

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. Newmarket Hydro Holdings Inc. has two subsidiaries – NT Power and Envi.

A selection of financial indicators are explained below:

| 2019 Financial Highlights | 2019 | 2018 |
|---|---------------|---------------|
| Financial position | \$592,242,503 | \$585,258,003 |
| 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 | 10.32% | 12.44% |
| Capital reserve contribution/amortization | 96.4% | 103.1% |

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 | 68.5% |
| Utility (W/WW) rate supported | 221.5% |
| The breakdown of capital reserves/accumulated amortization was as follows: | |
| Tax-supported | -10.3% |
| Utility (W/WW) rate supported | 38.0% |

| 2019 Financial Highlights | 2019 | 2018 | 2019 BMA Study |
|---------------------------|------|------|-------------------|
|---------------------------|------|------|-------------------|

| | | | |
|--|-------------|-------------|-------------|
| Receivables as % of total taxes levied (includes Region and School Board) | 3.0% | 2.4% | 5.5% |
|--|-------------|-------------|-------------|

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 indicator review of 21 municipalities in the Greater Toronto Area from the 2019 BMA study, the average was 5.5%. Newmarket's results were the second lowest of those polled in the GTA, with only Burlington posting better results.

| | | | |
|-------------------------|--------------|--------------|--------------|
| Asset consumption ratio | 38.2% | 37.3% | 41.9% |
|-------------------------|--------------|--------------|--------------|

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 2019 BMA study, the average was 41.8% which is considered to be moderately new.

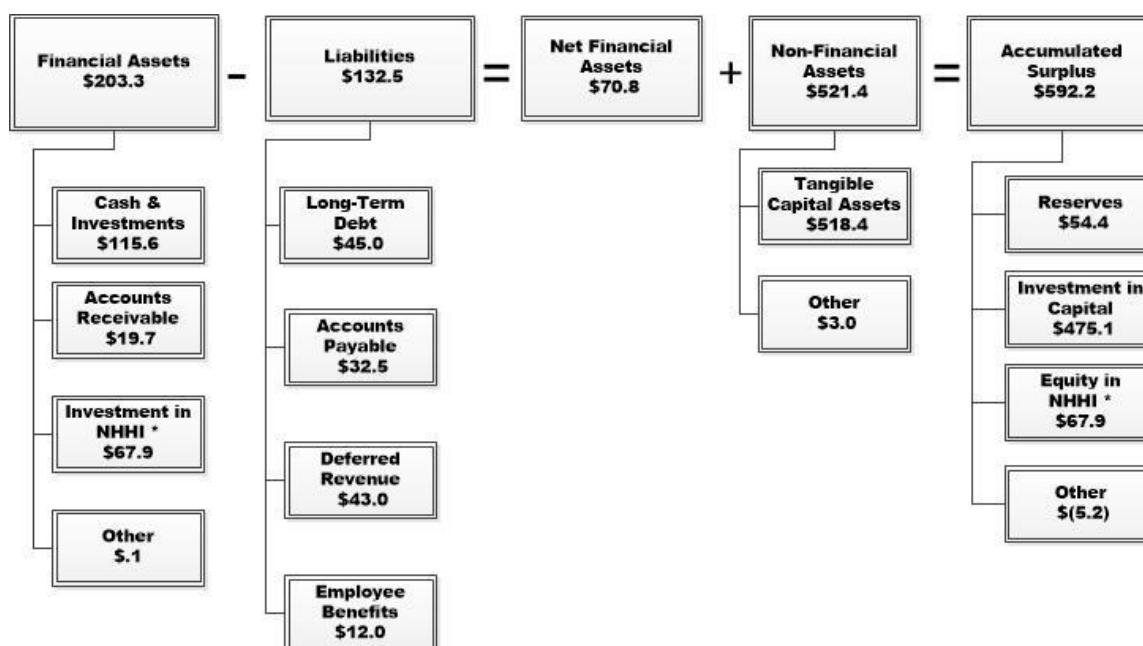
| | | |
|---|--------------|-------------|
| Debt service costs as a % of own source revenues | 10.8% | 4.3% |
| excluding Ops Centre repayment | 4.5% | |

This ratio indicates the extent to which the Town's own source revenues are committed to debt charges. In 2019 the Town paid off the Ops Centre debenture, with a principal payment of \$8.1 Million. This resulted in a one-time increase to the ratio. Council authorized the repayment which will result in lower payments of approximately \$750,000 or 14% for the next 10 years.

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. Credit rating agencies consider that principal and interest should be below 10% of own source revenue. This is the same calculation as that used for the Annual Repayment Limit.

