



Report to: Council

Meeting Date: December 14, 2022

SUBJECT: 2022 Operating and Capital Budgets
PREPARED BY: Lisa Chen, Senior Manager, Financial Planning and Reporting
Veronica Siu, Manager, Budgets
Jay Pak, Manager, Budgets

RECOMMENDATION:

- 1) That the report dated December 14, 2022 titled, “2022 Operating and Capital Budgets” be received; and,
- 2) That Council approve the 2022 Primary Operating Budget for City services of \$253,146,615, (excluding the 2022 surplus/deficit), as detailed in Appendix 1; and,
- 3) That Council approve a \$3,150,000 transfer from the Corporate Rate Stabilization to provide funding for the remaining 2021 budget shortfall in the 2022 Primary Operating Budget; and,
- 4) That Council approve the remaining 2022 Capital Budget of \$106,050,749 (\$95,546,449 + \$10,504,300) for a total of \$110,263,500 (\$106,050,749 + \$4,212,751 pre-approved), as per projects detailed in Appendix 2; and,
- 5) That Council approve the 2022 Planning & Design Operating Budget totalling \$12,828,142, as detailed in Appendix 3; and,
- 6) That Council approve the 2022 Engineering Operating Budget totalling \$10,161,738, as detailed in Appendix 4; and,
- 7) That Council approve the 2022 Building Standards Operating Budget totalling \$9,880,206, as detailed in Appendix 5; and,
- 8) That Council approve the 2022 Waterworks Operating Budget totalling \$137,438,127 (excluding the 2021 surplus/deficit), as detailed in Appendix 6; and,
- 9) That Council approve a Community Improvement Project for \$6,244,700 and a Public Art Acquisition project for \$4,259,600; and,
- 10) That upon finalization of the 2021 audited financial statements, 2022 operating budgets be adjusted to reflect 2021 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 as detailed in Appendix 7, “Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09” be adopted; and further,

- 13) That the minutes from the Budget Committee and Budget Public Consultation meetings on December 1, 3 and 8, 2021 be received; and,
- 14) 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 2022 Operating and Capital Budgets.

BACKGROUND:

A total of eight Budget Committee meetings were held from October to December 2021 to discuss and review the 2022 Budget.

All Budget Committee meetings were open to the public and were audio and video streamed. A public consultation meeting was held on December 8, 2021. The presentations along with full recordings of the meetings are available on the City's web portal. As a result of the COVID-19 pandemic, physical attendance at the meetings was not possible. Members of the public were able to make written or virtual deputations by contacting Clerks prior to the meeting.

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

- fiscal scan including economic trends and budgetary pressures;
- review of the 2022 operating and capital budgets;
- review of the 2022 Planning & Design, Engineering, Building and Waterworks operating budgets.

At the public consultation meeting, there were no deputations.

OPTIONS/DISCUSSION:

The 2022 Budget totals \$533,718,328 and the breakdown is as follows:

	2022 Budget
Operating Budgets	
Primary	\$253,146,615
Planning and Design	12,828,142
Engineering	10,161,738
Building	9,880,206
Waterworks	137,438,127
Capital Budget	110,263,500
Total Budget	<u>\$533,718,328</u>

Details on the 2022 Primary Operating Budget are in Appendix 1, and discussed on pages 5 and 6.

2022 Capital Budget

The total 2022 Capital Budget includes 222 projects totaling \$110,263,500 (Appendix 2).

In October, Council pre-approved 8 capital projects and portions of 5 other capital projects totaling \$4,212,751. 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 \$110,263,500 requested in this report is for the remaining 207 projects in the amount of \$95,546,449, and 2 additional projects in the amount of \$10,504,300. Two capital requests have been added to the 2022 capital budget: a Community Improvement Project for \$6,244,700 and a Public Art Acquisition project for \$4,259,600. Both of these projects are fully funded through Section 37 collections. These projects will act as funding and tracking mechanisms for projects to be identified through future budgets or in-year requests to be approved through Council.

