



Town of Newmarket
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Q4 Preliminary Report - Budget Information Report to Council

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Department(s): 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.

Executive Summary

See below.

Purpose

The purpose of this report is to advise Council on the preliminary fourth quarter results for 2019, including the investment summary and the capital budget.

Background

Financial Services reports on the Town's financial results on a quarterly basis. As the year progresses, these reports also include a projection of the annual results. The most recent report, which was on the 3rd quarter results, was Financial Services report 2019-26. It projected a year-end surplus of approximately \$1.3 million for tax-supported operations.

The preliminary unaudited results now show a \$440,000 surplus. Usually the preliminary 4th quarter results are reported to Council to authorize allocation of the surplus. This facilitates "closing the books" prior to the start of the audit.

Approval is not being sought this year as the allocations of surplus are in accordance with delegated authority, including Corporate Policy 2-01, Operating and Capital Financial Policy.

A final report will be issued after the audit is completed and the statements have been reviewed by the Audit Committee.

Discussion

Projected 2019 Tax-Supported Operating Results

The preliminary unaudited results show a \$440,000 surplus.

Hiring gaps were approximately \$300,000 higher than the annual budget, with the biggest savings realized in Corporate Services. Casual wages, used to offset some of these vacancies, were over budget in all commissions. Significantly, higher casual wages in Recreation were also used to bolster some higher program revenues.

Waste management expenses were not as high as projected. Funds have been requested for a long-term solid waste strategy to take place in 2020. Several major repair and maintenance projects and studies did not take place in 2019 but are still anticipated. Delays in hiring resulted in significant savings in Asset Management. The funds are requested to be used for a facilities' condition assessment which will be undertaken in 2020, as well as the development of asset management plans.

In General Government, higher interest revenue was earned on our bank balances and investment income from short-term GIC's purchased with our operating funds. Higher Payments-in-Lieu revenue (from other levels of government) resulted in higher tax revenue. Supplementary taxes, which are very difficult to predict were at budgeted levels.

It has been the Town's practice to recognize the dividend from Newmarket-Tay Power before it is paid or even declared. This accrual was acceptable as there was a board-approved dividend policy and a consistent practice of receiving this payment the following year. Although 2019 is expected to be a profitable year for NT Power, there may be challenges in 2020 as a result of the pandemic. Therefore, the 2019 dividend, which would normally be paid in December 2020, is not guaranteed. The \$1,336,000 has not been accrued in 2019. Henceforth, all dividends will be accounted for only when they are declared.

Transfers to Reserves – Delegated Authority

i) Carryover requests totaling \$176,000 to assist with 2020 budget initiatives not completed in the year. \$40,000 for the hiring of a consultant for Records Management has been identified for 2020 and \$73,000 will be used by Human Resources for training and recognition. \$63,000 in unspent minor capital has been allocated for renovations and office moves at 395 Mulock Drive.

ii) Transfers totaling \$155,000 for cyclical expenditures include \$100,000 towards the Roads Needs Study and \$55,000 towards a Bridge & Culvert Inspection both of which occur every 2 years.

A surplus of \$440,000 is projected after the above transfers for which there is delegated authority.

Allocation of surplus funds

In alignment with Town policy and in consideration of the financial challenges anticipated for 2020, the surplus is to be transferred to the Rate Stabilization Fund.

Central York Fire Services (CYFS)

After retroactive payments resulting from the new collective agreement and the reversal of the prior year's accruals, salaries were still significantly under budget. This was primarily due to gapping for retirements, leaves of absence, new hires, and other vacancies. This includes the delayed hiring of 4 additional firefighters for the new fire station. The new collective agreement included the provision of post-retirement benefits. Pending the results of an actuarial valuation, \$500,000 has been accrued for this expense.