The Consolidated statement of financial position: Overview

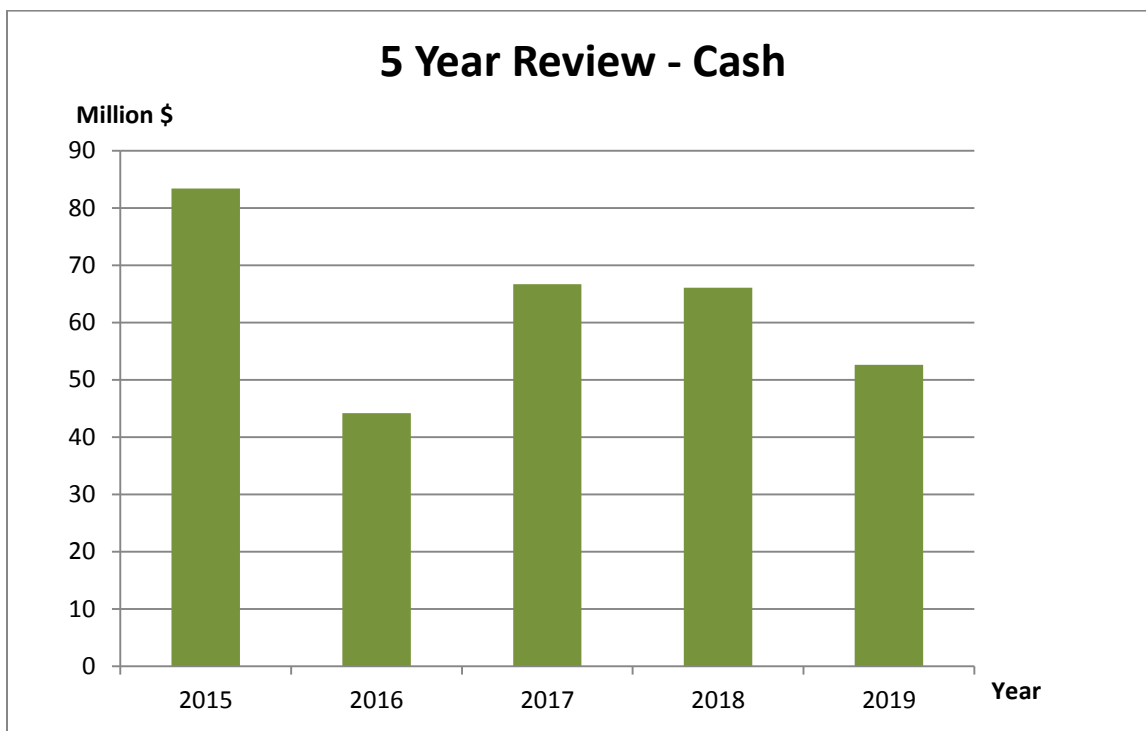
The Consolidated Statement of Financial Position highlights key financial figures. The chart below presents the information reported in the Consolidated Statement of Financial Position (in millions).



*Newmarket Hydro Holdings Inc.

Cash resources

The Town's cash position is closely managed and remains adequate, combined 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 decreased from \$66.1 million in 2018 to \$52.6 Million in 2019, while temporary investments increased by \$9 Million.



Cash inflows from growth and development increased in 2019, while cash flow from government transfers and investment income decreased. Outflows for capital works returned to a more regular level after the purchase of the Mulock Farm property in 2018. Principal payments on long-term debt of \$11.5 million were made, \$8.1 million of which was to pay off the Operations Centre debenture. This resulted in an overall decrease of \$13.5 Million 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 \$71million (2018 - \$67 million), an increase of \$4 million. This balance is calculated as total financial assets less liabilities and represents the amount available to finance future operations.

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;

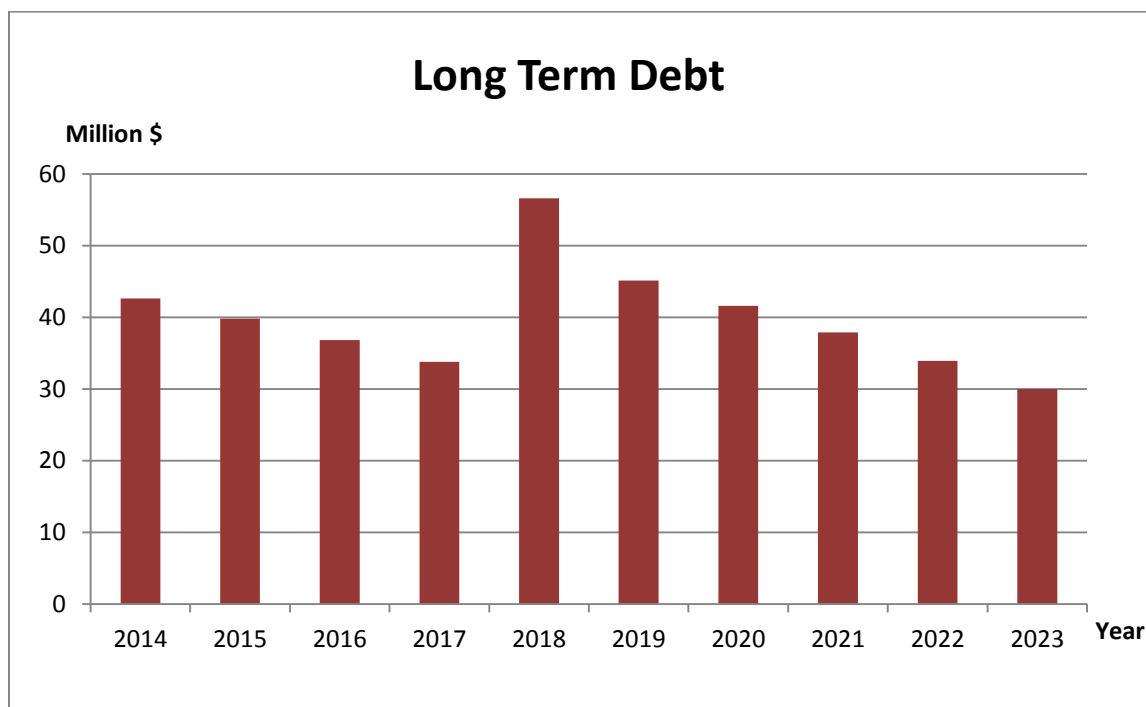
- parkland cash in-lieu;
- engineering administration revenues.

In 2019, the Town collected \$3.9 million and allocated \$6.1 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.