	No. of Projects	Additional Projects	2022 Budget
October pre-approval	13		\$4,212,751
Capital budgets approved by the Budget Committee	207		95,546,449
Additional capital budgets requested			10,504,300
Community Improvement Projects	1	6,244,700	
Public Art Acquisition	1	4,259,600	
Total Budget	222	\$10,504,300	\$110,263,500

Note: 5 projects with pre-approved portions are reflected in the “Capital projects approved by the Budget Committee” count.

The 2022 Capital Budget includes \$14 million for flood control and stormwater management, \$12 million in water and wastewater system replacements and upgrades, \$19 million for road construction, repairs and rehabilitation, \$12 million for parks and trails design, construction and maintenance, \$6 million to maintain the City’s facilities, \$6 million for fleet replacement and repairs, and \$3 million for Library collections and e-resources.

2021 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 using a 25-year rolling planning horizon.

As detailed during the 2022 budget process, the City requires a 0.5% 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 2021 Budget, the 2022 Budget includes an incremental 0.5% infrastructure investment.

Looking ahead to the next Council term (life cycle reserve balance ending 2050), there is a projected deficit higher than usual. To balance the Reserve beyond 25 years (2023 to 2050), preliminary analysis indicates an infrastructure investment of 1% is required, phasing in 0.1% each year for 5 years. Staff will undertake a detailed analysis and report back to Council an updated funding strategy as part of the 2023 Budget.

2022 Planning & Urban Design, Engineering and Building Standards Operating Budgets

At the Development Services Committee meeting on November 22, 2021, staff presented the 2022 Development Fee, Building, and City-Wide Fee By-Law Update report, recommending approval of a 3.3% increase in Planning & Urban Design fees and Engineering fees, and a 5% increase in Building fees.

A 3.3% increase to Planning & Urban Design fees has been included in the Planning & Urban Design operating budget which totals \$12,828,142 (Appendix 3), including a budgeted surplus to be transferred to the reserve of \$1,337,997.

A 3.3% increase to Engineering fees has been included in the Engineering operating budget which totals \$10,161,738 (Appendix 4), including a budgeted surplus to be transferred to the reserve of \$957,272.

A 5% increase to Building fees for Building Permit applications has been built into the Building Standards operating budget which totals \$9,880,206 (Appendix 5), including a budgeted deficit which results in a draw from the reserve of \$248,843.

2022 Waterworks Operating Budget

The Region approved the 2022 wholesale rate at a Regional Council meeting in September 2021. The Region's water and wastewater rate increase of 3.3%, includes the wholesale water rate increases from the City of Toronto and Region of Peel. These increases are passed on to the City.

Markham's water rate includes four components:

- A. Region's wholesale rate – cost Markham pays to buy water from York Region
- B. Non-revenue water – cost of water that is used but not billed to the customer
- C. Operating Expenditures – funding needed to operate and maintain the water and wastewater systems
- D. Reserve Contribution – funding used for long-term infrastructure rehabilitation and replacement

At a Regional rate increase of 3.3%, Markham’s expenditure portion of the 2022 water and wastewater rate will also increase at 3.3%. The City’s 2022 water and wastewater rate be increased by \$0.1483/m³ from \$4.4680/m³ to \$4.6163/m³ effective April 1, 2022.

This fee is a part of the 2022 Waterworks operating budget of \$137,438,127 (Appendix 6) which includes a contribution to the Waterworks reserve of \$15,999,895. This budgeted contribution to the Waterworks reserve is required to address the ongoing replacement and rehabilitation requirements for Waterworks infrastructure and other Waterworks related capital assets.

As a result of Markham’s decision to maintain its 2020 and 2021 water and wastewater rates at the 2019 level, the City’s reserve study is showing a shortfall at the end of 25 years. As presented to Budget Committee, the City had two options: phase-in the deferred portion of the 2020 and 2021 rates increases incrementally over four years, or a one-time increase equivalent to 1.5% or \$0.0673/m³.

Budget Committee endorsed an annual incremental rate increase of 0.4% or \$0.0196/m³ be phased-in over a 4-year period from 2023 to 2026.

2022 Primary Operating Budget

At the first Budget Committee meeting on October 1, 2021, Staff presented a budget which included a staff supported property tax rate increase of 3.17% based on known information at that time.

