



Financial Sustainability

Presenter: Mike Mayes
Date: November 21, 2016



Elements of a Sustainable Financial Strategy



1. Asset Management
2. Debt
3. Investment Strategy
4. Revenues
5. Reserves and Reserve Funds
 - Asset Replacement Fund
6. Capital budgeting



Asset Management



Asset Management Strategy covered by previous presentation

Asset Management Plan

- December 2014 – 1st plan
- Early 2017 – update
- Requirement for most grants



Debt - basics

The *Municipal Act* limits the use of debt:

- to capital purposes
- to an Annual Repayment Limit (ARL)
- Lower Tier municipalities must borrow through an Upper Tier Municipality

However, this applies to *external* debt and not *internal* debt, i.e. borrowing from our own reserve funds



Debt - indicators

By normal business standards, the Town's debt levels are low

Long-term debt as a % of the net book value of tangible capital assets

2012	2013	2014	2015
11.2%	10.4%	9.3%	8.5%



Debt – indicators (cont'd)



However, our debt levels are higher than the average of other municipalities

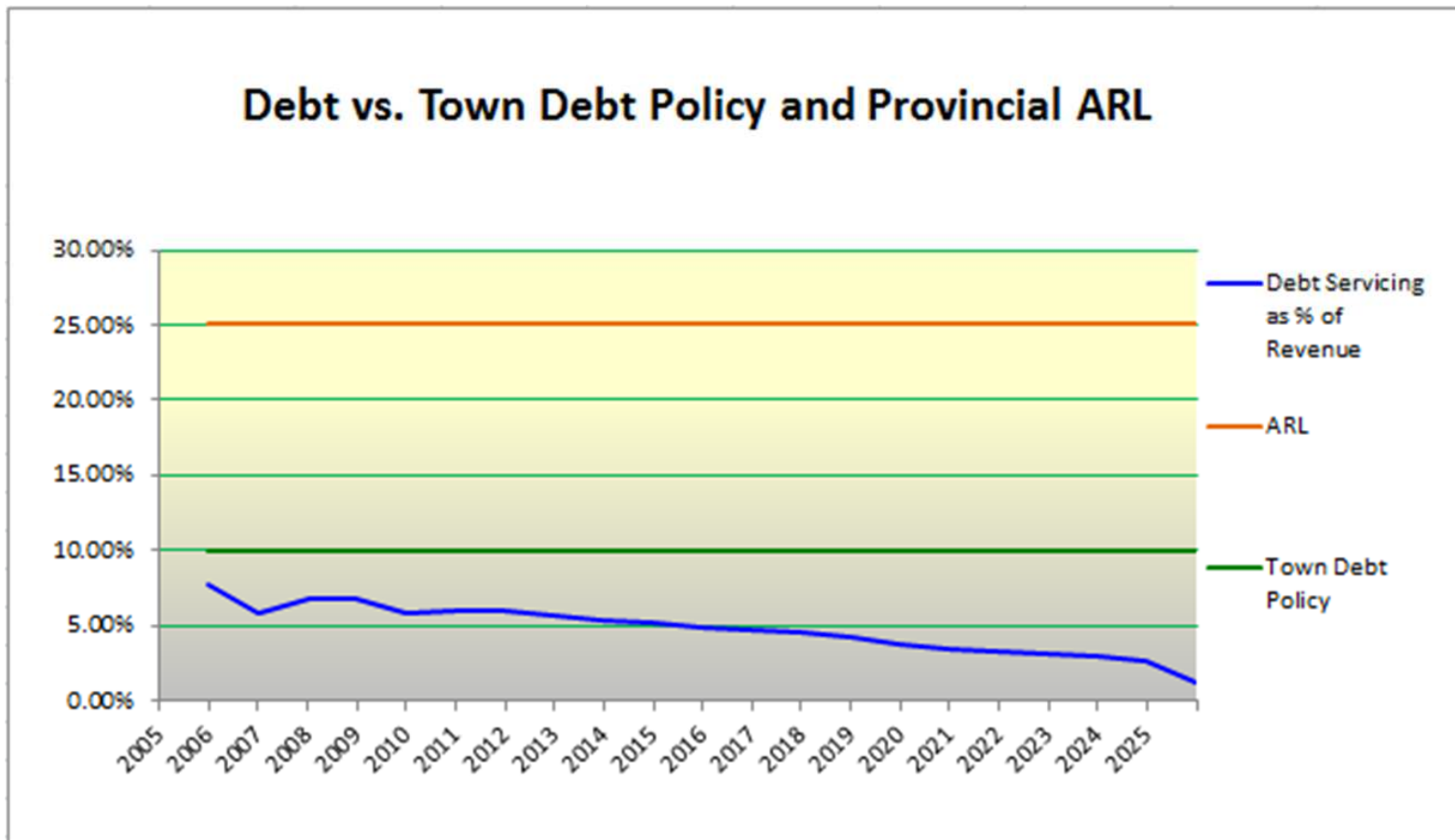
2015 Debt Servicing Cost as a % of Total Operating Revenue

Newmarket	Median	Average
4.1%	3.6%	3.4%

According to the Ministry of Municipal Affairs, this is a “low level of challenge”, i.e. good



Newmarket has the capacity to increase debt by \$85 million



Debt – policy considerations



Current policy focuses on limiting the use of debt but does not provide any guidance on when to use it.

