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## **Supplementary Information 2019 Operating Budget Information Report**

Report Number: 2019-03

Department(s): Financial Services

Author(s): Mike Mayes, Director of Financial Services

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

### **Purpose**

The purpose of this report is to provide supplementary information to support the review of the 2019 draft operating budgets.

### **Background**

The preliminary draft budgets were presented to Committee of the Whole on January 14, 2019. There were additional Special meetings on January 28 and February 4. Questions raised at these meetings are addressed in this report and its companion report, 2019-04, Supplementary Information Draft 2019 Capital Budget.

### **Discussion**

#### **Tax-supported Operating Budget**

##### **Mandatory Items**

Mandatory items are non-discretionary increases in service levels. They may be the result of new legislation, health and safety requirements or other commitments.

Information on the following budget items considered mandatory, can be found in Appendix A:

- PARK8 – Clear Fire Ants at SWM Pond
- Sidewalk Programs
  - DIS18 – Winter Sidewalk Patroller and Equipment
  - DIS22 – Summer Sidewalk Inspection and Maintenance Program
  - DIS23 – Sidewalk Programs – Increased Maintenance Request per Legislation

Links are provided to the legislation.

### **Growth-related expenditures**

Growth-related expenditures are required to maintain service levels for a growing population. The Town’s practice has been to allocate assessment growth revenue to growth-related expenditures. This supports financial sustainability.

Operating costs for previously approved capital projects:

Of the \$720,000 projected for 2019, \$140,000 is allocated for new operating costs resulting from growth capital that was approved in previous years. These costs were identified when the project was approved and now need to be included in the budget.

Davis & Bathurst Intersection Improvements (Sidewalk & Streetlighting)	\$ 50,000
Sundial Park Development	10,000
Recreation Playbook Implementation for splash pads	50,000
Artificial Turf additional costs	30,000
	<b>\$ 140,000</b>

Mulock Estate operating costs:

The draft budget includes an additional \$250,000 for the maintenance of the Mulock Estate - the heritage building and the 12-acre property. This is in addition to \$100,000 for maintenance included in the 2018 budget.

The following is an updated breakdown of the projected costs:

	2019			2020		
	Building	Property	Total	Building	Property	Total
Janitorial	\$ 300		\$ 300	\$ 300		\$ 300
Utilities	38,500		38,500	38,500		38,500
Repairs	6,000	20,000	26,000	6,000	20,000	26,000
Insurance	10,000		10,000	10,000		10,000
Security	34,200		34,200	4,200		4,200
Pest control	1,200		1,200	1,200		1,200
Labour	35,500	137,500	173,000	30,500	91,500	122,000
Equipment	10,000		10,000	10,000	15,000	25,000
Provision for more repairs	50,600	3,000	53,600	40,600	3,000	43,600
<b>Subtotal</b>	<b>\$ 186,300</b>	<b>\$ 160,500</b>	<b>\$ 346,800</b>	<b>\$ 141,300</b>	<b>\$ 129,500</b>	<b>\$ 270,800</b>
Contingency	18,630	16,050	34,680	14,130	12,950	27,080
	<b>\$ 204,930</b>	<b>\$ 176,550</b>	<b>\$ 381,480</b>	<b>\$ 155,430</b>	<b>\$ 142,450</b>	<b>\$ 297,880</b>

- Labour is the assignment of existing staff or contracting of additional staff. Additional groundskeeping work is required in 2019 to prepare the property for the public. A request for additional permanent staff will be included in the 2020 budget.
- Provision for more repairs is for suspected issues in particular areas that have not been identified yet.
- Contingency is a standard 10% allowance.

Some of the 2019 costs will not be ongoing costs and will not be required again in 2020. These one-time costs could be designated as capital costs - part of the renovation and remediation work contemplated with the property purchase - or could be funded from a reserve, whichever is appropriate.

