



Report to: Council

Meeting Date: March 19, 2019

SUBJECT: 2019 Operating and Capital Budgets
PREPARED BY: Andrea Tang, Senior Manager of Financial Planning, ext. 2433

RECOMMENDATION:

- 1) That the report dated March 19, 2019 entitled, “2019 Operating and Capital Budgets” be received;
- 2) And That Council approve a 1.97% property tax rate increase to the City’s tax levy as follows:
 - a. 1.47% for day-to-day operations; and
 - b. 0.50% infrastructure investment;
- 3) And That Council approve the 2019 Primary Operating Budget for City services of \$218,250,161 and Library of \$14,794,563 to a total of \$233,059,969 (excluding the 2018 surplus/deficit) which includes a 1.97% property tax rate increase, the principal components are detailed in Appendices 1 and 2;
- 4) And That the gross operating expenditures of \$233,044,724, (excluding the 2018 surplus), be funded from the following sources:

	<u>2019 Budget</u>
Taxation Levies	\$160,550,320
Payments-in-lieu of Taxes	\$1,209,007
Grant & Subsidy Revenues	\$1,956,197
General Revenues (Investment Income, Penalty & Interest, Fines, Licences & Permits)	\$33,007,873
User Fees & Service Charges, Rentals and Sales	\$30,941,364
Other Income / Recoveries	\$5,379,963
Total Revenues	<u>\$233,044,724</u>

- 5) And That Council approve the remaining 2019 Capital Budget of \$103,266,046 for a total of \$124,686,057 (\$103,266,046 + \$21,420,011 pre-approved), the projects are detailed in Appendix 3;
- 6) And That Council authorize Staff to purchase US dollars (USD) for applicable capital budget projects and make any budget adjustments necessary due to a variance between the budgeted USD exchange rate and the actual USD exchange rate at the time the USD are purchased;
- 7) And That Council approve the 2019 Planning & Design Operating Budget totalling \$11,863,445, (excluding the 2018 surplus), the principal components of which are detailed in Appendix 4;

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- 8) And That Council approve the 2019 Engineering Operating Budget totalling \$8,932,747, (excluding the 2018 surplus), the principal components of which are detailed in Appendix 5;
 - 9) And That Council approve the 2019 Building Standards Operating Budget totalling \$9,332,205, (excluding the 2018 surplus), the principal components of which are detailed in Appendix 6;
 - 10) And That Council approve the 2019 Waterworks Operating Budget totalling \$131,920,556 (excluding the 2018 surplus), the principal components of which are detailed in Appendix 7;
 - 11) And That upon finalization of the 2018 audited financial statements, the 2019 Operating, Planning & Design, Engineering, Building Standards, and Waterworks Operating Budgets be adjusted to reflect the 2018 operating results;
 - 12) And That a copy of the Budgets be made available to the public through the Clerk's Department, the City website and each of the Markham Public Libraries;
 - 13) And That the "Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09" be received for information purposes;
 - 14) And further, That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

To obtain Council approval of the City of Markham's 2019 Operating and Capital Budgets.

BACKGROUND:

Seven Budget Committee meetings were held in January and February 2019 to discuss and review the 2019 Budget.

All Budget Committee meetings were open to the public, and were audio and video streamed. The presentations along with full audio recordings are available on the City's web portal. A public consultation meeting was held on February 21st, 2019 at the Civic Centre.

At the public consultation meeting, there were three deputations (refer to Appendix 8). The following topics were raised and answers were provided by Staff:

- Winter maintenance service levels (eg. windrow removal services)
- Construction on Highway 7

The following answers were provided by Staff:

- The City will be holding a winter maintenance workshop to review the City's service level in the spring. The workshop will be open to the public, and will

include other municipal comparisons of winter maintenance service levels and cost implications.

- Staff advised that Highway 7 is a Regional road and all work on Highway 7 is conducted by the Region of York. Staff requested that the deputant advise of the specific areas on Highway 7 and Staff will try to obtain the information from the Region.