Proposed Debt Policy changes

1. Criteria for the use of debt
2. Criteria for the use of Internal (Reserve Fund) Loans
3. Defining debt limit and terms for debt



Investments - overview

Investment Policy adopted - 2012

Investment Strategy initiated - 2013

Updates – January 2016

Incremental investment income earned

2013	2014	2015	2016 Q3
\$ 59,767	\$ 221,951	\$ 244,299	\$ 299,447



Investments

– a 3 stream approach



	1. Short-term	2. Medium and Long-term
Term	Less than 1 year	1 year or more
Benchmark	Interest earned on bank balances	Average yield on 5-10 year Government of Canada bonds
Bank accounts	Operating funds	Reserve funds
Source	Seasonal and cyclical cash fluctuations	Projected surplus of long-term reserve fund cash balances
Eligible investments	Government securities, Tier I banks Tier II banks (up to 6 months)	Government securities, Tier I banks
Status	Will be implemented for 2017	Challenged by lack of formal multi-year capital plan



Investments - 3rd stream

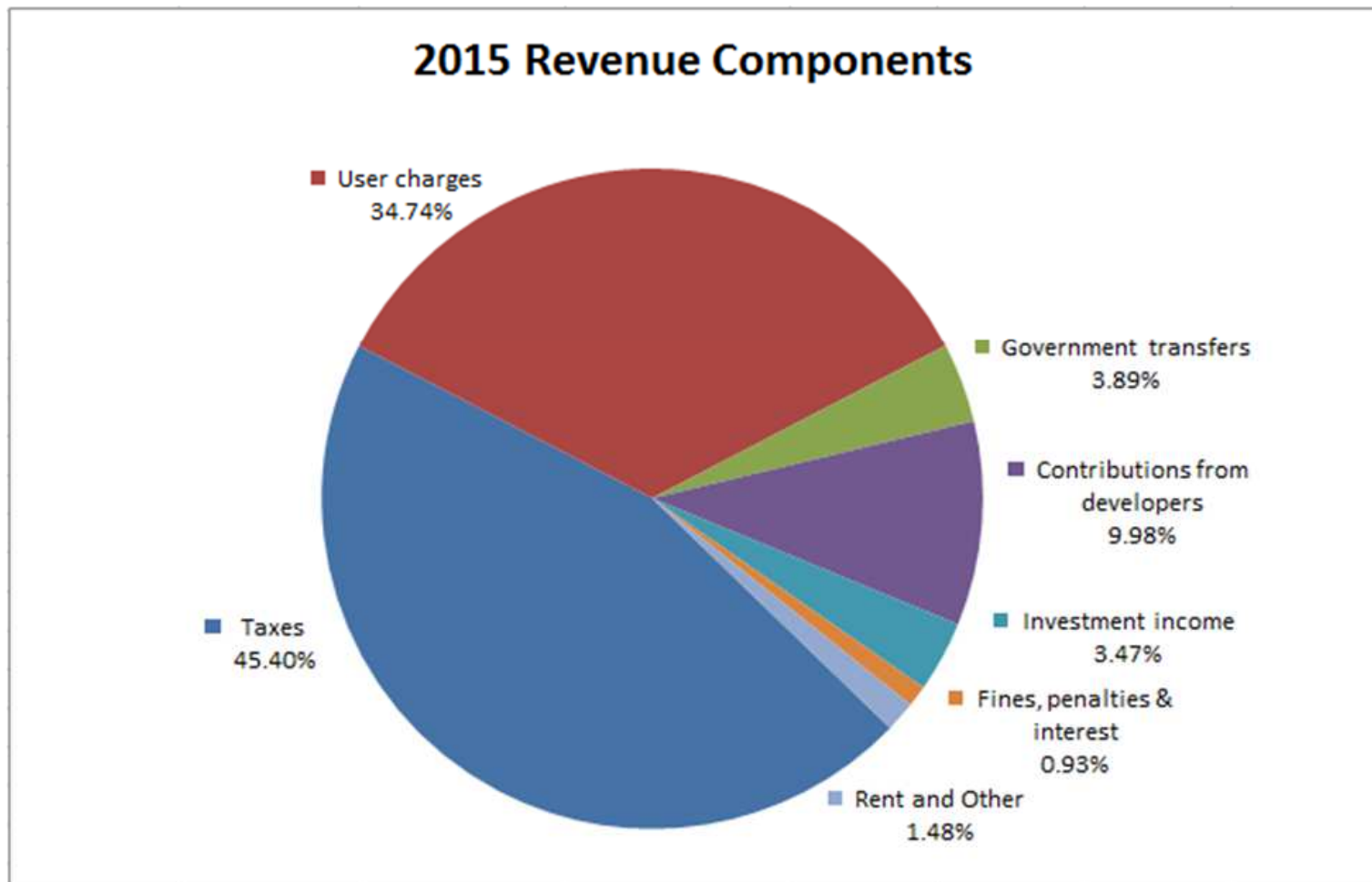


	2012	2013	2014	2015
Hydro Equity	\$1,369,669	\$1,343,532	\$1,678,520	\$1,671,129
Interest on Promissory Note	\$1,205,600	\$1,205,600	\$1,205,600	\$1,205,600
Dividends	\$1,336,000	\$1,336,000	\$1,336,000	\$1,336,000
TOTAL	\$3,911,269	\$3,885,132	\$4,220,120	\$4,212,729

