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Financial Update Staff Report to Council

Report Number: 2020-62

Department(s): Financial Services

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

Meeting Date: August 24, 2020

Recommendations

1. That this report entitled Financial Update Staff Report to Council be received; and
2. That staff be directed to provide an update on the projected impact of the pandemic on the Town when more information becomes available; 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

As previously reported a tax-supported loss of up to \$8.5 million was attributed directly to the COVID-19 pandemic. Although the joint Provincial-Federal Safe Restart Agreement will provide the Town with \$1.8 million in funding, a deficit is still projected. The delayed re-opening, anticipated second wave of the pandemic, and uncertain economic impact prevent making a reasonable projection of the financial impact on the Town.

The rate-supported budgets have not been impacted and are on target.

Revisions to the Capital Program are recommended. They reflect a transition to the new process and delays due to the pandemic. The revisions stay within operational and funding capacity.

Bank interest is down significantly, although fixed rate term investments are offsetting some of the losses.

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 report on investments

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

Background

2020 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*.

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.

1st QUARTER FINANCIAL UPDATE

The [May 19th Financial Update](#) for the 1st quarter projected operating results for 2020 and indicated that changes to the capital program were required. It set the following goals for the next update:

- To provide options for reducing the projected tax-supported operating deficit
- To provide details on the proposed revisions to the capital program

SAFE RESTART AGREEMENT

On July 27, the Provincial and Federal governments announced the \$4 billion Safe Restart Agreement to provide emergency assistance to Ontario's 444 municipalities.

The first phase, allocated \$700 million proportional to the number of households in a municipality and, result in a payment of \$1,819,600 to the Town to support our COVID-19

operating costs and pressures. These funds are expected to be disbursed before the end of September and only require acknowledgement by the Treasurer.

There will be a second phase, with an additional \$700 million available for municipalities able to demonstrate need in excess of the Phase 1 funding provided. Applications must be submitted by October 30, and must include:

1. Measures undertaken to reduce financial pressures (e.g. use of reserves, cost saving measures);
2. Explanation of how the municipality applied the Phase 1 funding;
3. Forecast of 2020 COVID-19 operating costs and pressures;
4. Actual COVID-related impacts as of September 30, 2020;
5. Treasurer's statement as to accuracy of reporting;
6. A resolution of Council seeking additional funding.

Payments would be made in early 2021.

Discussion

TAX-SUPPORTED OPERATING BUDGET

On May 19, a tax-supported loss of up to \$8.5 million was attributed directly to the COVID-19 pandemic and a September 1 re-opening. Since then more information has become available:

- We will not be fully re-opened on September 1st. As a result, revenue losses are expected to be higher.
- Emergency costs are about 25% higher than originally projected.
- As noted above, the Provincial and Federal governments will be providing \$1.8 million in emergency funding.

But there are even more unknowns. We don't know the full extent of the economic impact of the pandemic. We don't know:

- If the Financial Relief Program will need to be expanded or extended.
- The negative effect on non-residential assessment values.
- When service levels (and revenues) will return to pre-pandemic levels.
- What accommodations will need to be made for employees with school-age children?
- When and how hard a second wave will hit.

The following austerity measures have been taken to date:

- Staff have been redeployed to critical and essential service areas;
- Hiring has been restricted to only essential and critical staff;
- There is a freeze on discretionary expenses;
- Out of province travel, training and conferences have been limited

In addition, consideration is being given to deferring scheduled compensation reviews. Environmental scans of staff and council remuneration were planned for 2020. In the current economic climate, these should be postponed to 2021.

With the degree of uncertainty about the economy, the financial impact to the Town; as well as the anticipated length of the emergency, any projection at this time would be speculation only.

RATE-SUPPORTED OPERATING BUDGETS

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

A substantial rebate was received in July from York Region, as compensation for water flushing. This had not been included in the budget.