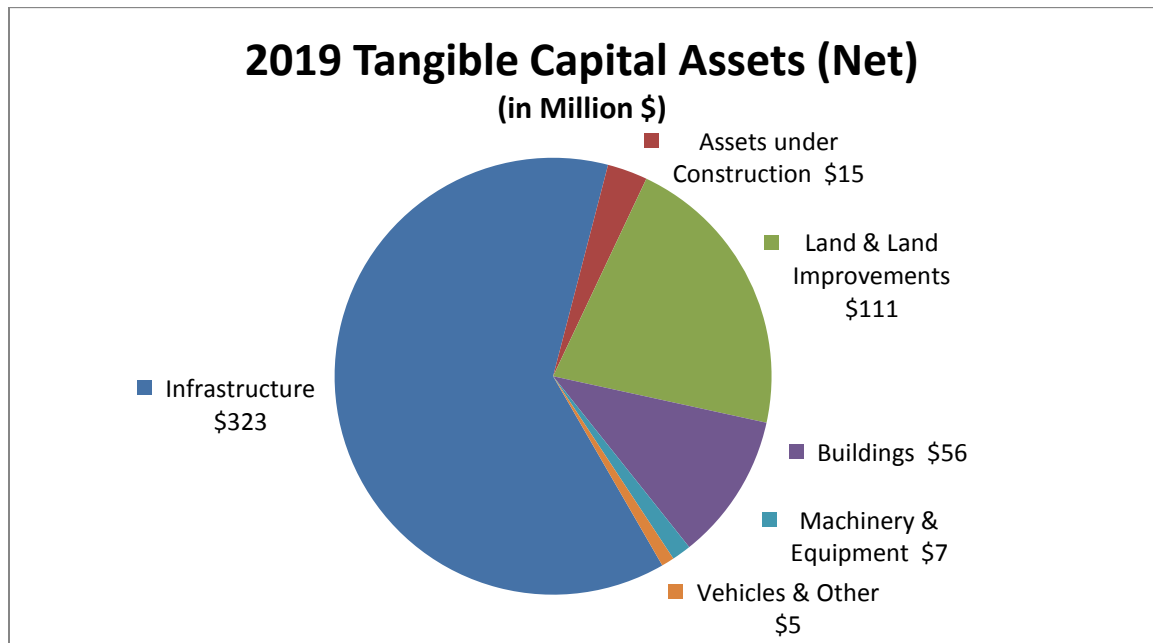
In 2019, the Town's actual debt servicing was 10.8% (2018 – 4.3%), due to the repayment of the Ops Centre debenture. Excluding this payment (\$8.1 Million principal), the Town's debt servicing as a percentage of own source revenues would have been 4.5% - well within policy limits. At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$115 million and still remain within its 10% debt servicing (borrowing) limit. Debt represents 9.0% of the net book value of Town's tangible capital assets (2018 – 11.0%).



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 Mullock Farm property. In 2019, the debenture for the Operations Centre was paid off which accounts for \$8.1 million of the repayments in the year.

Non-financial assets



A transition to a multi-year capital budget began in 2019. Previously approved but unspent capital budgets were assigned to a more appropriate timeline. The 2019 capital budget was revisited to estimate current and future spending. Forecasts were developed from the draft DC background study and 2014 and 2017 asset management plans. The consolidation of this information culminated in a capital plan.

The 2019 approved capital budget totaled \$26.4 million, after an allocated reduction of \$24 million. \$22.4 million of this amount was budgeted for tangible capital assets (TCA), with the remainder, \$4 million, being major repair and maintenance expenses and items below the threshold for TCA. New in 2019, after the detailed review described above, 100% of the TCA amount of \$22.4 million was projected to be completed in 2019 and carryovers were eliminated. \$20.5 million (91.5%) of TCA were added in 2019.

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. Since 2013, additional capital levies of between 0.74% and 1% were added every year except in 2017 when contributions to the asset replacement funds were maintained at 2016 levels. An additional capital levy of 1% was added in 2019.

We 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 \$3.9 million in 2019 compared to an increase of \$27.7 million in 2018.

Accumulated surplus (deficit)

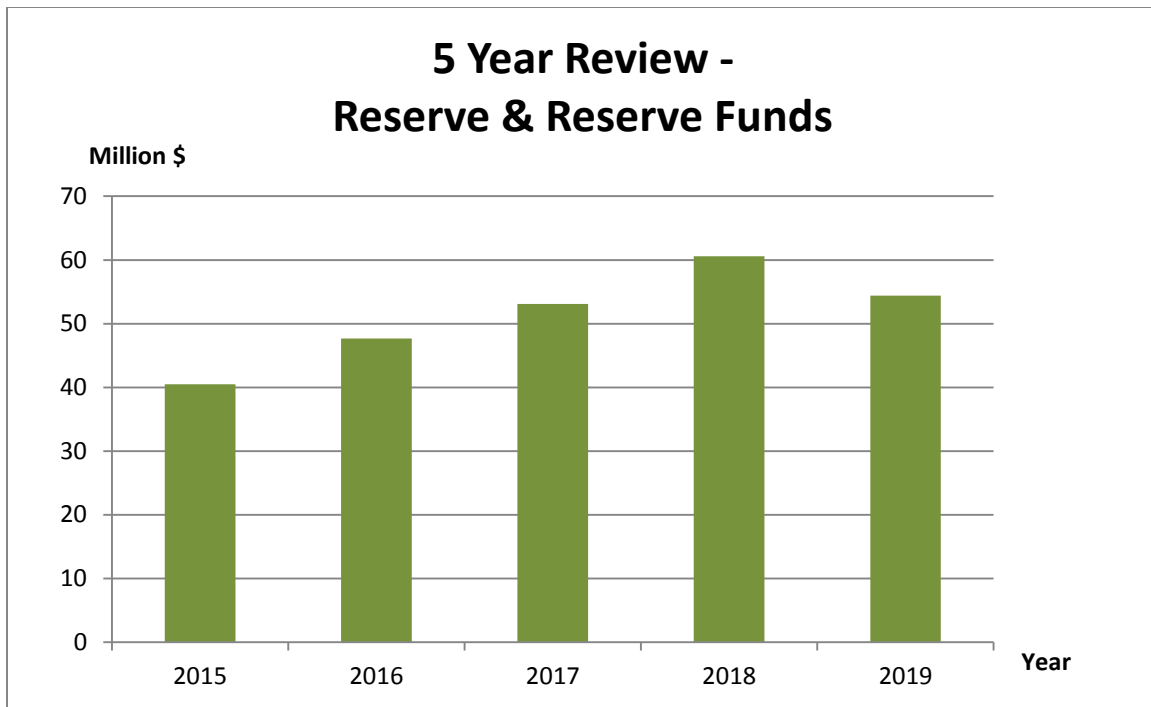
The Town's accumulated surplus for fiscal 2019 is \$592.2 million (2018 - \$585.3 million). The accumulated surplus reflects the resources that have been built up over time at the Town of Newmarket and the balance includes items such as tangible capital assets, equity in Newmarket Hydro Holdings Inc., and various reserves and reserve funds.

