

2022 Financial Statement Discussion and Analysis

The Town of Newmarket's consolidated financial statements have been prepared in accordance with reporting standards set by the Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada. The consolidated financial statements include the financial results of:

- Town of Newmarket;
- Newmarket Public Library Board;
- The Main Street District Business Improvement Area;
- The Town's proportionate share of the joint venture with the Town of Aurora – Central York Fire Services

The Town's investment in Newmarket Hydro Holdings Inc. is accounted for on a modified equity basis. Newmarket Hydro Holdings Inc. has two subsidiaries – Newmarket-Tay Power Distribution Ltd. and NT Holdings Inc. (formerly Envi Networks Ltd.).

A selection of financial indicators are explained below:

2022 Financial Highlights	2022	2021
Financial position	\$715,829,608	\$677,504,272
<p>Financial position refers to the net position of assets in excess of liabilities. Positive balances indicate the Town's ability to cover debt obligations and to have funds set aside for future sustainability. The balance is increasing year over year. The Town's continued focus on increasing assets while lowering liabilities will keep this indicator on a positive trend.</p>		
Capital reserves as % of accumulated amortization	23.5%	15.7%
Capital reserve contribution as % of amortization	207.8%	85.0%

These two ratios show the level of reserve funding for future capital purposes compared to the total depreciation to date and to the current rate of amortization. The more the Town funds capital reserves as compared to the annual amortization expense, the more the infrastructure gap narrows.

For Capital reserve contribution as % of amortization, the large increase from 2021 to 2022 was due to the promissory note repayment from Newmarket-Tay Power of \$22 million, that was directed to the reserves under ARF contribution.

Breakdown of capital reserves as % of accumulated amortization was as follows:

Tax-supported	0.5%
Utility (W/WW) rate supported	55.0%

Breakdown of the capital reserve contribution as % of amortization was as follows:

Tax-supported	196.7%
Utility (W/WW) rate supported	253.7%

2022 Financial Highlights	2022	2021	BMA Study 2021 Results
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Receivables as % of total taxes levied (includes Region and School Board)	4.8%	4.5%	5.9%
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Uncollected property taxes as a percentage of total taxes charged is a good indication on the strength of the local economy and the ability of the community to pay their annual taxes. The Town has a low ratio showing good economic health, increased liquidity, and strong controls over tax collection. Credit Rating agencies consider over 8% as a negative factor. Based on the 2021 financial indicator review of 22 municipalities in the Greater Toronto Hamilton Area (GTHA) from the BMA study, the average was 5.9%.

Asset consumption ratio	39.1%	38.6%	42.5%
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The asset consumption ratio shows the value of the tangible capital assets that have been consumed. Total accumulated amortization is calculated as a percentage of the gross cost of depreciable assets. This ratio highlights the aged condition of the Town’s physical assets and potential asset replacement needs. A higher ratio may indicate significant replacement needs. Out of 96 municipalities in the BMA study, the average was 42.5% in 2021.

The Ministry of Municipal Affairs and Housing considers a ratio of 25% or under to be relatively new; 26%-50% to be moderately new; 51%-75% to be moderately old and over 75% to be old.

Debt service costs as a % of own source revenues

3.8%

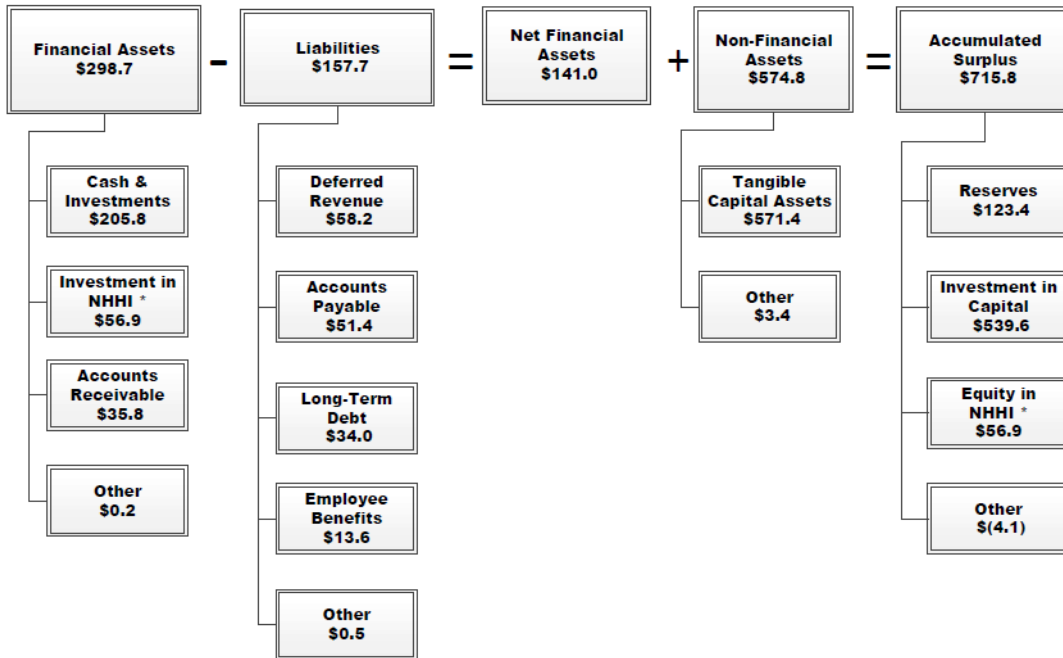
4.2%

This ratio indicates the extent to which the Town's own source revenues are committed to debt charges.

