



Report to: Council

Meeting Date: December 10, 2019

SUBJECT: 2020 Operating and Capital Budgets
PREPARED BY: Sandra Skelcher, Senior Manager, Financial Planning & Reporting
Matthew Vetere, Manager, Budgeting

RECOMMENDATION:

- 1) That the report dated December 20, 2019 titled, “2020 Operating and Capital Budgets” be received; and,
- 2) That Council approve a 1.95% property tax rate increase to the City’s tax levy as follows:
 - a. 1.45% for day-to-day operations
 - b. 0.50% infrastructure investment; and,
- 3) That Council approve the 2020 Primary Operating Budget for City services of \$240,962,772 which includes the Library budget of \$15,241,205, excludes the 2019 surplus/deficit, and reflects a 1.95% property tax rate increase, as detailed in Appendices 1 and 2; and,
- 4) That Council approve the remaining 2020 Capital Budget of \$86,914,000 for a total of \$111,488,000 (\$86,914,000 + \$24,574,000 pre-approved), as per projects detailed in Appendix 3; and,
- 5) 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; and,
- 6) That Council approve the 2020 Planning & Design Operating Budget totalling \$10,568,647, as detailed in Appendix 4; and,
- 7) That Council approve the 2020 Engineering Operating Budget totalling \$8,787,473, as detailed in Appendix 5; and,
- 8) That Council approve the 2020 Building Standards Operating Budget totalling \$9,534,885, as detailed in Appendix 6; and,
- 9) That Council approve the 2020 Waterworks Operating Budget totalling \$140,669,974, (excluding the 2019 surplus/deficit), as detailed in Appendix 7; and,
- 10) That upon finalization of the 2019 audited financial statements, 2020 operating budgets be adjusted to reflect 2019 operating results; and,

-
- 11) 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; and,
 - 12) That the restated budget included in the "Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09" be adopted; and further,
 1. 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 2020 Operating and Capital Budgets.

BACKGROUND:

A total of ten Budget Committee meetings were held through September, October and November 2019 to discuss and review the 2020 Budget.

All Budget Committee meetings were open to the public and were audio and video streamed. The presentations along with full recordings of the meetings are available on the City's web portal. A public consultation meeting was held on November 27th, 2019 at the Civic Centre.

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

- fiscal scan including economic trends and budgetary pressures;
- review of the 2020 operating and capital budgets;
- business unit overview presentation by each Director;
- review of the 2020 Planning & Design, Engineering, Building and Waterworks operating budgets.

At the public consultation meeting, there were four deputations (refer to Appendix 8) on the following topics and Staff provided responses:

Flood remediation program:

Staff advised that the City's Flood Remediation Program is being implemented in order of priority, as there are several areas in Markham experiencing flooding. The program started in Thornhill, as it was determined to be the highest priority area. Over time, the program will remediate the stormwater sewers for all Markham areas experiencing, or at risk of flooding. Staff advised of the City's Plumbing Protection Rebate Program to assist residents in reducing the risk of basement flooding.

Hospice in Markham:

- Staff advised that there is no funding in the 2020 Budget for hospices, as the responsibility of housing falls under York Region. Staff advised that they are currently working on a report based on the presentation in March and the report will be brought back to Development Services Committee. It was advised that Markham Stouffville Hospital, Saint Elizabeth Healthcare, and Evergreen Hospice are working together to possibly create a hospice in Markham, and Staff will continue to work with key partners on this initiative. It was confirmed that a

Housing Summit will be held in 2020 to address issues with affordable housing, including age-friendly accommodation.

Seniors programs

- Staff advised that a report card is being created for the City's Older Adults Strategy and that each initiative under the strategy has a funding source. Staff are reviewing long term (10 year) goals for the strategy. The City has also added funds to the City's seniors' programs, dedicated significant areas of the Milliken Mills Community Centre expansion for seniors programs, and continues to apply for and receive government grants for seniors clubs. Staff advised that seniors programs are 60-70% subsidized by the City, while programs for children are subsidized at 30-40%.

Percy Reesor Parkette

- A staff report will be brought forward to the Development Services Committee on Percy Reesor Park following a public consultation survey that was requested to be conducted at the September 9th, 2019 Development Services Committee meeting.

OPTIONS/ DISCUSSION:

The 2020 Budget totals \$522,059,127 and the breakdown is as follows:

	<u>Budget</u>
Operating Budgets	
- Primary (excl. Library)	\$225,721,567
- Library	\$15,241,205
- Planning & Design	\$10,568,647
- Engineering	\$8,787,473
- Building Standards	\$9,534,885
- Waterworks	\$140,669,974
Capital Budget	<u>\$111,488,000</u>
Total Budget	<u>\$522,011,751</u>

Details on the 2020 Primary Operating Budget and Library Operating Budget are shown on pages 4 and 5.