| | | | | | |
|---|--|--|--|-----------------------|-----------------------|
| 21. ACCUMULATED SURPLUS | | | | | |
| The Accumulated Surplus is comprised of the following: | | | | | |
| | | | | 2019 | 2018 |
| Reserves set aside for specific purposes by Council | | | | | |
| Reserves for operating purposes | | | | \$ 8,247,696 | \$ 9,023,031 |
| Reserves for capital purposes | | | | 3,559,717 | 892,560 |
| Newmarket Public Library | | | | 606,104 | 788,832 |
| Water & Wastewater Rate Stabilization | | | | 1,754,643 | 3,559,211 |
| Total Reserves | | | | 14,168,160 | 14,263,634 |
| Reserve funds set aside for specific purposes by Council | | | | | |
| Asset replacement funds | | | | 22,319,524 | 31,053,913 |
| Reserve funds for operating purposes | | | | 5,910,476 | 4,623,167 |
| Reserve funds for capital purposes | | | | 7,150,036 | 6,124,927 |
| Self-insured long-term disability | | | | 4,834,221 | 4,580,442 |
| Total Reserve Funds | | | | 40,214,257 | 46,382,449 |
| Total Reserves and Reserve Funds | | | | 54,382,417 | 60,646,083 |
| Invested in tangible capital assets | | | | 518,383,541 | 514,435,905 |
| Less: amount financed by long-term debt | | | | (45,081,715) | (56,562,744) |
| Equity in Newmarket Hydro Holdings Inc. (Note 10) | | | | 67,910,617 | 68,452,251 |
| Employee future benefits to be recovered | | | | (5,206,897) | (4,244,080) |
| Operating | | | | - | 528,623 |
| Capital Fund Balance | | | | 1,854,540 | 2,001,965 |
| Accumulated Surplus | | | | \$ 592,242,503 | \$ 585,258,003 |

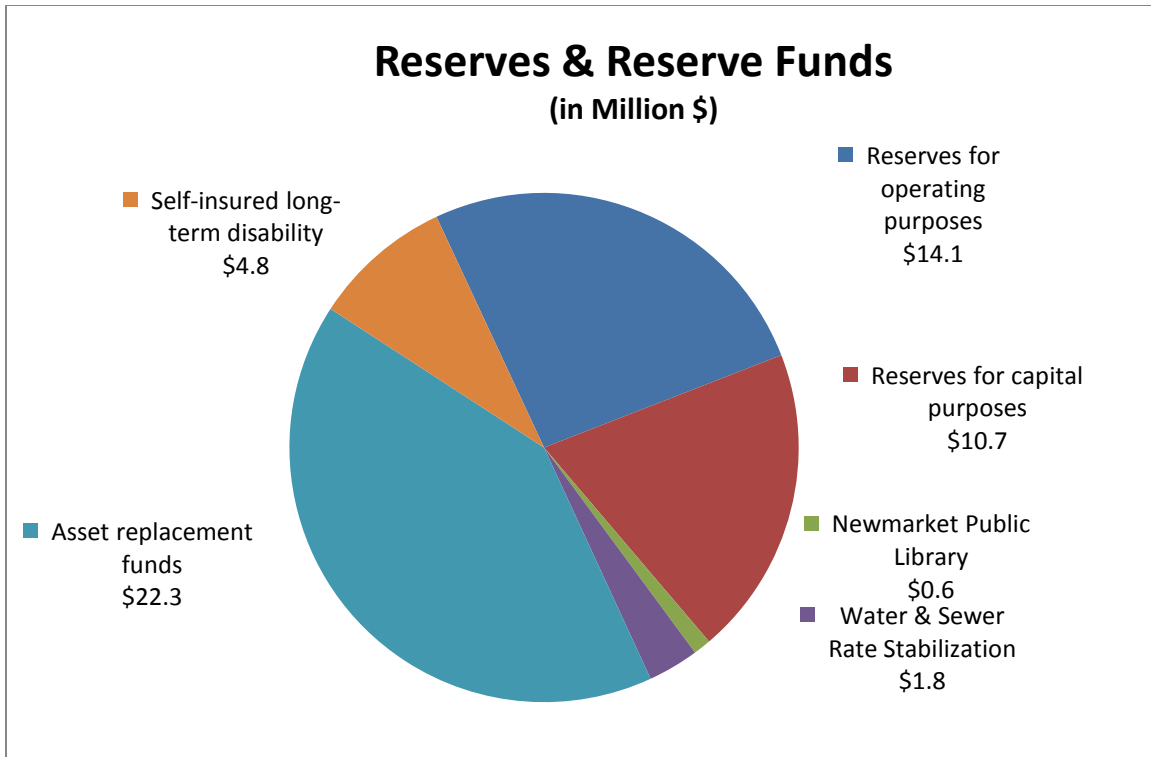
It is the Town's practice to record year-end transfers in the current year to balance rate based funds such as water, wastewater, stormwater, as well as the building department. The operating surplus, \$538,153, was transferred to the rate stabilization reserve to stabilize future years' tax levy increases.