An operating surplus of \$1.1 million is anticipated and will be transferred to the CYFS Reserve Fund. Funds in excess of the target for volatile expenditures will be transferred to the Asset Replacement Fund. This will allow for smaller increases to the Asset Replacement Fund contributions in future budgets and provide funding for some of the construction costs associated with Station 4-5. The results were presented to the Joint Council Committee (JCC) on March 3, 2020.

Newmarket Public Library

The Newmarket Public Library is forecasting a surplus in the range of \$73,000, which will be transferred to a Town reserve fund for Library capital needs. This is a new proposal that was requested by Council with the 2018 financial results.

Rate Groups - Water/ Waste Water/Storm Water

Rate revenues in water and wastewater were close to budgeted levels. Higher expenditures for water purchased from the Region include over \$300,000 in water used for 3 large capital projects. Emergency repairs exceeding \$900,000 were also incurred. The additional expenditures will be covered from the rate stabilization reserve.

In 2019 the debenture for the Operations Centre was paid out, with the unbudgeted payment being funded from the asset replacement funds.

Stormwater revenues were on budget, with some lower revenues being offset by an unbudgeted grant. Expenses, particularly engineering related consulting and maintenance/catchbasin cleaning were below budget and the resulting surplus of approximately \$290,000 was transferred to their rate stabilization reserve fund.

Building

Lower revenues (\$700,000 under budget) more than offset lower wage related expenses due to gapping. A transfer of \$1.4 million, \$400,000 higher than budgeted, from their reserve fund was required. The Reserve Fund is now within the target range of 100% to 200%.

Business Improvement Area (BIA)

The BIA posted a surplus of \$20,500, which was transferred to their reserve. After the transfer, the balance in the reserve is \$42,684.

Capital Expenditures

The 2019 capital expenditure budget totaled \$26.4 million, after a general reduction of \$24 million. Actual expenditures were \$26.2 million. The new capital budget procedure eliminated carry-overs. However, some projects were not completed in 2019 and have no budget in 2020. These projects will be reviewed and addressed in the 1st quarter capital report.

Investments/Active investments

The Investment Summary for the twelve months ended December 31, 2019 provides the details of all investments held during the year.

None of our investments is subject to any variance between initial cost and market value. The average weighted yield on our reserve fund investments was 2.76 % (2018 – 2.23%) compared to a weighted average benchmark of 2.45% for the twelve month period. The incremental income earned, \$273,000, was higher than the \$75,000 budgeted transfer to the Tax-Supported Operating Fund, as approved by Council in the 2019 budget.

At the end of the fourth quarter, the reserve fund investment portfolio included:

- i) \$58,968,260 (81.5%) GIC's with major banks;
- ii) \$9,351,995 (13.0%) in non-traditional investments (internal loans)
- iii) \$4,000,000 (5.5%) principal protected notes;
- iv) \$17,953 (0.0%) loan to an external party (Newmarket Soccer Club)

In the opinion of the Treasurer, all investments made were in line with the investment policies, strategies and goals adopted by the Town.

In January 2019, the 90-day GIC in the amount of \$20 million came due and another short-term GIC was purchased with operating funds.

Passive investments

We earned \$1.1 million in interest on our operating bank accounts, which was \$320,000 higher than the budget.

Conclusion

Implementation of the transfers detailed in this report will place the Town in an improved position to deal with financial sustainability and unforeseen events. Once results are finalized and after the external audit, if there are any additional surplus funds they could be added to the reserves identified above.

Business Plan and Strategic Plan Linkages

This report links to Council's strategic priority of long-term financial sustainability.

Consultation

There was consultation with Central York Fire Services, the Newmarket Public Library and the Strategic Leadership Team.

Human Resource Considerations

Not applicable.

Budget Impact

After making reserve and reserve fund transfers and other provisions which have been authorized by budget, policy or delegated authority, there is an estimated operating surplus of \$440,000. The Treasurer will be transferring the surplus to the Rate Stabilization Reserve.

