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2020 Preliminary Draft Rate-Supported Operating Budgets Staff Report to Council

Report Number: 2019-108

Department(s): Financial Services

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

Meeting Date: October 28, 2019

Recommendations

1. That the report entitled 2020 Preliminary Draft Rate-Supported Operating Budgets dated October 28, 2019 be received; and
2. That subject to any additional direction from Committee, that the proposed budgets be incorporated into the Draft Budgets to be presented to Committee of the Whole on November 25, 2019.

Executive Summary

The proposed 2020 rate-supported budgets for Water, Wastewater, Stormwater and Building Permits Fees are within their target limits.

Purpose

This report provides details for the previous report, *2020 Budget Process Update*, dated October 15, 2019. It elaborates on the identified challenge. The preliminary draft budgets are the starting point for Council deliberation and will form the basis for the consolidated draft budgets to be presented to Committee of the Whole on November 25, 2019.

The specific challenge to be addressed is funding the Stormwater capital budget.

Background

Rate-supported Budget targets are based on their 6-year plans

Rate-supported operating budgets – water, wastewater and stormwater are funded 100% from non-tax revenues. They have 6-year financial plans that were approved by Council in 2017. The Water and Wastewater plans project a combined increase of 4.9% for 2020. The projection for Stormwater is 10.9%.

The Building Division is also considered to be a rate-supported budget but is the exception as it does not yet have a multi-year financial plan. It does have a target for its reserve fund – to be 100% to 150% of annual expenses.

Discussion

Water and wastewater rates are on target

	2019 budget	2020 budget	6-year plan	Variance
Rate increase	5.1 %	4.9 %	4.9 %	-
Revenue	\$ 40,597,000	\$ 42,265,000	\$ 42,869,000	- \$ 604,000
Expenses	33,429,000	35,276,000	35,369,000	93,000
ARF	6,331,000	6,660,000	6,660,000	0
	\$ 837,000	\$ 329,000	\$ 840,000	- \$ 511,000

The main target is to stay within the projected rate increase. The budget includes a 1.15% increase in consumption growth. The rate increases are 6.49% for water and 3.45% for wastewater, which combined represents a 4.9% increase.

Revenue estimates vary 1.5% from the projection. This is reflected in a lower surplus. No adjustment has been made due to the sufficiency of the rate stabilization reserves (see next section).

Water and wastewater reserve funds are healthy

	2019 budget	2020 budget
Asset Replacement Fund balance	\$ 56 million	\$ 60 million
Asset Replacement Fund as a % of accumulated amortization Target is 100%	49 %	52 %
Rate Stabilization Reserve	\$ 2.9 million	\$ 3.2 million
Rate Stabilization Reserve as a % of annual revenue Target is 5 to 10%	7.1 %	7.6%

The Water and Wastewater reserves are healthy. Although the ARF balance still has a long way to go, studies show that we are comparably better off than most municipalities and there are no large requirements in the next few years.

Because the Rate Stabilization Reserve is within the target range, no budget adjustments were made for the deviation from the revenue forecast.

Water rates are moving to the Regional average

Year	Newmarket	York Region average	% above
2014	\$ 914	\$ 741	23.3 %
2015	\$ 967	\$ 804	20.3 %
2016	\$ 1030	\$ 879	17.2 %
2017	\$ 1090	\$ 949	14.9 %
2018	\$ 1157	\$ 1019	13.5 %
2019	\$ 1216	\$ 1089	11.7 %
2020	\$ 1276	\$ 1159	10.1 %

The Town's combined water and wastewater uses the York Regional average as a target. This represents the cost to an average resident using 200 cubic meters of water annually. As cost sharing structures vary by jurisdiction, the comparison is limited to York Region. (The Region averages for 2019 and 2020 are estimated based on the trend of historic increases.)

Newmarket's rates are moving towards the target. This will continue in the future as other municipalities move towards full cost recovery, something Newmarket already does.

