



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

Q3 Operating, Capital, Water & Wastewater, Storm water and Investment Summary Information Report

Report Number: 2018-36

Department(s): Financial Services

Author(s): Mike Mayes, Director, Financial Services

Date: November 28, 2018

In accordance with the Procedure By-law, any member of Council may make a request to the Town Clerk that this Report be placed on an upcoming Committee of the Whole agenda for discussion.

Executive Summary

In general, growth related revenues have slowed.

A net surplus of \$370,000 is projected at this time. This is due mainly to higher tax revenues (Payments in Lieu and supplementary taxes). The gapping target will also be exceeded.

The Water and Wastewater rate groups will be in a deficit of \$500,000 due to lower revenues and higher charges for water from the Region due to increased flushing. The Stormwater rate group is projecting a surplus of \$250,000. Rate stabilization reserves will be used to balance year-end rate group results.

Purpose

The purpose of this report is to advise Council on the third quarter results for 2018 and provide a forecast of the year-end results.

Background

It is corporate policy (FIN 2-01) to prepare financial reports to Council as at March 31st (if Budget approved), June 30th, September 30th, and December 31st (a preliminary and a final report) of each year. The third quarter report includes a forecast of year-end results.

Information Report 2018-36 – Q3 Operating, Capital, Water & Wastewater and
Investment Summary

Discussion

Tax Supported Operating Budget

Revenues to the end of September totaled \$79.5 million, while expenditures totaled \$61.9 million, resulting in a surplus of \$17.6 million. The larger than budgeted net surplus – a favorable variance of \$2.4 million - is mainly due to lower net expenditures in Central York Fire Services, Development & Infrastructure Services and General Government.

Total revenues are \$1.0 million below budget, mostly due to timing. Some Payments-in-Lieu have not been billed at this point and reserve transfers have not been made in many areas as the corresponding expenditures have not been incurred.

C.A.O. Office

Consulting and salaries (managed gapping) are below budget and are expected to continue.

A year-end surplus of \$100,000 is projected.

Corporate Services

Revenues are slightly below the budget at this point. Shortfalls in Legal recoveries are due to a slowdown in subdivisions. Licensing fees, also lower than budget, will be reviewed as part of the regulatory review Council workshop in the first quarter of 2019 and may be subject to change or rightsizing. Higher revenue from the tax area and higher finance administration fees associated with site plan agreements partially offset the shortfalls.

Higher legal consulting expenses due to on-going litigation matters and higher transfers to reserves have been offset by lower salaries and wages (gapping) in a number of departments.

A year-end surplus of \$70,000 is projected.

Of this \$170,000 is attributable to wage gapping.

Central York Fire Services

Expenditures are \$890,000 below budget at this point. Wages and benefits have been accrued for a new collective agreement (recently settled), but still reflect a favorable variance to budget due to lower overtime and standby, as well as gapping of new positions. Lieu time, paid in November, will be \$130,000 over budget and vehicle repairs & maintenance will be over budget which has been the trend in the last several

years. Both factors have been factored in to the Joint Council Committee (JCC) recommended 2019 budget. Lower wellness related expenses, resulting from the cancellation of the contract, will be somewhat offset by expenses for a new training initiative. A year-end surplus of \$50,000 is projected which would be transferred to reserves.

Community Services

Revenues and related expenditures are over budget. The Fair Workplaces, Better Jobs Act, 2017 (Bill 148) continues to be a significant driver for the higher casual wages. See the attached Appendix A for a detailed explanation of variances.

The Commission is projecting a deficit of \$500,000.

Of this, \$480,000 is specifically identifiable as being the result of the provisions of Bill 148.

Development & Infrastructure Services

Expenditures and related revenues (reserve transfers) are lower than budget. See the attached Appendix B for a detailed explanation of variances.

The Commission is projecting a surplus of \$350,000. Of this, \$450,000 is attributable to wage gapping.

Building revenues are lower than budget by \$400,000. Any shortfall will be offset by reserve fund transfers at year-end.

Newmarket Public Library

The third quarter results were presented to the Library Board on October 10, 2018. There are no significant year-to-date variances nor are there any areas where the budget is not projected to be met.

Overall, a surplus of approximately \$100,000 is projected. Most, if not all, of the surplus will be returned to Town, as Library Reserves were reviewed and increased last year.

General Government

Interest revenue is projected to be at least \$500,000 over budget due to higher cash balances as a result of lower capital spending, as well as a higher interest rate earned on our cash balances (increased prime lending rate).

Tax write-offs and cancellations are projected to be \$200,000 higher than budget, as there are amended notices and at least one appeal still expected.

Overall, this area will be on budget at year-end.

Corporate Provisions:

Some provisions for are made at a corporate level because it is impractical to allocate them at a departmental level. This could be due to not having sufficient information or due to shifting requirements.

For compliance with Bill 148, \$280,000 was provided for in the 2018 budget. This was intended to be part of a 5-year transition towards recognizing the full budget impact. For some departments, the impact was not expected to be significant. Recreation & Culture was able to identify a \$480,000 cost driver. According to the Town's estimate, the direct impact of the new legislation in 2018 will be \$955,000. The remaining \$655,000 will be funded from operational savings and reserves.

On a similar basis, consolidated savings of \$500,000 were expected for wage gapping – savings from delays in filling vacancies. In 2018, Development & Infrastructure Services, CAO's Office (Strategic Initiatives), and Corporate Services (Procurement and Licensing) are anticipating savings to exceed that target by \$220,000.