The Ministry of Municipal Affairs and Housing considers a ratio between 5% and 10% to be a moderate risk and a ratio below 5% to be low risk. Credit rating agencies consider that principal and interest should be below 10% of own source revenue. This is the same calculation as that used for the Annual Repayment Limit.

The Consolidated statement of financial position:
Overview

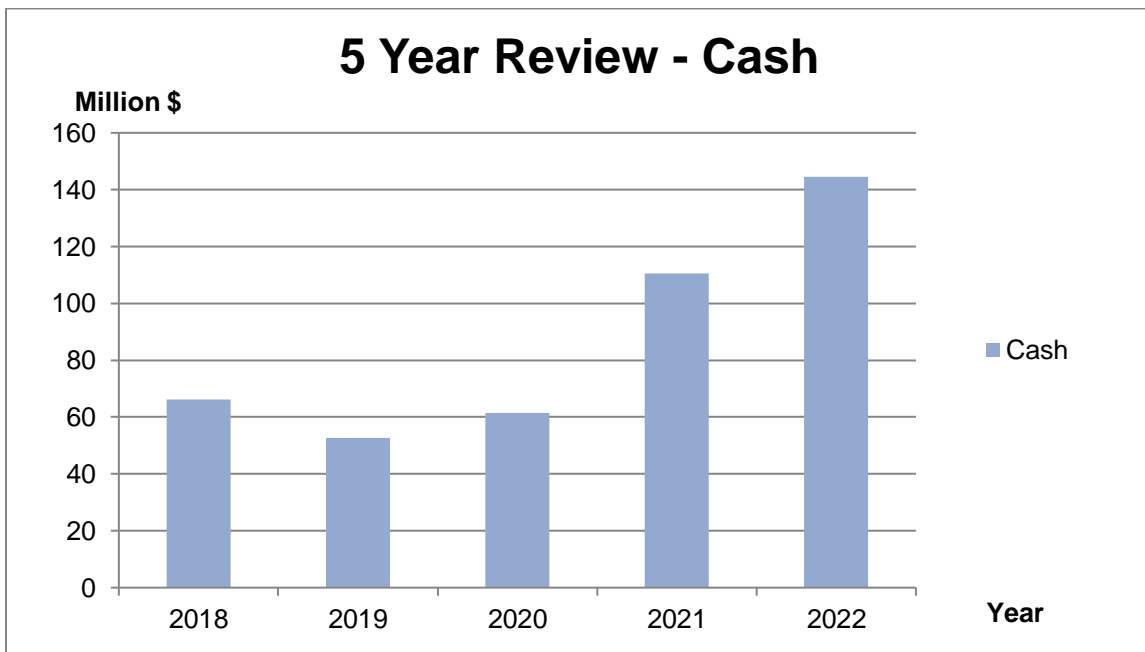
The Consolidated Statement of Financial Position highlights key financial figures. The chart below presents the information reported in the Consolidated Statement of Financial Position (in millions).



*Newmarket Hydro Holdings Inc.

Cash Resources

The Town's cash position is closely managed and remains adequate, combined with short-term and long-term investments, to meet ongoing cash requirements. Management considers all highly liquid investments with maturity of three months or less to be cash equivalents. During 2022, the Town invested the promissory note repayment from Newmarket-Tay Power of \$22 million with ONE Investment. ONE Investment is a professionally managed group of investment funds composed of pooled investments that meet the eligibility criteria defined by O.Reg 435/97. The year-end cash position increased by \$34.0 million from \$110.6 million (2021) to \$144.6 million (2022), while investments increased by \$17.2 million from \$44.0 million (2021) to \$61.2 million (2022).



The cash position increased by \$34.0 million from 2021 mainly due to \$21 million for development charges received in December of which the region and school portions were due and remitted in January 2023. As well, a \$6 million GIC matured in 2022.

Net Financial Asset Position

Financial assets include cash and other assets expected to be converted to cash, sold, or consumed within a year. The Town ended the year with net financial assets totaling \$141.1 million (2021 - \$117.6 million), an increase of \$23.5 million. This balance is calculated as total financial assets less liabilities and represents the amount available to finance future operations.

Deferred revenue

Deferred revenues are considered liabilities until the funds are spent or used for their intended purpose. The major deferred revenues include:

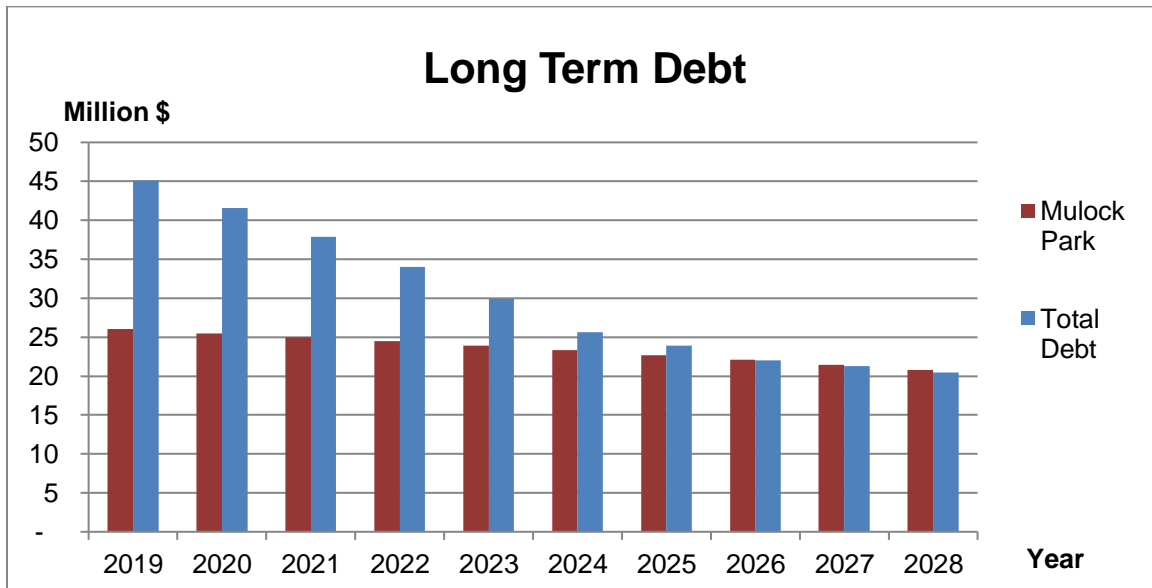
- development charges;
- building permit revenue;
- Building Canada Fund and other grants;
- parkland cash in-lieu;
- engineering administration revenues.

