



Town of Newmarket
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2018 Preliminary Fourth Quarter Report – Operating, Investment and Capital Budget Summary Staff Report to Council

Report Number: 2019-37

Department(s): Financial Services

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Meeting Date: April 8, 2019

Recommendations

1. That the report entitled 2018 Preliminary Fourth Quarter Report – Operating, Investment and Capital Budget Summary be received; and,
2. That the reserve transfers totaling \$404,000 be approved; and,
3. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

See below.

Purpose

The purpose of this report is to advise Council on the preliminary fourth quarter results for 2018, including the investment summary and the capital budget, as well as to obtain Council approval for allocations of the surplus to reserves.

Background

In Corporate Services Information Report – Financial Services 2018-36, a year-end surplus of approximately \$370,000 was projected.

Discussion

Projected 2018 Tax-Supported Operating Results

While the full impact of Bill 148 legislation was somewhat hard to quantify, it was a cost driver in all departments and particularly in Recreation with the highest number of casual staff. Only \$280,000 was budgeted, with the higher costs being offset by savings in other areas.

Gapping was not as much of a factor as first estimated, due to higher casual wages used to offset some of these vacancies. Many of the vacant positions were filled by year-end, so this trend is not expected to continue to the same extent in 2019. Significantly higher casual wages in Recreation were also used to bolster some higher program revenues.

Waste management expenses were not as high as projected. Lower utilities reflect a return on our Honeywell investment by way of energy reductions. Higher consulting costs to litigate matters negatively impacted the Legal Department expenses. Interest revenue was favorably impacted by three interest rate hikes in 2018, as well as lower than budgeted capital spending. The 2019 budget has been increased to reflect this trend. Supplementary taxes, which are very difficult to predict were also higher than budgeted.

A surplus of \$404,000 is projected, prior to any transfers not authorized by budget, policy or delegated authority.

A transfer of \$50,000 to the Legal Reserve is recommended to ensure adequate funding for legal fees associated with various litigation matters, as well as real estate matters. One matter was settled in 2018 which drew on reserves. A transfer of \$200,000 to the Energy Reserve is also recommended as an operational contingency for a potential increase in utility costs. This is part of a strategy that will be outlined as part of the 2020 budget process. A transfer of \$100,000 to a General Capital Reserve is recommended to fund projects that do not have a dedicated funding source. A transfer of \$54,000 to the Efficiency/Enhancement Reserve is recommended for associated initiatives.

Included in the results are the following transfers, for which there is delegated authority, budget authorization or policy direction:

1. Transfers to Reserves

- i) A transfer to the Mulock Farm Reserve of \$945,000. The one-time budget savings on the Mulock Farm debenture will be set aside for future capital or operating requirements.

ii) A transfer of \$185,000 to the Winter Control Reserve represents the favorable budget variance in 2018. Weather is unpredictable and can fluctuate greatly from year to year. While costs were lower in 2018, winter weather events have continued well into March 2019 and higher costs are anticipated. Rather than including a contingency in the annual budget, the budget is based on a historic average and a reserve fund is used to manage fluctuations. This strategy is being considered for other areas such as supplementary taxes and utilities.

iii) A transfer of \$250,000, representing the favorable variance in Supplementary Taxes, will be available to assist with future fluctuations. This is also a strategic use of reserves similar to that used for Winter Control.

2. Transfers from Reserves Included in the 2018 Budget

i) \$10,000 from the Inauguration Reserve Fund to offset the cost of this event – which was under budget;

ii) \$347,000 from the Election Reserve to offset the costs – which was within budgeted levels;

iii) \$60,000 from the New Experimental Experience Rating (NEER) Support Reserve to cover some higher health and safety related expenditures.

3. Carryover requests totaling \$113,400 to assist with 2018 budget initiatives not completed during the year. The majority are carryovers for minor capital associated with the renovations and office moves at 395 Mulock Drive.

Central York Fire Services (CYFS)

Lower costs for consulting and the Wellness Program more than offset higher vehicle repairs, arbitration related expenditures in the contingency account and training costs for a new initiative. Lower wage and benefit costs were primarily due to gapping for retirements, leaves of absence, new hires, and other vacancies and is expected to result in an operating surplus of \$737,000. This surplus will be transferred to the CYFS Reserve Fund until a more fulsome review of the factors affecting CYFS is completed. The results were presented to the Joint Council Committee (JCC) on March 5, 2019.