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 2019 was \$54.4 million, a decrease of \$6.3 million from the beginning of the year. The biggest factor for the decrease was the transfer of \$7.8 million to water and wastewater to fund the final payout of the Operations Centre debenture.

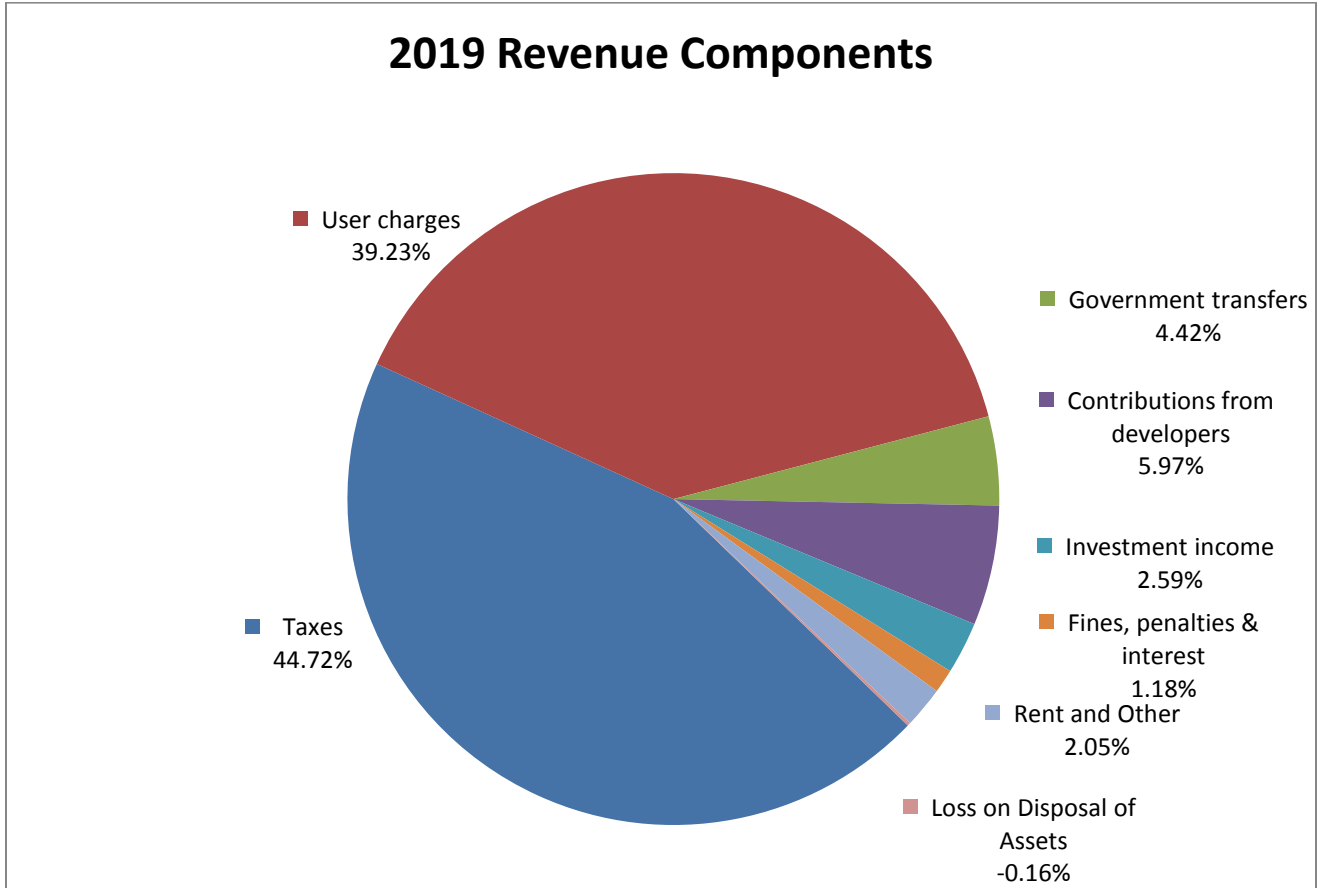


Consolidated statement of operations and surplus

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.



Revenue highlights for 2019 include:

- Property taxes increased by \$2.4 million. Year over year the percentage of revenue from property taxes has remained just over 44% of total revenues. 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 2019 were \$686,000 which was down from the 2018 level of \$902,000, while somewhat higher than the budget of \$650,000.

