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2022 Reserve and Reserve Funds Budget Staff Report to Council

Report Number: 2022-41

Department(s): Financial Services

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Meeting Date: June 20, 2022

Recommendations

1. That the report entitled 2022 Reserves and Reserve Funds Budget dated June 20, 2022, be received; and,
2. That 2022 Reserves and Reserve Funds Budget as set out in the attachment be approved; and,
3. That Staff be authorized and directed to do all things necessary to give effect to this resolution.

Executive Summary

Following the final approvals of the 2022 Operating and Capital budgets, there is a requirement for Council to approve the contributions to the Reserves and Reserve Funds.

The 2022 budgeted revenues for reserves and reserve funds including obligatory reserve funds are \$55.1 million. They include \$17.6 million in transfers from the operating budget, \$2.7 million from the Building Canada Fund (previously known as the Federal Gas Tax grant), \$22.0 million increased contribution from Newmarket-Tay Power Distribution Ltd. promissory note repayment, and \$10.4 million in contributions from developers, mainly from Development Charges.

Reserves and reserve funds, including obligatory reserve funds (for development charges, parkland contributions, and building Canada fund grant, etc.) had a combined balance of \$139.5 million at the beginning of 2022 and are budgeted to have a balance of \$163.1 million at the end of 2022, an increase of \$23.6 million.

Purpose

The purpose of this report is to seek Council approval of the 2022 Reserves and Reserve Funds Budget

Background

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2022 Operating and Capital Budgets. The projected revenues, i.e. interest earned, contributions from developers, items paid directly to the reserve and reserve funds, etc., are based upon the trends of the last three years. Subsequent to the adoption of the 2022 Operating and Capital Budgets, Hydro promissory note repayment of \$22 million was received; as outlined in ONE Investment report dated February 28, 2022 ([Report 2022-09](#)), Asset Replacement fund contributions have been increased.

Discussion

The details of the 2022 reserves and reserve funds budget are attached. They are also summarized below:

1. Reserves and reserve funds for capital purposes

These reserves and reserve funds were set up for the funding of future capital projects.

Category	Beginning Balance 2022	Revenues	Expenses	Ending Balance 2022	Change over 2021
General Capital	5,491,347	732,289	1,291,000	4,932,636	(558,711)
Designated Capital	14,278,111	1,337,479	206,076	15,409,514	1,131,403
Loan to Capital	(11,042,351)	466,594	-	(10,575,757)	466,594
Growth Funds	4,456,900	450,112	435,000	4,472,012	15,112
Asset Replacement Funds	41,902,811	38,803,960	10,159,550	70,547,221	28,644,410
TOTAL	55,086,818	41,790,434	12,091,626	84,785,626	29,698,808

Revenues in the General Capital and Designated Capital reserve funds are mainly transfers from the operating fund for capital financing, environmental land purchases, the official plan and other items that may on occasion be included in the operating budget.

Loan to Capital, internal loans from the reserve fund to fund capital projects, are budgeted to decrease by \$0.5 million.

Revenues in the Growth Funds include budgeted operating transfers and Recommending–A-Strategy (RAS) surcharges¹ of \$180,000, and a projection of \$45,000 in voluntary trail contributions.

The budgeted balance of the Asset Replacement Funds is projected to increase by \$28.6 million in 2022. This is mainly due to increased contributions of \$22.0 million from Newmarket-Tay Power Distribution Ltd. promissory note repayment ([Report 2022-09](#)). Returns on this investment have been applied to the Asset Replacement Fund; offset by a reduction to the tax-supported annual asset replacement contributions, which is equivalent to the interest earned on the promissory note. ONE Investment's Canadian Equity Portfolio has the potential to have rates comparable to what we have been receiving on the promissory note, therefore the budgeted investment income remains unchanged. The actuals are subject to Canadian equity market performance.

2. Reserves and reserve funds for operating purposes

These reserves were set up for rate stabilization and operational contingencies. The total 2022 ending balance of these reserves and reserve funds is 23.1% of the 2022 budgeted taxation revenue. The target level is 5-10%.