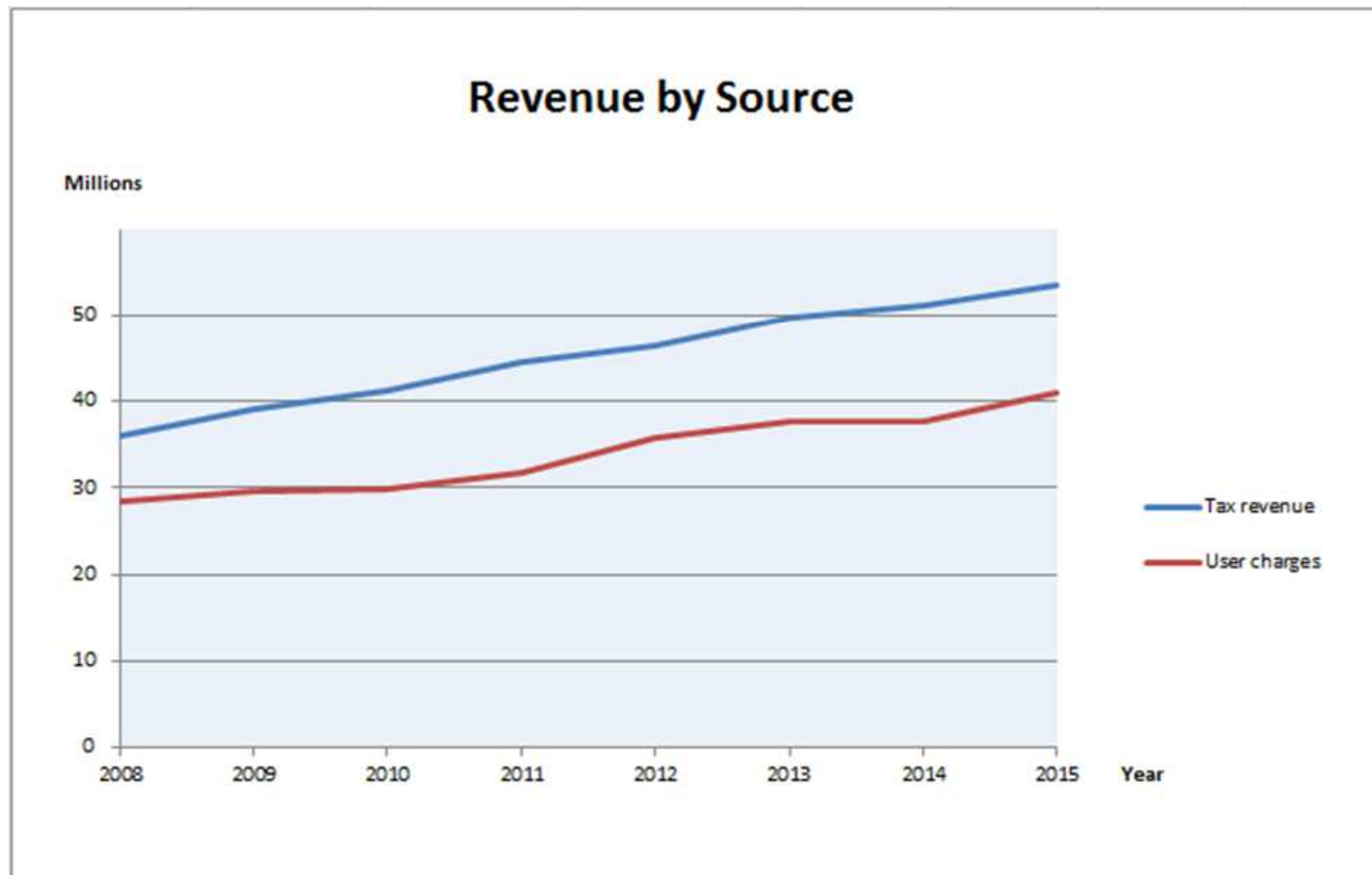
Our investment in Newmarket-Tay Hydro generates substantial income with a favourable return



Revenue - overview



80% of our revenues are Taxes and User Fees



Property Taxes & Assessments



1. Proactive Assessment Management - protecting our assessment base

Partnering with MPAC, and more extensive use of tax and assessment tools

Town initiated assessment appeals

Active review of tax reductions

2. Effective policies, consistently applied

Late Payments Fees Policy which is equitable and maintains revenues



Service Pricing Policy Update



Revenue factors to be considered in general and with regards to updating the SPP policy:

1. Cost recovery - full or incremental
2. The market place / competitiveness
3. Incentives
4. Funding requirements



Reserves and Reserve Funds

- definitions



Reserve

- An appropriation from net revenue after the provision for all known expenditures, i.e. from annual surplus
- No cash, no revenue and no expenses

Reserve Fund

- Funded either by the transfer of revenues from other funds or by an external source of revenue
- Has segregated cash, revenues and expenses; and earns interest on its cash balance



Reserves and Reserve Funds

- definitions (cont'd)



