



Report to: General Committee

Report Date: December 5, 2017

SUBJECT: 2018 Budget
PREPARED BY: Andrea Tang, Senior Manager of Financial Planning

RECOMMENDATION:

- 1) That the report dated December 5, 2017 entitled, “2018 Budget” be received;
- 2) And That Council approve a 2.90% property tax rate increase to the City’s tax levy which includes:
 - a. 2.44% for day-to-day operations and infrastructure investment;
 - b. 0.46% for Provincial Legislation Bill 148 (Fair Workplaces, Better Jobs Act);
- 3) And That Council approve the 2018 Primary Operating Budget for City services of \$204,664,482 and Library of \$13,818,779 to a total of \$218,483,261 (excluding the 2017 surplus/deficit) which includes a 2.90% property tax rate increase, of which the principal components are detailed in Appendices 1 and 2;
- 4) And That the gross operating expenditures of \$218,483,261, (excluding the 2017 surplus/deficit), be funded from the following sources:

	<u>2018 Budget</u>
Taxation Levies	\$155,050,962
Payments-in-lieu of Taxes	\$1,209,007
Grant & Subsidy Revenues	\$2,042,829
General Revenues (Investment Income, Fines, Permits, Penalty & Interest)	\$25,571,588
User Fees & Service Charges, Rentals and Sales	\$29,159,189
Other Income / Recoveries	\$5,449,686
Total Revenues	<u>\$218,483,261</u>

- 5) And That Council approve the remaining 2018 Capital Budget of \$76,191,300 for a total of \$77,715,300 (\$76,191,300 + \$1,524,000 pre-approved) of which the projects are detailed in Appendix 3;
- 6) And That Council authorize Staff to purchase the required US dollars (USD) for applicable capital budget projects at the time the budget is approved on an annual basis and to 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 2018 Planning & Design Operating Budget totalling \$10,294,001, (excluding the 2017 surplus based on forecast), the principal components of which are detailed in Appendix 4;
- 8) And That Council approve the 2018 Engineering Operating Budget totalling \$8,088,242, (excluding the 2017 surplus based on forecast), the principal components of which are detailed in Appendix 5;

- 9) And That Council approve the 2018 Building Standards Operating Budget totalling \$9,956,946, (excluding the 2017 deficit based on forecast), the principal components of which are detailed in Appendix 6;
- 10) And That Council approve the 2018 Waterworks Operating Budget totalling \$131,634,019 (excluding the 2017 surplus), the principal components of which are detailed in Appendix 7;
- 11) And That upon finalization of the 2017 audited financial statements, the 2018 Operating, Planning & Design, Engineering, Building Standards, and Waterworks Operating Budgets be adjusted to reflect the 2017 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 That this report be brought forward to Council on Tuesday, December 12, 2017;
- 15) 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 2018 Budget.

BACKGROUND:

Eight Budget Committee meetings were held from May to November 2017 to discuss and review the 2018 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 November 16th, 2017 at the Civic Centre.

At the public consultation meeting, there was one deputation. The following topics were raised and answers were provided by Staff:

- Current value assessment
- Impact of tax rate increase on Seniors
- An opportunity to reduce the tax rate increase

The following answers were provided by Staff:

- City of Markham annually recalculates and decreases the municipal tax rate by the equivalent of the City-wide average increase in a property's current value assessment to ensure the City collects the same amount of taxes as the prior year
- Details of the City property tax deferral program were provided
- An opportunity to reduce the tax rate increase was received

The following topics were discussed at the Budget Committee meetings:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2018 operating and capital budgets;
- a review of the 2018 Planning & Design, Engineering, Building and Waterworks operating budgets;
- a review of the financial impact from Bill 148;
- the City's asset life cycle reserve study.

DISCUSSION:

The 2018 Budget totals \$456,171,769 and the breakdown is as follows:

	Budget
Operating Budget	\$204,664,482
Library	\$13,818,779
Capital Budget	\$77,715,300
Planning & Design	\$10,294,001
Engineering	\$8,088,242
Building Standards	\$9,956,946
Waterworks	\$131,634,019
Total Budget	\$456,171,769

Details on the 2018 Operating Budget and Library Budget are shown on page 6.

2018 CAPITAL BUDGET

The total 2018 Capital Budget includes 239 projects totaling \$77,715,300.

In September 2017, Council pre-approved 2 capital projects totaling \$1,524,000. Pre-approval was requested in order to address flood risks that were identified as a result of the storms in June and July.

The approval of \$76,191,300 requested in this report is for the remaining 237 projects.

	# Projects	\$
September pre-approval Council report	2	1,524,000
Additional projects approved by Budget Committee	237	76,191,300
Total	239	77,715,300

The 2018 Capital Budget includes, \$12,816,500 for the continuation of the West Thornhill flood control program, \$8,680,000 for the repair and replacement of the City's water and wastewater infrastructure, \$7,887,300 for exterior and interior facility improvements at community centres, libraries, fire stations and the Civic Centre, \$5,933,400 for asphalt resurfacing, \$4,479,300 for the design and construction of 1.56 acres of new parkland including bridges, pavilions and washrooms, \$2,850,400 for library collections and \$695,800 for intersection improvements.