Building Dept. maintains a healthy reserve fund balance

	2019 budget	2020 budget	Change
Rate increase	0.0 %	0.0 %	
Revenue	\$ 1,680,000	\$ 1,680,000	\$ 0
Expenses	2,694,000	2,747,000	53,000
	- \$ 1,014,000	- \$ 1,067,000	- \$ 53,000
Projected reserve fund	\$ 4,464,000	\$ 3,397,000	
Reserve fund as a % of annual expenses Target is 100 to 150%	166%	124%	

Although the Building Division does not have a multi-year financial plan, it does have a reserve fund target. By not increasing revenue in 2020, the budget shows the fund being reduced to fit within this target.

Stormwater rates can be on target . . .

When Stormwater was segregated from the tax-supported budget and set up as a separate rate group, it was done on a revenue neutral basis. Since then, new regulations have significantly increased operating costs and there has been expansion of the capital program.

As a result, contributions to the Asset Replacement Fund (ARF) have been below the projected amounts – a shortfall of \$821,000 for 2020.

	2019 budget	2020 budget	6-year plan	Variance
Rate increase	11.8 %	10.9 %	10.9 %	-
Revenue	\$ 2,070,000	\$ 2,141,000	\$ 2,295,000	- \$ 154,000
Expenses	1,625,000	1,624,000	957,000	- 667,000
ARF	435,000	491,000	1,312,000	821,000
	\$ 10,000	\$ 26,000	\$ 26,000	\$ 0

Over the last two years some properties have been re-classified. This has resulted in the \$154,000 variance from the original forecast.

Revised revenue targets and capital contributions will be included in the update to the financial plan in 2020.

Stormwater reserve fund will be maintained . . .

	2019 budget	2020 budget
Asset Replacement Fund balance	\$ 199,000	\$ 190,000
Asset Replacement Fund as a % of accumulated amortization Target is 100%	0.3 %	0.3 %
Rate Stabilization Reserve	\$ 200,000	\$ 226,000
Rate Stabilization Reserve as a % of annual revenue Target is 5 to 10%	9.7 %	9.8 %

The Rate Stabilization Reserve is being maintained at its upper limit level during its development stage. The Asset Replacement Fund is negligible relative to the value of the infrastructure.

There are some other reserve funds available, such as the Stormwater Pond Maintenance, but otherwise there are not sufficient funds to support the projects requested for 2020.

. . . But some Stormwater projects will need to be deferred

Within the constraints of the current budget and 6-year plan, Stormwater Rates are challenged to meet capital requests. The options considered were:

1. Defer the capital projects to stay within the available funding
2. Borrow funds on an interim basis while the funds are built up
3. Increase stormwater rates to meet the funding requirements
4. A combination of these options

Option 1 is recommended for the 2020 Stormwater budget. Next year’s update of the 6-year plan will integrate rate increases, capital plans and new fiscal strategies to determine future direction.

Conclusion

The 2020 rate-supported budgets include some variance from 2017's 6-year financial plans. In addition, we are commencing a comprehensive overhaul of our financial policies and strategies. An overarching fiscal framework, comparable to that of York Region, is targeted to be presented to Council in May/June of 2020.

As such, and in consideration of the Stormwater challenge, it would be appropriate to update the multi-year plans.

Upcoming dates:

- November 11 – Special Committee of the Whole – Tax-supported Operating Budget
- November 25 – Committee of the Whole regular meeting with draft budgets and fees and charges for approval
- December 2 – Target for Council approval of the Budget

There will also be opportunities for Councilors to meet with or to obtain additional information from the Treasurer or other members of staff.

Business Plan and Strategic Plan Linkages

This report links to Council's strategic priority of long-term financial sustainability by developing a multi-year operating and capital budget that aligns with the Budget Policies.

Consultation

The Water, Wastewater and Stormwater budgets have been based on their current 6-year financial plans with minor revisions requested by the relevant departments.

Human Resource Considerations

There are requests for additional staffing which would be funded in whole or in part by the rate-supported budgets. They will be brought forward at a future Committee of the Whole meeting so that they can be considered in the overall budget context.

Budget Impact

The preliminary draft rate-supported budgets would have the following annual impact to the average residential property:

- Water and wastewater – a 4.9% increase of about \$60
- Stormwater – a 10.9% of about \$4

Attachments

N/A

Approval

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Contact

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