Obligatory Reserve Fund

- Looks exactly like a reserve fund

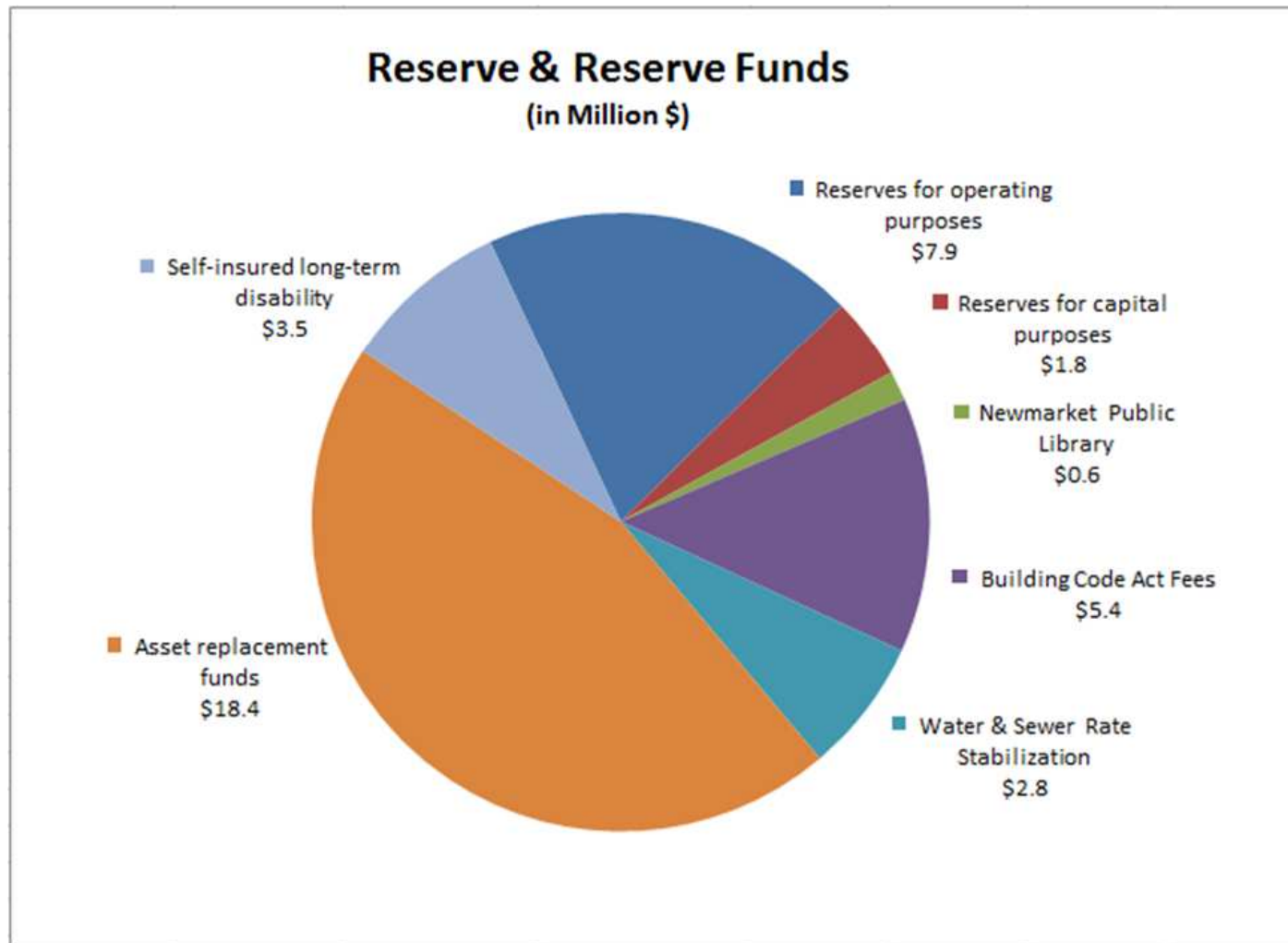
BUT

- Is restricted by legislation and treated as deferred revenue (per PSAB)

The generic term “reserve” is often used to encompass reserves, reserve funds and obligatory reserve funds.



The Town has many different Reserves and Reserve Funds



Reserves and Reserve Funds

- indicators



On a consolidated basis, our reserves and reserve funds appear to be adequate although slightly less than average