Newmarket Public Library

The Newmarket Public Library is forecasting a surplus in the range of \$122,000 which will be transferred to the Library General Reserve pending a review of their reserve level policy.

Rate Groups

Water/ Waste Water/Storm Water

Rate revenues in water and wastewater were slightly higher than budget. Higher expenditures for water purchased from the Region include water used for flushing and swabbing at close to double the volume from last year. The costs due to flushing this year were over \$2 million. The system improved with the cooler water temperatures, which allowed for some reduced flushing. We are currently working with York Region on some potential operational changes that will hopefully improve the water quality and reduce some of the flushing.

In the Water Rate Group, an anticipated deficit of \$1.1 million will deplete their rate stabilization reserve fund (\$483,000) and therefore also necessitate reduced contributions to the asset replacement reserve fund (\$617,000). The Wastewater Rate Group finished the year with a surplus of \$328,000, which was transferred to their rate stabilization reserve fund.

Stormwater revenues were \$150,000 higher than budget, mainly due to unbudgeted grants. Expenses, particularly engineering related consulting and maintenance/catchbasin cleaning were below budget and the resulting surplus of approximately \$416,000 was transferred to their rate stabilization reserve fund.

These results will be factored into the updates of the 6 year financial plans due in September, 2019.

Building

Lower revenues (\$546,000 under budget) more than offset lower wage related expenses due to gapping. A budgeted transfer of \$1.2 million, \$348,000 higher than budgeted, from their reserve fund was required. The Reserve Fund is still at an adequate level.

Business Improvement Area (BIA)

The BIA posted a loss of \$2,310, which was offset by a transfer from their reserve. After the transfer, the balance in the reserve is \$22,710.

Investments/Active investments

The Investment Summary for the twelve months ended December 31, 2018 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 2.23 % (2017 – 1.85%) compared to a weighted average benchmark of 2.1% for the twelve month period. As the benchmark increases with each increase to the interest rate (there were four increases in 2018), the incremental income earned, \$91,023, was less than the \$175,000 budgeted transfer to the Tax-Supported Operating Fund, as approved by Council in the 2018 budget.

In December two GIC's totaling \$30 million came due. The proceeds were re-invested, using a ladder approach not exceeding 5 years.

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

- i) \$54,082,164 (84.8%) GIC's with major banks;
- ii) \$9,675,454 (15.2%) in non-traditional investments;
- iii) \$27,678 (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 October 2018, we purchased a \$20 million short-term, 90-day, GIC with operating funds.

Passive investments

We earned \$2 million in interest on our bank accounts, with the split being almost even between the operating accounts and the reserve fund bank account. With the focus on possible increases to interest rates and given the favorable rate of interest received on our bank balances, a conservative approach to investing was taken during the year.

Capital Carry-overs

The 2018 capital expenditure budget totaled \$56.2 million, after a general carryover of \$50 million. Actual expenditures were \$42.3 million, including \$24.5 million for the acquisition of the Mulock Farm Property. A preliminary total amount of \$52.8 million and \$7.2 million is to be carried over into 2019 and 2020 respectively. These are under review. A multi-year capital plan is being developed and will be presented to Council later this year.

Conclusion

Implementation of the recommendations in this report will place the Town in an improved position to deal with financial sustainability, potential fluctuations in the tax rate and unforeseen events. Once results are finalized and after the external audit, if there are any additional surplus funds they will be added to the transfer to Corporate Rate Stabilization to deal with the impacts of the legislation included in Bill 148 – “Fair Workplaces, Better Jobs Act, 2017”.

Business Plan and Strategic Plan Linkages

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

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 \$404,000. This report recommends that this amount be transferred to reserves consisting of \$50,000 for Legal, \$100,000 for General Capital, \$200,000 for Energy and the remaining \$54,000 to Efficiency/Enhancement. After the recommended reserve transfers and subject to the results of the audit, any additional operating surplus would be transferred to the Efficiency/Enhancement Reserve in accordance with policy.

Attachments

Investment Summary for the Twelve Months Ended December 31, 2018

2018 Fourth Quarter Capital Expenditures and Carryovers

2018 Fourth Quarter Preliminary Operating Results

Approval

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

Lisa Lyons
Acting Commissioner of Corporate Services

Contact

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