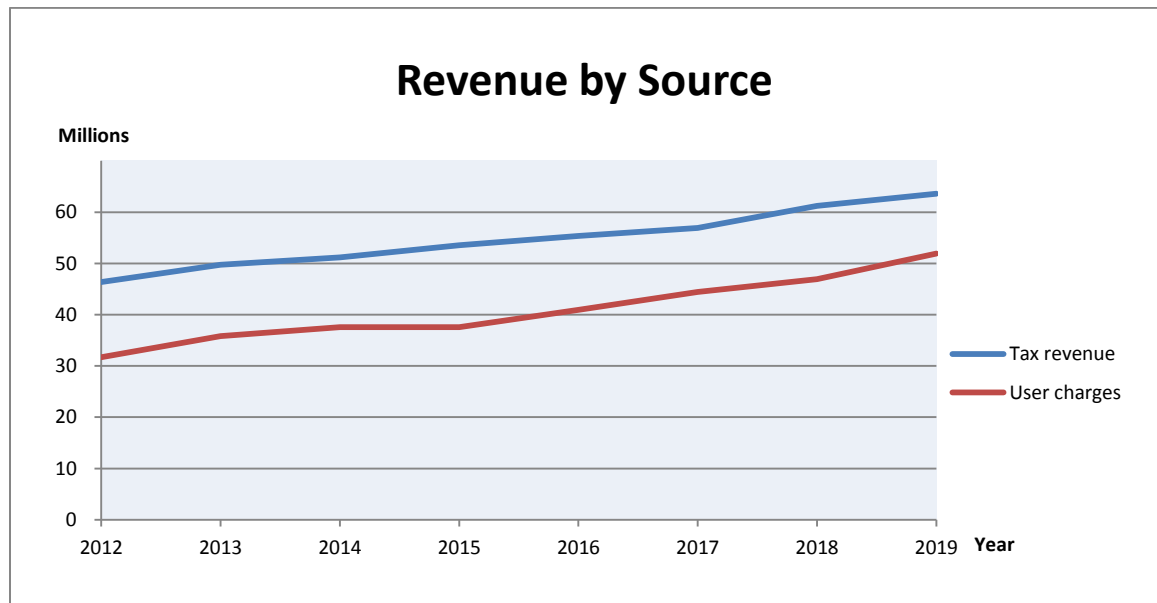
Write offs and provisions, which reduce tax revenues, were significantly higher than in 2018. The Assessment Review Board introduced a totally new process in 2017 to move appeals along faster. While this caused a delay in the start of appeals, many were settled in 2019. There were some large settlements, as well as many multi-year adjustments.

Charity rebates have remained at relatively the same amount over the last 4 years (an average of \$243,000). 39 applications were processed in 2019 versus 42 applications processed in 2018. Vacancy rebates were eliminated in 2017 which meant 2018 was the final year to process and record rebates (2018 - \$492,000). 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% or \$59 from 2018. Average increases for commercial and industrial properties ranged from 7.9% to 10.2%, depending on meter size.

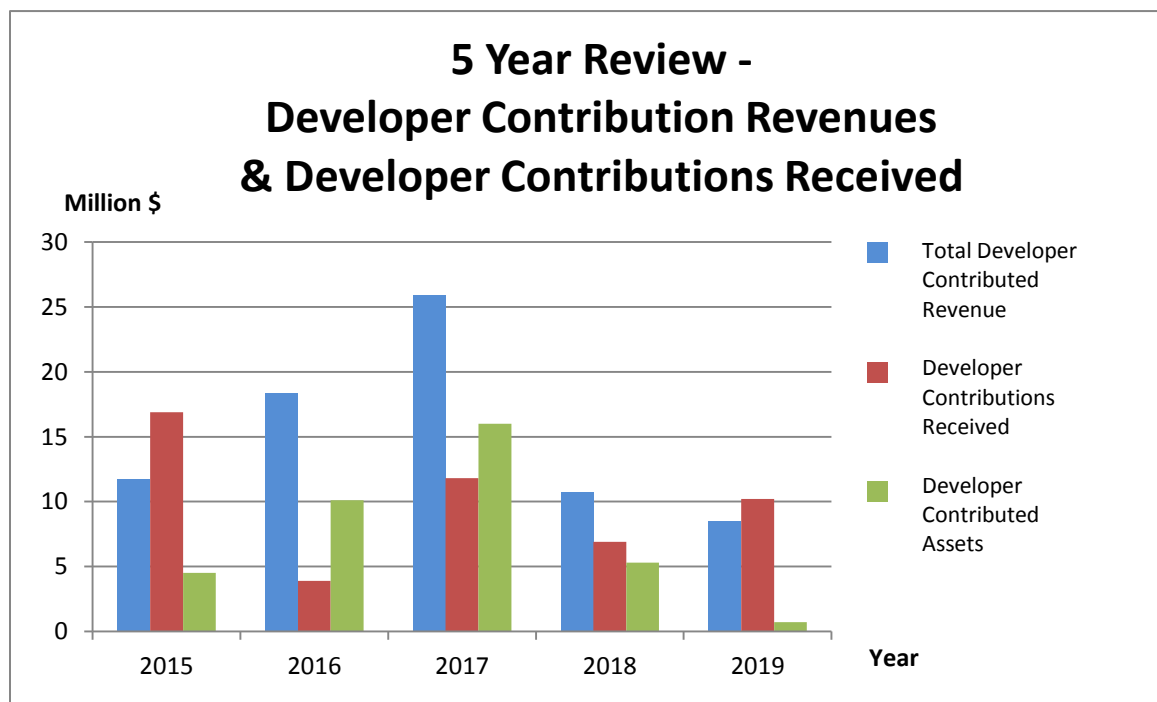
Building permit revenues were 15% lower than in 2018 and 44% less than the budgeted amount. \$1.4 million from the Building Permit Reserve Fund was drawn upon. There has been no price increase to the fees for many years. A review of the fee structure was undertaken in 2015 by BMA Consulting which resulted in a modified fee structure in 2016.