The following topics were presented and discussed at the Budget Committee meetings:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2019 operating and capital budgets;
- a review of the 2019 Planning & Design, Engineering, Building and Waterworks operating budgets;
- the City's asset life cycle reserve study.

OPTIONS/ DISCUSSION:

The 2019 Budget totals \$519,779,734 and the breakdown is as follows:

	<u>Budget</u>
Operating Budget	\$218,250,161
Library	\$14,794,563
Capital Budget	\$124,686,057
Planning & Design	\$11,863,445
Engineering	\$8,932,747
Building Standards	\$9,332,205
Waterworks	\$131,920,556
Total Budget	<u>\$519,779,734</u>

Details on the 2019 Operating Budget and Library Budget are shown on page 5.

2019 CAPITAL BUDGET

The total 2019 Capital Budget includes 243 projects totaling \$124,686,057.

In November 2018, Council pre-approved 18 capital projects and portions of 10 other capital projects totaling \$20,017,654. As well, in September 2018, Council pre-approved capital project #19257 "Consulting Engineering Services for the Highway 404 North Secondary Plan, Ward 2" in the amount of \$1,402,357. This brought the total pre-approved 2019 projects budget to \$21,420,011 (\$20,017,654 + \$1,402,357). Pre-approval was requested in order to prevent delays in design or construction, meet operational/program requirements and allow early commencement of the procurement process to potentially achieve competitive pricing.

The approval of \$103,266,046 requested in this report is for the remaining 224 projects.

	# Projects	\$
September & November pre-approval Council reports	19	21,420,011
Additional projects approved by Budget Committee	224	103,266,046
Total	243	124,686,057

Note: The 10 projects with pre-approved portions are reflected in the "Additional projects approved by Budget Committee" count (224).

The 2019 Capital Budget includes, \$35.3M for new roads, stormwater management ponds and sidewalks, \$20.6M for water system and water meter replacement and upgrade program, \$11.2M for exterior and interior facility replacement program, \$8.0M for the continuation of the flood control program in West Thornhill, \$6.7M for asphalt resurfacing, \$3.5M for new parks design and construction, \$3.5M for streetlights design, construction, repair and replacement, \$2.9M for library collections and e-resources, \$2.3M for construction and revitalization of the 6 lane outdoor Morgan Pool in East Markham and \$0.5M for Markham Centre Trails to conduct environmental assessments in this environmentally-sensitive area and detailed design for the first section of the trail system between Warden Avenue and Birchmount Avenue.

USD Purchases

In order to address USD exchange rate fluctuations, Staff recommend Council authorize Staff to purchase USD for applicable capital budget projects and make any budget adjustments necessary due to a variance between the budgeted USD exchange rate and the actual USD exchange rate at the time the US dollars are purchased.

2018 Life Cycle Replacement and Capital Reserve Study Update

The Reserve was formally established in 2004 to address the on-going capital replacement and rehabilitation requirements of the City's assets. The adequacy of the Reserve is reviewed annually through the update of the Life Cycle reserve study ("Reserve Study") using a 25-year rolling planning horizon.

In the 2018 reserve study update, the shortfall was \$104.0M at the end of 2046 (25 years from the end of the current Council term). The City requires a 2.0% infrastructure investment over the next 4 years to ensure there is sufficient funds in the life cycle reserve over this period based on known inflows and outflows. Staff recommends an incremental 0.5% infrastructure investment from 2019 to 2022. The 2019 tax rate increase of 1.97% includes a 0.5% infrastructure investment.

2019 PLANNING & URBAN DESIGN, ENGINEERING AND BUILDING STANDARDS OPERATING BUDGETS

In December 2018, Council approved a 10% increase in Planning & Urban Design fees which has been incorporated into the Planning & Urban Design operating budget which totals \$11,863,445, with a budgeted transfer to reserve of \$2,070,685.

A 10% increase Engineering fees has been included into Engineering operating budget which totals \$8,932,747, with a budgeted transfer to reserve of \$673,773.