Options for surplus growth funds:

If the growth-related expenditures are reduced, the following options are consistent with the Town's practice:

1. Restore the allocation to the Fire Master Plan, which had been reduced by \$32,000;
2. Revisit deferred Decision Packages classified as growth;

3. Revisit capital requests that required funding in addition to their Development Charges provision;
4. Transfer to a reserve either for future growth expenditures or to a reserve specifically for the Mulock Estate.

The report with respect to the Draft 2019 Operating and Capital budgets, will make a recommendation on the Mulock Estate operating costs to the Committee of the Whole on February 25, 2019.

### Further Reduction Options

#### Passive investments

The Town earns interest on the cash in its operating bank account at the prime rate less 1.5% (currently 2.45%). This is considered to be our passive investment. The cyclical nature of our business, and the fact that we collect taxes on behalf of the Region and School Boards, results in substantial balances. The 2018 budget was \$375,000. Excluding extraordinary items, the operating bank account earned \$706,000 in interest, attractive increase as a result of rate hikes.

#### 2019 passive investment (bank interest) projections – sensitivity analysis

Scenario	Prime rate	Projected revenue	Possible budget adjustment
Worst case	0.25% reduction in April to 3.70%	\$ 700,000	\$ 325,000
No change in 2019	3.95%	\$ 775,000	\$ 400,000
Best case	0.25% increases in April and July to 4.45%	\$ 875,000	\$ 500,000

The Town also has active investments in short and medium term money market instruments. These earn a better rate for our reserve fund cash however the rate is generally locked in. We use a 'benchmark' that the return must exceed the rate being paid on the passive investments. The income generated above the bank's interest rate, is referred to as 'incremental income'. A portion of the incremental income (the return in excess of the benchmark), is assigned to the operating fund during the budget process to relieve budget pressures.

In 2018, increased interest rates raised the benchmark and reduced our incremental income. As a result, only \$75,000 will be transferred to the operating fund, which is \$100,000 less than the budget. This should be taken into consideration if the 2019 budget is revised to recognize higher interest rates.

#### Provision for vacancies – “gapping”

The period of time that a position is left vacant is known as “gapping.” This might be the time required to recruit for a newly created position approved in the budget or to replace someone who has ended their employment with the Town. There may be some backfilling but there is generally a net savings in wages and benefits.

It is probable that unless there is direction to manage this budget by deliberately delaying recruitments, gapping will decrease in 2019. There are two factors influencing this. The 2019 budget recommends fewer staffing increases than the 2017 and 2018 budgets did, especially in the tax-supported area. The other reason is the move to more of an “overlapping” model for knowledge transfer in senior positions.

There is insufficient information to make a proper forecast for gapping in 2020.

#### Provision for casual wage increases

The casual wage scale uses the minimum wage as its base: it is adjusted when the minimum wage increases. No increase is expected in 2019 but a provision of \$120,000 is included in the 2019 budget. This is an inflationary allowance to phase-in the budget impact of the eventual increase in the wage scale.

To clarify, this provision is for increases in the minimum wage in the future, and its impact on the casual wage scale, which would be revised as a result. This is distinct from the provision for Bill 148, *A Plan for Fair Workplaces and Better Jobs*, which is the cost of minimum wage increase that has already occurred and some other related items.

#### Bill 148 - *A Plan for Fair Workplaces and Better Jobs*, and Bill 47, *Making Ontario Open for Business*

Bill 148 increased the minimum wage in 2018 along with other wage and benefit changes. The cost to the Town’s tax-supported budget was estimated to be \$880,000 and \$280,000 was included in the 2018 budget, with a shortfall of \$600,000 to be phased-in future years. Bill 47 reversed some of the provisions and the scheduled minimum wage increase for 2019. Costs for 2019 have now been reduced to \$680,000. The recommended budget of \$480,000 will reduce the shortfall to only \$200,000 to be phased-in.

There is an impact on the other budgets (rate-supported, CYFS, Library), but it is not significant.