Total Reserves and Discretionary Reserve Funds as a % of Operating Expenses

Newmarket	Median	Average
37.9%	51.0%	51.2%

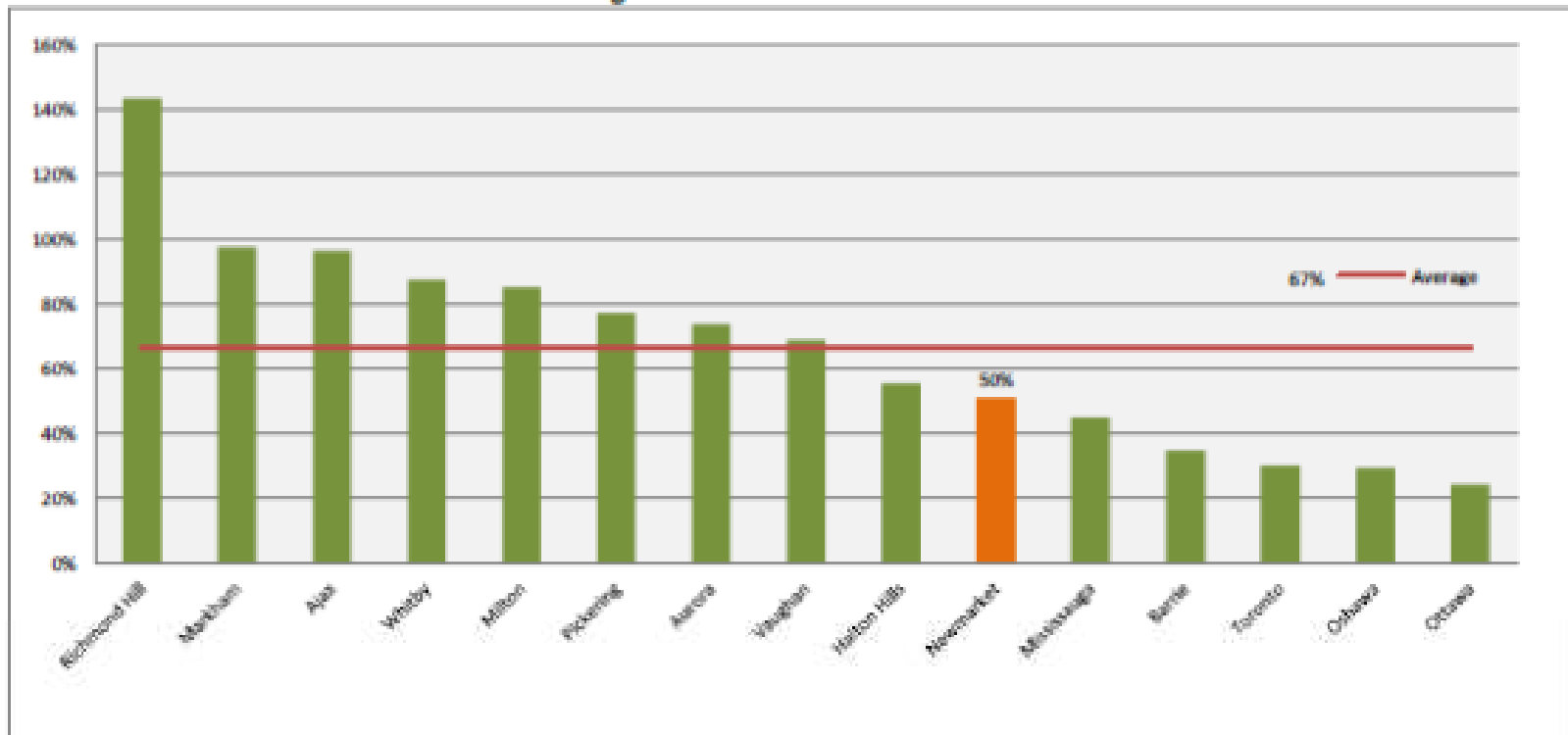
According to the Ministry of Municipal Affairs, this is a “low level of challenge”, i.e. good



Reserves and Reserve Funds - our comparators



Chart 7: Reserves and Reserve Funds as a Percentage of Taxation and User Fee Revenues



And the balance is essentially Water and Wastewater



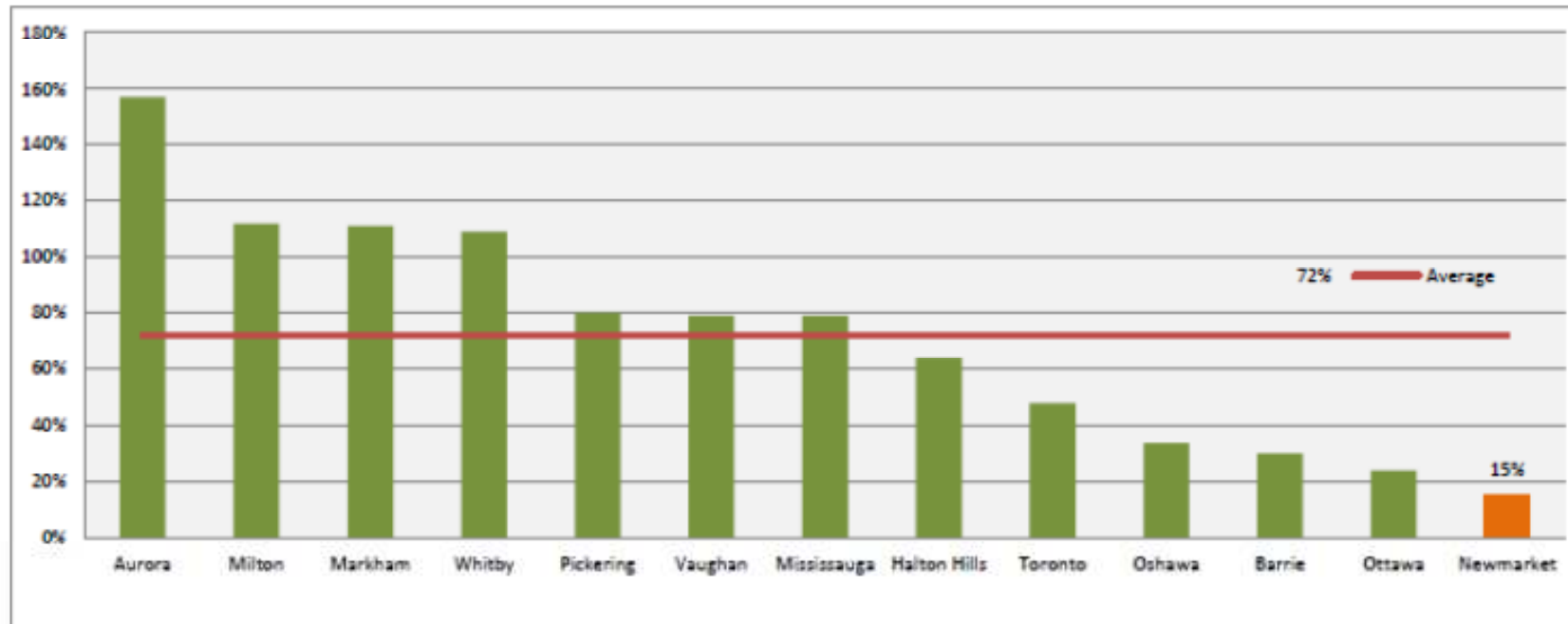
	2012	2013	2014	2015
Tax Discretionary Reserves as a % of Taxation Revenue	27%	32%	15%	-3%
Water Reserves as a % of Water Revenues	132%	140%	149%	154%
Wastewater Reserves as a % of Wastewater Revenues	85%	93%	106%	116%