USD Purchases

In order to address USD exchange rate fluctuations, Staff recommend Council authorize Staff to purchase the required USD for applicable capital budget projects at the time the budget is approved on an annual basis and to 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.

2017 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 through the annual update of the Life Cycle reserve study ("Reserve Study") using a 25-year rolling planning horizon. For the past 12 years, there have been sufficient funds in the Reserve for the replacement and rehabilitation of assets for the next 25 years based on known inflows and outflows.

Every year when the reserve study is updated, the current year is dropped and a new 25th year is added to the forecast, resulting in a funding shortfall due to inflation, past growth and new assets. In the past, the shortfalls were mitigated through:

- increases in projected PowerStream and MDEI dividends;
- allocation of \$3,000,000 of Federal Gas Tax revenues towards incremental life-cycle expenditures; and
- life cycle E3 opportunities

In the 2017 reserve study update, the shortfall was \$23,000,000 at the end of the 25th year. In order to fund the shortfall, a 0.5% tax rate increase (included in the recommended tax rate increase 2.90%) for infrastructure investment is recommended.

2018 PLANNING & URBAN DESIGN, ENGINEERING AND BUILDING STANDARDS OPERATING BUDGETS

A 19% increase in Planning & Urban Design fees has been incorporated into the Planning & Urban Design operating budget which totals \$10,294,001, with a budgeted transfer to reserve of \$898,000.

A 19% increase Engineering fees has been incorporated Engineering operating budget which totals \$8,088,242, with a budgeted transfer to reserve of \$131,000.

A 5% increase in the 2018 Building fees for Building Permit applications has been incorporated into the Building Standards operating budget which totals \$9,956,946, with a budgeted transfer to reserve of \$939,000.

2018 WATERWORKS OPERATING BUDGET

The 2018 Water and Wastewater rate of \$4.1422/m³ effective April 1st, 2018 (an increase of 7.5% over the 2017 rate) is incorporated into the 2018 Waterworks operating budget of \$131,634,019.

2018 OPERATING BUDGET

The following exhibit reconciles the 2017 approved Operating Budget to the 2018 Operating Budget from \$215,389,557 to \$218,483,261 (figures include Library and exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2018 Budget</u>
2017 Approved Budget - Revenues	\$215,389,557
Assessment Growth & Supplemental Taxes	\$922,000
2.90% Property Tax Rate Increase	\$4,250,368
Bill 148 User Fee Adjustments	\$1,816,939
CPI and Volume Adjustments for User and Program Fees	\$897,022
Markham Energy Corporation (MEC) Dividend Adjustment	(\$5,650,000)
Other	\$857,375
Total 2018 Budget Revenues - excluding 2017 surplus and/or deficit	<u>\$218,483,261</u>
<u>EXPENDITURES</u>	
2017 Approved Budget - Expenditures	\$215,389,557
Salaries and Benefits for existing staff	\$2,650,000
Bill 148 Expenditures	\$2,501,611
Growth (roads, waste, parks, streetlights and winter maintenance)	\$2,300,000
Municipal Service Contracts	\$920,000
E3 Adjustments	(\$1,300,000)
Transfer to Reserves - Adjustment for MEC Dividend	(\$5,650,000)
Other	\$1,672,093
Total 2018 Budget Expenditures - excluding 2017 surplus and/or deficit	<u>\$218,483,261</u>

The 2018 Library budget is \$13,818,779, details of which are shown in Appendix 2.

The 2017 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 2017 consolidated financial statements to General Committee in April 2018. Upon finalization of the 2017 audited financial statements, the 2018 Operating (including Library), Planning & Design, Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the 2017 surplus and/or deficit.

The 2018 Budget aligns with the Council approved strategic priorities which address social, economic and environmental considerations. The Budget includes service level enhancements while providing Markham residents value for their money. The 2018 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, Provincial Legislation Bill 148 and third party contract escalation such as 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 Aaniin Community Centre and Library, Cornell Fire Station – 2nd crew, Markham Centre Fire Station and Operations Works Yard, some 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 \$25,700,000 in operational savings and revenue enhancements since 2009 avoiding the need for a tax rate increase of approximately 22% over that period.

During the budget process, Staff identified \$1,300,000 of E3s which partially assisted in reducing the proposed tax rate increase from 3.82% to 2.44%. These efficiencies included adjustments to departmental budgets based on historical trending, negotiated savings from new contracts and savings from energy retrofit projects.

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 2018, the annual dividends budget has been reduced from \$7,650,000 to \$2,000,000 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.

Bill 148 – Fair Workplace, Better Jobs Act

The Provincial Government's Bill 148 legislation was passed on November 22, 2017 which has an impact on part-time, casual, temporary and seasonal employees. Bill 148 includes increases to minimum wage, emergency leave, vacation pay, statutory holiday pay, equal pay for equal work and stand by pay. The total 2018 impact of Bill 148 to the City's Operating Budget is \$2.50M.

In addressing the budget impact from Bill 148, Committee and Staff developed a balanced approach where \$1.82M or 73% will be funded through increases to user fees which was approved by Council on November 6, 2017.

