



Town of Newmarket
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2019 Budget Reconciliation Information Report to Council

Report Number: 2019-29

Department(s): Financial Services

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

Date: December 16, 2019

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

The 2019 Council approved budgets (tax and rate-supported operating, capital – new and carried over from previous years) along with the implied reserve and reserve funds budget derived from the Council-approved budgets, have a combined revenue amount of \$141,172,833 and an expenditure total of \$136,689,657. The adjusted budget, per the Consolidated Statement of Operations, has a revenue amount of \$142,172,833 and an expenditure amount of \$131,109,217. The difference is due to the inclusion of budgeted amortization expense, post-employment benefit expense and the exclusion of budgeted tangible capital assets that will be capitalized. These adjustments make the budget Public Sector Accounting Standard (PSAS) compliant.

The capital carry-overs from previous years have been reduced by a blanket \$24 million to reflect a more appropriate and achievable capital program.

Purpose

The purpose of this report is to provide Council with a reconciliation of the Council approved 2019 budget as it compares to the budget that will be reported in the 2019 financial statements.

Background

A key outcome of the annual budget is a tax rate, which Council is asked to approve. This tax rate, and other rates such as water and wastewater, are based on a “cash basis” of 2019 Budget Reconciliation Information Report

accounting for the most part, and therefore do not include all of the Public Sector Accounting Standards (PSAS) requirements around accrual accounting and accounting for “non-financial assets and liabilities”.

These accounting standards do not require budgets to be prepared on a PSAS basis. The Town of Newmarket, like most municipalities, continues to prepare budgets on the traditional cash basis.

The Province of Ontario introduced Ontario Regulation 284/09 (O. Reg. 284/09) that allows a municipality to exclude from their estimated expenses, costs related to amortization expense, post-employment benefit expense and solid waste landfill closure and post-closure expense. However, the regulation does require that the municipality report on the impact of these excluded costs.

Discussion

The Council approved 2019 Budget and associated levy excluded the following:

1. The budget did not include expenses for the amortization of its tangible capital assets in the amount of \$16.7 million, as amortization is a non-cash expense.
2. Based on an actuarial review as at the end of 2018, the 2019 expense for post-retirement benefits was estimated to be \$540,019, of which \$92,297 was included in the budget.
3. No solid waste landfill closure and post-closure costs have been included, as the Town does not have responsibility for any landfill sites.

In preparing the budget for 2019, the Town included an amount of \$26.4 million in capital expenditures. Of this amount \$22.4 million has been identified as being tangible capital assets.

The attachment illustrates what the 2019 budget will look like in the Town’s consolidated financial statements in the Public Sector Accounting Board (PSAB) 3150 format.

Blanket Adjustment to the Capital budget

Traditionally, in the spring a report is provided to Council of projects that have approved funding but which are not completed. For fiscal 2019, this would have been \$58 million. During the summer and fall of 2019, a major change was made in the budget process – the elimination of capital carryovers and the creation of achievable capital programs.

With the late approval of the 2019 budget (due to the election) and this significant process change, the 2019 capital carryover report was deferred and eventually cancelled. This report is attempting to account for that transition.

A \$24 million blanket adjustment has been made to the 2019 capital budget to respond to these changes. This adjustment has not been applied to specific projects. A similar approach, a blanket adjustment of \$50 million, was taken for the 2018 capital budget.

Post-Employment Benefits

Employee Future benefits are health and dental benefits that are provided to early retirees, future retirees and employees currently on long-term disability. An actuarial valuation was carried out as at December 31, 2018 using a discount rate of 3.25%. The liability for employee future benefits is estimated to be \$6.0 million, of which \$1.9 million has been funded for 2019. Although there is no legislative requirement to fund this liability – it may be handled on a “pay-as-you-go” basis – the Town continues to be fiscally prudent. The liability is expected to grow to \$6.2 million in 2020.

Amortization Expenses

Amortization, commonly referred to as depreciation, theoretically represents the annual use of the Town’s assets. Although amortization expenses should not be used to determine the impairment of an asset, it is a good tool to predict the future annual financial commitments required for asset rehabilitation. The amounts and calculations for amortization expenses are in accordance with our tangible capital asset (TCA) policy.

Conclusion

The adjustments to the Council approved 2019 budget include projected amortization expense, post-employment benefit expense and budgeted tangible capital assets, capitalized. These adjustments make the budget PSAB compliant.

Business Plan and Strategic Plan Linkages

There is no relationship to the strategic plan as this is a compliance report under the Municipal Act, 2001.

Consultation

Not applicable.

Human Resource Considerations

None.

Budget Impact

This report is for information and as such, will have no direct impact on taxes, fees and charges or the use of reserves. There is no impact on the future tangible capital asset funding requirements of the municipality, as a result of the exclusion of any of the estimated expenses.

The original 2019 budget approved by Council included a surplus for the year of \$4.5 million. With the inclusion of the PSAB reporting requirements, the budget would result in a surplus of \$11 million.

