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2021 Preliminary Q4 Operating and Capital Budget Staff Report to Council

Report Number: 2022-20

Department(s): Financial Services

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Meeting Date: March 21, 2022

Recommendations

1. That the report entitled 2021 Preliminary Q4 Operating and Capital Budget Report dated March 21, 2022 be received; and,
2. That transfers to reserves and reserve funds outside of the Treasurer's delegated authority be made as detailed in this report; and,
3. That changes to the 2022 and 2023 capital spending authority, 2022 capital program and the corresponding funding 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 tax-supported operating budget incurred a year-end surplus of \$1,703,400. Based on the analysis completed as part of the Reserve & Reserve Fund Review, Staff recommends the year-end surplus be transferred as follows:

- \$1,000,000 to the Engineering Admin. Reserve Fund; and
- The remaining balance of \$703,400 to the Rate Stabilization Reserve.

Building Division incurred a deficit of \$287,800 which required a draw from reserve. The Building reserve as of December 31, 2021, after the draw, has a balance of \$2,426,590.

The rate-supported operating budgets for water, wastewater and stormwater incurred a surplus of \$580,300, surplus of \$432,700 and deficit of \$16,700 respectively.

Corresponding transfer to and draw from reserves were made.

The 2021 approved capital spending authority was \$33,721,500 against actual expenditures of \$20,637,200, equivalent to 61.2% of budget (standard program 86.3%, major projects 44.9%).

Purpose

The purpose of the report is to advise Council on the preliminary results for the fiscal year ended December 31, 2021 on the following budgets:

- A. Tax-supported operating budget, including an overview on Central York Fire Services (CYFS), Newmarket Public Library (Library) and Business Improvement Area (BIA) operating results
- B. Building Division operating budget
- C. Rate-supported operating budgets (water, wastewater and stormwater)
- D. Capital budget

In addition, to seek Council approval on:

- transfers to reserves outside of the Treasurer's delegated authority; and
- changes to the 2022 capital spending authority, 2022 capital program and the corresponding funding.

Background

Council approved the 2021 budget totaling \$174.7 million in December 2020 and breakdown of the budget are as follows:

1. tax-supported operating budget \$89.8 million
2. rate-supported operating budget \$47.0 million
3. capital budget \$37.9 million

Subsequent changes to the 2021 capital program and capital spending authority were made as outlined in the Quarterly Financial Update reports.

Discussion

A. Tax Supported Operating Budget

The preliminary unaudited tax-supported operating budget shows a \$1,703,400 year-end surplus. Staff had previously forecasted a surplus of \$300,000.

	Actual (\$)	Budget (\$)	Variance (\$) Fav. / (Unfav.)
Revenues	93,440,300	92,799,300	641,000
Expenditures	91,736,900	92,799,300	1,062,400
Surplus / (Deficit)	1,703,400	0	1,703,400

The year-end surplus of \$1,703,400 is net of a deficit of \$1,781,600 for COVID-19 expenditures incurred in 2021.

Revenues were favourable by \$641,000 mainly due to the grants received to support COVID-19 expenditures. The Town received total grants of \$3,227,182 in 2021 (Safe Restart grant \$769,000 and \$2,458,182 2021 COVID-19 Recovery Funding for Municipalities program) of which \$1,937,600 was applied in 2021 to fund the net COVID-19 expenditures.

The Town continues to incur COVID-19 related expenditures in 2022 and experienced revenue losses in the first quarter of 2022 due to the temporary closure of facilities and program cancellations. This had not been factored into the 2022 Budget. Therefore, the balance of the grants will be used to support 2022 net COVID-19 expenditures.

The Town also received reimbursements of \$967,300 to cover costs associated with hosting vaccination centres throughout the year. This is incremental to the budget.

Other program revenues, service charges and fines were below budget which were directly impacted by the pandemic. As well, bank interest income was below budget due to lower than budgeted interest rate (details are outlined in the Q4 2021 Investment Information Report).

Expenditures were favourable by \$1,062,400. Gapping dollars from temporary vacancies attributed to the favourable variance. As well, mitigation measures to offset COVID-19 related financial impacts were in place which resulted in lower annual program spending, general consulting, contract and material costs for the maintenance of roads, parks and facilities.

Transfers to and from reserves and reserve funds were made in accordance with the budget, and within delegated authority to assist with 2021 budget initiatives that were not completed in the year.