The remaining impact of \$0.68M or 27% will be funded through a property tax rate increase of 0.46% which is included in the 2.90% property tax rate increase recommended in this report.

Summary

In summary, the 2018 Operating Budget expenditures increased by \$8,743,704 (excluding the \$5,650,000 reduction in MEC dividends transferred to Life Cycle), offset by an increase in revenues of \$4,493,336 (excluding MEC dividend adjustment), resulting in a net shortfall of (\$4,250,368), equivalent to a property tax rate increase of 2.90% which includes a tax rate increase of 2.44% for day-to-day operations (including infrastructure investment of 0.5)% and the remaining impact of 0.46% for Provincial Legislation Bill 148.

The 2018 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 2018 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 2018 Budget is re-stated in accordance to Ontario Regulation 284/09 as part of the 2018 Budget approval process.

	Reference to Exhibit 1	\$ in M Increase/ (Decrease)
Balanced Budget		0.00
Net revenues to fund capital projects	2	37.90
Transfer to reserve/reserve funds	3	46.00
Tangible Capital Assets (TCA) amortization	4	(73.75)
Post-employment benefits	5	(0.08)
Non-tangible capital assets	6	(20.00)
Adjusted 2018 budget - Deficit	7	(9.93)

Reference #2: Net revenues to fund Capital projects – Represents new revenues to the City (eg. Development Charges, Federal Gas Tax revenues, stormwater fees, developer funds and Federal infrastructure grants) to fund the 2018 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 2016 and amortization expenses for assets projected to be "in-service" in 2018 using the 1/2 year rule.

Reference #5: Post-employment benefits – The budget excludes the current year's post employment benefit expenses estimated at \$77,494 based on actuarial valuation. However, the City will fully fund the 2018 post employment benefit obligations as part of the year-end accounting accruals and other adjustments.

Reference #6: Non-tangible capital assets – Included in the 2018 capital budget, and they will be re-stated as operating expenses.

The restatement of the 2018 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected deficit of (\$9,929,582). Details of the re-stated budget are outlined in Exhibit 1.

For comparison purposes, the re-stated 2017 Budget included a projected deficit of (\$15,465,372) as compared to the 2018 projected deficit of (\$9,929,582). The primary reason for the change between 2017 and 2018 is due additional net revenue to fund capital (2017: \$29,098,004 vs. 2018: \$37,899,385). The re-stated surplus and/or deficit will fluctuate year over year.

EXHIBIT 1**2018 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)		\$217,409,800	
- Library		\$1,073,461	
- Planning & Design		\$10,294,001	
- Engineering		\$8,088,242	
- Building Standards		\$9,956,946	
- Waterworks		\$131,634,019	
Total Revenues from Operations			\$378,456,469
Non-Tangible Capital		\$19,999,300	
Tangible Capital Assets		\$57,716,000	
Total Capital - Tangible & Non-Tangible		\$77,715,300	
<i>Less: Transfer from Reserve / Reserve Funds</i>	<i>(1)</i>	<i>(\$39,815,915)</i>	
Net Revenues to fund Capital	(2)		\$37,899,385
TOTAL REVENUES			\$416,355,854

EXPENSES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$204,664,482	
- Library		\$13,818,779	
- Planning & Design		\$10,294,001	
- Engineering		\$8,088,242	
- Building Standards		\$9,956,946	
- Waterworks		\$131,634,019	
Total Operating Expenses		\$378,456,469	
<i>Less: Transfer to Reserve / Reserve Funds</i>	<i>(3)</i>	<i>(\$46,004,412)</i>	
<i>Add: TCA Amortization Expenses</i>	<i>(4)</i>	<i>73,756,585</i>	
<i>Add: Post-employment benefit Expenses</i>	<i>(5)</i>	<i>\$77,494</i>	
Net Operating Expenses			\$406,286,136
Net Capital Expenses - Not Capitalized	(6)		\$19,999,300
TOTAL EXPENSES			\$426,285,436
ADJUSTED BUDGET: 2018 FULL ACCRUAL ACCOUNTING BUDGET DEFICIT	(7)		(\$9,929,582)

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 2018 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 2017 and amortization expenses for assets projected to be "in-service" in 2018 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 2018 capital budget, and they will be restated as operating expenses.
- (7) Projected deficit is based on the restated 2018 budget.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED BY:

2017-11-27

X



Joel Lustig
Treasurer
Signed by: cxa

2017-11-27

X



Trinela Cane
Commissioner, Corporate Services
Signed by: cxa

ATTACHMENTS:

[Appendix 1 – 2018 Total Corporation Operating Budget \(Including Library, excluding Planning & Design, Engineering, Building Standards and Waterworks\)](#)

[Appendix 2 – 2018 Library Operating Budget](#)

[Appendix 3 – 2018 Capital Budget \(including Pre-Approved Capital Projects\)](#)

[Appendix 4 – 2018 Planning & Design Operating Budget](#)

[Appendix 5 – 2018 Engineering Operating Budget](#)

[Appendix 6 – 2018 Building Standards Operating Budget](#)

[Appendix 7 – 2018 Waterworks Operating Budget](#)