### Legal consulting

The Legal Services Department budget was increased by \$50,000 in 2018 but only a small portion went directly to Legal consulting services. The 2019 budget recommends an additional \$150,000 for this expense as an extraordinary item. Although the majority of Legal work is completed in-house, the amount spent on external counsel has been increasing due to an increase of required expertise in specialty legal areas, as well as an increase in complex litigation. Some examples in 2018 of matters requiring significant Town investment include: (i) the settlement of a historical expropriation matter (note that in addition to the payment of the Town's legal fees, the Town was responsible to reimburse some of the expropriated owners' legal fees from this budget line item), (ii) the settlement of the Clock Tower OMB and court actions (notwithstanding that the Minutes of Settlement were entirely negotiated and drafted in-house), (iii) the defence of the corporation at the Human Rights Tribunal, and (iv) specialized advice on environmental law and intellectual property law (to supplement the management of these matters by in-house lawyers).

This additional money will bring the consulting budget for Legal Services closer in line with what is spent on an annual basis, as opposed to regularly relying upon the corporate annual surplus to top up the legal reserve.

The report with respect to Draft 2019 Operating and Capital budgets will make a recommendation on further reduction options to Committee of the Whole on February 25, 2019.

## **Rate-supported Capital Budgets**

### **Water and Wastewater**

The smart meter project will commence implementation this year. Deployment will begin in September and the majority of meters will be installed within two years; however the project is scheduled to take three years to complete.

The new meters will result in more accurate readings. The business case estimates that 20% of homes, those with the oldest meters, could see average increases of about \$3 per month.

The average Newmarket residential property, using 200 cubic metres of water in 2018, paid 13.5% more for water and wastewater than the overall average in York Region. This gap has dropped from 23.3% in 2014 due to Newmarket having lower than average increases. The 2019 budget includes a 5.1% increase for the average residential property.

The current 6-year financial plan includes diminishing increases, from 4.9% in 2020 down to 3.8% in 2023. This should assist in closing the gap.

Consideration was given to accelerating this process but flushing issues are causing cost concerns. Public Works Services will be distributing a report regarding these matters in April, 2019.

The fixed monthly charge for larger non-residential services, as measured by meter size, is being increased to a multiple of the residential fee proportionate to the volume of water that can be handled by the larger pipes. This approach is defined as tiered water rates. As a result, the pressure on general (volumetric) rates has been lessened and non-residential costs will begin to rise to the Regional average.

These issues will be elaborated on in the 6-year financial plan update which will be presented to Council in September, 2019.

### **Building Permit Rate Group**

The reserve fund for building permit fees is substantial and has offset the need to raise fees. The Town is fully allocating any allowable costs, including support costs ("overhead"). The use of the fees and the reserve fund is limited.

From The Ontario Municipal Councillor's Guide 2018:

*Money in the reserve fund can only be used for costs of delivering services related to the administration and enforcement of the Building Code Act. The reserve fund is, therefore, not accessible for council to use to fund other municipal activities.*

Staff will continue to investigate appropriate opportunities to use these funds.

### **Other Budget Items**

#### **Efficiency initiatives**

In recent years, there have been active reviews for efficiency, cost savings and effectiveness. Staff is preparing a separate report on the major initiatives that have been undertaken.

#### **Glossary of terms**

Financial planning uses terms, jargon and acronyms that are not commonly known. A listing of some of these is available on our website at:

<https://www.newmarket.ca/TownGovernment/Pages/Budgets%20and%20Finances/Municipal%20Budget%20101/Glossary-of-Financial-Terms.aspx>

It is a part of the Municipal Budget 101 and provides a lot of generic background information. This section is due for an update prior to the 2020 budget process.

## **Conclusion**

The information presented in this report has been compiled to assist Council in its deliberations on the draft 2019 operating and capital budgets, which will be presented to Committee of the Whole on February 25, 2019..

