



Report to: Council

Meeting Date: April 5, 2023

SUBJECT: 2023 Operating and Capital Budgets
PREPARED BY: Jay Pak, Senior Manager, Financial Planning and Reporting
Jemima Lee, Manager, Budgets
Ameen Khan, Manager, Budgets

RECOMMENDATION:

- 1) That the report dated April 5, 2023 titled, “2023 Operating and Capital Budgets” be received; and,
- 2) That Council approve a 3.0% property tax rate increase to the City’s tax levy as follows:
 - a. 1.93% for Markham’s day-to-day operations; and
 - b. 0.60% infrastructure investment; and
 - c. 0.47% for the payback of the Corporate Stabilization Reserve; and
- 3) That Council give further consideration for a 2.00% increase for provisions related to the Bill 23, More Home Built Faster Act, 2022 as part of the 2024 budget as follows:
 - a. 0.97% for salary recoveries previously funded through Development Charges; and
 - b. 1.03% provision for future Bill 23 impacts related to parkland, growth studies and reduced Development Charge collection impacts.
- 4) That Council approve the 2023 Primary Operating Budget for City services of \$267,761,234, as detailed in Appendix 1; and,
- 5) That Council approve the remaining 2023 Capital Budget of \$164,103,400 for a total of \$223,943,300 (\$164,103,400 + \$59,839,900 pre-approved), as per projects detailed in Appendix 2; and,
- 6) That Council approve the 2023 Planning & Design Operating Budget totalling \$13,235,215, as detailed in Appendix 3; and,
- 7) That Council approve the 2023 Engineering Operating Budget totalling \$11,130,096, as detailed in Appendix 4; and,
- 8) That Council approve the 2023 Building Standards Operating Budget totalling \$11,346,072, as detailed in Appendix 5; and,
- 9) That Council approve the 2023 Waterworks Operating Budget totalling \$141,242,580 (excluding the 2022 surplus/deficit), as detailed in Appendix 6; and,

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- 10) That Council approve project funding for asphalt resurfacing (Project Number 23005) in the amount of \$7,801,189 be changed from Life Cycle reserve to Canada Community-Building Fund (CCBF); 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
 - 13) That the minutes from the Special General Committee Meeting, Budget Committee and Budget Public Consultation meetings on January 23, January 27, January 30, February 6, February 17, March 9, 2023 be received; and further,
 - 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 2023 Operating and Capital Budgets.

BACKGROUND:

A total of 1 special General Committee Meeting and 4 Budget Committee meetings were held from January to February 2023 to discuss and review the 2023 Budget.

All Budget Committee meetings were open to the public and were audio and video streamed. A public consultation meeting was held on March 9, 2023 at the Civic Centre. The presentations along with full recordings of the meetings are available on the City's web portal.

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

- fiscal scan including economic trends and budgetary pressures;
- review of the 2023 operating and capital budgets;
- review of the 2023 Planning & Design, Engineering, Building and Waterworks operating budgets.

At the public consultation meeting, there were eight deputations.

OPTIONS/DISCUSSION:

The 2023 Budget totals \$668,658,497 and the breakdown is as follows:

2023 Budget	
Operating Budgets	
Primary	\$ 267,761,234
Planning and Design	13,235,215
Engineering	11,130,096
Building	11,346,072
Waterworks	141,242,580
Capital Budget	223,943,300
Total Budget	\$ 668,658,497

Details on the 2023 Primary Operating Budget are in Appendix 1, and discussed on pages 5 to 7.

2023 Capital Budget

The total 2023 Capital Budget includes 268 projects totaling \$223,943,300 (Appendix 2).

In September 2022, Council pre-approved 50 capital projects totaling \$50,405,700, and in March 2023, Council pre-approved an additional 7 capital projects totaling \$9,434,200. 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 \$164,103,400 requested in this report is for the remaining 211 projects.

