

## Financial statement discussion and analysis

The Town of Newmarket's consolidated financial statements have been prepared in accordance with reporting standards set by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The consolidated financial statements include the financial results of:

- Town of Newmarket;
- Newmarket Public Library Board;
- The Main Street District Business Improvement Area;
- The Town's proportionate share of the joint venture with the Town of Aurora – Central York Fire Services

The Town's investment in Newmarket Hydro Holdings Inc. is accounted for on a modified equity basis.

A selection of financial indicators are explained below:

2018 Financial Highlights	2018	2017
Financial position	\$585,258,003	\$572,492,634
Financial position refers to the net position of assets in excess of liabilities. Positive balances indicate the Town's ability to cover debt obligations and to have funds set aside for future sustainability. Year over year the balance is increasing. Continued focus on increasing assets, while lowering liabilities will keep this indicator on a positive trend.		
Capital reserves as a % of accumulated amortization	12.4%	11.2%
Capital reserve contribution/amortization	99.2%	101.2%

These two ratios show the level of reserve funding for future capital purposes compared to the total depreciation to date and to the current rate of amortization. The more the Town funds capital reserves as compared to the annual amortization expense, the more the infrastructure gap narrows.

The breakdown of the capital reserve contribution/amortization was as follows:

Tax-supported	70.6%
Utility (W/WW) rate supported	246.2%

The breakdown of capital reserves/accumulated amortization was as follows:

Tax-supported	-10.3%
Utility (W/WW) rate supported	45.8%

2018 Financial Highlights	2018	2017	2018 BMA Study
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Receivables as % of total taxes levied (includes Region and School Board)	2.4%	2.3%	5.1%
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Uncollected property taxes as a percentage of total taxes charged is a good indication of the strength of the local economy and the ability of the community to pay their annual taxes. The Town has a low ratio showing good economic health, increased liquidity, and strong controls over tax collection. Credit Rating agencies consider over 8% a negative factor. In a financial sustainability indicator review of 21 municipalities in the Greater Toronto Area from the 2018 BMA study, the average was 5.0%. Newmarket's results were the second lowest of those polled in the GTA, with only Mississauga posting better results.

Asset consumption ratio	37.3%	37.5%	41.8%
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The asset consumption ratio shows the value of the tangible capital assets that have been consumed. Total accumulated amortization is calculated as a percentage of the gross cost of depreciable assets. This ratio highlights the aged condition of the Town's physical assets and potential asset replacement needs. A higher ratio may indicate significant replacement needs. Out of 102 municipalities in the 2018 BMA study, the average was 41.8% which is considered to be moderately new.

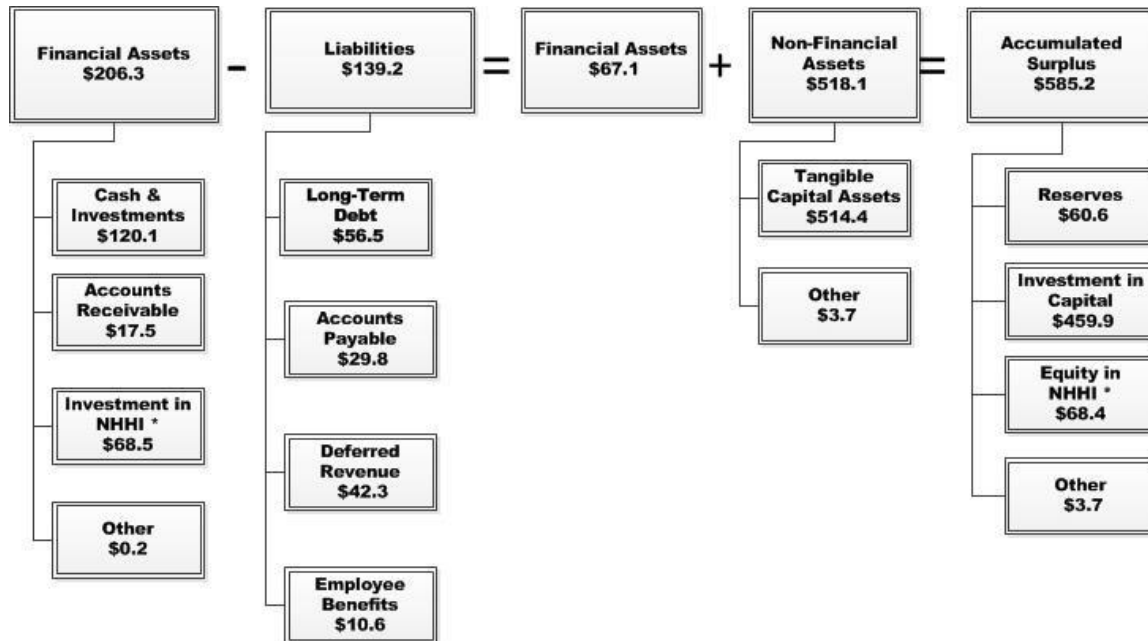
Debt service costs as a % of own source revenues	4.3%	4.4%
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This ratio indicates the extent to which the Town's own source revenues are committed to debt charges. The Ministry of Municipal Affairs and Housing considers a ratio between 5% and 10% to be a moderate risk and a ratio below 5% to be low risk. This is the same calculation as that used for the Annual Repayment Limit.

