



Report to: Council

Meeting Date: December 9, 2020

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**SUBJECT:** 2021 Operating and Capital Budgets  
**PREPARED BY:** Lisa Chen, Senior Manager, Financial Planning and Reporting

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**RECOMMENDATION:**

- 1) That the report dated December 9, 2020 titled, “2021 Operating and Capital Budgets” be received; and,
- 2) That Council approve the 2021 Primary Operating Budget for City services of \$248,124,592, (excluding the 2020 surplus/deficit), as detailed in Appendix 1; and,
- 3) That Council approve a \$3,600,000 transfer from the Corporate Rate Stabilization to provide a zero percent property tax rate increase in the 2021 Primary Operating Budget; and,
- 4) That Council approve the remaining 2021 Capital Budget of \$94,447,700 for a total of \$103,259,200 (\$94,564,600 + \$ 8,694,600 pre-approved), as per projects detailed in Appendix 2; and,
- 5) That Council approve the 2021 Planning & Design Operating Budget totalling \$13,498,406, as detailed in Appendix 3; and,
- 6) That Council approve the 2021 Engineering Operating Budget totalling \$8,844,438, as detailed in Appendix 4; and,
- 7) That Council approve the 2021 Building Standards Operating Budget totalling \$11,256,840, as detailed in Appendix 5; and,
- 8) That Council approve the 2021 Waterworks Operating Budget totalling \$135,938,867 (excluding the 2020 surplus/deficit), as detailed in Appendix 6; and,
- 9) That upon finalization of the 2020 audited financial statements, 2021 operating budgets be adjusted to reflect 2020 operating results; and,
- 10) 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,
- 11) That the restated budget as detailed in Appendix 7, “Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09” be adopted; and further,
- 12) 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 2021 Operating and Capital Budgets.

**BACKGROUND:**

A total of five Budget Committee meetings were held during November 2020 to discuss and review the 2021 Budget.

All Budget Committee meetings were open to the public and were audio and video streamed. A public consultation meeting was held on November 25, 2020. 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 2021 operating and capital budgets;
- review of the 2021 Planning & Design, Engineering, Building and Waterworks operating budgets.

At the public consultation meeting, there were no deputations. One resident did ask two questions, which staff responded to:

**1. How does the pandemic impact the budget?**

It is forecasted that the pandemic will have a \$31M unfavourable impact on the 2020 operating budget. Through the efforts of Council and staff, the City was able to mitigate the impact to \$24M, decreasing the shortfall to \$6.6 million. The City received \$6.5M of funding from the federal and provincial governments which will help the City offset the shortfall. In 2021, the pandemic will continue to impact operations, and measures are in place to mitigate potential challenges and deficits. There are also favourable budgetary impacts that staff are hopeful will mitigate any funding shortfalls. As the situation may change, staff will continue to monitor financial results monthly and report to Council regularly.

**2. Is the City aiming for a zero percent increase?**

The Budget Committee has approved a zero percent tax rate increase which will be tabled at the December 9, 2020 Council meeting, when the final decision will be made.

**OPTIONS/DISCUSSION:**

The 2021 Budget totals \$520,954,132 and the breakdown is as follows:

	<b>2021 Budget</b>
Operating Budgets	
Primary	\$ 248,124,592
Planning & Design	13,498,406
Engineering	8,844,438
Building	11,256,840
Waterworks	135,938,867
Capital Budget	<u>103,259,200</u>
<b>Total Budget</b>	<b><u>\$ 520,922,343</u></b>

Details on the 2021 Primary Operating Budget are in Appendix 1, and discussed on pages 5 and 6.

**2021 Capital Budget**

The total 2021 Capital Budget includes 183 projects totaling \$103,259,200 (Appendix 2).

In September, Council pre-approved 7 capital projects and portions of 6 other capital projects totaling \$8,694,600. 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 \$94,564,600 requested in this report is for the remaining 178 projects.

	<b>No. of Projects</b>	<b>2021 Budget</b>
September pre-approval Council report	7	\$8,694,600
Additional capital projects approved by the Budget Committee	178	94,564,600
<b>Total Budget</b>	<b><u>185</u></b>	<b><u>\$ 103,259,200</u></b>

Note: Six projects with pre-approved portions are reflected in the “Additional capital projects approved by the Budget Committee” count.

The 2021 Capital Budget includes \$21M for flood control and stormwater management, \$18.4M in water and wastewater system replacements and upgrades, \$12M for road construction, repairs and rehabilitation, \$12M for new parks and trails design and construction, \$9M to maintain the City’s facilities, \$5M for fleet replacement and repairs, \$4M in park maintenance and tree pruning, and \$3M for Library collections and e-resources.

**2020 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 2021 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 2020 Budget, the 2021 Budget includes an incremental 0.5% infrastructure investment.

**2021 Planning & Urban Design, Engineering and Building Standards Operating Budgets**

At today's Council meeting, Council is requested to approve a 5% increase in Planning & Urban Design fees, Engineering fees and Building fees.

A 5% increase to Planning & Urban Design fees has been included in the Planning & Urban Design operating budget which totals \$13,498,406 (Appendix 3), including a budgeted surplus to be transferred to the reserve of \$3,215,164.

A 5% increase to Engineering fees has been included in the Engineering operating budget which totals \$8,844,438 (Appendix 4), including a budgeted deficit which results in a draw from reserve of \$2,710.

A 5% increase to Building fees for Building Permit applications has been built into the Building Standards operating budget which totals \$11,256,840 (Appendix 5) , including a budgeted surplus to be transferred to reserve of \$1,549,042.