In 2022, the Town collected \$13.6 million and allocated \$8.6 million to capital projects.

Long-term debt

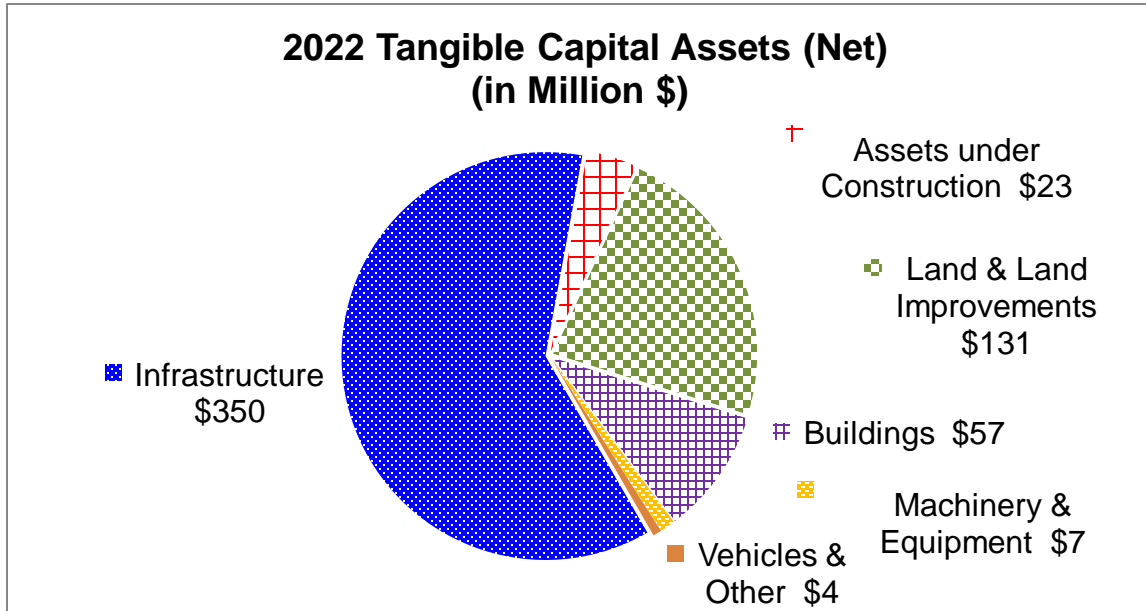
A significant component of the financial liabilities is the Town's long-term debt. The town's debt policy establishes the criteria for loans. Generally, debt financing is only available for capital expenditures included in the Asset Management Plan when other sources of financing are not available. The policy outlines a servicing limit (principal and interest) equal to 10% of the Town's own source revenues which is lower than the 25% limit that the province allows municipalities.

In 2022, the Town's actual debt servicing was 3.8% (2021 – 4.2%). At an annual interest rate of 5% with a term of 20 years, the Town could borrow another \$135 million and remain within its 10% debt servicing (borrowing) limit. Debt represents 6.2% of the net book value of Town's tangible capital assets (2020 – 7.1%).



The Town's long-term debt position reflects the pattern of investment in major infrastructure projects. As per the chart above, Mulock Park represents 70% of our long-term debt in 2022.

Non-financial assets



The 2022 approved capital budget totaled \$31.5 million. \$28.0 million was budgeted for tangible capital assets (TCA) and \$3.5 million for major repair and maintenance expenses and items below the threshold for TCA. The 2022 capital program and spending authority was revised to \$49.5 million during the year, and \$24.6 million (50.0%) of TCA were added. In 2022, the total capital spending was \$30.9 million, an increase of 60% compared to 2021 (\$19.3 million) which was mainly due to timing and supply chain issues in 2021.

One of the Town's goals has been to develop a sustainable capital financing strategy. A review of the Town's asset replacement funds took place to determine the financial requirements to replace the Town's assets and how the Town's annual contributions to these reserve funds compare. Since 2013, additional capital levies ranging from 0.74% to 1% were added every year except in 2017. A capital levy of 1% was included in 2022.

The Town has an approved asset management plan and strategy. Staff continues to refine and update the plan, and it is anticipated to be on track to meet provincial regulations.

The Town's tangible capital assets (net of amortization expense) increased by \$14.7 million in 2022 compared to an increase of \$19.6 million in 2021.

The majority was the opening of Fire Station 4-5 in April 2022, and mainly due to more road/ underground replacements and road resurfacing work increased in 2022 which is in line with the increase in capital spending.

Accumulated surplus (deficit)

The Town's accumulated surplus for fiscal 2022 is \$715.8 million (2021 - \$677.5 million). The accumulated surplus reflects the resources that have been built up over time at the Town of Newmarket and the balance includes items such as tangible capital assets, equity in Newmarket Hydro Holdings Inc., and various reserves and reserve funds.