2020 CAPITAL BUDGET

The total 2020 Capital Budget includes 270 projects totaling \$111,488,000.

In September and November 2019, Council pre-approved 17 capital projects and portions of 6 other capital projects totaling \$24,574,000. 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 optimize competitive pricing.

The approval of \$86,914,000 requested in this report is for the remaining 253 projects.

	# Projects	\$
September & November pre-approval Council reports	17	24,574,000
Additional projects approved by Budget Committee	253	86,914,000
Total	270	111,488,000

Note: The 6 projects with pre-approved portions are reflected in the "Additional projects approved by Budget Committee" count (253).

The 2020 Capital Budget includes \$22.1M for new parks design and construction, \$13.6M for water system and water meter replacement and upgrade programs, \$11.6M for recreation, culture & library programs and facilities, \$10.9M for the continuation of the flood control program in West Thornhill, \$6.9M for asphalt resurfacing, \$3.7M for streetlight design, construction, repair and replacement and \$2.0M for new sidewalks.

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.

2019 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.

As detailed during the 2019 budget process, the City requires a 2.0% infrastructure investment from 2019-2022 to ensure there are sufficient funds in the life cycle reserve through to 2046 (25 years from the end of the current Council term) based on known inflows and outflows. Consistent with the 2019 Budget, Staff recommend an incremental 0.5% infrastructure investment in 2020. The 2020 tax rate increase of 1.95% includes a 0.5% infrastructure investment.

2020 PLANNING & URBAN DESIGN, ENGINEERING AND BUILDING STANDARDS OPERATING BUDGETS

At the December 10th Council meeting, Council is requested to approve a 10% increase in Planning & Urban Design fees, 10% increase in Engineering fees and 5% Building fees.

A 10% increase to Planning & Urban Design fees has been included in the Planning & Urban Design operating budget which totals \$10,568,647, including a budgeted surplus to be transferred to the reserve of \$614,653.

A 10% increase to Engineering fees has been included in the Engineering operating budget which totals \$8,787,473, including a budgeted surplus to be transferred to the reserve of \$125,613.

A 5% increase to Building fees for Building Permit applications has been built into the Building Standards operating budget which totals \$9,534,885, including a budgeted deficit which results in a draw from reserve of \$2,394,409.

2020 WATERWORKS OPERATING BUDGET

The 2020 Water and Wastewater rate of \$4.8180/m³ effective April 1st, 2020 (an increase of 7.8% over the 2019 rate) is contained within the 2020 Waterworks operating budget of \$140,669,974 which includes a budgeted surplus to be transferred to the reserve of \$15,618,988.

This budgeted surplus is required to address the ongoing replacement and rehabilitation requirements for Waterworks infrastructure and other Waterworks related capital assets.

2020 PRIMARY OPERATING BUDGET

At the first Budget Committee meeting on September 24, 2019, Staff presented a fiscally responsible budget which included a staff supported proposed tax rate increase of 2.20% based on known information at that time. At the ninth Budget Committee meeting on November 12, 2019, Staff were directed to reduce the tax rate increase from 2.20% to 2% in line with the anticipated rate of inflation for 2020. At the Public Consultation meeting on November 27, 2019, Staff presented the proposed tax rate increase of 2.20% and the Mayor indicated he would meet with Staff to review options to reduce the tax rate increase to below the rate of inflation without reducing service levels or jeopardizing public safety.

During the budget process, Staff became aware of new information that could have a favourable impact on the 2020 Budget. These factors are listed below along with their impact on the 2020 Budget:

- \$308,694 from utilities: As noted in the September year-to-date review of operations and year-end projection report which went to General Committee on November 18th, 2019, the City is forecasting to be favourable \$1.30M in utilities at the end of 2019. This is primarily due to the 2019 hydro and streetlight hydro rates which are 10% lower than the rates experienced by the City in 2018. The reasons for the lower hydro rates are *Bill 87, Fixing the Hydro Mess Act, 2019* passed in May 2019 which was introduced to reform the structure and operations of the Ontario Energy Board (OEB) and make changes to the Fair Hydro Plan. Some changes include uploading certain electricity conservation programs to the Independent Electricity System Operator (IESO), moving the financing of the plan to the Province's debt to save interest costs and modernizing the OEB's regulatory system. Utilizing the new rates, staff conducted a 3 year projection analysis with rate forecasts from Alectra to determine the utility requirements for 2020-2022. This analysis has yielded an opportunity of \$308,694 in the 2020 Budget for utilities.
- \$78,000 from Election Rebate budget: At the November 4th, 2019 General Committee, Legislative Services staff presented a post-election review. This