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

CAPITAL PLAN

Starting in 2020, annual budgets consider two capacity factors – to deliver the capital program, and to stay within the funding envelope. Individual projects within the program may be switched, as long as they meet this overarching criteria.

There are \$650,000 worth of capital expenditures that have no budget allocation in 2020. These projects had budgets in 2019 and were expected to be completed last year. (The negative amounts are adjustments to estimates.) Upon approval, funding will be allocated to these projects. They are listed in Appendix A.

Offsetting this are 17 capital projects that were included in the 2020 program but will not be completed this year. Some will not be started and others will only be 25-50% completed. This represents \$6.7 million in expenditures to be deferred until 2021. \$3.5 million of this is related to the Advanced Metering (water meter) project. The details are in Appendix B.

Fire Services has requested a transfer of \$15,000 between two of its facility budgets. These are the responsibility of the local municipality, Town of Newmarket, and not the Joint Council Committee (JCC). This item is in Appendix C.

Appendix D shows the revised capital programs for 2020 and 2021.

The \$37.8 million capital budget is not being adjusted; however, \$2.6 million is now unallocated and available in 2020.

Operational capacity	Total	Less Major projects	Net program
Deferred to 2021	\$ 6,726,000	\$ 3,500,000	\$ 3,226,000
Additions from 2019	652,845		652,845
Unallocated budget	\$6,073,155	\$ 3,500,000	\$ 2,573,155

Major projects, such as Advanced Metering do not significantly impact Engineering, Public Works and Procurement staff relative to their dollar value and so are excluded from the determination of operational capacity.

The deferral of \$3.2 million in capital expenditures fits within the \$5 million contingency proposed for the 2021 capital budget (Report 2020-35, *2021 Budget Process and Target*, dated May 19, 2020).

INVESTMENTS

Active investments

The Investment Summary for the six months ended June 30, 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 2.66 % (2019 – 2.83%) compared to a weighted average benchmark of 1.55% for the six month period. The incremental income earned, \$446,819, was significantly higher than the \$32,500 budgeted transfer to the Tax-Supported Operating Fund, as approved by Council in the 2020 budget. This is attributable to good investment returns on short and long-term investments combined with the lower benchmark.

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

- i) \$64,720,592 (83.2%) GIC's with major banks;
- ii) \$9,021,860 (11.6%) in non-traditional investments (internal loans)
- iii) \$4,000,000 (5.2%) principal protected notes;
- iv) \$11,221 (0.0%) loan to an external party (Newmarket Soccer Club)

The operating fund investment portfolio included an additional \$10,000,000 which contributed \$72,000 in investment income.

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 \$82,000 in interest on our operating bank accounts, which was \$310,000 lower than the budget. In 6 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. An update will be provided to Committee of the Whole on October 5, 2020. It could then be approved by Council, with a resolution, to make an application for Phase 2 funding of the Safe Re-start program.

This update would be in advance of the rest of the third quarter Financial Update, which would not be available until the October 26 Committee of the Whole meeting.

Business Plan and Strategic Plan Linkages

This report supports the Council Strategic Priority 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).

The capital expenditure deferrals were requested by the responsible departments.

Human Resource Considerations

Not applicable to this report.

Budget Impact

The Provincial and Federal governments' funding will reduce the anticipated deficit for 2020, the amount cannot be reasonably determined at this time.

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

The capital budget is not being adjusted. However, \$2.6 million is now unallocated and available in 2020; \$6.7 million is being deferred to 2021 and should not affect the proposed plan.

Attachments

Appendix A: 2020 Capital Plan Additions

Appendix B: 2020 Capital Plan Deferrals

Appendix C: 2020 Capital Plan Reallocations

Appendix D: 2020 Capital Plan Revised

Appendix E: Investment Summary for the Six Months Ended June 30, 2020

Approval

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

Esther Armchuk, B.A. (Hons), LL.B.
Commissioner of Corporate Services

Contact

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