



**Mike Mayes, Director
Financial Services**

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March 6, 2014

CORPORATE SERVICES REPORT - FINANCIAL SERVICES-2014-10

TO: Mayor Tony Van Bynen and Members of Council
Committee of the Whole

SUBJECT: Projected 2013 Operating Results

ORIGIN: Director, Financial Services/Treasurer

RECOMMENDATION

THAT Corporate Services Report - Financial Services – 2014-10 dated March 6, 2014 regarding the Projected 2013 Operating Results be received and the following recommendation be adopted:

THAT the reserve and reserve fund transfers, totaling \$900,000 listed below, be approved.

COMMENTS

Purpose

The purpose of this report is to advise on the projected 2013 year-end results, as well as to obtain Council approval for allocations of the surplus to reserves and reserve funds.

Budget Impact

After making reserve and reserve fund transfers, and other provisions and allowances which have been authorized by budget, policy, delegated authority, or specific Council direction, there is an estimated Operating Surplus of \$930,000.

This report recommends that \$900,000 of the surplus be transferred to reserves, consisting of \$600,000 for Legal and Planning contingencies and \$300,000 to the Asset Replacement Fund (ARF) to help offset the shortfall in Water and Sewer ARF contributions.

After the recommended reserve transfers, the revised Operating Surplus of \$30,000 would be transferred to the Efficiency/Enhancement Reserve in accordance with policy.

Summary

Implementation of the recommendations in this report will place the Town in an improved position to deal with financial sustainability, potential fluctuations in the tax rate and unforeseen events.

RECOMMENDED RESERVE AND RESERVE FUND TRANSFERS	
RESERVES / RESERVE FUNDS	RECOMMENDED TRANSFER
Reserves for Operational Contingencies	
Planning	\$ 60,000
Legal Reserve	540,000
Asset Replacement Funds	300,000
TOTAL	\$900,000

Reserves for Operational Contingencies

One of the challenges in setting budgets in areas where there are unpredictable variable results is the lack of contingencies. Consequently, budgets in these areas can have a tendency to be conservative to provide for the worst case since there is no backup funding. Establishing reserves, and the systematic replenishment of them, can allow us to budget at an average level.

Ensuring adequate funding for planning and legal fees associated with Ontario Municipal Board (OMB) hearings such as the Glenway development and other litigation and planning matters is prudent. Current reserves should be enhanced and transfers to associated reserves are recommended.

Asset Replacement Funds (ARF)

The Utility Rate Group experienced lower revenues and higher maintenance costs. The rate stabilization funds are not healthy enough to fully subsidize the loss. The transfer to ARF from tax-supported operations will offset the reduction in ARF contributions required to balance the utility rate group.

PROJECTED 2013 TAX-SUPPORTED OPERATING RESULTS

Prior to making any transfers to reserves, the projection for 2013 is a surplus of \$930,000. The main drivers are:

2013 DRIVERS	
Revenue	
Supplementary taxes	\$ 830,000
Miscellaneous net savings	100,000
TOTAL	\$ 930,000

Supplementary taxes are difficult to predict and are not sustainable. For this reason, a conservative amount of \$391,000 was built into the budget in 2013 and similarly in 2014. The remaining \$100,000 is due to a combination of factors, with no one factor taking precedence.

Discretionary Operating Transfers

After making all the transfers described above, there would remain an amount of approximately \$30,000. Conforming with the Town's policy to transfer any surplus to the Efficiency/Enhancement Reserve, any remaining amount will be transferred to this reserve which can be used to fund new initiatives to enhance our operational efficiency. The resulting balance in this reserve would be \$158,583.

OTHER PROJECTED 2013 OPERATING RESULTS**Central York Fire Services (CYFS)**

The surplus of \$159,000, due mostly to lower vehicle maintenance costs, was transferred to the CYFS Reserve Fund. This is consistent with past practice. Provisions have been made for wage adjustments paid in 2014 and any further future payments relating to 2013.