In addition to the 2022 Budget Shortfall, the City approved a 0% tax rate increase in 2021, funding the \$3.6 million (2.19%) budget shortfall temporarily from the Corporate Rate Stabilization Reserve. The 2022 Cumulative Budget Shortfall is \$8.8M, or 5.36% as summarized below:

(\$ Millions)	\$	Tax Rate Increase %
2022 Budget Shortfall	5.22	3.17%
2021 Budget Shortfall	3.60	2.19%
2022 Cumulative Budget Shortfall	8.82	5.36%

At the initial meeting, the Committee directed staff to look for ways to mitigate the 2022 tax rate increase by:

1. Leveraging efficiencies through the investment in technology to the greatest extent possible
2. Realigning services to leverage value in the City’s operations (learn from the City’s COVID experience).
3. Working to reduce the 2022 tax increase
4. Closing the budgetary gap from the 2021 operating budget over the next 3-4 years

December 2021 Update to Budget Committee

At the December 1 and December 3, 2021, meetings, staff presented an updated property tax rate increase of 1.95% compared to the original 3.17%.

(\$ millions)	\$ (Oct. 1, 2021)			\$ Tax Rate (Dec. 1, 2021) Increase	
2022 Day-to-day operations shortfall	4.40	2.67%		2.38	1.45%
Infrastructure Investment	0.82	0.50%		0.82	0.50%
Net Shortfall	5.22	3.17%		3.20	1.95%

This was accomplished through an opportunity assessment that reduced the net shortfall by \$2.0 from \$5.2 million to \$3.2 million through the following initiatives:

1. Savings from labour relations – \$1,555,000
2. Savings from print and mail strategy to reduce paper output – \$112,000
3. Changes in the municipal election contribution rebate program – \$128,000
4. Additional digital railway banner commercial advertising revenues – \$230,000

In addition a \$431,000 personnel wage impact related to the pending Provincial minimum wage increase from \$14.35 / hr to \$15.00 / hr was mitigated by \$223,900 additional revenues, through a 2.75% user fee increase effective 2022.

2021 Budget Shortfall

The updated budget reflects a draw from the Corporate Rate Stabilization Reserve of \$3,150,000 that will need to be recovered in future year budgets over 3 to 4 years. This amount represents a \$450,000 reduction from the 2021 transfer, following Budget Committee's direction from October 1, 2021.

It is the City's goal to find ways to reduce the operating budget shortfall through base budget adjustments to reduce the reliance on future tax rate increases and the Corporate Rate Stabilization Reserve. The 2022 budget includes the following reductions:

(\$ Millions)	2022 Operating Budget
2021 Budget Shortfall	\$3.60
Extend Markham Centre Library ramp-up from 8 to 12 years, ending 2032 (year 2 of 12)	(0.09)
Extend year-end accounting accrual ramp-up from 8 to 10 years, ending 2025 (year 7 of 10)	(0.12)
Increase salary gapping	(0.25)
	(0.45)
2021 Budget Shortfall remaining for future reductions in 2023 to 2025	\$3.15
Transfer from Corporate Rate Stabilization	(3.15)
Net 2021 Budget Shortfall remaining	-

The following exhibit shows the incremental changes from the 2021 approved Operating Budget to the 2022 Operating Budget from \$248,124,592 to \$253,146,615 (figures exclude Planning & Design, Engineering, Building Services and Waterworks):

Expenditures	2022 Budget
2021 Approved Budget - Expenditures	\$248,124,592
E3 adjustments	(3,399,300)
Municipal service contracts	3,197,000
Salaries and benefits for existing staff	2,736,400
Salaries and benefits for new staffing requests	739,600
Infrastructure investment - transfer to Life Cycle Reserve	1,389,000
Growth (waste, winter maintenance, parks and roads)	215,000
Capital induced operating costs	300,000
Other	(155,677)
2022 Budget - Expenditures	\$253,146,615
Revenues	2022 Budget
2021 Approved Budget - Revenues	\$244,524,592
2021 Draw from Corporate Rate Reserve	3,600,000
2022 Decrease in draw from reserve	(450,000)
1.95% Property tax rate increase	3,207,300
Assessment growth and PILs	1,540,000
Supplemental taxes (decrease)	(130,000)
Property tax penalties and interest	300,000
User fees and rentals to mitigate minimum wage increase	223,900
E3 adjustments	250,000
Licenses, permits and others	80,823
2022 Budget - Revenues before Transfer from Reserve	\$253,146,615
Net Expenditures/(Revenues)	\$0