Attachments

2019 Budget Reconciliation (6 pages)

Contact

For more information on this report, contact Mike Mayes, Director of Financial Services/Treasurer at 905-953-5300, ext. 2102 or via e-mail at mmayes@newmarket.ca

Approval



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



Esther Armchuk, LL.B
Commissioner, Corporate Services

THE CORPORATION OF THE TOWN OF NEWMARKET
Consolidated Statement of Projected Financial Position

December 31, 2019

	2018	2019
	Actual	Projection
FINANCIAL ASSETS		
Cash	\$ 66,063,864	\$ 71,144,072
Temporary Investments	54,082,164	41,000,000
Taxes receivable	4,181,146	4,304,490
Unbilled User Charges	6,030,968	6,513,445
Accounts receivable	7,166,547	7,309,878
Inventory for resale	56,952	58,091
Surplus Land	155,285	155,285
Loans receivable	147,474	110,522
Investment in Newmarket Hydro Holdings Inc.	68,452,251	69,452,251
	<u>206,336,651</u>	<u>200,048,033</u>
LIABILITIES		
Accounts payable and accrued liabilities	28,843,766	29,420,641
Interest payable on debt	921,522	929,368
Employee future benefits payable	6,128,206	6,220,503
Long-term disability benefits payable	4,461,290	4,299,140
Deferred revenue	42,319,541	33,292,255
Long-term debt	56,562,744	52,766,698
	<u>139,237,069</u>	<u>126,928,604</u>
NET FINANCIAL ASSETS	<u>67,099,582</u>	<u>73,119,429</u>
NON FINANCIAL ASSETS		
Inventory	551,589	562,621
Prepaid expenses	3,170,927	2,530,927
Tangible Capital Assets	514,435,905	520,108,642
	<u>518,158,421</u>	<u>523,202,190</u>
TOTAL NET ASSETS	<u>585,258,003</u>	<u>596,321,619</u>
ACCUMULATED SURPLUS	<u>\$ 585,258,003</u>	<u>\$ 596,321,619</u>

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Projected Operations and Accumulated Surplus

Year ended December 31, 2019

	2018		2019
	Budget	Actual	Budget
REVENUES			
Taxation and user charges			
Residential and farm taxation	\$ 50,869,700	\$ 50,561,618	\$ 52,268,182
Commercial, industrial and business taxation	9,217,137	9,803,052	10,451,591
Taxation from other governments	707,693	828,720	722,525
User charges	51,136,257	51,942,646	54,416,594
	111,930,787	113,136,036	117,858,892
Government Transfers			
Government of Canada	2,960,731	763,617	1,205,174
Federal Gas Tax Revenue	5,752,064	2,183,005	2,672,958
Province of Ontario	1,916,641	2,532,967	1,410,901
	10,629,436	5,479,589	5,289,033
Other			
Contribution from developers	25,410,325	10,714,091	8,411,181
Investment income	2,650,588	4,437,998	3,646,407
Fine, penalties and interest	1,566,931	1,431,044	1,725,754
Rent and other	3,712,210	2,421,197	2,905,566
Land sales	-	-	-
Gain on disposal of tangible capital assets	-	(91,883)	-
	33,340,054	18,912,447	16,688,908
TOTAL REVENUES	155,900,277	137,528,072	139,836,833
EXPENSES			
General government	16,642,815	16,945,788	17,329,213
Protection to persons and property	18,433,393	17,911,072	20,180,677
Transportation services	13,408,510	14,853,467	14,136,787
Environmental services	39,547,821	38,825,431	40,785,527

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Projected Operations and Accumulated Surplus

Year ended December 31, 2019

	2018		2019
	Budget	Actual	Budget
Recreation and cultural services	34,578,774	34,091,822	34,372,753
Planning and development	4,766,830	3,496,009	4,304,260
	127,378,143	126,123,589	131,109,217
Investment income from Newmarket Hydro Holdings Inc.	2,336,000	838,672	2,336,000
Gain on foreign exchange	-	522,214	-
ANNUAL SURPLUS	30,858,134	12,765,369	11,063,616
ACCUMULATED SURPLUS, BEGINNING OF YEAR	-	572,492,634	585,258,003
ACCUMULATED SURPLUS, END OF YEAR	\$ 30,858,134	\$ 585,258,003	\$ 596,321,619

THE CORPORATION OF THE TOWN OF NEWMARKET

Consolidated Statement of Projected Change in Net Financial Assets

Year ended December 31, 2019

	2018		2019
	Budget	Actual	Budget
Annual surplus	\$ 30,858,134	\$ 12,765,369	\$ 11,063,616
Acquisition of tangible capital assets	(40,760,059)	(39,029,587)	(22,417,091)
Contributed tangible capital assets	-	(5,270,605)	-
Amortization of tangible capital assets	16,610,416	16,266,866	16,744,354
Proceeds from sale of tangible capital assets	-	216,412	-
Loss (gain) on disposal of tangible capital assets	-	91,883	-
	(24,149,643)	(27,725,031)	(5,672,737)
Changes due to inventory	(6,892)	(207,003)	(11,032)
Changes due to prepaid expenses	(159,053)	(619,689)	640,000
	(165,945)	(826,692)	628,968
CHANGE IN NET FINANCIAL ASSETS	6,542,546	(15,786,354)	6,019,847
NET FINANCIAL ASSETS, BEGINNING OF YEAR	82,885,936	82,885,936	67,099,582
NET FINANCIAL ASSETS, END OF YEAR	\$ 89,428,482	\$ 67,099,582	\$ 73,119,429