Taxation

Property tax revenues are slightly below budget due to timing. A supplementary P.I.L billing and higher supplementary tax revenues are projected to result in a favorable year-to-date variance of \$350,000.

Summary – Tax-Supported Operating Budget Forecast

Department / Commission	Projected 2018 Surplus / (Deficit)	Breakdown		
		Impact of Bill 148	Wage gapping	Other drivers
C.A.O. Office	\$100,000		\$100,000	
Corporate Services	\$70,000		\$170,000	(\$100,000)
Community Services	(\$500,000)	(\$480,000)		(\$20,000)
DIS	\$350,000		\$450,000	(\$100,000)
General Government		\$280,000	(\$500,000)	\$220,000
Taxation	\$350,000			\$350,000
Consolidated Total	\$370,000	(\$200,000)	\$220,000	\$350,000

Capital Budget

Approximately \$11.9 million (21.2%) of the \$56.2 million in budgeted capital expenditures was spent at the end of the third quarter on a variety of projects. The percentage of approved budgets is low, due to a variety of factors. Additional information on Development & Infrastructure projects is included in the October 29th memo to Council. This report does not include the Mulock Farm property purchase which was settled in October.

A substantial capital carry over is anticipated.

Water, Wastewater and Storm Water Budgets

At the end of the third quarter, rate revenues in water and wastewater were lower than budget due mainly to the delay in the new water meter project which was budgeted to bring in an additional \$500,000 in billable consumption from the new more reliable meters. Transfers from reserves were also lower as the associated expenses had not been incurred.

Higher expenditures for water purchased from the Region (7% higher than budget) include water used for flushing and swabbing at close to triple the volume from last year. The costs due to flushing after 9 months are over \$1 million. The increased flushing and system maintenance is required to maintain chlorine residual levels that meet regulatory requirements, particularly in the north end of the Town in dead-end areas. There are plans in place to have 2 separate zones in the future that should improve the situation. These higher costs have been offset somewhat by lower expenditures for pipe relining, hydrant painting and swabbing.

A deficit of \$500,000 is anticipated due to lower revenues resulting from the delay in the new water meter project and higher expenses for the cost of water used. A transfer from rate stabilization would be required.

In stormwater, the revenue variance is mostly due to timing and should essentially balance out by year-end. Expenses are lower due mainly to much lower stormwater maintenance/catchbasin cleaning.

A surplus of \$250,000 is anticipated due to lower expenses. This would be transferred to the appropriate reserves.

Investments

Active investments:

The investment summary for the nine months ended September 30, 2018 (attached) provides details of all investments held as at this date. None of our investments are subject to any variance between initial cost and market value.

The average weighted yield was 2.19% compared to a weighted average benchmark of 2.01% for the period. We earned incremental income of \$89,624 all of which was transferred to the Tax-Supported Operating Fund, as this amount was less than the \$131,250 which was approved by Council in the 2018 budget. This situation is expected to continue, as two increases to the prime lending rate have increased the benchmark and consequently have largely diminished our incremental income.

Our 2 GIC's totalling \$30 million come due at the beginning of December (7th and 10th) and we will be looking to reinvest the funds using a laddered approach not to exceed 5 years. A 90 day \$20 million GIC was purchased on October 10th with an interest rate of 2.5%.

At the end of the third quarter, the investment portfolio included (see Investment Summary Q3 attached):

\$54,082,164 (84.7%) GIC's with major banks
\$9,781,814 (15.3%) in non-traditional investments
\$27,678 (0.0%) loan to an external party

Of the \$54 million in GIC's, \$14 million are secondary market GIC's. These are GIC's bought back from clients who need to get out of their non-cashable GIC's before maturity and purchased by the Town through our investment broker – Royal Bank of Canada – often with better yields than regular GIC's. Interest on these GIC's is reported based on their effective yield, in accordance with Public Sector Accounting Standards. This means the Town reports interest over the course of the GIC's term instead of recognizing it all when it matures.

In the opinion of the Treasurer, all investments made were in line with the investment policies, strategies and goals adopted by the Town.

Passive investments:

In addition to the active investments noted above, CIBC has paid the Town \$1,302,298 in interest on our bank accounts. These funds currently earn interest at an annual rate of 2.45%.

Conclusion

The challenges and opportunities encountered in 2018 will influence the 2019 budget.

Business Plan and Strategic Plan Linkages

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

Consultation

Comments were requested from all departments and the Strategic Leadership Team has reviewed the report.

Human Resource Considerations

Not applicable.

Budget Impact

We are expecting to exceed our gapping target by \$220,000. The Fair Workplaces, Better Jobs legislation (Bill 148) will have a significant impact on our casual/sessional/seasonal wages. A year-end surplus will allow us to increase our reserves and provisions which have been identified to be insufficient such as our Legal Reserves.

Attachments

2018 Third Quarter Operating Results (1 pg.)

2018 Third Quarter Capital Expenditures (1 pg.)

2018 Third Quarter Water, Wastewater and Stormwater Operating Results (1 pg.)

Investment Summary for the Nine Months Ended September 30, 2018 (1 pg.)

Appendix A (2 pgs.)

Appendix B (1 pg.)

Contact

For more information on this report, contact Dawn Schellenberg at 905-953-5300, ext. 2104 or via e-mail at dschellenberg@newmarket.ca

Approval

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

Esther Armchuk, B.A. (Hons), LL.B.
Commissioner of Corporate Services