	No. of Projects	2023 Budget
September 2022 pre-approval	50	\$50,405,700
March 2023 pre-approval	7	9,434,200
Capital budgets approved by Budget Committee	211	\$164,103,400
Total	268	\$223,943,300

The 2023 Capital Budget includes \$100.4 million for road construction, repairs and rehabilitation, \$25.7M million for flood control and stormwater management, \$20.5 million in water and wastewater system replacements and upgrades, \$20.4 million for green initiatives and climate strategies, \$17.8 million for parks and trails design, construction and maintenance, \$10.9 million to maintain the City's facilities, \$8.5 million for fleet replacement and repairs, and \$7.6 million for replacement of day-to-day City assets such as Library collections and e-resources and Fire and Emergency equipment.

Project requiring reallocation of funding

On September 6, 2022, Council pre-approved project 23005 – Asphalt Resurfacing with a budget of \$7,883,200 funded from the Life Cycle Reserve and Capital Replacement Fund.

Staff recommend that the eligible portion of \$7,801,189 be returned to the Life Cycle Replacement and Capital Reserve Fund and instead be funded from the Canada Community Building Fund (CCBF).

2022 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 remaining Council term plus 25-year planning horizon.

As detailed during the 2023 budget process, an infrastructure investment of 1% will be required each year by 2027 to ensure that there are sufficient funds in the Life Cycle Reserve through 2050 (25 years from the end of the current Council term) based on known inflows and outflows.

The 1% will be phased in by an incremental 0.1% each year over 5 years commencing in 2023 according to the following schedule:

2023 Budget – 0.6%
2024 Budget – 0.7%
2025 Budget – 0.8%
2026 Budget – 0.9%
2027 Budget – 1.0%

The 2023 impact is a 0.6% infrastructure investment as part of the 2023 Operating Budget.

2023 Planning & Urban Design, Engineering and Building Standards Operating Budgets

At the Development Services Committee meeting on November 29, 2022, staff presented the 2023 Development Fee, Building, and City-Wide Fee By-Law Update report, recommending approval of a 2.0% increase in Planning & Urban Design fees and Engineering fees, and a 2.0% increase in Building fees.

A 2.0% increase to Planning & Urban Design fees has been included in the Planning & Urban Design operating budget which totals \$13,235,215 (Appendix 3), including a budgeted deficit which results in a draw from the Planning & Engineering Development Fee Reserve of \$1,663,271.

A 2.0% increase to Engineering fees has been included in the Engineering operating budget which totals \$11,130,096 (Appendix 4), including a budgeted deficit which results in a draw from the Planning & Engineering Development Fee Reserve of \$1,540,345.

A 2.0% increase to Building fees for Building Permit applications has been built into the Building Standards operating budget which totals \$11,346,072 (Appendix 5), including a budgeted deficit which results in a draw from the Building Fee Reserve of \$794,663.

2023 Waterworks Operating Budget

Markham owns and operates the water distribution and wastewater collection systems, and purchases its water supply and wastewater treatment at a whole sale rate from the Region of York (Region). On September 23, 2021, York Region approved the annual water and

wastewater user rates for a 6-year period from April 1, 2022 to March 31, 2028, equivalent to 3.3% increases each year, to maintain full cost recovery.

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

Based on the Region's wholesale rate increase of 3.3% and the results of this year's reserve study update which includes items B to D above, Markham will require a water and wastewater rate increase of 3.8% in 2023. This includes year 1 of the 4-year reserve recovery requirement resulting from maintaining the 2020 and 2021 water rate at the 2019 level.

This fee is a part of the 2023 Waterworks operating budget of \$141,242,580 (Appendix 6) which includes a contribution to the Waterworks reserve of \$16,824,033. 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.

In response to the COVID-19 pandemic both the City and Region provided rate relief by deferring the scheduled increases for 2020 and 2021. During prior year's water and wastewater rate discussions, staff identified that deferring rate increases in one year will require the City to recover it through future rate increases. As a result, the City's reserve study completed in 2021 was showing an additional shortfall at the end of 25 years.

In 2021, the previous Council approved a 4-year phase-in of an incremental rate increase, also known as the Reserve Recovery, starting in 2023 at a rate of \$0.0196/m³ or 0.4% to compensate for the 0% rate increases in 2020 and 2021.