21 ACCUMULATED SURPLUS

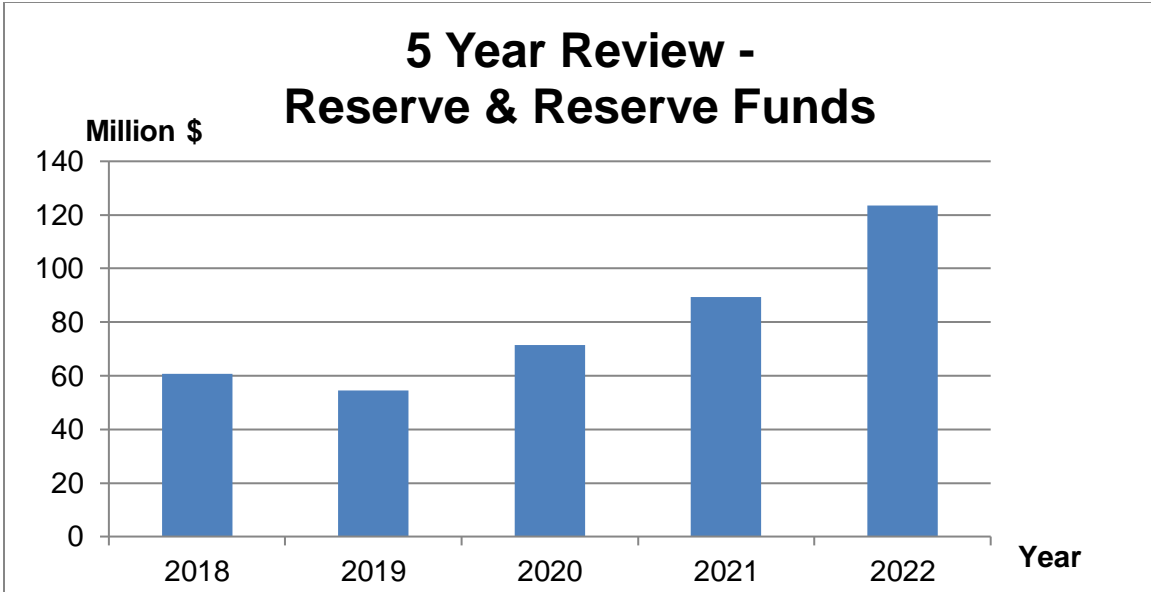
The Accumulated Surplus is comprised of the following:

	<u>2022</u>	<u>2021</u>
Reserves set aside for specific purposes by Council		
Reserves for operating purposes	19,078,323	16,974,083
Reserves for capital purposes	4,256,853	3,779,626
Newmarket Public Library	1,089,025	998,844
Water & Wastewater Rate Stabilization	7,359,941	6,260,960
Total Reserves	31,784,142	28,013,513
Reserve funds set aside for specific purposes by Council		
Asset replacement funds	69,025,408	41,902,811
Reserve funds for operating purposes	5,995,138	5,947,329
Reserve funds for capital purposes	12,973,993	9,293,754
Self-insured long-term disability	3,601,194	4,273,158
Total Reserve Funds	91,595,733	61,417,052
Total Reserves and Reserve Funds	123,379,875	89,430,565
Invested in tangible capital assets	571,409,095	556,722,668
Less: amount financed by long-term debt	(33,984,039)	(37,864,872)
Equity in Newmarket Hydro Holdings Inc. (Note 10)	56,902,217	70,136,815
Employee future benefits to be recovered	(4,104,385)	(3,963,528)
Operating Surplus	829,647	1,504,813
Capital Fund Balance	1,397,198	1,537,811
Accumulated Surplus	\$ 715,829,608	\$ 677,504,272

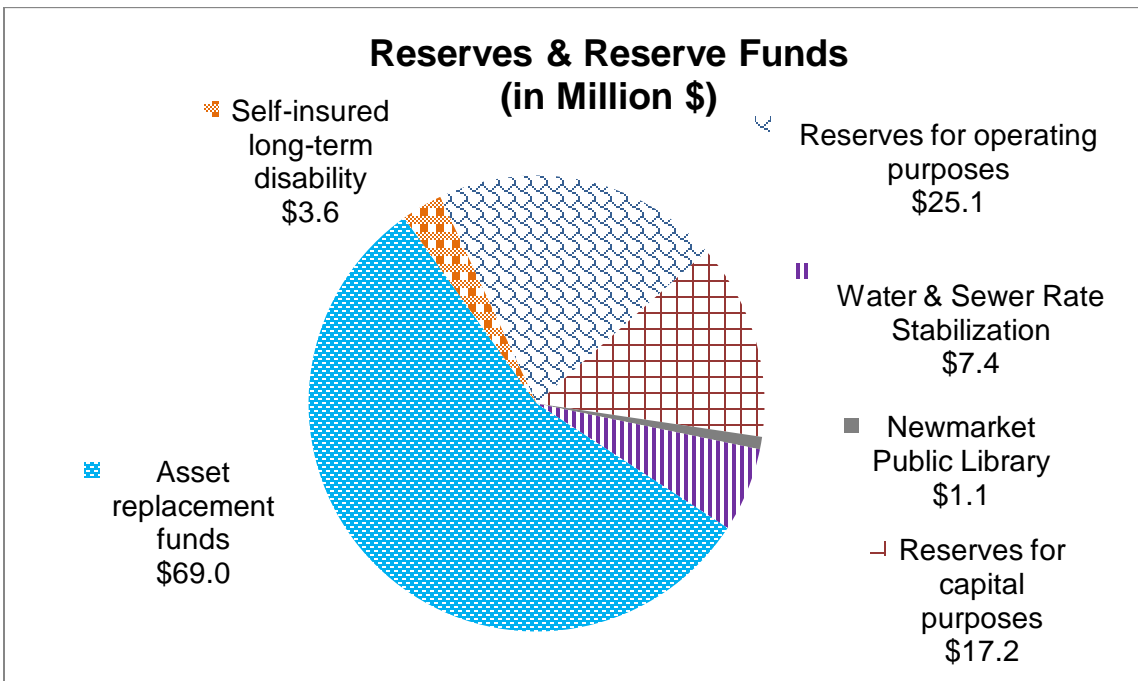
It is the Town' practice to record year-end transfers in the current year to balance the rate-supported operating budgets such as water, wastewater, stormwater, as well as the building department.