A 5% increase in the 2019 Building fees for Building Permit applications has been built-in into the Building Standards operating budget which totals \$9,332,205, with a budgeted draw from reserve of \$1,381,729.

2019 WATERWORKS OPERATING BUDGET

The 2019 Water and Wastewater rate of \$4.4680/m³ effective April 1st, 2019 (an increase of 7.8% over the 2018 rate) is contained within the 2019 Waterworks operating budget of \$131,920,556.

2019 PRIMARY OPERATING BUDGET

At the seventh Budget Committee meeting on February 13, 2019, Staff presented a proposed tax rate increase of 2.07%. Staff were directed to look for ways to reduce the tax rate increase to approximately 2.00% without reducing service levels or jeopardizing public safety. Staff has identified sustainable expenditure reductions and revenue increases totalling \$152,495 that result in a reduction in the tax rate increase from 2.07% to 1.97%. The items include contracts with third parties that provide sustainable revenues and rightsizing of operating accounts based on 2018 actual results of operations.

The following exhibit reconciles the 2018 approved Operating Budget to the 2019 Operating Budget from \$218,483,261 to \$233,044,724 (figures include Library and exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2019 Budget</u>
2018 Approved Budget - Revenues	\$218,483,261
Assessment Growth	\$2,496,000
1.97% Property Tax Rate Increase	\$3,003,358
Investment Income	\$650,000
CPI and Volume Adjustments for User and Program Fees	\$529,000
User fee market competitive analysis	\$552,021
Annualization of Aaniin Community Centre & Library	\$620,000
Markham Energy Corporation (MEC) Dividend Adjustment	\$6,458,944
Other	\$252,140
Total 2019 Budget Revenues - excluding 2018 surplus	<u>\$233,044,724</u>
<u>EXPENDITURES</u>	
2018 Approved Budget - Expenditures	\$218,483,261
Salaries and Benefits for existing staff	\$2,917,000
Growth (waste, personnel ramp ups, winter maintenance, parks, and roads)	\$2,530,000
Municipal Service Contracts	\$973,000
E3 Adjustments	(\$663,000)
Annualization of Aaniin Community Centre & Library	\$580,000
Transfer to Reserves - Contribution to capital & infrastructure investment	\$1,295,000
Transfer to Reserves - Adjustment for MEC Dividend	\$6,458,944
Other	\$470,519
Total 2019 Budget Expenditures - excluding 2018 surplus	<u>\$233,044,724</u>

The 2019 Library budget is \$14,794,563, details of which are shown in Appendix 2.

The 2018 operating results are excluded from the above figures until the City's audited financial statements are finalized and approved by Council. Staff will present the 2018 consolidated financial statements to General Committee on April 23, 2019. Upon finalization of the 2018 audited financial statements, the 2019 Operating (including Library), Planning & Design, Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the 2018 surplus and/or deficit.

The 2019 Budget aligns with the Council approved strategic priorities which address social, economic and environmental considerations. The Budget includes service level enhancements while providing value for money for Markham taxpayers. The 2019 Operating Budget achieves fiscal sustainability by not using one-time funding to balance the budget.

During the budget development process, the City of Markham addressed the challenge of delivering a balanced budget with a reasonable tax rate increase in response to increased operating expenditures resulting from economic and growth pressures.

Economic pressures stem from collective agreements for existing Staff and third party contract renewals and escalation such as waste collection and winter maintenance.

Markham is a growing municipality, and budgetary requirements increase as the City continues to add to its inventory of parks, streetlights, and roads each year, requiring additional resources to maintain and replace assets. Further, Markham has exhibited sound fiscal management by phasing-in future personnel and non-personnel costs related to facility openings for the Cornell Fire Station – 2nd crew, Markham Centre Fire Station, Langstaff Fire Station and Operations Works Yard, all of which are subject to Council approval.

