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Financial Update Staff Report to Council

Report Number: 2020-34

Department(s): Financial Services

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

Meeting Date: May 19, 2020

Recommendations

1. That this report entitled Financial Update Staff Report to Council be received; and,
2. That staff be directed to further investigate mitigating measures to lessen the financial impact of the pandemic on the Town, and to report back on the results; and,
3. That changes to the 2020 capital program, and additions to the 2021 capital spending authority be made as detailed in this report; and,
4. That staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

The figures presented in this report are the best information prepared at a certain point in time: these are estimates under the current understanding and measures in place. As the Province brings in changes to regulations during the emergency period, then costs and savings are subject to fluctuation.

The COVID-19 pandemic could create a deficit of up to \$8.5 million for the Town of Newmarket's tax-supported operating budget. Some mitigating measures can be applied to this but they have not been quantified yet.

The impacts on the rate-supported and capital budgets are expected to be much less and manageable.

Purpose

The Financial Services department prepares a quarterly Operating, Capital, Water & Wastewater, Stormwater, and Investment Summary report – now referred to as the Financial Update. The report serves the following purposes:

- Updates on year to date results and a projection of year end results for:
 - The tax-supported operating budget
 - The rate-supported operating budgets (water, wastewater and stormwater)
 - The capital budget
- Treasurer's opinion on investments

The operating budget updates will focus on the projections. The first quarter results are usually not significant and are even less so due to the pandemic, the impact of which only started mid-March.

The capital budget update will focus on recommended changes to the capital program.

Background

OPERATING BUDGETS

On December 2, 2019, Council approved the 2020 budgets. This included operating budgets with a 2.99% tax increase and a 4.92% combined water / wastewater rate increase. The budgets were balanced, as required by section 290 of the *Municipal Act*.

The COVID-19 pandemic now challenges these budgets.

Council was presented with two reports at its special electronic meeting held on April 27, 2020. Report 2020-27, Newmarket's Response to COVID-19, details the Town's response and the effects on municipal operations, activities and initiatives to date. Report 2020-28, Financial Relief Program, outlines the measures to be taken by the Town, with a projected cost of up to \$930,000.

CAPITAL BUDGET

Also on December 2, 2019, Council approved a \$37.8 million capital budget. It also introduced the concept of a capital plan which includes:

- The Capital Budget - total approved funding for annual capital expenditures and the required funding sources.
- The Capital Program - the list of projects contained within the Capital Budget.

It recognized that changing circumstances could result in projects being reduced, deferred or cancelled, and replaced by other projects for which there is adequate funding. In the regular quarterly reporting, any required changes in the Program would be requested.

Discussion

TAX-SUPPORTED OPERATING BUDGET

A tax-supported loss of up to \$9.2 million can be attributed directly to the COVID-19 pandemic. Two scenarios are presented based on a re-opening of Town services to the public. July 1 and September 1 openings are arbitrary dates and the exact dates will vary based on the staged recovery plan outlined by the Province and the specific openings and timing they feel comfortable with. These figures are estimates and represent a range of what is expected.

	July 1	September 1
Financial Relief Program	\$ 930,000	\$ 930,000
Emergency Response	725,000	990,000
Lost user fee revenues	2,000,000	2,300,000
Other operating losses	3,300,000	3,800,000
Recovery	500,000	500,000
	\$ 7,455,000	\$ 8,520,000

Financial Relief Program

The cost of the mitigating measures was outlined in report 2020-28, Financial Relief Program. The range given was \$810,000 to \$930,000 – depending on decisions to be made by York Region. York Region Council chose an option in the middle of our range; however, tax payments are 4% below of what we had projected.

As a result, \$930,000 is a reasonable estimate.

Emergency Response

The Town is tracking incremental expenses related to the COVID-19 pandemic. This is being done for accountability and potential reimbursement if emergency grants become available.

The additional costs include cleaning, protective equipment, communications, technology, and paid absences. The projection includes \$127,000 in one- time costs and \$133,000 per month.

Lost user fee revenues

Closing facilities and the deferral of construction activity during the lockdown has had a major impact on our user fee revenue. Some municipalities title this as a “burn rate” and apply a monthly average. Our business fluctuates with the seasons, so we did a line by line review.

There are some off-setting cost savings – costs directly attributable to service delivery such as casual and seasonal wages and utilities. The projections have applied these numbers.

Approximately 68% of the net loss is attributable to Recreation and Culture.

Other operating losses

In addition to reduced user fee revenue, there are some corporate revenues for which provision is being made.

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. This would normally be \$1.3 million.

The slower economy could result in some businesses not paying their property taxes. Payment of these taxes are guaranteed by our right to enforce our liens with tax sales, but we are still vulnerable to tax assessment adjustments that might occur. \$250,000 is provided for this.

The hit on our cashflow will reduce our ability to invest excess funds. Funds that can be invested will be done at a much lower rate due to the significant drop in the prime rate from 3.95% to 2.45%. As noted in the report on investments below, while our active investments are locked in at their pre-pandemic rates, our passive estimates (bank balances) are earning significantly less.