Reserves and Reserve Funds

Reserves and reserve funds are used to set aside funding for the future replacement of the Town's assets, as well as other expected and unexpected obligations. They also help to minimize potential fluctuations in the tax and utility rates, which is commonly referred to as Rate Stabilization.



The total of the Town’s reserves and reserve funds at the end of 2022 was \$123.4 million, an increase of \$34.0 million from the beginning of the year. The major factors for the increase were the asset replacement fund by \$27 million which included the contribution of \$22.0 million from Newmarket-Tay Power promissory note repayment, the remaining increase was made of capital and operating reserves of \$5.0 million which is net of expenditures, and \$2.0 million land sale proceeds.

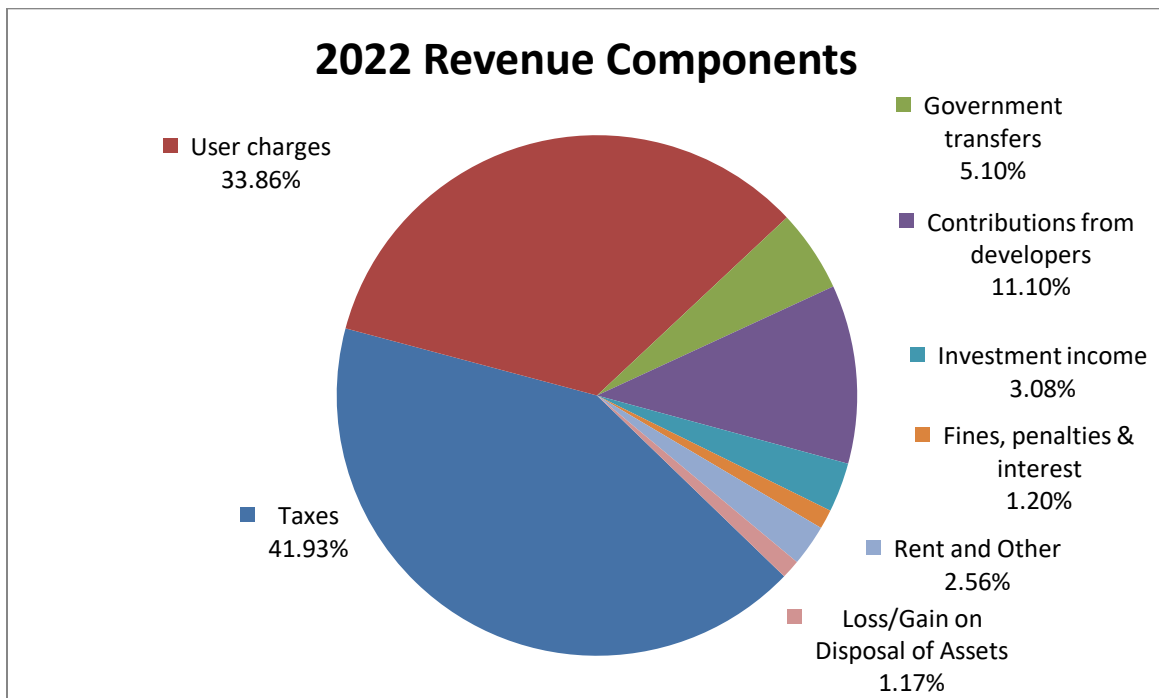


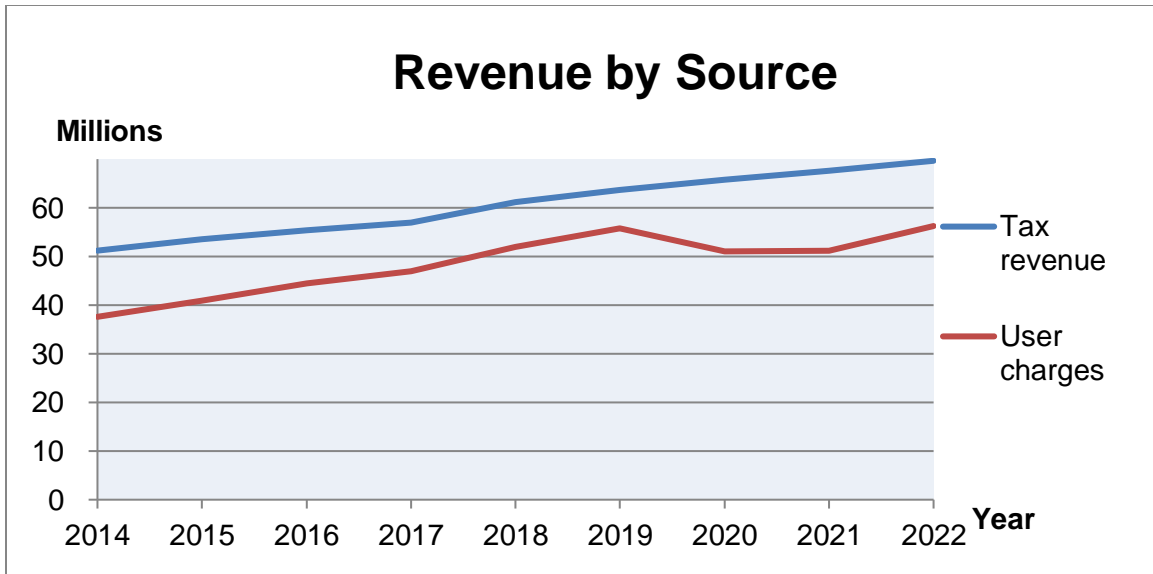
Consolidated statement of operations and surplus

The consolidated statement of operations reports the revenue collected by the Town, the cost of providing municipal services and the resulting annual surplus or deficit.