To mitigate the impact of economic and growth pressures, Staff continues to make every effort to find efficiencies to reduce operating costs and explore sustainable revenue sources through our continuous improvement program, **Excellence through Efficiency and Effectiveness (E3)**. Through the E3 program the City has achieved over \$27,700,000 in operational savings and revenue enhancements since 2009 avoiding the need for an approximately 23% property tax rate increase over that period.

During the budget process, Staff identified \$2,000,000 of E3s which had a favourable impact in reducing the tax rate increase to 1.97%. These efficiencies included adjustments to departmental budgets based on historical results, additional revenues resulting from the user fee market competitive analysis and investment income and negotiated savings from new contracts.

Every year, the City receives dividends from the Markham Energy Corporation with the majority of the funds being directed to the Life Cycle Reserve and \$1,000,000 retained within the annual operating budget. In 2019, the annual dividend budget has been increased from \$2,000,000 to \$8,458,944 based on anticipated dividends to be received.

The adjustment has been made to the revenue budget and transfer to reserves budget with no net impact to the City's operating budget.

Summary

In summary, the 2019 Operating Budget expenditures increased by \$8,102,519 (excluding the \$6,458,944 increase in MEC dividends transferred to Life Cycle), offset by an increase in revenues of \$5,099,161 (excluding MEC dividend adjustment), resulting in a net shortfall of (\$3,003,358), equivalent to a property tax rate increase of 1.97% (including infrastructure investment of 0.5%).

The 2019 Budget is a fiscally responsible budget that keeps taxes low while providing for new and important community infrastructure.

ADDITIONAL FINANCIAL DISCLOSURE REQUIREMENTS PURSUANT TO ONTARIO REGULATION 284/09

Ontario Regulation 284/09 requires the 2019 Budget be provided in accordance to the Public Sector Accounting Board 3150 format prior to budget approval. The City's financial statements includes the impact of tangible capital asset (TCA) amortization, and the full accrual method of accounting.

Ontario Regulation 284/09 states that municipalities may exclude from budgets, all or a portion of the estimated cost of certain expenses. Exclusion of these expenses allows for preparation & presentation of a traditionally balanced budget. Expenses eligible for exclusion from budget are:

1. Amortization; and
2. Post-employment benefits

Hence, the 2019 Budget is re-stated in accordance to Ontario Regulation 284/09 as part of the 2019 Budget approval process.

	Reference to Exhibit 1	\$ in M Increase/ (Decrease)
Balanced Budget		0.00
Net revenues to fund capital projects	2	58.45
Transfer to reserve/reserve funds	3	53.18
Tangible Capital Assets (TCA) amortization	4	(78.57)
Post-employment benefits	5	(0.11)
Non-tangible capital assets	6	(21.73)
Adjusted 2019 budget - Surplus	7	<u>11.22</u>

Reference #2: Net revenues to fund Capital projects – Represents new revenues to the City (eg. Development Charges, Federal Gas Tax revenues and Federal and Provincial grants) to fund the 2019 capital budget.

Reference #3: Transfer to reserve/reserve funds – Represents contributions to reserves and reserve funds. These are not considered expenditures under the full accrual method of accounting, but become part of the actual year end surplus (retained earnings).

Reference #4: Tangible Capital Assets (TCA) amortization – Calculated based on actual amortization expenses from "in-service" assets as of 2018 and amortization expenses for assets projected to be "in-service" in 2019 using the 1/2 year rule.

Reference #5: Post-employment benefits – The budget excludes the current year's post-employment benefit expenses estimated at \$105,565 based on actuarial valuation of 2016 to 2018. However, the City will fully fund the 2019 post employment benefit obligations as part of the year-end accounting accruals and other adjustments.

Reference #6: Non-tangible capital assets – Included in the 2019 capital budget, and they will be re-stated as operating expenses.

The restatement of the 2019 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected surplus of \$11,220,491. Details of the re-stated budget are outlined in Exhibit 1.