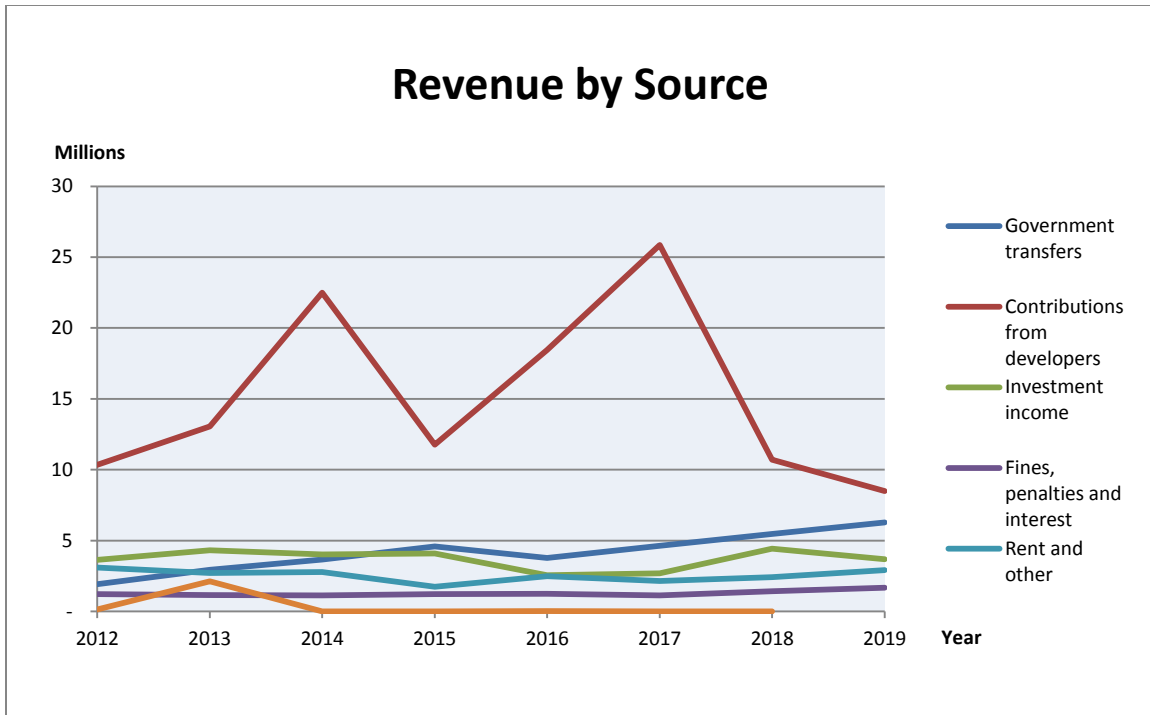
Some fees and charges for recreation and culture programs and services were increased in 2019, others were decreased, and many remained at 2018 levels after an extensive review of registration history, program life cycle, marketplace and demographic considerations, and linkages with the Recreation Playbook.



- Government transfers were 19% higher than the budgeted level and 15% above 2018 levels. This includes a “top up” gas tax payment of \$2.5 million. Most grant funding is only received after costs have been incurred.
- Contributions from developers were \$2.2 million lower than in 2018, mostly due to the significantly lower level of contributed assets (\$0.7 million vs. \$5.3 million in 2018). Tangible capital assets contributed to the Town included 125 streetlights and a storm water management pond. 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.

Contributions received represent the cash inflows from developers. Revenues from developers are tied to agreements, capital projects or operating expenditures, such as a debenture, as a funding source.





- Interest earned in the Operating Fund was significantly over budget in 2019 (actual - \$1.1 million; budget - \$0.8 million). The prime rate remained at 3.95% for the entire year. Short-term rates were close to or below 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, the 5 tranches of \$6 million invested in 2018 using a ladder approach proved to be a good investment. Interest rates ranging from 2.85% for 1 year to 3.55% for a 5 year GIC generated \$975,000 in investment income in 2019. 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 often with better yields than regular GIC's.

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 Town is transitioning towards a multi-year capital budget which will improve cash forecasting and long-term investing both of which have been problematic in the past.

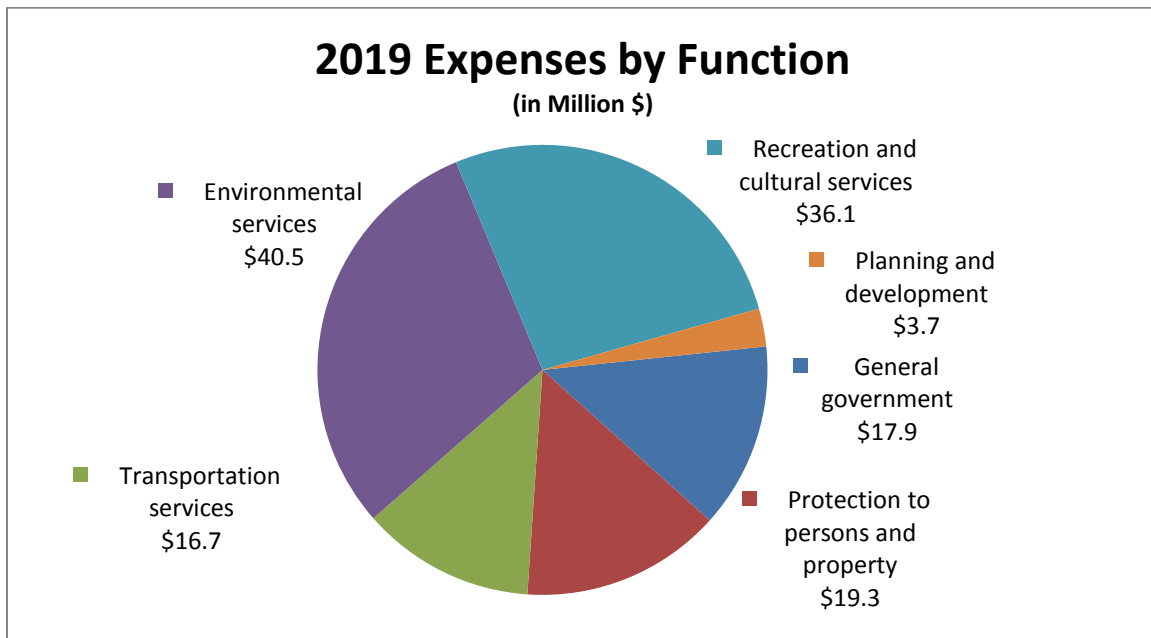
It has been the Town's practice to recognize the dividend from Newmarket-Tay Power before it is paid or even declared. This accrual was acceptable, as there was a board-approved dividend policy and a consistent practice of receiving this payment the following year. Due to the pandemic, the 2019 dividend, which would normally be paid in December 2020, was not guaranteed. Therefore,

the dividend, \$1,336,000, was not accrued in 2019 and henceforth, all dividends will be accounted for only when they are declared.