Revenues

The Town pays for the services it delivers through a variety of revenue streams including property taxes, user charges, government transfers, contributions from developers, investment income, fines, penalties and interest, rent, land sales, and the sale of goods.





Revenue highlights for 2022 include:

- Property taxes increased by \$2.0 million. Year over year the percentage of revenue from property taxes remained over 40% of total revenues. Reducing our dependence on property taxes is one of the Town's financial goals.

Supplementary taxes are difficult to predict and sustain. Actual billings in 2022 were \$0.3 million, which was down from the 2021 level of \$0.4 million. The 2022 supplementary budget was \$0.5 million.

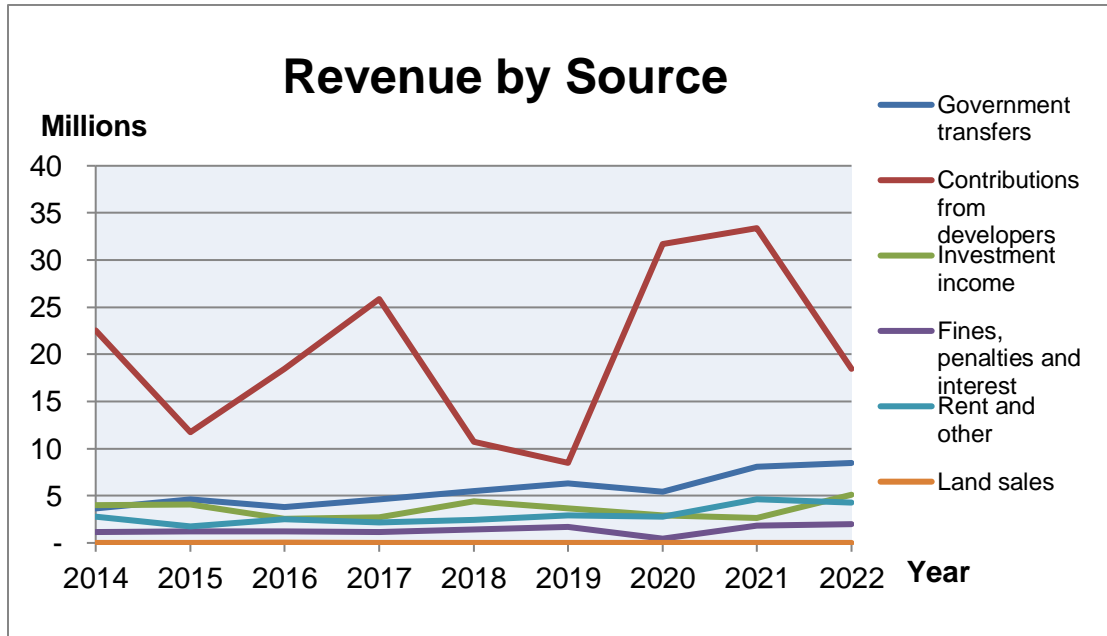
Write offs, which reduce tax revenues, were slightly higher compared to 2021 by \$0.02 million. The Government of Ontario paused all appeals as part of the emergency measures introduced in March 2020. The emergency measures were subsequently lifted in September 2020. The Assessment Review Board (ARB), responsible for hearing and adjudicating assessment appeals has since returned to full capacity.

The Town approved a total of \$0.2 million charity rebates in 2022 based on 31 applicants, which was a similar level as 2021. The proactive assessment management plan, started in 2014 and continues with a shifted focus to undervalued or missing assessments along with open appeals.

- User charges include water, wastewater, and stormwater revenues, recreation program revenues, license fees, and building permit fees. Facilities, Parks, Trails user fees were increased by 1.5% in 2022. Facility closures were also impacted by the pandemic at the beginning of the year, however, revenues increased by \$1.0 million from 2021.

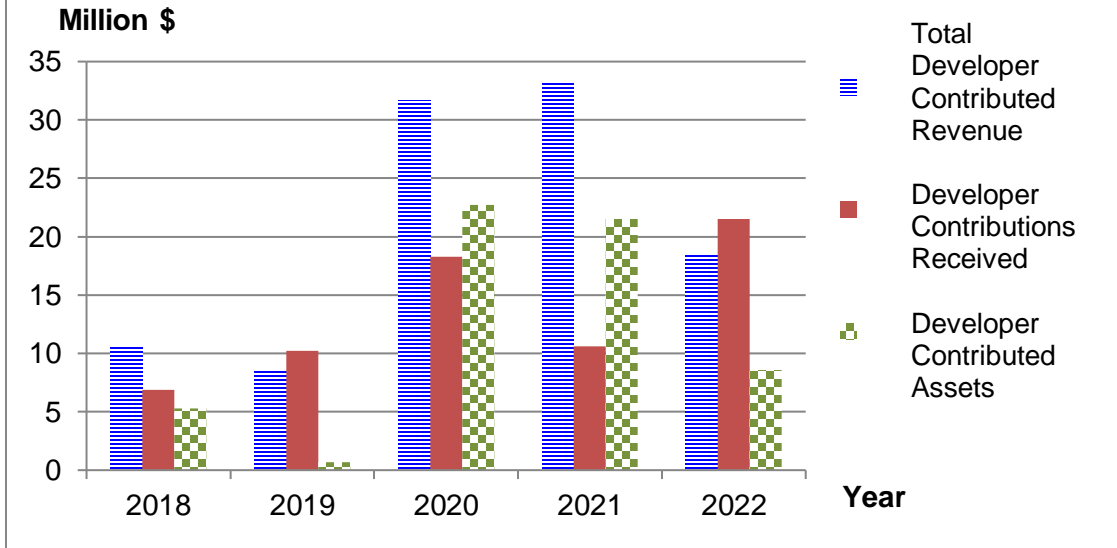
In 2022, Water and Wastewater rates were increased by 3.8% for residential customers.