Attachments

1. 2019 Fourth Quarter Preliminary Operating Results
2. 2019 Fourth Quarter Water, Wastewater & Stormwater Operating Results
3. 2019 Fourth Quarter Capital Expenditures
4. Investment Summary for the Twelve Months Ended December 31, 2019

Contact

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

Approval

Mike Mayes, CPA, CGA, DPA
Director, Financial Services/Treasurer

Esther Armchuk, LL.B

Commissioner of Corporate Services

**Town of Newmarket
2019 Fourth Quarter
OPERATING RESULTS**

Departments	Year-to-Date to December 31, 2019			Full Year
	ACTUAL	BUDGET	VARIANCE	Budget
	\$	\$	\$	\$
Members of Council				
<i>Revenues</i>	-	-	-	-
<i>Expenditures</i>	1,278,271	1,277,073	(1,198)	1,277,073
Net surplus/(deficit)	(1,278,271)	(1,277,073)	(1,198)	(1,277,073)
C.A.O. - Office				
<i>Revenues</i>	88,988	254,932	(165,944)	254,932
<i>Expenditures</i>	3,783,626	3,395,406	(388,221)	3,395,406
Net surplus/(deficit)	(3,694,638)	(3,140,474)	(554,165)	(3,140,474)
Corporate Services				
<i>Revenues</i>	1,913,039	2,151,050	(238,011)	2,151,050
<i>Expenditures</i>	11,497,019	12,472,548	975,529	12,472,548
Net surplus/(deficit)	(9,583,979)	(10,321,498)	737,518	(10,321,498)
Central York Fire Services				
<i>Revenues</i>	358,614	354,561	4,053	354,561
<i>Expenditures</i>	15,148,622	15,126,393	(22,229)	15,126,393
Net surplus/(deficit)	(14,790,008)	(14,771,832)	(18,176)	(14,771,832)
Community Services				
<i>Revenues</i>	8,433,611	7,787,612	645,999	7,787,612
<i>Expenditures</i>	12,125,929	11,308,054	(817,875)	11,308,054
Net surplus/(deficit)	(3,692,318)	(3,520,442)	(171,876)	(3,520,442)
Development & Infra. Services				
<i>Revenues</i>	5,628,754	6,206,059	(577,305)	6,206,059
<i>Expenditures</i>	34,603,445	36,676,203	2,072,758	36,676,203
Net surplus/(deficit)	(28,974,691)	(30,470,144)	1,495,453	(30,470,144)
Library Services				
<i>Revenues</i>	315,443	331,477	(16,034)	331,477
<i>Expenditures</i>	3,572,865	3,588,899	16,034	3,588,899
Net surplus/(deficit)	(3,257,422)	(3,257,422)	0	(3,257,422)
General Government				
<i>Revenues</i>	4,402,362	4,551,200	(148,838)	4,551,200
<i>Expenditures</i>	2,177,727	1,100,489	(1,077,237)	1,100,489
Net surplus/(deficit)	2,224,636	3,450,711	(1,226,075)	3,450,711
Debt Servicing				
<i>Revenues</i>	2,420,745	2,520,745	(100,000)	2,520,745
<i>Expenditures</i>	5,670,548	5,711,283	40,735	5,711,283
Net surplus/(deficit)	(3,249,803)	(3,190,538)	(59,265)	(3,190,538)
Property Taxes				
<i>Revenues</i>	64,069,645	63,831,300	238,345	63,831,298
<i>Expenditures</i>	-	-	-	-
Net surplus/(deficit)	64,069,645	63,831,300	238,345	63,831,298
Allocations				
<i>Revenues</i>	-	-	-	-
<i>Expenditures</i>	(2,667,412)	(2,667,412)	(0)	(2,667,412)
Net surplus/(deficit)	2,667,412	2,667,412	(0)	2,667,412
GRAND-TOTAL				
<i>Revenues</i>	87,631,201	87,988,936	(357,735)	87,988,934
<i>Expenditures</i>	87,190,640	87,988,936	798,296	87,988,936
Net surplus/(deficit)	440,562	0	440,562	(2)