\*based on average results from the 2018 Municipal Study

## The Consolidated statement of financial position: Overview

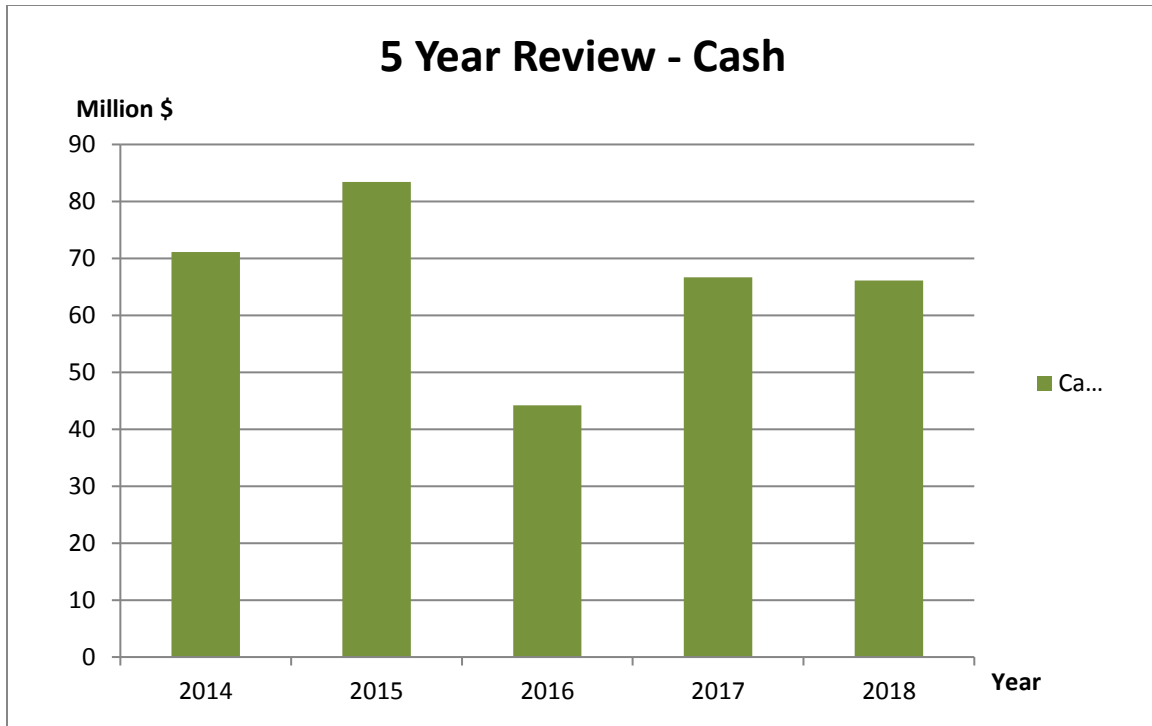
The Consolidated Statement of Financial Position highlights key financial figures. The chart below presents the information reported in the Consolidated Statement of Financial Position (in millions).



\*Newmarket Hydro Holdings Inc.

### **Cash resources**

The Town's cash position is closely managed and remains adequate, along with short-term investments, to meet ongoing cash requirements. Management considers all highly liquid investments with maturity of three months or less to be cash equivalents. The year-end cash position has decreased slightly to \$66.1 million from \$66.7 million in 2017. For the majority of the year, we were receiving a better interest rate on our bank balance than what we could earn on a short-term investment.



Cash inflows from growth and development decreased in 2018, while cash flow from government transfers and investment income increased. Outflows for capital works increased, due to the purchase of the Mulock Farm property and a debenture of \$26 million was also secured. This resulted in an overall decrease of only \$600,000 in cash and cash equivalents.

### ***Net Financial Asset Position***

Financial assets include cash and other assets expected to be converted to cash, sold, or consumed within a year. The Town ended the year with net financial assets totaling \$67 million (2017 - \$83 million), a decrease of \$16 million. This balance is calculated as total financial assets less liabilities and represents the amount available to finance future operations. The decrease is largely due to the additional debt assumed to finance the acquisition of the Mulock Farm property.

### **Deferred revenue**

Deferred revenues are considered liabilities until the funds are spent or used for their intended purpose. The major deferred revenues include:

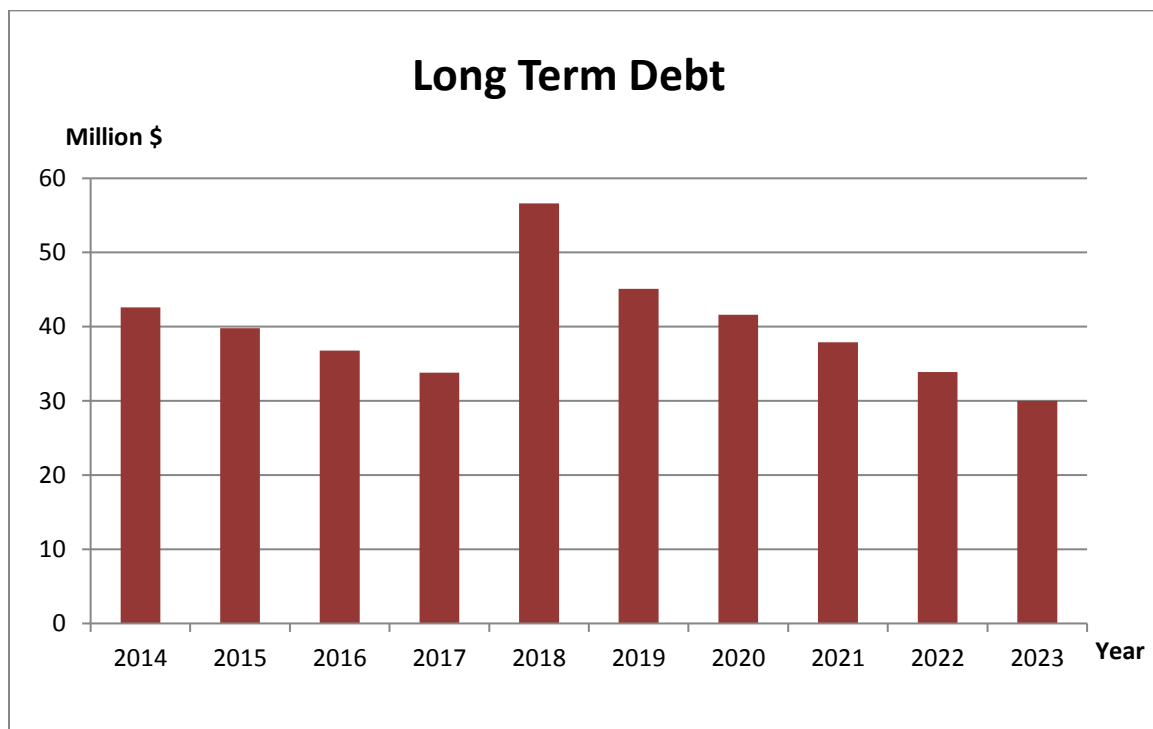
- development charges;
- building permit revenue;
- Federal gas tax and other grants;
- parkland cash in-lieu;
- engineering administration revenues.