Comparison of Tax-supported Reserves and Reserve Funds



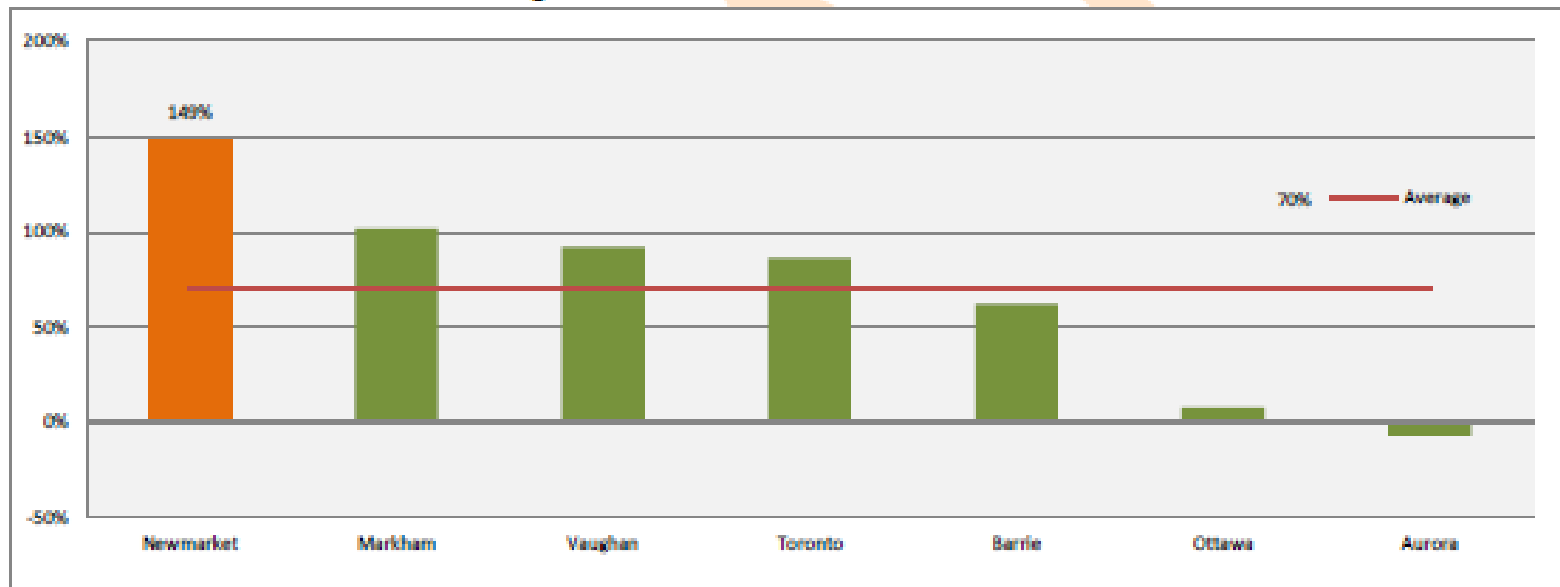
Chart 2: 2014 Tax Discretionary Reserves and Reserve Funds as a Percentage of Taxation Revenues



Newmarket is a leader in Water and Wastewater Reserves and Reserve Funds



Chart 5: 2014 Water Reserves as a Percentage of Total Water Own Source Revenues



Summary of Reserve and Reserve Funds Balances



	2015	2016 projected
	In \$ millions	
Water/wastewater ARF	\$ 38.9	\$ 43.7
Water/wastewater rate stabilization	2.9	2.3
Building Permits	5.4	4.5
Tax-supported ARF	- 20.5	- 22.1
Tax-supported capital	12.2	11.5
Tax-supported operations	14.0	12.6
Internal loans	- 12.4	- 12.3
	\$ 40.5	\$ 40.2