Recreation and culture were directly affected by the pandemic with facility closures at the beginning of the year and participation rates had not returned to the levels prior to the pandemic. However, there was an increase of 158.8% from 2021 as there was significant closures and restrictions in 2021.



- Government transfers were higher than 2021 by \$0.4 million. In 2022, we received an increase in funds from Ontario Community Infrastructure Fund (OCIF), and the Town did not receive any further Provincial grant funding for Covid-19 in 2022.
- Contributions from developers were \$14.9 million lower than in 2021, as there was a one-time land donation of \$14.3 million in 2021. Contributions received represent the cash inflows from developers. Revenues from developers are tied to agreements, capital projects or operating expenditures, such as a debenture, as a funding source.

5 Year Review - Developer Contribution Revenues & Developer Contributions Received



- Investment Income were \$2.4 million higher than 2021, this is mainly due to the bank interest benchmark increased from 0.95% at the beginning of the year to 4.84% as of December 31, 2022.

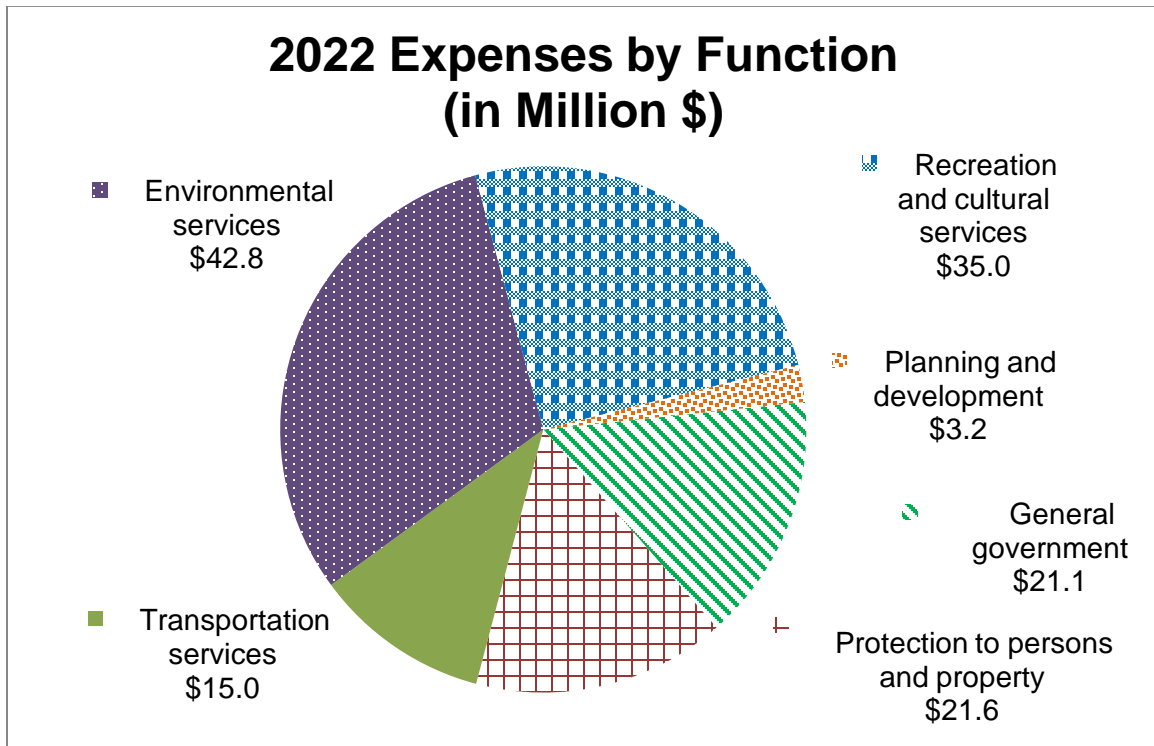
Our investments include several non-traditional investments (loan to a user group, installation of solar panels, and energy retrofit project).

The Town has been recognizing the dividend from Newmarket-Tay Power on a cash basis. Dividends in the amount of \$1.49 million was received and recognized in 2022.

- Fine, Penalties and Interest increased from 2021 by 10% mainly due to tax penalties/ interest collections.
- Rent and Other included capital recovery amounts from Aurora for their portion of the shared fire services which included the construction of Station 4-5.
- Gains (losses) on the disposal of tangible capital assets are not budgeted. When roads, trails or walkways are reconstructed, any remaining unamortized cost represents a loss as there are no corresponding proceeds. In 2022, the balance included a \$2.0 million gain on the disposal of a land sale.

Expenses

The Town provides a wide variety of municipal services to its residents. The chart below provides an overview of these services by functional activities, consistent with provincially legislated requirements.



