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Q3 Operating, Capital, Water and Wastewater, Stormwater and Investment Summary Staff Report to Council

Report Number: 2020-84

Department(s): Financial Services

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Meeting Date: November 16, 2020

Recommendations

1. That the report entitled Q3 Operating, Capital, Water and Wastewater, Stormwater and Investment Summary Report dated November 16, 2020 be received; and,
2. That changes to the 2020 capital program, and additions to the 2021 capital spending authority be made as detailed in this report; and,
3. That staff be authorized and directed to do all things necessary to give effect to this resolution.

Purpose

The purpose of this report is to advise on the results of the tax-supported operating, rate-supported operating (water, wastewater and stormwater), and capital budgets, as well as the investment summary at the end of September 30, 2020. 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

To provide information regarding third quarter results of 2020.

Discussion

Tax-Supported Operating Budget

At the end of the third quarter of 2020, revenues were lower than budget by \$6.2 million, while expenditures were lower than the budget by \$11.3 million.

Prior to any year-end allocations or adjustments, the projected tax-supported operating position is a deficit of \$1.6 million. A projected surplus of approximately \$200,000 will result thanks to the Phase 1 Safe Restart funding of \$1.8 million. Mitigating measures have been successful and the Town will not be applying for Phase 2 funding.

Corporate Services forecasts an unfavourable variance of \$1.2 million

In Corporate Services, lower licensing fines and parking infraction revenues are responsible for the majority of the unfavorable revenue variance. On the expense side, Covid-19 related expenditures for the entire municipality in the amount of \$850,000 are included and more than offset lower spending in many departments.

Community Services forecasts an unfavourable variance of \$1.6 million

In Community Services, revenues are substantially down, due to the facility closures associated with the pandemic. Programs, especially for children and youth, have been significantly impacted. Ice time and memberships were areas with particularly high unfavorable variances. The lower revenues were mitigated by some lower associated expenses. Casual wages and services and supplies associated with the camps, programs and events were not incurred. With restrictions on opening still in place, the revenue shortfalls partially offset by lower related expenditures is expected to continue to the end of the year.

Development & Infrastructure forecasts a favourable variance of \$3 million

In Development & Infrastructure Services, there are favorable variances in many areas. Mitigation measures have been successfully implemented to reduce costs as a result of the pandemic. Annual program spending, as well as general consulting, contract and material costs for the maintenance of roads, parks and facilities account for approximately \$3 million of the lower expenditures to date. Utility and janitorial costs are below budget due to facility closures. Asset management costs are also below budget and lower salaries and work orders include 9 vacant positions and casual wage savings in Parks.

Building revenues are currently \$540,000 below budget. Any shortfall will be offset by reserve fund transfers at year-end.

General Government is forecasted to have an unfavourable variance of \$1.3 million

In General Government, the unfavorable revenue variance is mainly due to lower tax penalties and interest, as there were no charges levied after March as part of our financial relief program. Interest revenue on our bank balances is also significantly lower. On the expense side, tax rebates and adjustments are below budget at this point in the year. However, some tax adjustments are anticipated before year-end and will result in an unfavorable year-end variance of \$500,000.

Debt Servicing is forecasted to have an unfavourable variance of \$300,000

In Debt Servicing, lower recreation program revenues have resulted in lower Recommending a Strategy (RAS) surcharges. This has resulted in a corresponding decrease in debt servicing.

Property Taxes are forecasted to have an unfavourable variance of \$200,000

Property taxes are currently under budget by \$455,000. This is a timing difference which will be offset by year-end when the upcoming supplementary tax runs are processed. However, the budget, at \$570,000 for supplementary taxes, was aggressive and the full target will not be achieved.

Central York Fire Services

Savings due to gapping, \$907,639, have been transferred to a reserve fund as part of the strategy to fund the new fire station (see [Report 2019-28 – CYFS Reserve Fund](#)) in order to provide a more accurate picture of the interim operating results. The wellness program continues to be on hold and savings in this area have been included in the amount transferred to the Asset Replacement Fund. Vehicle repairs are lower due to more in-house mechanical work, as well as less wear and tear on the vehicles as a result of lower call volume. Training expenses are below budget due to the cancellation of programs and courses due to the pandemic.

More information is contained in [CYFS Budget Report – Third Quarter 2020-08](#), which was presented to the Joint council Committee (JCC) on November 3rd, 2020. **A year-end surplus of \$600,000 is anticipated.** Any surplus would be transferred to the asset replacement reserve fund to fund the new fire station, per policy.

Newmarket Public Library

The third quarter results will be presented to the Library Board on November 18, 2020. Revenues are below budget and this trend is expected to continue. Lower facility and equipment related expenses, as well as reduced materials and wage and benefit expenses are the result of the closure and modified opening protocols necessitated due to the pandemic.

A year-end favourable variance of \$200,000 is projected. Any surplus would be compared against target reserve levels and any excess would be returned to the Town.

Summary of Projected Variances (Favorable/Unfavorable)

Corporate Services	(\$1,200,000)
Community Services	(\$1,600,000)
Development and Infrastructure Services	\$3,000,000
General Government	(\$1,300,000)
Debt Servicing	(\$300,000)
Property Taxes	(\$200,000)
Year-end Deficit	(\$1,600,000)
Safe Restart Phase 1 funding	\$1,800,000
Revised Year-End Surplus	\$200,000

As noted, anticipated surpluses for CYFS and the Library will be transferred to their reserve funds and are not available for general use.

Rate-Supported Operating Budgets

The third quarter results for water, wastewater and stormwater do not indicate that there are any issues. Generally, expenses are lower than budget other than in wastewater where repairs and maintenance, notably the CCTV program, are higher.