Reserves and Reserve Funds

- policy considerations



Our current guidelines are 8 years old and need to be updated

Proposed Reserves and Reserve Fund Policy housekeeping changes:

1. Re-categorize reserves and reserve funds
2. Define delegated authority
3. Formalize the current practices



Asset Replacement Fund

- overview



The Asset Replacement Fund (ARF) was created in 1998

Goal: to ensure that Newmarket can afford to replace future capital assets as required

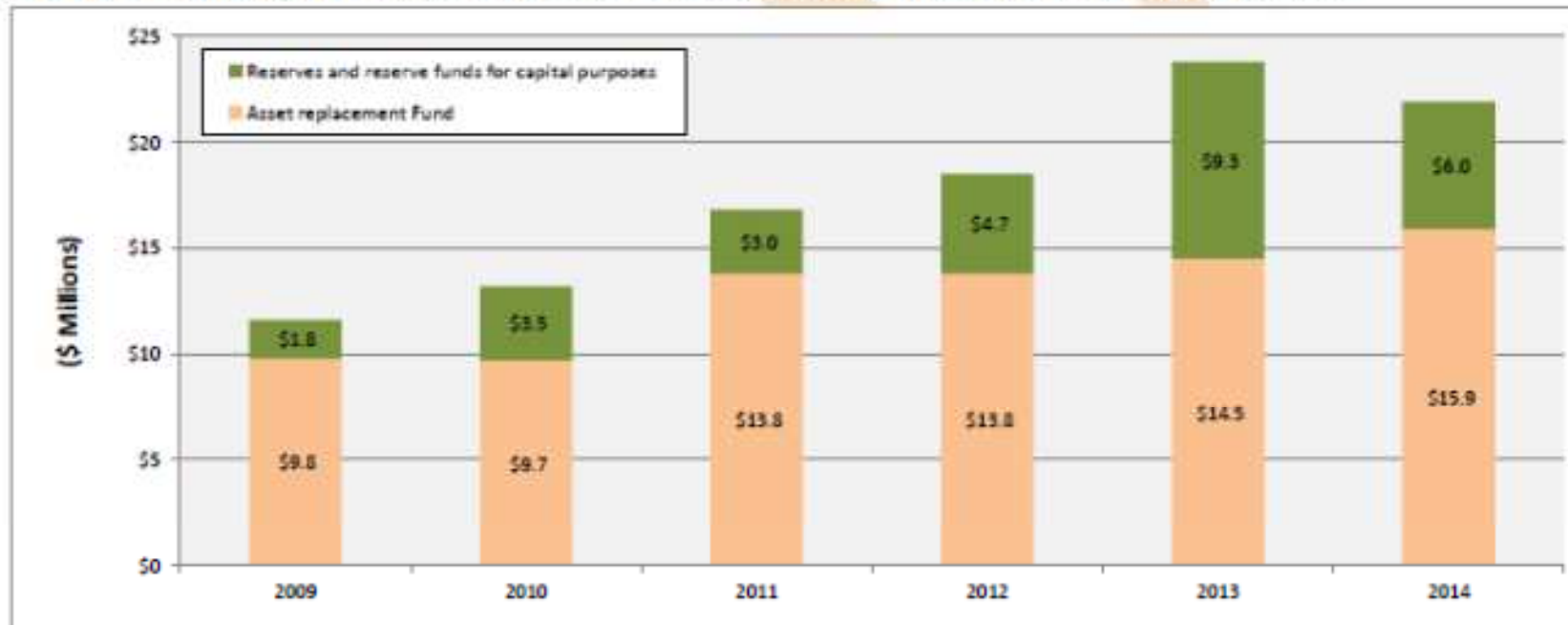
Contributions were based on estimated annual contribution requirement – initially 100% for water, wastewater and fire; 50% for other assets (which grew to 100% by 2008)