On February 22nd, 2023 Council approved an overall 2023 rate increase of 3.8%, which includes both the base rate increase of 3.4% and the reserve recovery phase-in of 0.4%.

2023 Primary Operating Budget

At the first Special General Committee meeting on January 23, 2023, Staff presented a budget which included a staff supported property tax rate increase of 6.40% based on known information at that time.

February 17 2023 Update to Budget Committee

Staff presented a property tax rate increase of 6.40% at the start of the 2023 Budget Committee review.

After review, Council recommended a property tax increase of 3.0%.

The following exhibit shows the incremental changes from the 2022 approved Operating Budget to the 2023 Operating Budget from \$249,996,615 to \$267,761,234 (figures exclude Planning & Design, Engineering, Building Services and Waterworks):

Expenditures		2023 Budget
2022 Approved Budget - Expenditures	\$	249,996,615
E3 Adjustments		(653,283)
Municipal Service Contracts		2,852,022
Salaries and Benefits - Existing Staff		3,515,597
Salaries and Benefits - New Staffing Requests		3,098,109
Infrastructure Investment - Transfer to Life Cycle Reserve		1,593,381
Growth (waste, winter maintenance, parks and roads)		1,407,418
Capital Induced Operating Costs		599,500
Increase in transfers to Reserve (offset by Revenue)		4,521,000
2023 Decrease in Draw from Corporate Rate Reserve		789,700
Other		41,175
2023 Budget Expenditures	\$	267,761,234
Revenues		2023 Budget
2022 Approved Budget - Revenues	\$	249,996,615
3.0% Property Tax Rate Increase		5,085,000
Assessment Growth and PILs		1,966,000
Income from Investments		3,479,000
Property fines		625,239
Supplemental Taxes Increase / (Decrease)		-
Property Tax Penalties and Interest		200,000
User Fees and Rentals to Mitigate Minimum Wage Increase		1,319,694
E3 Adjustments		117,237
Lease Revenue		270,000
Increase in Hydro Dividends (offset by Transfer to Reserves)		4,521,000
Licences, Permits, Other		181,449
2023 Budget Revenues - Before Transfer from Reserve	\$	267,761,234

The 2022 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 2022 consolidated financial statements to General Committee on April 18th, 2023. Upon finalization of the 2022 audited financial statements, the 2023 operating budgets will be adjusted to reflect the 2022 surplus or deficit.

The 2023 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 3.0% tax rate increase, which is lower than inflation when compared to the Consumer Price Index (CPI) of 6.00% and increased challenges associated with legislative changes such as Bill 23.

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 \$35.3 million in operational savings and revenue enhancements since 2009 avoiding the need for an approximate 27.98% property tax rate increase over that period.

During the budget process, Staff identified \$0.7 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.

COVID-19 Considerations

For the 2023 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 2022.

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 2023 budget has been restated in accordance with Ontario Regulation 284/09 as attached to Appendix 7.

Summary

In summary the 2023 Budget is fiscally responsible provides a 3.0 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:

Mark Visser
Acting Treasurer

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

- Appendix 1* – 2023 Primary Operating Budget (excluding Planning & Design, Engineering, Building Standards and Waterworks)
- Appendix 2 – 2023 Capital Budget (including Pre-Approved Capital Projects)
- Appendix 3 – 2023 Planning & Design Operating Budget
- Appendix 4 – 2023 Building Standards Operating Budget
- Appendix 5 – 2023 Engineering Operating Budget
- Appendix 6 – 2023 Waterworks Operating Budget
- Appendix 7 – Financial Disclosure Requirements Pursuant to the Ontario Regulation 284/09
- Appendix 8 – Budget Committee and Budget Public Meeting minutes

*Council authorize the Commissioner of Corporate Services and Treasurer to:

- a. Make any necessary adjustments within the total approved net Budget to reflect organizational changes and any other reallocation of costs provided there is no tax levy impact
- b. Apply for, accept and adjust the Budget for any additional Provincial and/or Federal funding provided there is no tax levy impact