Winter control was favourable by \$452,300. In the past, remaining budget was transferred to the Winter Control Reserve. Based on the analysis from the Reserve & Reserve Fund Review, only a transfer of \$50,000 (instead of the full remaining amount of \$452,300) was made to top up the reserve to the desired threshold at 30% of annual expenditures. This is a change in practice this year which contributed to a higher year-end surplus than previously forecasted.

The Engineering Admin. Reserve Fund is currently in a deficit of \$480,700. As such, staff recommends \$1,000,000 of the year-end surplus be allocated to the Engineering Admin. Reserve Fund. The recommended transfer will bring the reserve fund back to a positive position. Recognizing that this is not a permanent sustainable solution, Engineering fees and charges were increased in 2022 and staff will conduct a review of the Development Application Approval Process (DAAP) to evaluate the adequacy of Town’s fees and to ensure costs are allocated appropriately.

The remaining surplus of \$703,400 will be transferred to the Rate Stabilization Reserve in accordance with the Corporate Policy 2-01 “Operating and Capital Financial Policy”.

The year-end surplus of \$1,703,400 is higher than the forecasted surplus of \$300,000 due to various factors. Reimbursements of \$967,300 from agencies to recover the costs associated with utilizing Town’s facilities and staff to host vaccination centres were incremental revenues to the budget. As well, a transfer of \$50,000 was made to the Winter Control reserve instead of the full favourable variance based on findings from the Reserve & Reserve Fund Review. This change in practice contributed to a higher surplus by \$400,000. As well, mitigating measures to offset COVID related expenditures generated higher than anticipated favourable variances.

Central York Fire Services CYFS)

CYFS incurred a year-end surplus of \$1,198,200 prior to additional transfers.

Surplus prior to additional reserve transfers	\$1,198,200
Additional reserve transfers:	
• For station 4-5, from wage gapping	900,600
• Additional ARF contributions, from wellness savings	127,100
• Transfer to CYFS reserve fund	170,500
Revised Surplus	\$0

Salary gapping savings in the amount of \$900,600 was transferred to a reserve fund as part of the strategy to fund the new fire station (refer to [Report 2019-28 - CYFS Reserve Fund](#)). The wellness program was on hold and savings of \$127,100 was transferred to the Asset Replacement Fund.

The 2021 net surplus of \$170,500 after additional transfers to reserve funds will be transferred to the CYFS reserve fund.

Newmarket Public Library (Library)

Library incurred a year-end surplus of \$6,600 which was transferred to the Library reserve to align with past practice.

Business Improvement Area (BIA)

BIA incurred a year-end surplus of \$4,300. The surplus was transferred to a reserve to align with past practice.

B. Building Division Operating Budget

Building Division incurred a net deficit of \$287,800 which required a draw from the Building reserve in order to fund the deficit. The 2021 budgeted deficit was \$1,118,800, a lesser draw from reserve than budgeted by \$831,000. After the draw from reserve, the ending balance in the Building reserve as of December 31, 2021 was \$2,426,590.

C. Rate-Supported Operating Budgets

The rate-supported operating budgets for water, wastewater and stormwater incurred a surplus of \$580,300, surplus of \$432,700 and deficit of \$16,700 respectively. Corresponding transfer to and draw from reserves were made.

Surpluses in Water and Wastewater operating budgets were mainly due to Region Council decision to waive its 2021 rate increases and lower than budgeted expenditures in general and emergency maintenance.

D. Capital Budget

The 2021 approved capital spending authority was \$33,721,500.

	Actual (\$)	Budget (\$)	Actual to Budget (%)
Standard Program	11,461,200	13,287,500	86.3%
Major Projects	9,176,000	20,434,000	44.9%
Total	20,637,200	33,721,500	61.2%

2021 Capital Delivery

Actual capital expenditures totaled \$20,637,200, equivalent to 61.2% compared to budget. Standard program was 86.3% to budget and total of all major projects was 44.9% to budget. One of the major projects was the Advanced Metering project, and progress on this project was impacted by the pandemic.

Based on the Q4 delivery of the 2021 capital projects, some projects will continue into 2022 and there are completed projects awaiting invoices to be paid in 2022. Hence, budgets of these projects are being requested to be included as part of the 2022 capital program. Details of the requests are outlined in Appendix 4 – Changes to 2022 Capital Program.

Furthermore, 2021 Capital Project “Municipal Infrastructure Projects” incurred actual expenditures of \$3,916,900 against revised budget of \$3,424,000, generating a variance of \$492,900 (Budget was revised after transfer of \$1,200,000 to the 2022 capital program as approved in the Q3 Financial Update report).

