



Town of Newmarket
395 Mulock Drive P.O. Box 328,
Newmarket, Ontario, L3Y 4X7

Email: info@newmarket.ca | Website: newmarket.ca | Phone: 905-895-5193

2018 Reserves and Reserve Funds Budget Staff Report

Report Number: 2018-24

Department(s): Financial Services

Author(s): Mike Mayes, Director of Financial Services/Treasurer

Meeting Date: June 11, 2018

Recommendations

1. That the report entitled 2018 Reserves and Reserve Funds Budget dated June 11, 2018 be received; and,
2. That the projected revenues for the 2018 Reserves and Reserve Funds Budget as set out in the attachment be approved.

Executive Summary

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

The 2018 budgeted revenues for reserves and reserve funds including obligatory reserve funds are \$33.3 million. They include \$20.0 million in transfers from the operating budget, \$2.5 million from the gas tax grant, and \$9.1 million in contributions from developers, mainly from Development Charges.

Reserves and reserve funds, including obligatory reserve funds (for development charges and parkland contributions, gas tax grant, etc.) had a combined balance of \$92.3 million at the beginning of 2018 and are budgeted to have a balance of \$41.1 million at the end of 2018, a decrease of \$51.2 million. This does not include the impact of \$50 million blanket unallocated deferral applied to the 2018 capital budget.

Purpose

The purpose of this report is to seek Council approval of the 2018 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 2018 Operating and Capital Budgets including the Supplementary Budget for the Mulock Farm property. 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.

Discussion

Reserves and reserve funds, including obligatory reserve funds (for development charges and parkland contributions, gas tax grant, etc.) had a combined balance of \$92.3 million at the beginning of 2018 and are budgeted to have a balance of \$41.1 million at the end of 2018, a decrease of \$51.2 million.

However, Financial Services Report 2018-14 2017 Capital Carryovers indicated a \$50 million blanket unallocated deferral applied to the 2018 Capital Budget. This deferral will decrease the funding request from reserves and reserve funds in 2018. Due to the difficulty and complexity to determine the individual capital projects to be deferred, the financing associated with the deferral cannot be allocated, and hence the \$50 million deferral is not reflected in the 2018 reserves and reserve funds budget.

The details of the 2018 reserves and reserve funds budget are attached. They are summarized below:

1. Reserves and reserve funds for capital purposes

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

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
General Capital	4,051,634	390,904	3,920,168	522,370	(3,529,264)
Loan to Capital	(11,369,792)	856,084	10,004,142	(20,517,850)	(9,148,058)
Designated Capital	9,168,945	1,148,310	3,667,822	6,649,433	(2,519,512)
Asset Replacement Funds	27,953,992	17,171,394	32,216,544	12,908,842	(15,045,150)
TOTAL	29,804,780	19,566,692	49,808,676	(437,204)	(30,241,984)

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

The budgeted balance of the Asset Replacement Funds is projected to decrease by \$15.0 million during 2018. This is mainly due to budgeted financing from the Asset Replacement Funds exceeding the budgeted annual ARF contributions from the operating fund. \$14.5 million of this is for funding capital carryovers (as amounts are only transferred from the reserve fund as required).

Loan to capital, internal loans from the reserve fund to fund capital projects, is budgeted to increase by \$9.1 million mainly for the water meter replacement project.

Total reserves and reserve funds for capital purposes is budgeted to decrease by \$30.2 million. This does not include the impact of \$50 million capital budget deferrals.

2. Reserves and reserve funds for operating purposes

These reserves were set up for rate stabilization and operational contingencies. The total 2018 ending balance of these reserves and reserve funds is 9.7% of 2018 budgeted taxation revenue. The target level is 5-10%.

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
Operational Contingencies	2,109,202	-	360,000	1,749,202	(360,000)
Cyclical Expenses	743,339	102,845	-	846,184	102,845
Discretionary Operating	2,165,469	11,007	119,127	2,057,349	(108,120)
Operational Carry-overs	1,293,414	-	67,500	1,225,912	(67,502)
TOTAL	6,311,423	113,852	546,627	5,878,649	(432,774)

3. Obligatory reserves and reserve funds

These are legislated reserves and include Cash-in-Lieu Contributions for Parkland from developers, Development Charges, Gas Tax 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.