- Rent and Other continued were in line with the budget. Pursuant to the analysis of capital projects, Station 4-5 capital budgets and funding, with a portion coming from Aurora, were moved to 2020 and 2021 to tie to anticipated construction and completion. Previously, these amounts were carried forward and resulted in budget variances due to timing.
- 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

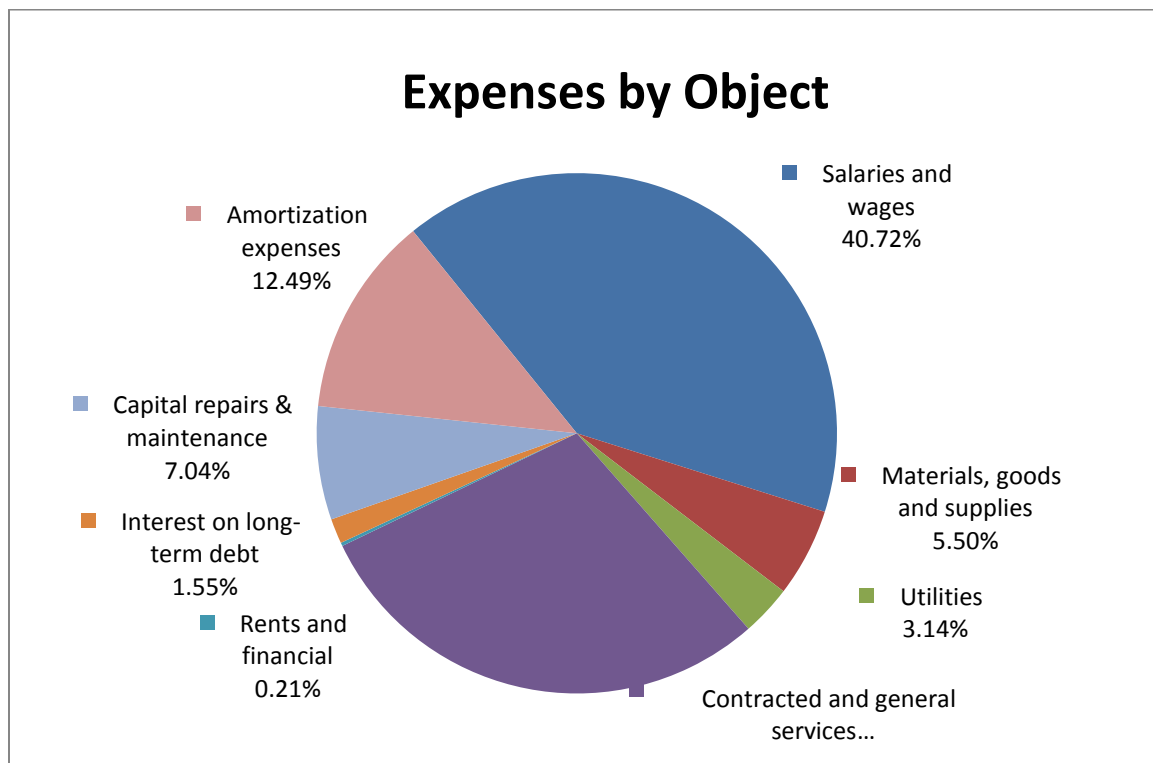
Recreational and cultural services:

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 27-29) shows a breakdown of these costs by service bundle.



Total expenses in 2019 were \$134.2 million, an increase of \$8.1 million over 2018.

- Salaries, wages and benefits are the most significant component of the Town's costs and have increased by \$2.9 million over 2018. The economic increase in 2019 was 1.85%. A new collective agreement, with an end date of 2023, was finalized in October 2019 for Central York Fire Services. Any retroactive pay was paid before year-end. A change to the benefits resulted in an increase to the accrued benefit obligation of \$1 million.

Casual wages, used to offset some vacancies, were over budget in all commissions. Significantly, higher casual wages in Recreation were also used to bolster some higher program revenues.

- Materials, goods and supplies increased by 33%. Minor capital, water meters and materials for main replacement, equipment rental, and repairs and maintenance are included here. Significant water and wastewater emergency repairs were undertaken during the year. Higher facility related building, electrical, and HVAC repairs and maintenance were also incurred.
- Contracted and general services have increased by 3% from 2018 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 23% higher than 2018 levels.
- Amortization (or depreciation) has increased by 3.6% over 2018.

Annual (current year) surplus

The annual (current year) surplus for the year was \$7 million.

| ANNUAL SURPLUS RECONCILIATION | |
|---|---------------------|
| Surplus based on operating fund * | - |
| Add: Principal payment on long-term debt | \$11,481,029 |
| Contributed tangible capital assets | 678,434 |
| Acquisition of tangible capital assets | 20,490,762 |
| Less: Amortization expense | (16,857,430) |
| Reserves and reserve funds | (6,791,033) |
| Financing from future revenues (employee benefits) | (962,818) |
| Loss from Newmarket Hydro Holdings Inc. (net) | (541,634) |
| Book value of disposals | (364,130) |
| Capital Fund Balance | (147,424) |
| BIA – Prior Period Adjustment | (1,256) |
| Surplus Per Consolidated Statement of Operations | \$ 6,984,500 |

*As noted previously, the surplus based on the operating fund of \$538,153 was transferred to the rate stabilization reserve fund during the year.