Since the 2022 project budget was increased by \$1,200,000, the 2022 project budget will be reduced by the over-delivered amount of \$492,900, and the unallocated portion of the standard program will be increased by the same amount. This will not have any net impact to the 2022 capital spending authority.

2021 Capital Projects in excess of \$250,000 of Budget

In accordance to the Operating and Capital Financial Policy, Council approval is required for the following project in excess of \$250,000 of budget.

Capital Project “Facilities Asset Replacement”

Actual spend of \$682,100 against budget of \$315,000, generating a variance of \$367,100. This will be offset by unspent budgets in 2021 projects with the same funding source from the Asset Replacement Fund (Old Fire Hall Rehabilitation and Survey & Asbestos Management). Additional spending was for Magna Centre Solar Panel restoration and various lifecycle replacement of assets to prevent asset failures and major service disruptions. This will not impact the 2022 capital program or capital spending authority.

Additional 2022 Capital Project Requests

There are two capital budget requests that require additional capital spending authority and changes to the 2022 capital program:

- \$100,000 to support JDEdwards system migration to a platform that offers high availability, scalability and future-proof to enable business continuity. This project will be funded from the Capital reserve fund; and

- \$3,500,000 for Mulock House (\$2,800,000 consulting, design services and construction works to maintain the Mulock House state of good repair, \$500,000 for consulting design services associated with the Mulock House Adaptive Re-Use, \$200,000 for consulting design services associated with the Hydro Corridor Parking Consulting Design as outlined in the report “Mulock Property Implementation Budget Update”) of which \$3,100,000 is required in 2022 and \$400,000 in 2023.

Upon approval of the proposed changes, the 2022 capital spending authority will be increased by \$14,737,700 from \$32,765,000 to \$47,502,700.

The 2023 capital spending authority will be increased by \$400,000 from \$33,039,000 to \$33,439,000.

	2022 Capital Spending Authority	Proposed Changes	Revised 2022 Capital Spending Authority
Standard Program (Appendix 4)	17,978,550	971,600	18,950,150
Budget adjustment – 2022 Municipal Infrastructure project	0	(492,900)	(492,900)
New project – JDEdwards system migration	0	100,000	100,000
Unallocated	2,021,450	(578,700)	1,442,750
Subtotal – Standard Program	20,000,000	0	20,000,000
Major Projects (Appendix 4)	12,765,000	11,637,700	24,402,700
New project - Mulock House State of Good Repair	0	3,100,000	3,100,000
Subtotal – Major projects	12,765,000	14,737,700	27,502,700
Revised 2022 total	32,765,000	14,737,700	47,502,700

Further changes to the 2022 capital program and capital spending authority will be addressed through 2022 Quarterly Financial Update reports.

Status update on various approved capital projects is outlined in Appendix 5 – Capital Projects Update. Regular updates on various capital projects will be incorporated as part of the Quarterly Financial Update reports.

Conclusion

This report provides a summary on the preliminary 2021 financial results. Audited 2021 financial statements will be tabled to CoW in June and a final report on 2021 Operating and Capital Budget Summary report will be tabled at the same time.

Business Plan and Strategic Plan Linkages

This report supports the Council priority under the strategic pillar of Long Term Financial Sustainability. As recommended in the Fiscal Strategy, analysis for the Reserve & Reserve Fund Review was recently completed. Results and recommendations from the review will be tabled at a future CoW. The recommended transfer to the Engineering Admin. Reserve Fund and the lower transfer to Winter Control Reserve as outlined in the report were based on findings from the Reserve & Reserve Fund Review.

Consultation

Various Business Units have been consulted.

Human Resource Considerations

Not applicable.

Budget Impact

The 2021 tax-supported operating budget surplus will be transferred to the Engineering Admin. Reserve Fund and Rate Stabilization Reserve. In addition, the 2022 capital spending authority will be increased by \$14,737,700 from \$32,765,000 to \$47,502,700.

Attachments

Appendix 1 – 2021 Preliminary Fourth Quarter Operating Results

Appendix 2 – 2021 Preliminary Fourth Quarter Water, Wastewater and Stormwater Operating Results

Appendix 3 – 2021 Fourth Quarter Capital Expenditures

Appendix 4 – Changes to the 2022 Capital Program

Appendix 5 – Capital Projects Update

Approval

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