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
Cash-in-Lieu Contributions for Parkland	373,415	215,307	527,129	61,593	(311,822)
Development Charges	27,116,775	7,759,502	22,148,405	12,727,873	(14,388,902)
Gas Tax Grant	3,433,983	2,584,009	5,752,064	265,928	(3,168,055)
Building Permit Fees	7,003,684	121,456	1,861,773	5,263,367	(1,740,317)
Engineering Administration	1,344,040	847,731	835,971	1,355,801	11,761
TOTAL	39,271,898	11,528,005	31,125,342	19,674,559	(19,597,336)

Revenue estimates for Development Charges and Cash-in-Lieu Contributions for Parkland are extrapolated from the trends of the preceding three years.

The budgeted ending balance will decrease \$19.6 million. This does not include the impact of \$50 million capital budget deferrals.

4. Other reserves and reserve funds

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

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
Development Related Revenues	2,851,267	167,698	763,751	2,255,214	(596,053)
Restricted Operating	11,196,933	1,188,957	1,333,524	11,052,366	(144,567)
Growth Funds	2,894,467	693,631	945,704	2,642,394	(252,073)
TOTAL	16,942,666	2,050,286	3,042,979	15,949,974	(992,693)

Restricted operating reserves are set aside for very specific purposes. Most of them are at a healthy level: the long-term disability reserve fund is 150% of our accrued obligation, water and wastewater rate stabilization reserves are over 10% of their annual revenues, and the general Library reserve has an additional \$140,000.

Revenues in the Growth Funds include a projection of \$281,000 in voluntary trail contributions and \$360,000 in Recommending–A-Strategy (RAS) surcharges¹. A detailed list of all the reserves and reserve funds is attached to this report.

Conclusion

The majority of the Reserves and Reserve Funds budget has already been established through the previous adoption of the 2018 Operating and Capital Budgets. Projected revenues for reserves and reserve funds excluding transfers are based upon the trends of the last three years. The 2018 ending balance of reserves and reserve funds including obligatory reserves and reserve funds will only decrease slightly after considering the impact of \$50 million of blanket unallocated capital deferrals.

Business Plan and Strategic Plan Linkages

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

Consultation

The 2018 Reserves and Reserve Funds Budget has been created from the 2018 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.

Attachments

2018 Reserves and Reserve Funds Budget

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.

Approval



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



Esther Armchuk, LL.B
Commissioner, Corporate Services

Contact

For more information on this report, contact: Mike Mayes at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
General Capital	4,051,634	390,904	3,920,168	522,370	(3,529,264)
Loan to Capital	(11,369,792)	856,084	10,004,142	(20,517,850)	(9,148,058)
Designated Capital	9,168,945	1,148,310	3,667,822	6,649,433	(2,519,512)
Asset Replacement Funds	27,953,992	17,171,394	32,216,544	12,908,842	(15,045,150)
TOTAL	29,804,780	19,566,692	49,808,676	(437,204)	(30,241,984)

Accumulated Amortization 278,716,241 10.7% **293,216,241** -0.1%

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
Operational Contingencies	2,109,202	-	360,000	1,749,202	(360,000)
Cyclical Expenses	743,339	102,845	-	846,184	102,845
Discretionary Operating	2,165,469	11,007	119,127	2,057,349	(108,120)
Operational Carry-overs	1,293,414	-	67,500	1,225,912	(67,502)
TOTAL	6,311,423	113,852	546,627	5,878,649	(432,774)

Tax Revenue 55,362,949 11.4% 60,794,530 9.7%

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
Parkland	373,415	215,307	527,129	61,593	(311,822)
Development Charges	27,116,775	7,759,502	22,148,405	12,727,873	(14,388,902)
Gas Tax Grant	3,433,983	2,584,009	5,752,064	265,928	(3,168,055)
Building Permit Fees	7,003,684	121,456	1,861,773	5,263,367	(1,740,317)
Engineering Administration	1,344,040	847,731	835,971	1,355,801	11,761
TOTAL	39,271,898	11,528,005	31,125,342	19,674,559	(19,597,336)

Category	Beginning Balance 2018	Revenues	Expenses	Ending Balance 2018	Change over 2017
Development Related Revenues	2,851,267	167,698	763,751	2,255,214	(596,053)
Restricted Operating	11,196,933	1,188,957	1,333,524	11,052,366	(144,567)
Growth Funds	2,894,467	693,631	945,704	2,642,394	(252,073)
TOTAL	16,942,666	2,050,286	3,042,979	15,949,974	(992,693)

Operating Expenses \$ 121,234,960 43.8% \$ 129,487,654 16.5%

Proof (1) - - (1) 2