Newmarket Public Library

The Newmarket Public Library had a budgetary surplus of \$61,441. These funds will be transferred to the Library Reserve.

Newmarket Downtown BIA

The Newmarket Downtown Business Improvement Area is self-funded through a local property tax on its members. As such, its surplus of \$125 was transferred to a reserve for future use.

Building Department

In compliance with the Building Code Act, Building Department revenues are limited to the recovery of Building Department costs. As such, its surplus of \$1,651,278 has been transferred to a reserve to be applied to future Building Department costs.

Utility (Water and Wastewater Rate Groups)

The Sustainable Water and Sewage Systems Act mandates that the Water and Wastewater systems are to be fully funded from their rates. The 6-Year Water and Wastewater Financial Plan projected a combined surplus of \$200,000 in 2013. The actual deficit was \$769,000, as a result of lower revenues and higher maintenance costs. The deficit will be covered by using the rate stabilization reserves and reducing contributions to the Asset Replacement Fund.

ANALYSIS OF PROVISIONS AND RESERVES**Allowance for Doubtful Accounts**

A thorough review of our doubtful accounts and receipts after year-end was undertaken and it was deemed that no additional provision was necessary.

Winter Control

The Winter Control Reserve was established to set aside funds for unplanned higher costs associated with a longer and/or more severe winter season. 2013 fit both criteria and as a result \$118,000 was transferred from the reserve to offset higher snow ploughing and winter control road expenses.

The Town of Newmarket has made a claim under the Ontario Disaster Relief Assistance Program as a result of the ice storm in December. The total claim was for \$181,350, including \$118,750 for winter control and \$62,600 for parks and forestry costs. We have not accounted for any possible grant monies that may be received. Should these funds be received, they will be used to replenish the winter control reserve and to offset parks maintenance costs.

Hydro Dividend

An additional dividend of \$500,000 was received from Newmarket Hydro in 2013. The precedent of transferring this extra amount to an operating reserve – the Hydro Dividend Reserve, was continued bringing the balance in the reserve to \$761,000.

Land Remediation

The surplus is net of \$170,000 in land remediation costs in recognition of the liability that existed at year-end. In future years, Public Sector Accounting Standards (PSAB) will require us to provide for such costs, if applicable, on all municipal owned lands.

BUSINESS PLAN AND STRATEGIC PLAN LINKAGES

This report links to Newmarket's key strategic directions in being Well Managed through fiscal responsibility.

CONSULTATION

This report has been prepared in consultation with the CAO and Commissioners. The Library and CYFS have been consulted on their issues.

BUDGET IMPACT

Operating Budget (Current and Future)

After making reserve and reserve fund transfers, and other provisions and allowances which have been authorized by budget, policy, delegated authority, or specific Council direction, there is an estimated Operating Surplus of \$930,000. This report recommends that \$900,000 of the surplus be transferred to reserves, including \$600,000 for operational contingencies and \$300,000 to the Asset Replacement Fund. The additional funds transferred to ARF from the tax supported area will offset the reduced ARF contributions from the Water and Wastewater area. After the recommended reserve transfers, the revised Operating Surplus of \$30,000 would be transferred to the Efficiency/Enhancement Reserve, in accordance with policy.

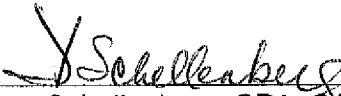
If the final audit results vary significantly from our current projection, the transfer to the Efficiency/Enhancement Reserve Fund would be adjusted. Staff will provide an information report on the final audit amount.

Capital Budget

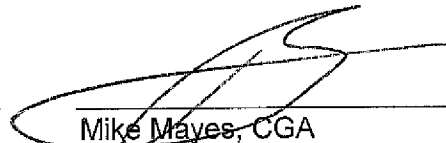
The \$300,000 transfer to ARF will offset the decreased Water and Wastewater contribution to the Asset Replacement Fund and so ensure that there is no impact on the Capital Budget.

CONTACT

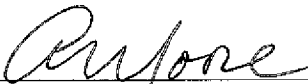
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