supported reserves should not be permitted
16. Over the next five years, the Hydro dividend should be transitioned to a contribution split 75:25 between the tax-supported Asset Replacement Fund and the new Contingency Reserve
17. Over the next five years, the annual surplus should be transitioned to a contribution split:
 - 50% to the new tax-supported Growth Reserve
 - 25% to the new Contingency Reserve
 - 25% to other reserves that are below target, and if none, to the Asset Replacement Fund
18. Finance staff should prepare long-term reserve forecasts and present them to Council as part of the fiscal strategy update during the budget process

List of recommendations

19. The Town's Reserve Policy should be amended to reflect the recommended changes in this report
20. The Town's Surplus Policy should be updated to reflect the recommended changes in this report

Chapter 10: Managing Debt

1. The Town should stay on its current trajectory to pay off its debt by 2026, save for the Mulock Farm debt
2. The internal borrowing provisions of the debt management policy should be tightened with respect to payback period, interest rate earned, and portion of the reserve fund balance available for internal borrowing
3. Although the 10% limit on debt servicing costs as a share of own source revenue is reasonable, in practice the Town should strive to keep it below 5%
4. The Town should consult with York Region with respect to the potential for refinancing its Mulock Farm debt at a shorter term and a lower rate

List of recommendations

Chapter 11: Enhancing Revenue

1. The Town should consider moderate increases in property taxes to support infrastructure investment, primarily asset management, after economic conditions have improved
2. The current policy governing the use of assessment growth revenue should be retained
3. Any portion of assessment growth revenue not needed for growth purposes in the budget should be allocated to the new Growth Reserve
4. The Town should request an analysis of the corporate strategy and financial situation and prospects of both NT Power and Envi Networks from these companies
5. Depending on the results of the self-analysis, the Town should consider commissioning independent analyses of both companies with a view towards maximizing the value of NT Power and increasing the dividend it provides and assessing the market positioning of ENVI

List of recommendations

6. The practice of allocating investment returns above benchmark to subsidize operating should be abandoned. Investment returns on reserves should be entirely allocated to reserves
7. The Town should consider allocating a portion of its investments to ONE Investment, either through the Legal List or prudent investor
8. The Treasurer should provide a stand-alone investment report to Council annually, including both realized and mark-to-market returns

List of recommendations

Chapter 12: Conclusion

1. The Treasurer should provide an annual update of the fiscal strategy to Council as part of the budget process, and a detailed review of the strategy at the beginning of each Council's term
2. The budget process should include an introductory overview presentation of the entire budget in an integrated fashion—operating, capital and rate-supported
3. The Town should extend the time frames for its financial planning—multi-year operating budget, ten-year capital plan, long-term reserve and debt forecasts, DC revenue forecasts, and long-term asset management plans

Appendix B

Consultant Profile

Bill Hughes is a Senior Fellow at the Institute on Municipal Finance and Governance at the Munk School of Global Affairs and Public Policy.

He is a member of the ONE Investment Advisory Committee.

He has co-taught a graduate course on policy development at the University of Toronto's Munk School of Global Affairs and Public Policy for the past 10 years.

Bill has over 35 years of experience in finance and public policy at both the provincial and municipal levels of government.

Before his retirement, Bill was the Commissioner of Finance and Treasurer for the Regional Municipality of York for seven years.

Prior to joining York Region, Bill held senior positions in the Ontario government, mainly at the Ministry of Finance and the Ministry of Infrastructure. Most recently, he was the Assistant Deputy Minister of Infrastructure Policy and Planning.

Bill chaired the Infrastructure Table of the Provincial-Municipal Fiscal and Service Delivery Review, developed the province's first long-term infrastructure plan, and provided analytical support to the Water Strategy Expert Panel.

Bill was a member of the board of directors of the Move Ontario Trust until its wind-up in 2017.

In 2016, he received the Municipal Finance Officers' Association's Leadership Award.

He has a Master's of Business Administration from the Schulich School of Business, a Master's of Environmental Studies from York University, a Bachelor of Arts degree from the University of Toronto, and has completed the Non-Profit Governance Essentials course from the Institute of Corporate Directors.

Until his retirement, he was also a Registered Professional Planner.