Town of Newmarket

2019 Fourth Quarter

Water, Wastewater & Stormwater Operating Results

Area	Year-to-date (December 31, 2019)				Full Year Budget
	Actual	Budget	Variance		
	\$	\$	\$	%	
Water Rate Group					
<i>Revenues</i>	23,370,918	19,000,783	4,370,135	23.0%	19,000,783
<i>Expenditures</i>	21,568,823	17,445,909	(4,122,914)	-23.6%	17,445,909
Net	1,802,096	1,554,874	247,222	13.7%	1,554,874
Wastewater Rate Group					
<i>Revenues</i>	29,200,458	21,666,586	7,533,872	34.8%	21,666,586
<i>Expenditures</i>	25,969,892	20,052,083	(5,917,809)	-29.5%	20,052,081
Net	3,230,566	1,614,503	1,616,063	100.1%	1,614,505
Storm Water Rate Group					
<i>Revenues</i>	2,087,968	2,069,804	18,164	0.9%	2,069,804
<i>Expenditures</i>	1,447,420	1,729,804	282,384	16.3%	1,729,804
Net	640,548	340,000	300,548	88.4%	340,000
Allocations					
<i>Revenues</i>	-	-	-	0.0%	-
<i>Expenditures</i>	2,652,852	2,652,852	0	0.0%	2,652,852
Net	(2,652,852)	(2,652,852)	0	0.0%	(2,652,852)
Transfer To/ From Rate Stabilization Reserves					
<i>Revenues</i>	(2,128,140)	(35,000)	(2,093,140)	5980.4%	(35,000)
<i>Expenditures</i>	892,217	821,525	(70,692)	-8.6%	821,525
Net	(3,020,358)	(856,525)	(2,163,833)	5980.4%	(856,525)
GRAND-TOTAL					
<i>Revenues</i>	52,531,205	42,702,173	9,829,032	23.0%	42,702,173
<i>Expenditures</i>	52,531,205	42,702,173	(9,829,032)	-23.0%	42,702,173
Net	-	(0)	0	-100.0%	(0)

Town of Newmarket

2019 Fourth Quarter

CAPITAL EXPENDITURES

Commission / Department / Area	Year-to-Date Actual (December 31, 2019) (\$)	Forecast for 2019 (\$)	% of Spending
<u>General Government</u>			
	242,474	4,593,880	5.3%
<i>Forecast Revisions</i>	-	(4,000,000)	
Total	242,474	593,880	40.8%
<u>Corporate Services</u>			
Information Technology	965,520	2,025,139	47.7%
Legislative Services	-	71,295	0.0%
<i>Forecast Revisions</i>	-	(1,000,000)	
Total	965,520	1,096,434	88.1%
<u>Community Services</u>			
Recreation & Culture Services	505,499	712,191	71.0%
<i>Forecast Revisions</i>	-	-	
Total	505,499	712,191	71.0%
<u>Development & Infrastructure Services</u>			
Planning & Building	836,937	914,737	91.5%
Roads	11,678,700	11,363,244	102.8%
Water	2,580,943	4,929,873	52.4%
Wastewater	109,305	211,137	51.8%
Storm Water	975,709	929,000	105.0%
Facilities	2,769,392	3,270,418	84.7%
Parks	2,037,133	7,936,081	25.7%
Trails	434,213	1,611,238	26.9%
Other	1,115,307	1,997,917	55.8%
<i>Forecast Revisions</i>	-	(11,000,000)	
Total	22,537,639	22,163,645	101.7%
<u>Library Services</u>			
	177,270	454,875	39.0%
<i>Forecast Revisions</i>	-	-	
Total	177,270	454,875	39.0%
<u>Central York Fire Services</u>			
	1,774,097	9,389,539	18.9%
<i>Forecast Revisions</i>	-	(8,000,000)	
Total	1,774,097	1,389,539	127.7%
GRAND TOTAL	26,202,499	26,410,564	99.2%