In 2018, the Town collected \$7.4 million in development charges and allocated \$3.8 million to capital projects.

### Long-term debt

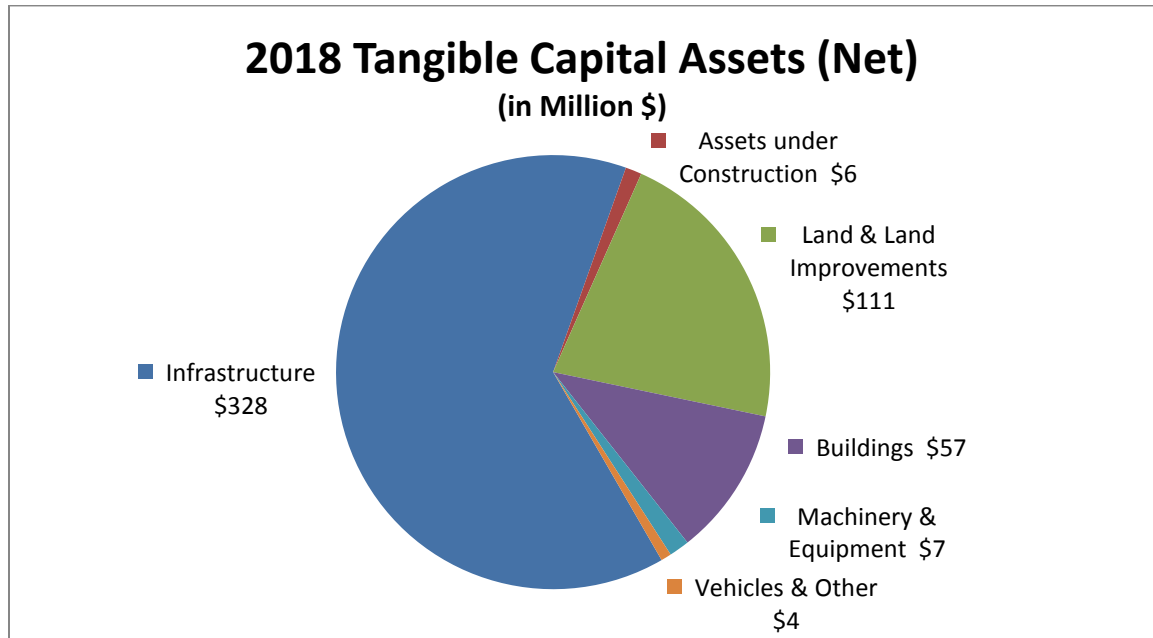
A significant component of the financial liabilities is the Town's long-term debt. A new debt policy was adopted in May 2018 that established the criteria for loans. Generally, debt financing is only available for capital expenditures included in the Asset Management Plan when other sources of financing are not available. The revised Policy continues to have a servicing limit (principle and interest) equal to 10% of the Town's own source revenues which is lower than the 25% limit that the province allows municipalities.

In 2018, the Town's actual debt servicing was 4.3% (2017 – 4.4%) - well within policy limits. While a debenture for the Mulock Farm was acquired in 2018, the first payment was not until early 2019. If payments for the Mulock Farm had been included in the calculations the debt servicing would have been 5.5%. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$94.7 million and still remain within its 10% debt servicing (borrowing) limit. \$3.0 million of principal was repaid in 2018. Debt represents 11.0% of the net book value of Town's tangible capital assets (2017 – 6.9%).



The Town's long-term debt position reflects the pattern of investment in major infrastructure projects. In 2018, a 30 year \$26 million debenture was issued by Infrastructure Ontario through York Region for the purchase of the Mulock Farm property. In 2019, the debentures for the Operations Centre are scheduled to be paid off which account for almost \$8 million of the repayments in that year.

### ***Non-financial assets***



The 2018 capital expenditure budget totaled \$106.2 million, before an unallocated carry forward of \$50 million. \$100.8 million of this amount was budgeted for tangible capital assets (TCA), with the remainder being major repair and maintenance expenses and items below the threshold for TCA. Of the TCA budget, 56% or \$56.1 million was projected to be completed in 2018. However, only \$39.0 million (38.7%) of TCA were added in 2018, including \$24.6 million for the acquisition of the Mulock Farm property.

One of the Town's goals has been to develop a sustainable capital financing strategy. A review of the Town's asset replacement funds took place to determine what the financial requirements will be to replace the Town's assets and how the Town's annual contributions to these reserve funds compare. Additional capital levies of 0.84% (2013), 0.74% (2014), 1% (2015), and 0.8% (2016) were added in recent years. The 2017 contributions to the asset replacement funds were maintained at 2016 levels. An additional capital levy of 0.68% was added in 2018.

An initial asset management plan was developed in 2014 and a charter for an Asset Management Committee has been created. In 2016 and 2017 the focus was on developing an asset management strategy. We now have an approved asset management plan and strategy and work continues and is on track to meet provincial regulations.

The Town's tangible capital assets (net of amortization expense) increased by \$27.7 million in 2018 compared to an increase of \$11.0 million in 2017.

### ***Accumulated surplus (deficit)***

The Town's accumulated surplus for fiscal 2018 is \$585.3 million (2017 - \$572.5 million). The accumulated surplus reflects the resources that have been built up over time at the Town of Newmarket and the balance includes items such as tangible capital assets, equity in Newmarket Hydro Holdings Inc., and various reserves and reserve funds.