Asset Replacement Fund

- trends

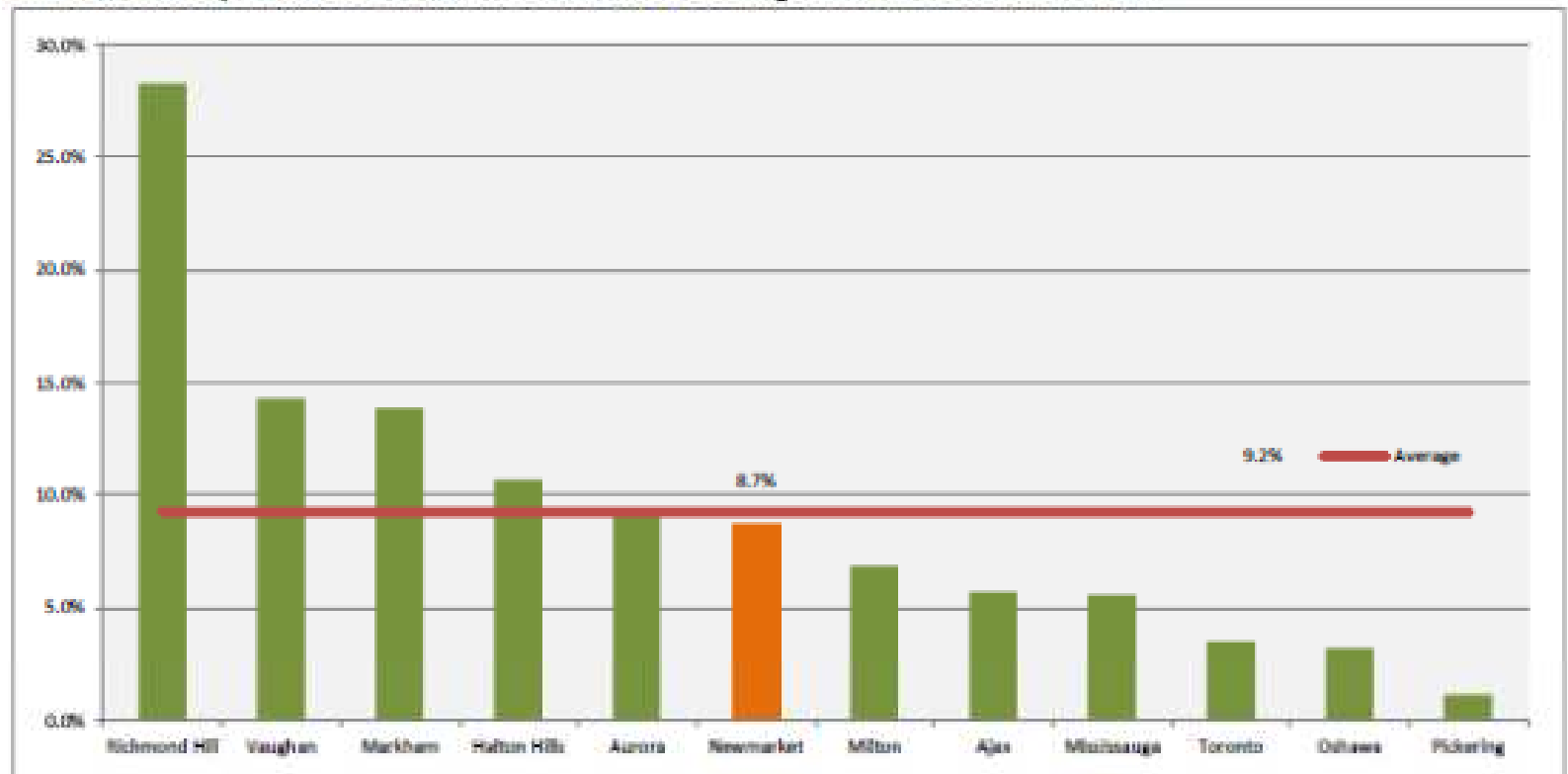
Chart 1: Growth in Capital Reserves and Reserve Funds of the Town of Newmarket between 2009 and 2014



Consolidated balances are comparable



Chart 10: 2014 Capital Reserves and Reserve Funds as a Percentage of Accumulated Amortization



Addressing the funding gap



Contributions to capital reserves and reserve funds as a % of amortization expense

	2012	2013	2014	2015
Combined	88%	86%	88%	92%
Tax-supported	69%	74%	85%	82%
Rate-supported	116%	99%	94%	113%



Methodologies for Funding Capital Reserves



1. Operating surplus
2. Budgeted contributions
3. Designated revenue source:
 - Share of assessment growth
4. Combination of the above



Asset Replacement Fund - policy considerations



Proposed inclusions for an Asset Replacement Fund Policy:

1. Align categories with the AMP
2. Set an ARF target
3. Define acceptable use of ARF
4. Dealing with the interfund imbalance



Capital carryovers are increasing



Capital carryovers occur when funds are allocated to a capital project but are not spent

	\$ millions	% of budget
2012	\$ 25.5	60.2%
2013	\$ 28.0	67.9%
2014	\$ 28.1	54.7%
2015	\$ 38.8	67.5%



Good practice includes multi-year capital plans



Municipality	Number of Years Covered in Capital Plan
Ajax	5 years
Aurora	10 years
Barrie	5 years
Halton Hills	10 years
Markham	5 years
Milton	15 years
Mississauga	10 years
Oshawa	9 years
Pickering	5 years
Richmond Hill	10 years
Toronto	10 years
Vaughan	4 years



Capital Budget

- policy considerations



Proposed capital budgeting changes:

1. Formalize multi-year capital plans
2. Asset Management Plan (AMP) to drive replacement capital program
3. Development Charges background study to drive growth capital program
4. Eliminate capital carryovers by moving to a Capital Spending Authority model



Budget Schedule



ACTIVITY	DATE	STATUS
Special Committee of the Whole Workshop – Operating Budget	November 14 1:30 p.m.	Completed
Special Committee of the Whole Workshop – Financial	November 21 1:30 p.m.	In progress
Committee of the Whole – remaining Fees & Charges	November 28 1:30 p.m.	
Special Committee of the Whole – Preliminary draft budget	December 5 10 a.m.	
Council approval of remaining Fees & Charges	December 5 7 p.m.	



Budget Schedule (cont'd)



ACTIVITY	DATE	STATUS
Draft budget information available to public and on website	December 12	
2017		
Special Committee of the Whole – Capital Budget and Asset Replacement Fund	January 16 10 a.m.	
Special Committee of the Whole – Operating Budget	January 30 1:30 p.m.	
Committee of the Whole - Draft capital and operating budgets	February 6 1:30 p.m.	
Council approval of the Budget	February 13 7 p.m.	