Category	Beginning Balance 2022	Revenues	Expenses	Ending Balance 2022	Change over 2021
Operational Contingencies	5,984,371	541,500	243,000	6,282,871	298,500
Cyclical Expenses	999,999	98,470	-	1,098,469	98,470
Discretionary Operating	5,988,422	145,485	98,872	6,035,035	46,613
Operational Carry-overs	2,788,126	-	144,520	2,643,606	(144,520)
TOTAL	15,760,918	785,455	486,392	16,059,981	299,063

¹ Some recreational programs and activities have a capital surcharge referred to as Recommending a Strategy or RAS for short. This was created as part of a Recreation master plan to obtain additional funding for facilities required to meet the demands of a growing community.

3. Obligatory reserves and reserve funds

These are legislated reserves and include Cash-in-Lieu Contributions for Parkland from developers, Development Charges, Building Canada Fund Grant, Building Permit Fees and Engineering Administration fees for development. There are statutory restrictions on these reserve funds and their accounting treatment has been confirmed with our auditors. The budgeted ending balance will decrease by \$5.1 million.

Category	Beginning Balance 2022	Revenues	Expenses	Ending Balance 2022	Change over 2021
Cash-in-Lieu Contributions for Parkland	6,305,211	1,180,946	250,000	7,236,157	930,946
Development Charges	28,843,175	8,775,659	13,529,020	24,089,814	(4,753,361)
Building Canada Fund	11,490,122	2,772,811	2,500,000	11,762,933	272,811
Building Permit Fees	2,426,107	16,375	1,122,072	1,320,410	(1,105,697)
Engineering Administration	519,376	325,107	775,055	69,428	(449,948)
TOTAL	49,583,991	13,070,898	18,176,147	44,478,742	(5,105,249)

Cash-in-Lieu Contributions for Parkland are extrapolated from the trends of the preceding six years.

Revenue estimates for Development Charges are from the 2019 Development Charge Background Study. Development charge expenditures are mainly for capital program spending. The capital program includes Mulock Park, Ray Twinney Outdoor Rink, and the Skate Park.

The Reserve Fund for Building Permit Fees as a percentage of total annual costs is targeted between 100%-200%. In 2021 the percentage was 104%. In 2022, Building Permit fees increased between 2.1% and 4% to compensate for draws from the reserve fund that had increased over the past few years.

4. Other reserves and reserve funds

These are reserves and reserve funds not included in the above groups.

Category	Beginning Balance 2022	Revenues	Expenses	Ending Balance 2022	Change over 2021
Development Related Revenues	4,295,527	197,454	440,747	4,052,234	(243,293)
Restricted Operating	14,792,115	(721,331)	305,000	13,765,784	(1,026,331)
TOTAL	19,087,642	(523,877)	745,747	17,818,018	(1,269,624)

Development-related revenues include reserves for tree planting, perpetual maintenance, planning applications subdivision and finance administration fees.

Restricted operating reserves are set aside for very specific purposes for example CYFS, Library, Long-term disability, and water & sewer rate stabilization reserves make up this category. Most of them are at a healthy level: the long-term disability reserve fund is 69% of our accrued obligation. Water, Sewer, and Stormwater rate stabilization have a combined balance of \$5.2 million.

Conclusion

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2022 Operating and Capital Budgets. Projected revenues for reserves and reserve funds excluding transfers are based upon the development charge background study and proceeding year trends.

Business Plan and Strategic Plan Linkages

By ensuring that Asset Replacement Funds are appropriately allocated, this report links to Newmarket's key strategic directions of Long-term Financial Sustainability and its 3rd priority of multi-year budgeting.

Consultation

The 2022 Reserves and Reserve Funds Budget has been created from the 2022 Capital and Operating Budgets which were developed by staff and have undergone extensive review by the public and Council.

Human Resource Considerations

Not applicable to this report.

Budget Impact

This report has no direct impact on the Operating Budget. All transfers to or from the Operating Budget were previously approved by Council.

There is no direct impact on the Capital Budget. All transfers to the Capital Budget were previously approved by Council.

The investment income budget remains unchanged however the actuals are subject to market performance.

Attachments

2022 Reserves and Reserve Funds Budget

Approval

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

Esther Armchuk, LL.B
Commissioner, Corporate Services

Contact

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