## ACCUMULATED SURPLUS

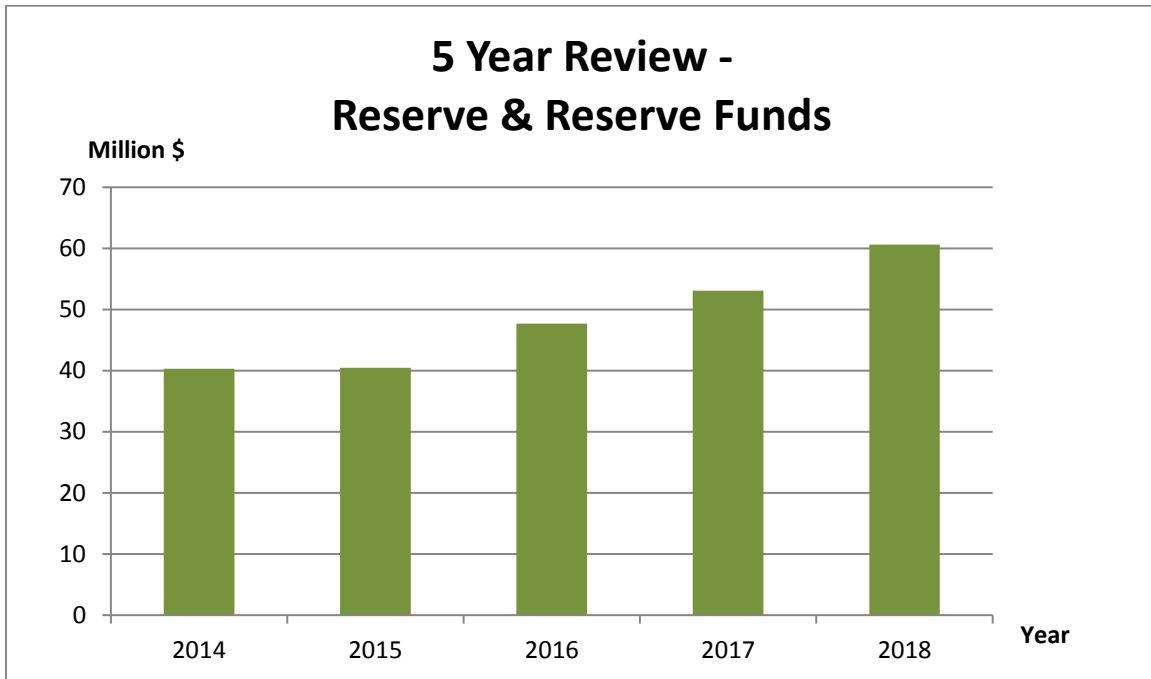
The Accumulated Surplus is comprised of the following:

	2018	2017
<b>Reserves set aside for specific purposes by Council</b>		
Reserves for operating purposes	\$ 9,023,031	\$ 6,087,935
Reserves for capital purposes	892,560	1,142,211
Newmarket Public Library	788,832	728,743
Water & Wastewater Rate Stabilization	3,559,211	4,863,356
<b>Total Reserves</b>	<b>14,263,634</b>	<b>12,822,245</b>
<b>Reserve funds set aside for specific purposes by Council</b>		
Asset replacement funds	31,053,913	27,953,992
Reserve funds for operating purposes	4,623,167	4,155,026
Reserve funds for capital purposes	5,966,378	3,492,415
Self-insured long-term disability	4,738,991	4,635,192
<b>Total Reserve Funds</b>	<b>46,382,449</b>	<b>40,236,625</b>
<b>Total Reserves and Reserve Funds</b>	<b>60,646,083</b>	<b>53,058,870</b>
Invested in tangible capital assets	514,435,905	486,710,874
Less: amount financed by long-term debt	(56,562,744)	(33,733,250)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	68,452,251	68,949,579
Employee future benefits to be recovered	(4,244,080)	(3,981,545)
Operating	528,623	-
Capital Fund Balance	2,001,965	1,488,106
<b>Accumulated Surplus</b>	<b>\$ 585,258,003</b>	<b>\$ 572,492,634</b>