Some of the major services included in each category are:

General government:

Finance, Human Resources, Information Technology, Communications, Legal, Customer Services, Clerks Office, Council and Executive Office expenses

Protection to persons and property:

Fire services, Licensing, and Bylaw Enforcement

Transportation services:

Roads and Road Maintenance, Snowplowing, Operations and Capital Projects Engineering

Environmental services:

Water and Wastewater Services, and Solid Waste Collection

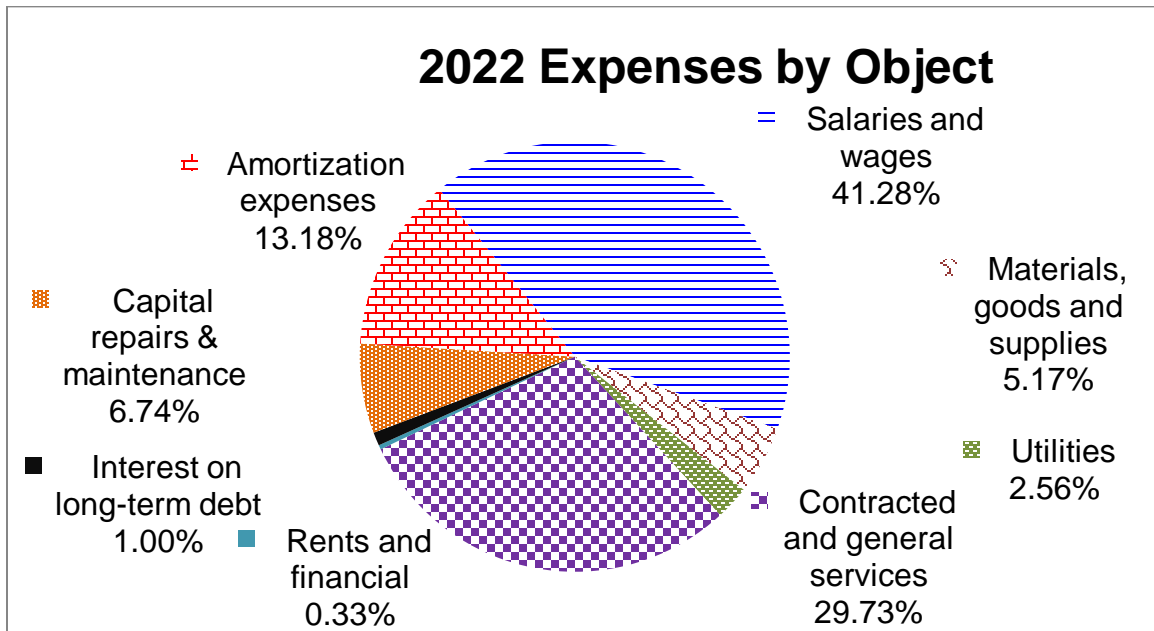
Recreational and cultural services:

Programs and Facility costs at all Recreation Centres, Parks Maintenance, Library, Theatre and Museum

Planning and development:

Planning and Building, Engineering and Development, and Economic Development

Schedule 2 to the Consolidated Financial Statements (pages 37-38) shows a breakdown of these costs by service bundle.



- Total expenses in 2022 were \$138.6 million, an increase of \$10.4 million over 2021. Expenses were lower than budget by \$2.1 million as facilities were closed during the beginning of the year due to the pandemic and there was utility savings as we converted the streetlights to LED.
- Salaries, wages, and benefits are the most significant component of the Town’s costs which increased by \$5.0 million over 2022. The increase was due to an increase in hours paid (majority is part time in Recreation and Culture) as we recover from the pandemic and more programs were opened as restrictions eased in 2022. Also, there was an economic increase.
- Materials, goods, and supplies (including minor capital, water meters and materials for main replacement, equipment rental, and repairs and maintenance) decreased by \$1.1 million over 2021 mainly due to service delivery response expenses related to the pandemic were incurred in 2021 Covid-19.
- Contracted and general services were \$2.4 million higher compared to 2021. The areas with the highest year-over-year change were due to charges for

Water & Wastewater, Community Programs & Events, Facilities, Parks & Trails, and Corporate Governance.

Water & Wastewater are charges paid to the Region for both the treatment and distribution of water and the collection and treatment of wastewater – a 3.3% increase was approved by the York Region Council from April 1, 2022, to March 31, 2028.

Additionally, increased costs for contracted services for Community Programs most notably for special events and summer programs (camps) resumed as pandemic restricted eased in 2022.

Facilities, Parks & Trails contracted cost increases for tree and plant removals, and Corporate Governance increased costs for Computer Software.

- Capital repairs and maintenance were higher by \$3.9 million over 2021. The costs include capital expenses that do not meet the definition of TCA and annual maintenance programs. Some examples include parks spot improvements, playground equipment replacement, playground resurfacing, sidewalk spot repairs and trail rehabilitation.
- Amortization (or depreciation) increased by 2.5% over 2021.

Annual (current year) surplus

The annual (current year) surplus for the year was \$38.3 million.

ANNUAL SURPLUS RECONCILIATION	
Surplus based on operating fund	\$ (675,166)
Add: Principal payment on long-term debt	3,880,833
Contributed tangible capital assets	8,594,938
Acquisition of tangible capital assets	24,623,692
Reserves and reserve fund	33,949,310
Less: Capital fund balance	(140,614)
Decrease in Investment in Newmarket Hydro Holdings Inc. (net)	(13,234,598)
Financing from future revenue (employee benefits)	(140,857)
Amortization expenses	(18,408,705)
Book value of disposals	(123,497)
Surplus Per Consolidated Statement of Operations	\$ 38,325,335