EXHIBIT 1**2019 CONSOLIDATED BUDGET**

**- Re-stated in Accordance with the Full Accrual Method of Accounting -
- In Compliance with Ontario Regulation 284/09 -**

REVENUES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$231,912,292	
- Library		\$1,132,432	
- Planning & Design		\$11,863,445	
- Engineering		\$8,932,747	
- Building Standards		\$7,950,476	
- Waterworks		\$131,920,556	
Total Revenues from Operations			\$393,711,948
Non-Tangible Capital		\$21,733,200	
Tangible Capital Assets		\$102,952,857	
Total Capital - Tangible & Non-Tangible		\$124,686,057	
<i>Less: Transfer from Reserve / Reserve Funds</i>	<i>(1)</i>	<i>(\$66,239,445)</i>	
Net Revenues to fund Capital	(2)		\$58,446,612
TOTAL REVENUES			\$452,158,560

EXPENSES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$218,250,161	
- Library		\$14,794,563	
- Planning & Design		\$11,863,445	
- Engineering		\$8,932,747	
- Building Standards		\$7,950,476	
- Waterworks		\$131,920,556	
Total Operating Expenses		\$393,711,948	
<i>Less: Transfer to Reserve / Reserve Funds</i>	<i>(3)</i>	<i>(\$53,178,085)</i>	
<i>Add: TCA Amortization Expenses</i>	<i>(4)</i>	<i>78,565,441</i>	
<i>Add: Post-employment benefit Expenses</i>	<i>(5)</i>	<i>\$105,565</i>	
Net Operating Expenses			\$419,204,869
Net Capital Expenses - Not Capitalized	(6)		\$21,733,200
TOTAL EXPENSES			\$440,938,069

ADJUSTED BUDGET: 2019 FULL ACCRUAL ACCOUNTING BUDGET SURPLUS	(7)	\$11,220,491
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NOTES:

- (1) Represents transfers from reserves and/or reserve funds to fund expenditures. These are not considered revenues under the full accrual method of accounting.
- (2) Represents new revenues to fund the 2019 capital budget
- (3) Represents contributions to reserves and/or reserve funds. These are not considered expenditures under the full accrual method of accounting, but become part of the actual year end surplus (retained earnings).
- (4) TCA Amortization Expenses are calculated based on actual amortization expenses from "in-service" assets as of 2018 and amortization expenses for assets projected to be "in-service" in 2019 using the 1/2 year rule.
- (5) Post-employment Benefit Expenses based on estimates provided by Nexus.
- (6) Non-Tangible Capital are included in the 2019 capital budget, and they will be restated as operating expenses.
- (7) Projected surplus is based on the restated 2019 budget.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

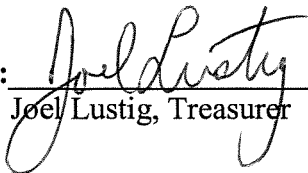
Not applicable.

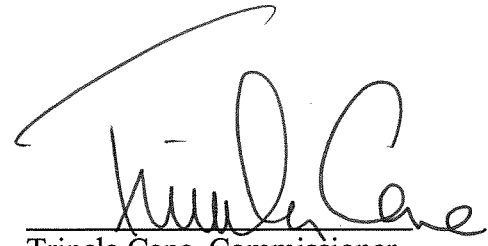
BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED

BY:


Joel Lustig, Treasurer


Trinela Cane, Commissioner,
Corporate Services

ATTACHMENTS:

Appendix 1 – 2019 Total Corporation Operating Budget (Including Library, excluding Planning & Design, Engineering, Building Standards and Waterworks)

Appendix 2 – 2019 Library Operating Budget

Appendix 3 – 2019 Capital Budget (including Pre-Approved Capital Projects)

Appendix 4 – 2019 Planning & Design Operating Budget

Appendix 5 – 2019 Engineering Operating Budget

Appendix 6 – 2019 Building Standards Operating Budget

Appendix 7 – 2019 Waterworks Operating Budget

Appendix 8 – Budget Public Meeting minutes