presentation indicated election rebate expenses for the 2018 Municipal Election of \$537,643. In the 4 year period between elections, the City transfers an annual amount to the Election Rebate Reserve to meet the needs of each election. Based on forecasts for the 2022 election rebates, staff recommend reducing the annual election rebate transfer budget by \$78,000. This reduction would still result in sufficient funding for the 2022 election rebates.

- \$8,106 from Recreation user fee market analysis: At the October 7th, 2019 General Committee, Recreation staff presented additional user fees and permits increases based on market analysis. These fee adjustments have a 2020 budget impact of \$8,106 (annualized impact of \$18,380).

The total of the above items is \$394,800 that results in a reduction of the tax rate increase from 2.20% to 1.95%.

The following exhibit reconciles the 2019 approved Operating Budget to the 2020 Operating Budget from \$233,044,724 to \$240,962,772 (figures include Library and exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2020 Budget</u>
2019 Approved Budget - Revenues	\$233,044,724
Assessment Growth	\$1,960,000
1.95% Property Tax Rate Increase	\$3,079,437
CPI and Volume Adjustments for User and Program Fees and Rentals	\$1,220,895
Markham Energy Corporation (MEC) Dividend Adjustment	\$1,341,056
Other	\$316,660
Total 2020 Budget Revenues - excluding 2019 surplus/(deficit)	<u>\$240,962,772</u>
<u>EXPENDITURES</u>	
2019 Approved Budget - Expenditures	\$233,044,724
Salaries and Benefits for existing staff	\$2,910,000
Growth (waste, personnel ramp-ups, winter maintenance, parks, and roads)	\$1,680,000
Municipal Service Contracts	\$1,380,000
E3 Adjustments	(\$977,000)
Transfer to Reserves - Contribution to capital & infrastructure investment	\$1,330,000
Transfer to Reserves - Adjustment for MEC Dividend	\$1,341,056
Other	\$253,992
Total 2020 Budget Expenditures - excluding 2019 surplus/(deficit)	<u>\$240,962,772</u>

The 2020 Library budget is \$15,241,205, details of which are shown in Appendix 2.

The 2019 operating results projection are not considered in the above reconciliation as results cannot be finalized until the City's financial statements have been audited and approved by Council. Staff will present the 2019 consolidated financial statements to General Committee in April 2020. Upon finalization of the 2019 audited financial statements, the 2020 operating budgets will be adjusted to reflect the 2019 surplus or deficit.

The 2020 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 2020 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 continues to exhibit sound fiscal management by phasing-in future personnel and non-personnel costs related to facility openings such as fire stations and libraries to minimize the tax rate impact of a new facility in the year it opens.

To mitigate the impact of economic and growth pressures, Staff continue 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 approximately \$29,400,000 in operational savings and revenue enhancements since 2009 avoiding the need for an approximate 24.5% property tax rate increase over that period.

During the budget process, Staff identified \$1,700,000 in E3s which made a favourable contribution to the tax rate increase of 1.95%. These efficiencies included adjustments to departmental budgets based on historical results, negotiated savings from new contracts and additional revenues resulting from user fee market competitive analyses.

Every year, the City receives dividends from the Markham Energy Corporation (MEC) with the majority of the funds being directed to the Life Cycle Reserve and \$1,000,000 retained in the annual operating budget. In 2020, the annual dividend budget was increased from \$8,458,944 to \$9,800,000 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 2020 Primary Operating Budget expenditures increased by \$6,576,992 (excluding the \$1,341,056 increase in MEC dividends transferred to Life Cycle), offset by an increase in revenues of \$3,497,555 (excluding MEC dividend adjustment), resulting in a net shortfall of \$3,079,437, equivalent to a property tax rate increase of 1.95% (including infrastructure investment of 0.5%).

The 2020 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

According to the Municipal Act, 2001 (the Act), municipalities may continue to prepare and present traditionally balanced budgets. However, under the Act, Ontario Regulation 284/09 (the Regulation) requires a restatement of the budget be provided to, and adopted by resolution by Council as part of the budget approval process. The restated version must be represented in full accrual accounting method format, as prescribed by the Public Sector Accounting Board.