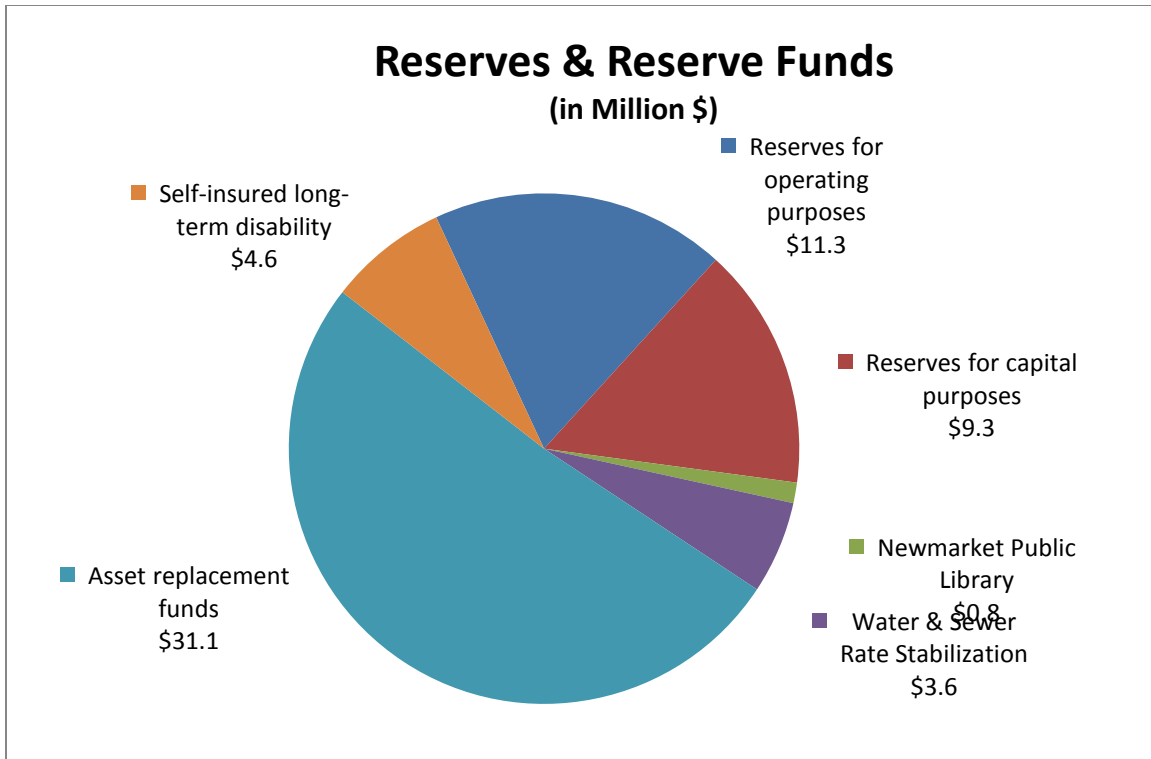


## Reserves and Reserve Funds

Reserves and reserve funds are used to set aside funding for the future replacement of the Town's assets, as well as other expected and unexpected obligations. They also help to minimize potential fluctuations in the tax and utility rates, which is commonly referred to as Rate Stabilization.



The total of the Town's reserves and reserve funds at the end of 2018 was \$60.6 million, an increase of \$7.6 million from the beginning of the year. One factor is an increase of \$3.1 million to the asset replacement reserve funds, due to lower spending on capital projects. The other factor is an increase of \$2.9 million to operating reserves due to the addition of a new reserve for the Mulock Farm with a year-end balance of \$2.3 million.



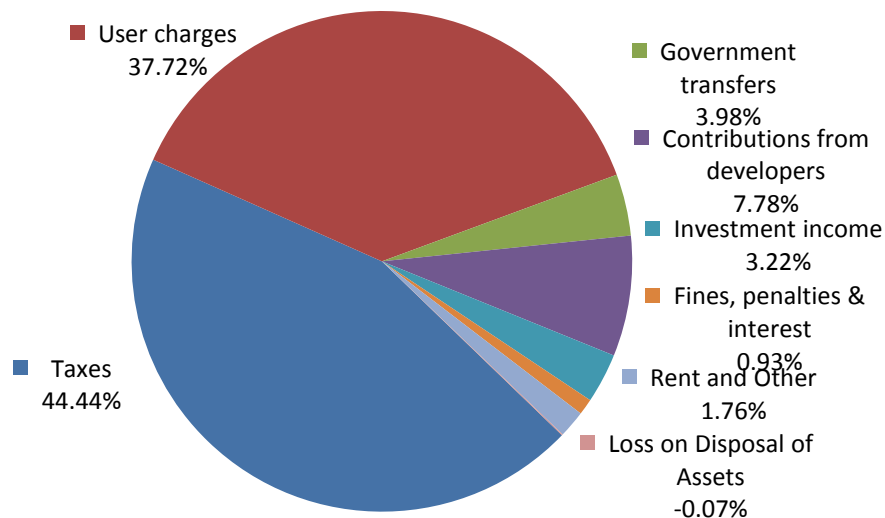
## Consolidated statement of operations and surplus

The consolidated statement of operations reports the revenue collected by the Town, the cost of providing municipal services and the resulting annual surplus or deficit.

### **Revenues**

The Town pays for the services it delivers through a variety of revenue streams including property taxes, user charges, government transfers, contributions from developers, investment income, fines, penalties and interest; rent, land sales, and the sale of goods.

## 2018 Revenue Components



Revenue highlights for 2018 include:

- While property taxes increased by \$4.2 million, total revenue decreased by \$2.8 million due to a significant decrease in developer contributions. This resulted in an increase of 3.87% to the percentage of Town revenue from property taxes in 2018. Reducing our dependence on property taxes is one of the Town's financial goals.

Supplementary taxes are difficult to predict and sustain. Actual billings in 2018 were \$902,000 which exceeded the 2017 level of \$614,000 and the budget of \$550,000. Over the previous six years we have seen a high of \$1.2 million in 2013 and a low of \$402,000 in 2012.

Write offs and provisions, which reduce tax revenues, were at the same level as 2017. The Assessment Review Board introduced a totally new process in 2017 which has delayed the start of many appeals. This similarly affected the write offs processed in 2018.

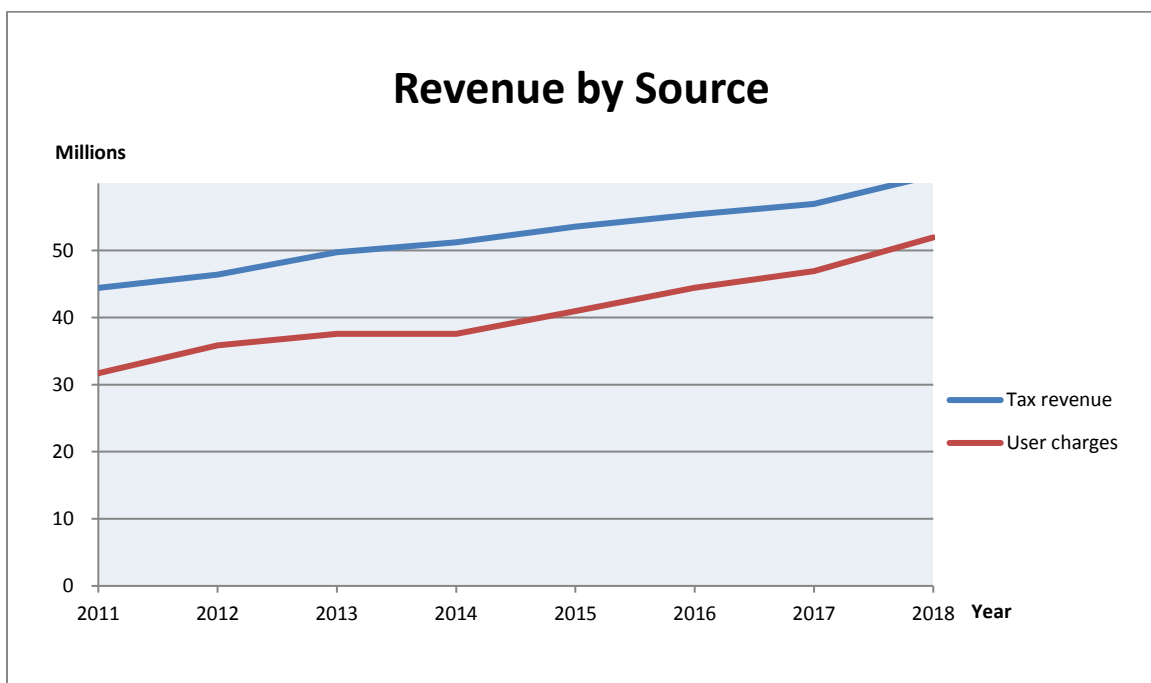
Charity rebates have remained at relatively the same amount over the last 3 years (an average of \$245,000). The number of applications has increased from 37 to 42. Vacancy rebates decreased in 2018, as the number of applications decreased from 78 to 48. This plan was eliminated for the 2017 tax year which meant 2018 was the final year to process rebates. The proactive assessment management plan, started in 2014 continues with a shifted focus to undervalued or missing assessment along with open appeals.