Investment Summary for the Twelve Months Ended December 31, 2019

Reserve Fund Investment Summary for the 12 Months Ended December 31, 2019

Description	Principal Amount		Starting Date	Term	January 1 to December 31, 2019			
	2019-01-01	2019-12-31			Interest Rate	Return on Investment	Benchmark Return	Incremental Income
Royal Bank	\$14,082,164	\$14,082,164	2017-09-21	Various	various	\$302,854	\$345,013	-\$42,159
National Bank	\$10,000,000	\$10,000,000	2018-05-11	3 years	2.93%	\$293,000	\$245,000	\$48,000
Bank of Nova Scotia	\$6,000,000		2018-12-10	1 year	2.85%	\$161,169	\$147,000	\$24,000
Bank of Nova Scotia	\$6,000,000	\$6,000,000	2018-12-10	2 years	3.26%	\$195,600	\$147,000	\$48,600
Bank of Nova Scotia	\$6,000,000	\$6,000,000	2018-12-10	3 years	3.33%	\$199,800	\$147,000	\$52,800
Bank of Nova Scotia	\$6,000,000	\$6,000,000	2018-12-10	4 years	3.43%	\$205,800	\$147,000	\$58,800
CIBC	\$6,000,000	\$6,000,000	2018-12-10	5 years	3.55%	\$213,000	\$147,000	\$66,000
CIBC		\$2,000,000	2019-09-30	4 years			\$12,485	-\$12,485
CIBC		\$2,000,000	2019-09-30	5 years			\$12,485	-\$12,485
CIBC		\$4,000,000	2019-11-21	5 years	2.64%	\$11,862	\$11,008	\$854
RBC Dominion Sec Royal Bank	\$0	\$3,437,665	2019-04-29	441 days	1.40%	\$67,797	\$56,995	\$10,802
RBC Dominion Securities BMO	\$0	\$3,448,431	2019-04-29	406 days	1.40%	\$67,963	\$57,173	\$10,790
Loan - Newmarket Soccer Club Development Charges and Planning Fees	\$24,686	\$17,953	2011-09-30	10 years	4.00%	\$822	\$503	\$319
Internal Loan -Solar Panels (2013, Various Facilities)	\$210,511	\$202,021	2013-12-01	20 years	3.00%	\$4,652	\$3,799	\$853
Internal Loan - RJT Solar Panels (2014)	\$540,714	\$520,736	2015-01-01	20 years	3.00%	\$11,967	\$9,773	\$2,194
Internal Loan - Magna Solar Panels (2015)	\$1,312,514	\$1,266,408	2016-01-01	20 years	2.70%	\$26,165	\$23,742	\$2,423
Internal Loan - Honeywell Streetlights Retrofit Project	\$7,611,715	\$7,362,829	2013-12-10	20 years	2.70%	\$151,906	\$137,841	\$14,065
Sub-Total	\$63,782,304	\$72,338,208				\$1,914,356	\$1,650,817	\$273,370
Incremental investment income included in 2019 Operating Budget, transferred to the Tax-Supported Operating Fund in 2019 per the Investment Strategy								\$75,000
Incremental investment income allocated to reserve funds in 2019 per the Investment Strategy								\$198,370

Operating Investment Summary for the Twelve Months Ended Dec 31, 2019

Description	Principal Amount		Starting Date	Term	January 1 to December 31, 2019			
	2019-01-01	2019-12-31			Interest Rate	Return on Investment	Benchmark Return	Incremental Income
Van City Credit Union	\$20,000,000		2018-10-10	90 days	2.50%	\$10,959	n/a	n/a
CIBC (matured 7/10/19) \$20MM			2019-01-11	180 days	2.83%	\$263,616	n/a	n/a
Sub-Total	\$20,000,000	\$0				\$274,575		