**2021 Waterworks Operating Budget**

The Region is planning to table and approve the 2021 wholesale rate at a Special Regional Council meeting on December 10, 2020. Markham will keep the City's expenditure portion of the 2021 water and wastewater rate at 0%, and flow through only the Region's wholesale rate increase once approved by the Region. The deferred portion of the increase will need to be recovered in a future year, or phased-in over multiple years.

At a proposed increase of 2.9% to the Region's wholesale rate, which is consistent with the increase the Region was proposing prior to the onset of the COVID-19 pandemic, the City's 2021 Water and Wastewater rate will be \$4.5572/m<sup>3</sup> effective April 1st, 2020 (an increase of 2.0% over the 2020 rate). This is contained within the 2021 Waterworks operating budget of \$135,938,867 (Appendix 6) which includes a contribution to the Waterworks reserve of \$15,760,000.

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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.

### **2021 Primary Operating Budget**

Council approved property tax and fee relief measures earlier this year to help residents and businesses experiencing financial hardship due to COVID-19. These measures were scheduled to end on December 31, 2020. In anticipation that COVID-19 will continue to impact many Markham property taxpayers into 2021, Markham Council has approved a Property Tax Payment Deferral Program to support property owners who have been financially affected by COVID-19. Council also approved a deferral for the 2021 stormwater fee for eligible taxpayers. This assistance is by application only and is meant to aid residential and business property owners who require payment flexibility throughout the 2021 taxation year.

Additionally, the suspension of the Municipal Accommodation Tax (MAT) from April 1, 2020 to December 31, 2020, to provide relief to hoteliers, will continue throughout the 2021 taxation year.

At the first Budget Committee meeting on November 3, 2020, Staff presented a fiscally responsible budget which included a staff supported property tax rate increase of 1.65% based on known information at that time. At the initial meeting, the Committee requested staff to report back on ways to reduce the operating budget shortfall for 2021 given the current economic climate during the pandemic. At the November 17, 2020 staff presented an updated property tax rate increase of 1.80%. Budget Committee approved one-time funding from the Corporate Rate Stabilization to bring the 2021 property tax rate increase down to zero. The updated budget reflects a one-time draw from the Corporate Rate Stabilization Reserve of \$3.6M that will need to be recovered in a future year's budget, or phased in over multiple years.

The following exhibit shows the incremental changes from the 2020 approved Operating Budget to the 2021 Operating Budget from \$240,962,772 to \$248,124,592 (figures exclude Planning & Design, Engineering, Building Services and Waterworks):

<b>Expenditures</b>	<b>2021 Budget</b>
2020 Approved Budget - Expenditures	\$240,962,772
Salaries and benefits for existing staff	956,243
Salaries and benefits for Animal Services staff	353,300
Municipal service contracts	3,323,020
Infrastructure investment - transfer to Life Cycle Reserve	1,368,761
Growth (waste, winter maintenance, parks and roads)	673,000
Capital induced operating costs	280,000
Insurance premiums	152,000
E3 adjustments	(1,359,000)
Other	1,414,496
<b>2021 Budget - Expenditures</b>	<b>\$248,124,592</b>
<b>Revenues</b>	<b>2021 Budget</b>
2020 Approved Budget - Revenues	\$240,962,772
Assessment growth	1,955,000
Lease revenue - 7100 Birchmount	826,300
E3 adjustments	330,000
Other	450,520
<b>2021 Budget - Revenues before Transfer from Reserve</b>	<b>\$244,524,592</b>
<b>Net Expenditures Before Draw From Reserve</b>	<b>(\$3,600,000)</b>
Transfer from Reserve to reduce Property Tax Rate to 0%	3,600,000
<b>2021 Budget - Revenues including Transfer from Reserve</b>	<b>\$248,124,592</b>
<b>Net Expenditures/(Revenues)</b>	<b>\$0</b>

The 2020 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 2020 consolidated financial statements to General Committee in April 2021. Upon finalization of the 2020 audited financial statements, the 2021 operating budgets will be adjusted to reflect the 2020 surplus or deficit.

The 2021 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 zero tax rate increase in response to the current economic pressures during the pandemic.

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 \$31,000,000 in operational savings and revenue enhancements since 2009 avoiding the need for an approximate 25.3% property tax rate increase over that period.

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During the budget process, Staff identified \$1,400,000 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 from the LED Streetlight conversion project.

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 2021 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 2020.

In some areas we anticipate higher spending, and other areas we anticipate savings. Overall, the COVID-19 strategy will be to adapt business processes, remain fluid and manage to the overall budget. At the current time, financial impacts are expected to be neutral and will be monitored and reported throughout 2021.

### **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 2021 budget has been restated in accordance with Ontario Regulation 284/09 as attached to Appendix 7.

### **Summary**

In summary the 2021 Budget is fiscally responsible provides a zero 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 – 2021 Primary Operating Budget (excluding Planning & Design, Engineering, Building Standards and Waterworks)
- Appendix 2 – 2021 Capital Budget (including Pre-Approved Capital Projects)
- Appendix 3 – 2021 Planning & Design Operating Budget
- Appendix 4 – 2021 Building Standards Operating Budget
- Appendix 5 – 2021 Engineering Operating Budget
- Appendix 6 – 2021 Waterworks Operating Budget
- Appendix 7 – Financial Disclosure Requirements Pursuant to the Ontario Regulation 284/09
- Appendix 8 – Budget Public Meeting minutes