- User charges include water and wastewater revenues, recreation program revenues, license fees, and building permit fees. The majority of user charges are water and wastewater revenues where the average resident's bill

increased by 5.1% from 2017. Average increases for commercial and industrial properties ranged from 7.9% to 9.2%, depending on meter size. The fee increases included an increase in consumption fees of 8.0% for water and 2.5% for wastewater. The basic monthly charge increased by \$1.19 for water and \$.43 for wastewater for small meters.

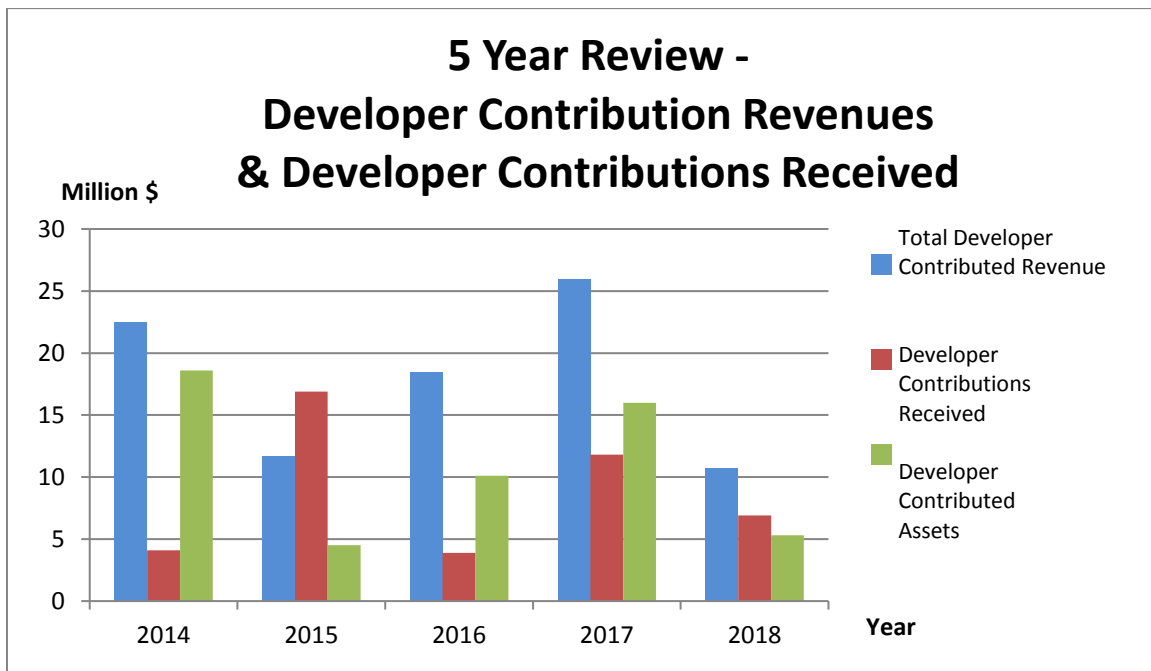
Building permit revenues were 67% lower than in 2017 and 51% less than the budgeted amount. In 2017 the accounting treatment for building permit fees was changed, which accounted for \$385,000 of the \$2.1 million year over year decrease. \$1.2 million from the Building Permit Reserve Fund was drawn upon. There has been no price increase to the fees for many years. A review of the fee structure was undertaken in 2015 by BMA Consulting which resulted in a modified fee structure in 2016.

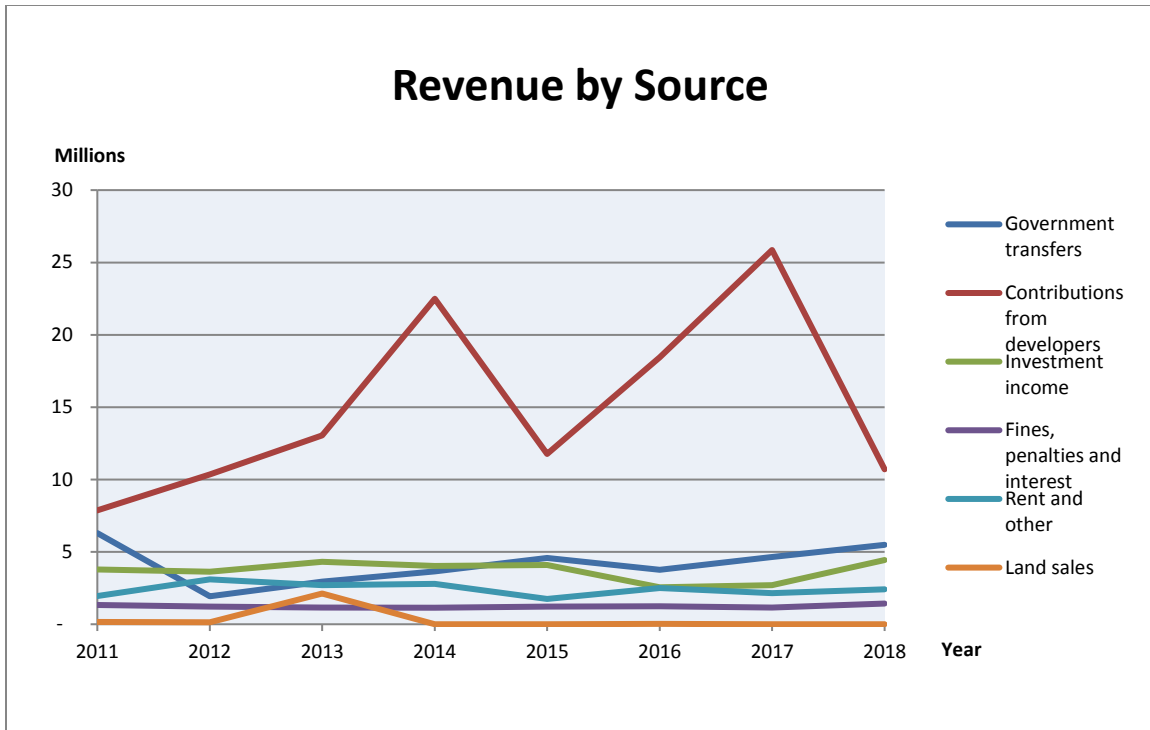
Fees and charges for recreation and culture programs and services were increased on average by 2.7% over 2017.