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

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

Capital Plan

The COVID-19 pandemic has affected the delivery of the 2020 Capital Program. On a year-to-date basis, only \$7.7 million (24.8% of the revised 2020 Capital Program) has been spent.

In Corporate Services, costs have been incurred to replace the tax billing software, as well as to replace desktop computers and related equipment. The Theatre renovation attracted the largest portion of spending in Community Services. In Development & Infrastructure Services, the majority of the spending has been for roads projects, the bridges and culverts program, fleet replacements, and the Recreation Playbook implementation. Central York Fire Services' spending includes the replacement of personal protective equipment, 4 light prevention vehicles, and auto extrication equipment. Computer hardware and software has been purchased by the Library.

As a result of the challenges in delivering the Capital program, Council had previously approved the deferral of \$ 6,726,000 in capital expenditures to 2021 (see [Report 2020-62, Financial Update of August 24, 2020](#)).

Further changes to the Capital Spending Authority (CSA) are requested:

Project	Current CSA	Reason for change	Request
Mulock Park Concept Master Plan	\$300,000 in 2020	Ongoing project	Defer \$150,000 from 2020 to 2021
Land Use & Building Tracking System	\$100,000 for 2020	Additional testing required for data transfer issues	Increase CSA by \$30,000 in 2021
Design and Construction for Fire Station 4-5	\$12,453,402 split evenly between 2020 and 2021	Design and construction delays	Defer \$2.7 million from 2020 to 2022
2020 Municipal Infrastructure Projects	Includes \$2 million for Lorne Avenue reconstruction	Project has been delayed to 2021	No change – this is a 2021 program
Old Main Street Tertiary Plan	\$150,000 in 2020	Tenders are significantly higher and work will be done in 2021	Increase CSA by \$150,000 funded from DC's in 2021 Defer \$150,000 from 2020 to 2021
Harry Walker Parkway East Sidewalk	\$250,000 in 2020	Will not be completed in 2020	Defer \$100,000 from 2020 to 2021
Glenway Park Development	\$1,100,000 in 2020	Delayed by developer	Defer \$1,100,000 from 2020 to 2021
Sundial Park Development	\$230,020 in 2020	Delayed by developer	Defer \$230,020 from 2020 to 2021
Fernbank Farmhouse Maintenance	\$232,944 in 2020	Will cover share of tenant renovations when done.	Defer \$220,000 from 2020 to 2021
Hollingsworth Arena Demolition	\$440,000 in 2020	Project was to be \$700,000 but the 2021 portion was not included	Fix the error – add \$260,000 to the CSA in 2021 Defer \$10,000 from 2020 to 2021
South Stairs at the Old Town Hall	\$200,000 for 2020	Final decision has not been made yet	Defer \$200,000 from 2020 to 2021

Stormwater Management Pond Clean Outs and Retrofits	\$834,000 in 2020	Project not completed in 2020, contract awarded to start June 2021	Defer \$450,000 from 2020 to 2021
Community Energy Plan Implementation	\$100,000 for 2020	On-going project awaiting funding decision from FCM	Defer \$75,000 from 2020 to 2021
Urban Design Guideline	\$80,000 in 2020	Delayed by the pandemic, 1st PIC will be November, 2020	Defer \$78,000 from 2020 to 2021

As shown in Appendix D – Capital Spending Authority Revisions, these changes would result in the following changes to the Capital Programs:

- 2020 – a further reduction of \$7.5 million, bringing the total to \$14.1 million
- 2021 – a further increase of \$3.2 million, bringing the total to \$9.9 million, of which \$3.5 million is for major projects
- 2022 - \$2.7 million for major projects
- A net decrease in the Capital Spending Authority of \$1.6 million

There are no funding capacity issues as funds are either being reallocated or are from dedicated sources. Operational capacity would be an issue in 2021 and will be addressed in a proposed revision to the 2021 Draft Capital Budget.

Investments

Active investments

The Investment Summary for the nine months ended September 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 3.68 % (2019 – 2.85%) compared to a weighted average benchmark of 1.35% for the nine month period. The incremental income earned, \$652,428, was significantly higher than the \$48,750 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. As part of the fiscal strategy, this budgeted allocation to subsidize operating has not been made; all investment returns have been and will continue to be allocated to reserves.

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

- i) \$64,720,593 (83.4%) GIC's with major banks;
- ii) \$8,909,198 (11.5%) in non-traditional investments (internal loans)
- iii) \$4,000,000 (5.1%) principal protected notes;
- iv) \$8,977 (0.0%) loan to an external party (Newmarket Soccer Club)

The operating fund investment portfolio included an additional \$5,000,000 which contributed \$106,333 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 \$104,000 in interest on our operating bank accounts, which was \$405,000 lower than the budget. Since the beginning of the year, 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.

Business Plan and Strategic Plan Linkages

This report supports the Council Strategic Priority of Long-Term Financial Sustainability. Consideration has been given to the recommendations of the Fiscal Strategy.

- The practice of allocating investment returns above benchmark to subsidize operating should be abandoned. Investment returns on reserves should be entirely allocated to reserves.
 - This has been applied retroactively for 2020

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

The provincial and federal governments' funding of \$1.8 million will assist the municipality with the impact of the pandemic.

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

The 2020 Capital Program is being reduced. The \$3.2 million increase to the 2021 Capital Program exceeds the \$3 million provision currently being considered as part of the 2021 Capital Budget.

Attachments

Appendix A: Third Quarter Operating Results

Appendix B: Third Quarter Water, Wastewater, Stormwater Operating Results

Appendix C: Third Quarter Capital Expenditures

Appendix D: Capital Spending Authority (CSA) Revisions

Appendix E: Investment Summary for the Nine Months Ended September 30, 2020

Approval

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Contact

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