THE CORPORATION OF THE TOWN OF NEWMARKET
Consolidated Statement of Projected Cash Flows
Year ended December 31, 2019

	2018		2019
	Budget	Actual	Budget
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Cash received from			
Taxation	\$ 60,683,029	\$ 61,796,258	\$ 63,318,954
User charges	50,700,811	51,347,960	53,934,117
Government transfers	9,035,021	6,549,977	4,495,678
Contributions from developers	12,288,927	6,853,953	4,517,810
Investment income	3,986,588	5,049,009	5,469,540
Fine, penalties and interest	1,566,931	1,489,466	1,725,754
Rent and other	2,376,210	2,434,311	1,569,566
Aurora's share of Central York Fire Services	10,490,381	10,190,853	11,182,125
	151,127,898	145,711,786	146,213,544
Cash paid for			
Salaries, wages and employee benefits	56,518,649	60,605,483	61,514,565
Materials, goods, and supplies	5,583,623	5,888,053	5,649,450
Utilities	3,782,367	4,254,143	4,339,226
Contracted and general services	29,636,157	37,642,821	42,764,337
Capital repairs and maintenance	6,503,302	9,303,959	11,139,376
Interest on long-term debt	1,853,448	1,853,449	2,304,739
Rents and financial	275,563	284,972	290,671
	104,153,109	119,832,880	128,002,363
Net change in cash from operating activities	46,974,789	25,878,906	18,211,180
CAPITAL ACTIVITIES			
Proceeds on disposal of tangible capital assets	-	216,412	-
Cash paid for acquisition of tangible capital assets	(40,760,059)	(39,029,590)	(22,417,091)
Net change in cash from capital activities	(40,760,059)	(38,813,178)	(22,417,091)
INVESTMENT ACTIVITIES			
Gain on Foreign Exchange	-	522,214	-
Temporary investment	(12,000,000)	(11,082,164)	13,082,164
Net increase in investment	(12,000,000)	(10,559,950)	13,082,164
FINANCING ACTIVITIES			
Issuance of long-term debt	26,000,000	26,000,000	
Principal repayment on long-term debt	(3,228,829)	(3,111,517)	(3,796,046)
Net change in cash from financing activities	22,771,171	22,888,483	(3,796,046)
NET CHANGE IN CASH	16,985,901	(605,739)	5,080,208
CASH, BEGINNING OF YEAR	66,669,603	66,669,603	66,063,864
CASH, END OF YEAR	\$ 83,655,504	\$ 66,063,864	\$ 71,144,072

2019 Budget Reconciliation

The budget approved by Council differs from the budget in the Consolidated Statements. The differences are mainly due to PSAB reporting requirements.

		Revenues	Expenses
Council approved budget for 2019:			
Operating fund - March 4, 2019		\$ 130,272,108	\$ 130,272,108
Less: Principal payment on long-term debt		\$ -	\$ (3,854,085)
Less: Transfers to / from other funds		\$ (1,587,687)	\$ (16,138,930)
Capital - New - March 4, 2019		\$ 27,692,765	\$ 27,692,765
Less: New capital budgets assigned to future years		\$ (12,078,000)	\$ (12,078,000)
Plus: Budgets from previous years assigned to 2019		\$ 34,795,799	\$ 34,795,799
Less: Transfers from other funds		\$ (16,450,558)	\$ -
Plus: <i>Forecasted budget adjustment</i>		\$ (24,000,000)	\$ (24,000,000)
Reserves and Reserve funds -		\$ 18,374,337	\$ 17,745,246
Less: Transfers to / from other funds		\$ (15,845,931)	\$ (17,745,246)
TOTAL COUNCIL APPROVED BUDGET	(1)	\$ 141,172,833	\$ 136,689,657
Less: Projection of Tangible Capital Assots Capitalized	(2)		(22,417,091)
Plus: Budgeted amortization expense	(3)		16,744,354
Plus: Post-employment benefit expenses	(4)		92,297
Plus: Investment income from Newmarket Hydro Holdings Inc.	(5)	1,000,000	
Adjusted Budget per Consolidated Statement of Operations		\$ 142,172,833	\$ 131,109,217

Note:

- (1) Council approves balanced budgets with the exception of Reserves and Reserve Funds. The difference between Revenue and Expenses is the net transfer to or from other funds.
- (2) This figure represents the total expenditures in the Capital Budget for Tangible Capital Assets. Disposals are not considered to be material and are therefore excluded.
- (3) This figure is the estimated amortization for the current year's budgeted Tangible Capital Asset additions and adding it to the previous year's actual amortization expense.
- (4) This is estimated based on the 2018 actuarial evaluation.
- (5) This is estimated based on the previous years' trend.