- Government transfers were only 52% of the budgeted level, but 18% above 2017 levels. Most grant funding is only received after costs have been incurred. Road projects financed from the Federal Gas Tax were lower than budget by \$3.6 million, as some projects were not completed in 2018. Multi-year capital budgeting, a key recommendation that came out of the Capital Financing Sustainability Strategy, should result in more accurate budgeting of expenditures and the related financing.

- Contributions from developers were \$15.1 million lower than in 2017, mostly due to the significantly lower level of contributed assets (\$5.1 million vs. \$16.0 million in 2017). Tangible capital assets contributed to the Town included many road segments and the associated infrastructure and sidewalks constructed in 2007 and 2005. The assumption of subdivisions is not budgeted for, as the amounts and timing are very difficult to predict (see the red line on Revenue by Source chart below). Capital fund developer contributions are mostly development charges (DC's) and are driven by financing requirements for capital projects.





- Interest earned in the Operating Fund was significantly over budget in 2018. There were three increases to the prime lending rate which resulted in a similar increase to our bank interest rate. Short-term rates were also close to the interest rate earned on our bank balances throughout the majority of the year which did not provide an incentive to the Town to invest.

In the Reserve Fund \$30 million in short-term GIC's came due in December. The funds were reinvested in 5 tranches of \$6 million using a laddered approach not exceeding 5 years. We also continued to invest in some secondary market GIC's. These are GIC's bought back from clients who need to get out of their non-cashable GIC's before maturity and purchased by the Town through one of our investment brokers – Royal Bank of Canada – often with better yields than regular GIC's. Interest on these GIC's is reported based on their effective yield, in accordance with Public Sector Accounting Standards.

Our investments also include a number of non-traditional investments – loan to a user group, the installation of solar panels, and the energy retrofit project. The lack of a multi-year capital budget makes cash forecasting and long-term investing problematic. This will be addressed more in 2019 with an updated budget target methodology.

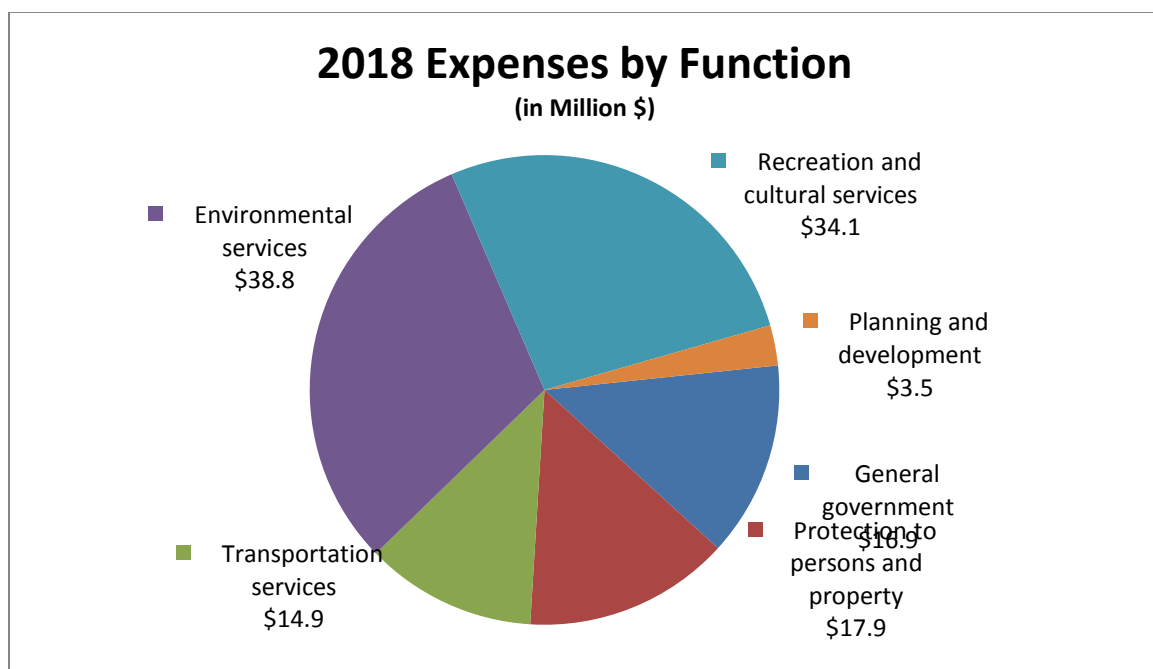
- Rent and Other continued to come in below budget. In 2018, as in 2017, a portion of the construction and design of the new fire station was budgeted by Newmarket, with Aurora's portion reflected as other income. The design phase started in 2017, was finalized in 2018, and the request for quote process took place this year (2019). Therefore, there was only a small

contribution from Aurora in 2018 for their proportionate share of the design costs. This is the biggest driver for the variance

- Gains (losses) on the disposal of tangible capital assets are not budgeted. However, when roads, trails or walkways are reconstructed any remaining unamortized cost represents a loss, as there are no proceeds.