The 2021 operating results projection are not considered in the above as results cannot be finalized until the City's financial statements have been audited and approved by Council. Staff will present the 2021 consolidated financial statements to General Committee in April 2022. Upon finalization of the 2021 audited financial statements, the 2022 operating budgets will be adjusted to reflect the 2021 surplus or deficit.

The 2022 budget aligns with the Council approved strategic priorities which address social, economic and environmental considerations. While the budget includes service level enhancements and value for money for Markham taxpayers, the City of Markham addressed the challenge of delivering a balanced budget with a 1.95 % tax rate increase,

which is lower than inflation when compared to the October Toronto Consumer Price Index of 4.0%.

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 \$34.7 million in operational savings and revenue enhancements since 2009 avoiding the need for an approximate 27.6% property tax rate increase over that period.

During the budget process, Staff identified \$3.7 million in E3s which made a favourable contribution to the tax rate pressure. These efficiencies included adjustments to departmental budgets based on historical results, negotiated savings from new contracts and utility savings.

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.

COVID-19 Considerations

For the 2022 budget, staff have considered the potential impacts from COVID-19. Due to the uncertainty of COVID-19 outcomes, staff will monitor financial impacts by managing to the overall budget, assessing and re-assessing business strategies, and remain flexible as changes take place, similar to 2021.

In Legislative Services it is anticipated that there will be lower parking and business license revenues, while Recreation Services, COVID-19 Supplies and Supplemental Taxes are anticipated to be unfavourable. The Museum is targeting a favourable variance of \$179,000, while the Theatre is forecasting an unfavourable variance in the range of \$198,000 to \$348,000.

Combined with an offsetting favourable budget variance with some Library branches closed, the City anticipates to mitigate the \$4 million shortfall through Federal and Provincial COVID-19 recovery funding, with a projected \$9 million available balance as of December 2021.

(\$ Millions)	Change
Business Area	Fav/(Unfav)
Legislative Services	(\$1.81)
Recreation Services	(1.20)
COVID-19 related costs	(1.00)
Supplemental Taxes	(0.92)
Library Services	0.84
COVID-19 projected unfavourable impact	(\$4.09)
COVID-19 Reserve - available balance	\$8.99
Transfer from COVID-19 Reserve	(4.09)
COVID-19 projected balance (Dec. 2022)	\$4.90

Additional Financial Disclosure Requirements (Ontario Regulation 284/09)

According to the *Municipal Act, 2001* municipalities may continue to prepare and present traditionally balanced budgets. However, under the Act, Ontario Regulation 284/09 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 2022 budget has been restated in accordance with Ontario Regulation 284/09 as attached to Appendix 7.

Summary

In summary the 2022 Budget is fiscally responsible provides a 1.95 percent property tax rate increase while providing for new and important community infrastructure.

HUMAN RESOURCES CONSIDERATIONS

Not Applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not Applicable.

RECOMMENDED BY:

Joel Lustig
Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

- Appendix 1 – 2022 Primary Operating Budget (excluding Planning & Design, Engineering, Building Standards and Waterworks)
- Appendix 2 – 2022 Capital Budget (including Pre-Approved Capital Projects)
- Appendix 3 – 2022 Planning & Design Operating Budget
- Appendix 4 – 2022 Building Standards Operating Budget
- Appendix 5 – 2022 Engineering Operating Budget
- Appendix 6 – 2022 Waterworks Operating Budget
- Appendix 7 – Financial Disclosure Requirements Pursuant to the Ontario Regulation 284/09
- Appendix 8 – Budget Committee and Budget Public Meeting minutes