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

This report links to Newmarket's key strategic directions in being Well Managed through fiscal responsibility.

## **Consultation**

Members of the Senior Leadership Team (SLT) and Operational Leadership Team (OLT) have provided information for this report and/or will be providing additional information reports that have been referenced.

## **Human Resource Considerations**

Not applicable to this report.

## **Budget Impact**

Not applicable to this report.

## **Attachments**

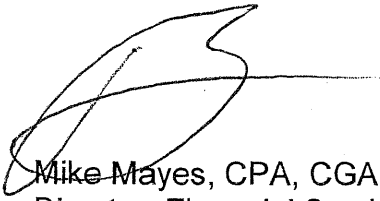
Appendix A – Information on Mandatory Budget Items

## **Contact**

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## Approval



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## Appendix A

### Information on Mandatory Budget Items

#### PARK8 – Clear Fire Ants at SWM Pond

This has previously been an unbudgeted activity with funds being drawn from a general account in PWS in response to an infestation of an ant species at a storm water pond in the Clearmeadow Boulevard area. The infestation affects adjoining backyards of residents on Bartholomew Drive and Rushbrook Drive. As the decision package explains, previous attempts tried to control the spread of ants into adjacent residential backyards; however, the ants have now gone to the other side of the pond and a more proactive approach is required. It involves additional grass cutting, more extensive treatment and testing of a pilot project obtained through recommendations of leading experts from the Universities of Maine and British Columbia.

#### Sidewalk programs

- DIS18 – Winter Sidewalk Patroller and Equipment
- DIS22 – Summer Sidewalk Inspection and Maintenance Program
- DIS23 – Sidewalk Programs – Increased Maintenance Request per Legislation

These decision packages relate to new requirements introduced in 2018 through amendments made to the Ontario regulation on Minimum Maintenance Standards (MMS) for Municipal Highways. The changes came into effect in May 2018 and municipalities are incorporating the additional requirements into their summer and winter maintenance activities. For the first time, the MMS contain specific sections dealing with sidewalk winter maintenance. Specifically, standards on when to respond to snow accumulation and ice formation, as well as patrolling sidewalks to monitor conditions and provide the appropriate response. There are also requirements to inspect and remedy sidewalk deficiencies within the sidewalk area proper and adjacent to sidewalks that would constitute an encroachment and safety hazard. Municipalities are responding to these requirements in order to address liabilities and meet the new standards. Each of the foregoing decision packages relates to these areas – one for a 7-month contract winter sidewalk patroller, one for a 4-month contract summer student to keep up with deficiencies, and another for a program to address encroachments adjacent to sidewalks.

A link to the regulation can be found at: <https://www.ontario.ca/laws/regulation/020239>

Here are a couple of links to descriptions of the changes that were made and the MMS regulation itself:

[https://blg.com/en/News-And-Publications/Publication\\_5296?utm\\_source=Mondaq&utm\\_medium=syndication&utm\\_campaign=View-Original](https://blg.com/en/News-And-Publications/Publication_5296?utm_source=Mondaq&utm_medium=syndication&utm_campaign=View-Original)

<https://www.frankcowan.com/products/risk-management-services/minimum-maintenance-standards-mms-compliance>

There are also new requirements for bicycle lanes introduced through the regulation, and staff are responding to these through the standard applied to the prevailing roadway. This will be monitored to determine whether it also needs to be adjusted in future.

Discussions have taken place between PWS Roads and PWS Parks regarding sharing their winter roads patroller. However, with the amount of roadways and regulations set out in the Minimum Maintenance Standards regarding roadways, they cannot fulfill the duties of a winter sidewalk patroller and complete their MMS obligations and 319 kms of roadways at the same time. Having the winter sidewalk patroller will allow staff to set up daily representative sidewalk routes in order to respond to the 395 kms of sidewalks in town. Staff would also include inspections of facility sidewalks/parking lots, which could mitigate future litigation issues.