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Financial Services and Fire Services Staff Report 2019-28 – CYFS Reserve Fund

Report Number: Joint Central York Fire Services and Corporate Services Report –
Finance 2019-28

Department(s): Financial Services

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Meeting Date: October 22, 2019

Recommendations

1. That the report entitled CYFS Reserve Fund dated October 22, 2019 be received; and,
2. That the unallocated portion of Central York Fire Services reserve fund be transferred to the CYFS Asset Replacement Fund, and;
3. That this practice be applied both to the current unallocated portion and to any future unallocated portions, and;
4. That any additional funding requirements for the construction of Station 4-5, beyond the initial budget allocation of \$11 million be satisfied by the Asset Replacement Fund, if additional expenditures are appropriately authorized, and;
5. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

Operational surpluses provide an opportunity to address capital funding challenges.

Purpose

The purpose is to report to the Joint Council Committee (JCC) on the status of Central York Fire Service's (CYFS) operational reserve fund. This follows up on report 2019-05, which presented the preliminary 2018 operating results and surplus.

Background

CYFS 2018 operating results was a \$737,000 surplus

The preliminary 2018 results, reported in March, projected a budget surplus of \$737,000. These funds were transferred to the reserve fund pending a review of the how to employ them.

The actual audited surplus was \$736,843.

There is now \$1.5 million in the reserve fund.

When the 2018 surplus was transferred to the CYFS` operational reserve fund, the reserve fund balance was increased to \$1,534,354.

JCC has adopted the recommendations of Financial Services report 2015-46 that established a target level to include:

1. 50% of CYFS' total annual budget for the most volatile expenditure items such as overtime, fuel, vehicle repairs, utility costs, and legal costs.
2. Net contributions for light vehicle purchases.
3. Other contingency amounts defined by JCC from time to time.

Discussion

The current reserve fund includes \$926,000 of unallocated funds.

The current target level for the reserve fund is calculated as follows:

1. 50% of volatile expenditure, which based on the 2019 budget is \$607,753.
2. There is no longer a requirement for light trucks, as they are now included in the Asset Management Plan and replacements are funded by the Asset Replacement Fund.
3. Other than the 2018 surplus, which has been temporarily assigned to the reserve fund pending a decision on its application, there are no contingencies currently defined by JCC.

As a result, the reserve fund has an additional \$926,601 beyond its requirements. This represents the 2018 surplus and funds previously set aside for the light trucks (which are no longer required as they duplicate funds set aside in the Asset Replacement Fund).

Additional surpluses of \$950,000 to \$1.5 million are still to be realized.

Using hiring gaps, (extending the time to fill budgeted positions) will result in significant savings.

Delays in completing the seventh crew could result in savings of \$200,000 to \$750,000, depending upon the scenario chosen. (The Chief has previously presented options.) These positions have been included and funded in the growth plan but are not required until 2020 at the earliest.

In addition, there are vacancies created through retirements and for other reasons. These currently are being covered by the staff who have been hired for the seventh crew and so do not result in overtime costs. The savings could be up to \$750,000 in 2019.

There may be net savings in other areas of the budget. The current projection for 2019 is a potential \$1 million surplus.

JCC has potentially \$1.9 to \$2.4 million to allocate.

Combining the above factors, there is a substantial sum to assign. It should be emphasized that this is a one-time surplus which should not be expected to be repeated. Operations will change significantly when Station 4-5 becomes operational.

Some of the options are:

1. Distribution to the Towns of Aurora and Newmarket.
2. Contingency for the transition of potential future revenue adjustments.
3. Supplementing capital reserves - the Asset Replacement Fund is projected to be in a temporary deficit position until 2023.
4. Additional funding for Station 4-5.
5. A combination of the above.

Distribution to the Towns of Aurora and Newmarket should only be considered if there are no other needs. This “dividend” may not reoccur and could result in requests for additional fund in the future. There are identified needs.

A contingency for the transition of potential future revenue adjustments has been built into the 2021-2022 budget outlook. This is a more effective and sustainable method, and if acceptable a reserve fund provision is not required.

The Asset Management Plan projected peaks in capital replacement requirements in 2021 and 2027. The 10-year Financial Plan took this into consideration by increasing Asset Replacement Fund (ARF) contributions by \$200,000 annually to address 2021. If additional funds are put into the ARF then a lower level of increases are required to address 2027. This could save \$100,000 per year of increases starting in 2021. For this reason, supplementing the Asset Replacement Fund is recommended.

Should the budget be increased for station 4-5 and additional funding be required, it is recommended to come from the Asset Replacement Fund. This replaces further draws on the Development Charge (DC) reserve funds for fire, which for both municipalities are projected to be in deficit positions.

For this to be compliant with Newmarket's policies, we would categorize the non-growth (DC funded) portion of the station 4-5 project to be replacement capital. This is reasonable considering that training and fire prevention activities are being transferred to the new facility.

Conclusion

The recommendations in this report coordinate with the proposed CYFS operating and capital budgets for 2020.

Business Plan and Strategic Plan Linkages

By assisting in the development of reserve fund planning, this report links to Newmarket's key strategic directions of Long-term Financial Sustainability and its second priority of aligning multi-year operating and capital budgets with financial policies.

Consultation

The Fire Chief has confirmed that there would be no negative operational impact from the hiring delays. The CAO's and Treasurers of the two municipalities have reviewed this report in advance of its presentation.

Human Resource Considerations

N/A

Budget Impact

Potentially, operational surpluses could provide \$2.4 million to support the CYFS capital program.

Attachments

None

Approval



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Contact

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