The pandemic is disrupting delivery of Town services and adding additional costs as a result. These are estimated to amount to be in the range of \$1.5 to \$2 million, depending upon how long the emergency lasts. This is addition to the costs for emergency response and recovery.

There may be mitigating measures – referenced below.

Recovery

Whether we re-open July 1 or September 1, operations are expected to take at least 3 months to return to pre-pandemic levels. This is essentially user fee revenues. In addition, there will continue to be some additional expenses – cleaning, protective equipment, education, enforcement, etc.

We do not have a comprehensive estimate for what this may cost, so have applied an allowance of \$500,000. This is based on our level of losses during the lockdown proportional to analyses done by other municipalities.

Mitigating measures

Staff are investigating options to reduce the projected 2020 deficit. These include:

- Staffing
 - Management of staff vacation time
 - Staff redeployment to critical and essential service areas
 - Restrict hiring to only essential and critical staff (hiring freeze for new and vacant positions)
- Expense reductions
 - Freeze on discretionary expenses
 - Limiting out of province travel
 - Cancelling all training not required to maintain professional accreditation;
 - Restricting conferences to board members.
- Service levels reductions, in areas such as:
 - Parks maintenance such as grass cutting (reduced frequency)
 - Playground surface repairs and maintenance and playground equipment replacement
 - Tennis court and trail rehabilitation and repair
 - Tree planting including EAB related tree removals and planting
 - Spot improvement in parks, facilities, and sidewalk
- Financial Tools
 - Use of the 2019 surplus and reserves
 - Review of our investments, including Newmarket Tay Power.

Subject to further analysis and what options are selected, potentially the deficit could be reduced by 50%.

RATE-SUPPORTED OPERATING BUDGETS

The first quarter results for water, wastewater and stormwater do not indicate that there are any issues. The pandemic is not expected to change this.

Negotiations are underway to obtain compensation from York Region for water quality issues (flushing). This could provide a significant financial benefit.

Stormwater billing will be added to the utility bills in November, 2020.

CAPITAL PLAN

The 2021 capital budget included a major change from the process of previous years. These changes are listed in the Background section of this report.

Analysis was limited during the transition. Consequently, some projects that were approved for 2019 had unanticipated residual expenditures carried over into 2020. These expenditures were previously approved by Council and have been subject to appropriate Procurement procedures. Currently, these amount to \$780,000.

Offsetting this, the Capital Project Delivery Task Force has projected that there are \$2.9 million worth of projects in the current capital program that will not be starting the procurement process until the last half of the year. It is reasonable to expect that these projects will not be completed prior to the end of 2020. There is no detailed analysis of this available yet, however, a 50% deferral of these projects to 2021 is recommended.

To summarize, the following is recommended:

1. No change in the capital budget of \$37.8 million;
2. That \$1.45 million of expenditures included in the capital program for 2020 be deferred to 2021;
3. That the above deferral be added to the capital spending authority for 2021, (i.e. be pre-approved for the budget);
4. That the space created from the above be used to accommodate \$780,000 in residual expenses from 2019;
5. That the remaining space, \$670,000, be held as an allowance for further adjustments;
6. And that the details of the changes in the capital program be reported to Council as part of the Financial Update for June 30, 2020.

The proposed process for the 2021 budget will address this issue by building a program contingency into the capital budget.

INVESTMENTS

Active investments

The Investment Summary for the three months ended March 31, 2020 provides the details of all investments held during the period.

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 2.68 % (2019 – 2.76%) compared to a weighted average benchmark of 2.15% for the three month period. The incremental income earned, \$95,524, was higher than the \$16,250 budgeted transfer to the Tax-Supported Operating Fund, as approved by Council in the 2020 budget.

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

- i) \$58,968,260 (81.7%) GIC's with major banks;
- ii) \$9,240,818 (12.8%) in non-traditional investments (internal loans)
- iii) \$4,000,000 (5.5%) principal protected notes;
- iv) \$14,212 (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.

Passive investments

We earned only \$48,000 in interest on our operating bank accounts, which was \$70,000 lower than the budget. In 3 months we have seen the rate we earn on our bank balances decrease from 2.45% to 0.95%. The interest income budget of \$785,000 will not be achieved in 2020.

Conclusion

Staff will continue to monitor our financial status, with an emphasis on pandemic related costs. The next update will be for the second quarter and is planned to be issued in August. This report will also provide an update on the options for mitigating measures. (Insert concluding comments and next steps where applicable]

Business Plan and Strategic Plan Linkages

This report supports the Council strategic pillar of Long-Term Financial Sustainability.

Consultation

This report has been prepared from information provided by the Operational Leadership Team (OLT) and the Capital Project Delivery Task Force, and reviewed by the Strategic Leadership Team (SLT).

Human Resource Considerations

Not applicable to this report.

Budget Impact

A tax-supported loss of up to \$8.5 million can be attributed directly to the COVID-19 pandemic. Other unrelated variances in revenues and/or expenses may offset some of this. In addition, there will be mitigating measures which have not been quantified yet.

The impacts on the rate-supported and capital budgets are expected to be much less and are manageable.

Attachments

Investment Summary for the Three Months Ended March 31, 2020.

Approval

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

Esther Armchuk, LL.B
Commissioner, Corporate Services

Contact

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