In addition to the above, the Regulation states that municipalities may exclude from budgets, all or a portion of the estimated cost of certain expenses, but the impact of the exclusion(s) must be included in the budget report to Council. Expenses eligible for exclusion from budget are:

1. Amortization; and
2. Post-employment benefits

As the City currently excludes the above expenses from the traditional, balanced budget, the 2020 budget has been restated in accordance with Ontario Regulation 284/09 and is included for Council adoption as part of the 2020 budget approval process.

	Reference to Exhibit 1	\$ in M Increase/ (Decrease)
Balanced Budget		0.00
Net revenues to fund capital projects	2	45.25
Transfer to reserve/reserve funds	3	53.19
Tangible Capital Assets (TCA) amortization	4	(79.63)
Post-employment benefits	5	0.05
Non-tangible capital assets	6	(30.25)
Adjusted 2020 budget - Deficit	7	(11.39)

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) included in the funding of the 2020 capital budget.

Reference #3: Transfer to reserve/reserve funds – Represents contributions to reserves and reserve funds from the operating budget. These are not considered expenditures under the full accrual method of accounting.

Reference #4: Tangible Capital Assets (TCA) amortization – Calculated based on actual amortization expenses from "in-service" assets as of 2019 and amortization expenses for assets projected to be "in-service" in 2020 using the 1/2 year rule.

Reference #5: Post-employment benefits – The budget excludes the current year’s post-employment benefit expense adjustment of (\$53,514) based on the actuarial valuation of 2019 to 2021. However, the City will recognize the 2020 post employment benefit obligations as part of the year-end accounting accruals and other adjustments.

Reference #6: Non-tangible capital assets – Initiatives included in the 2020 capital budget, restated as operating expenses.

The restatement of the 2020 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected deficit of \$11,385,977. Details of the restated budget are shown in Exhibit 1.

EXHIBIT 1**2020 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)		\$239,821,083	
- Library		\$1,141,689	
- Planning & Design		\$10,568,647	
- Engineering		\$8,787,473	
- Building Standards		\$7,140,476	
- Waterworks		\$140,669,974	
Total Revenues from Operations			\$408,129,342
Non-Tangible Capital		\$30,249,200	
Tangible Capital Assets		\$81,238,800	
Total Capital - Tangible & Non-Tangible		\$111,488,000	
<i>Less: Transfer from Reserve / Reserve Funds</i>	(1)	(\$66,239,445)	
Net Revenues to fund Capital	(2)		\$45,248,555 D

TOTAL REVENUES			\$453,377,897
-----------------------	--	--	----------------------

EXPENSES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$225,721,567	
- Library		\$15,241,205	
- Planning & Design		\$10,568,647	
- Engineering		\$8,787,473	
- Building Standards		\$7,140,476	
- Waterworks		\$140,669,974	
Total Operating Expenses		\$408,129,342	
<i>Less: Transfer to Reserve / Reserve Funds</i>	(3)	(\$53,191,115)	E
<i>Add: TCA Amortization Expenses</i>	(4)	\$79,629,961	A
<i>Add: Post-employment Benefit Expenses</i>	(5)	(\$53,514)	B
Net Operating Expenses			\$434,514,674
Non-Tangible Capital	(6)	\$30,249,200	
Tangible Capital Assets		\$81,238,800	
Total Capital Expenses		\$111,488,000	
<i>Less: Tangible Capital Assets Capitalized</i>		(\$81,238,800)	
Net Capital Expenses - Not Capitalized	(6)		\$30,249,200 C

TOTAL EXPENSES			\$464,763,874
-----------------------	--	--	----------------------

ADJUSTED BUDGET: 2020 FULL ACCRUAL ACCOUNTING BUDGET DEFICIT	(7)	(\$11,385,977)	F
---	-----	----------------	---

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 2020 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 2019 and amortization expenses for assets projected to be "in-service" in 2020 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 2020 capital budget, and they will be restated as operating expenses.
- (7) Projected deficit is based on the restated 2020 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 – 2020 Total Corporation Operating Budget (Including Library, excluding Planning & Design, Engineering, Building Standards and Waterworks)

Appendix 2 – 2020 Library Operating Budget

Appendix 3 – 2020 Capital Budget (including Pre-Approved Capital Projects)

Appendix 4 – 2020 Planning & Design Operating Budget

Appendix 5 – 2020 Engineering Operating Budget

Appendix 6 – 2020 Building Standards Operating Budget

Appendix 7 – 2020 Waterworks Operating Budget

Appendix 8 – Budget Public Meeting minutes