## Expenses

The Town provides a wide variety of municipal services to its residents. The chart below provides an overview of these services by functional activities, consistent with provincially-legislated requirements.



Some of the major services included in each category are:

### **General government:**

Finance, Human Resources, Information Technology, Communications, Legal, Customer Services, Clerks Office, Council and Executive Office expenses

### **Protection to persons and property:**

Fire services, Licensing, and Bylaw Enforcement

### **Transportation services:**

Roads and Road Maintenance, Snowplowing, Operations and Capital Projects Engineering

**Environmental services:**

Water and Wastewater Services, and Solid Waste Collection

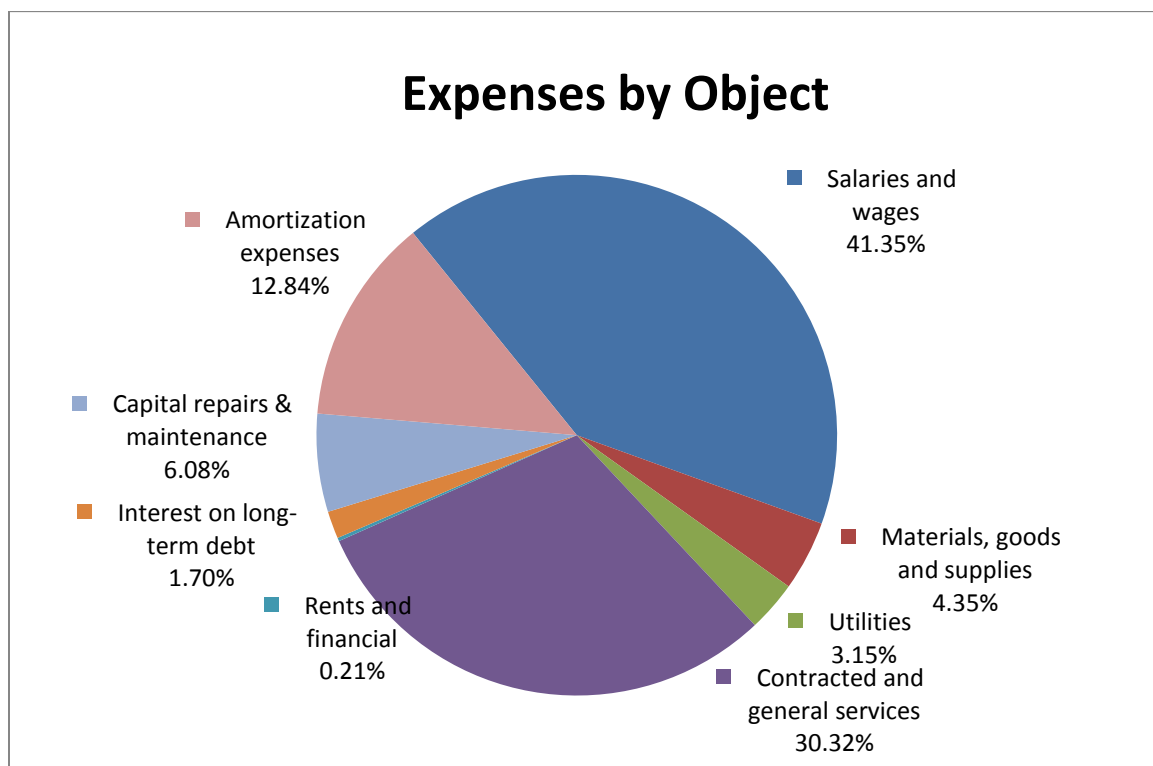
**Recreational and cultural services:**

Programs and Facility costs at all Recreation Centres, Parks Maintenance, Library, Theatre and Museum

**Planning and development:**

Planning and Building, Engineering and Development, and Economic Development

*Schedule 2 to the Consolidated Financial Statements (pages 28-30) shows a breakdown of these costs by service bundle.*



Total expenses in 2018 were \$126.1 million, an increase of \$10.6 million over 2017.

- Salaries, wages and benefits are the most significant component of the Town's costs and have increased by \$4.4 million over 2017. The economic increase in 2018 was 1.7%. 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.



Higher casual wages were incurred to back fill for vacancies caused by delays in hiring and long term absences, legislative requirements and to earn higher recreation program revenues.

- Materials, goods and supplies increased by 18%. Minor capital, water meters and materials for main replacement, equipment rental, and repairs and maintenance are included here.
- Contracted and general services have increased by 17% from 2017 levels. Charges from the Region for water and wastewater are the biggest component of this expense category where the increase was 9% for both the treatment and distribution of water and the collection and treatment of wastewater.
- Capital repairs and maintenance includes capital expenses that do not meet the definition of TCA and annual maintenance programs. Some examples include parks spot improvements, playground equipment replacement, playground resurfacing, sidewalk spot repairs and trail rehabilitation. These expenses were 9.4% lower than 2017 levels. In 2017 there were several maintenance programs for drainage improvements.
- Amortization (or depreciation) has increased by 2.1% over 2017.

### *Annual (current year) surplus*

The annual (current year) surplus for the year was \$27 million.

<b>ANNUAL SURPLUS RECONCILIATION</b>	
<b>Surplus based on operating fund</b>	<b>\$ 2,937</b>
<b>Add:</b> Principal payment on long-term debt	3,039,413
Contributed tangible capital assets	16,026,283
Acquisition of tangible capital assets	11,328,839
Income from Newmarket Hydro Holdings Inc.	818,784
Capital Fund revenues	1,061,892
Reserves and reserve funds revenues	11,137,306
<b>Less:</b> Financing from future revenue	(207,072)
Amortization expenses	(15,939,545)
Loss on disposal of tangible capital assets	(266,020)
Prior period adjustment made in current year	-
<b>Surplus Per Consolidated Statement of Operations</b>	<b>\$ 27,002,817</b>