



Report to: General Committee

Report Date: December 15, 2015

SUBJECT: 2016 Operating and Capital Budgets
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) That the report dated December 15, 2015 entitled, “2016 Operating and Capital Budgets” be received;
- 2) And that Council approve a 2.28% property tax rate increase to the City’s tax levy to support the City’s day-to-day operations;
- 3) And that Council approve an additional 0.16% property tax rate increase to fund the response and recovery costs associated with the December 2013 ice storm (Year 3 of 3);
- 4) And that Council approve the 2016 Primary Operating Budget for City services of \$193,198,038 and Library of \$13,339,317 to a total of \$206,537,355 (excluding the 2015 surplus/deficit) which includes a 2.44% property tax rate increase over 2015 (\$199,295,751), of which the principal components are detailed in Appendices 1 and 2;
- 5) And that the gross operating expenditures of \$206,537,355, (excluding the 2015 surplus/deficit), be funded from the following sources:

	<u>2016 Budget \$</u>
Taxation Levies	142,693,652
Payments-in-lieu of Taxes	1,209,007
Grant & Subsidy Revenues	1,596,143
General Revenues (Investment Income, Fines, Permits, Interest & Penalties)	30,333,921
User Fees & Service Charges, Rentals and Sales	25,385,344
Other Income / Recoveries	5,319,288
Total Revenues	<u>206,537,355</u>

- 6) And that Council approve the remaining 2016 Capital Budget of \$106,060,400 for a total of \$122,895,400 of which the projects are detailed in Appendix 3;
- 7) And that Council approve the 2016 Planning & Design Operating Budget totalling \$8,194,104, (excluding the 2015 surplus/deficit), the principal components of which are detailed in Appendix 4;
- 8) And that Council approve the 2016 Engineering Operating Budget totalling \$6,968,616, (excluding the 2015 surplus/deficit), the principal components of which are detailed in Appendix 5;
- 9) And that Council approve the 2016 Building Standards Operating Budget totalling \$8,640,992, (excluding the 2015 surplus/deficit), the principal components of which are detailed in Appendix 6;

- 10) And that Council approve the 2016 Waterworks Operating Budget totalling \$115,294,759 (excluding the 2015 adjustment), the principal components of which are detailed in Appendix 7;
- 11) And that upon finalization of the 2015 audited financial statements, the 2016 Operating, Planning & Design, Engineering, Building Standards, and Waterworks Operating Budgets be adjusted to reflect the 2015 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 15, 2015 for approval;
- 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 2016 Primary Operating Budget which recommends a total 2.44% property tax rate increase comprised of a 2.28% property tax rate increase to support the day-to-day operations, and a 0.16% property tax rate increase to address the response and recovery costs associated with the December 2013 ice storm (Year 3 of 3).

BACKGROUND:

Nine Budget Sub-committee meetings were held from October to December 2015 to discuss and review the 2016 Operating and Capital Budgets.

All Budget Committee meetings were open to the public. Meetings were audio streamed and presentations being made could be viewed at the same time, through the City's web portal. A public consultation meeting was held on December 7th, 2015 at the Civic Centre.

At the public consultation meeting, there were three deputations. Questions on the following topics were raised, and answers were provided by Staff:

- City's investment and expected returns from Markham District Energy
- Province's review of key municipal legislation
- Capital spending on the improvement of Miller Avenue
- Holiday decorations along Yonge Street
- Various comparison methods to other municipalities (per capita, property values, 4 year vs. 8 year average property tax rate increase)

The following information was discussed at the Budget Committee meetings:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2016 operating and capital budgets;

- a review of the 2016 Planning & Design, Engineering, Building and Waterworks operating budgets;
- a review of the 2016 Councillor requests;
- the City’s asset lifecycle reserve study and development charges cash flow.

DISCUSSION:

The 2016 Budget totals \$468,531,226 and the breakdown is as follows:

	\$
Operating Budget	193,198,038
Library	13,339,317
Capital Budget	122,895,400
Planning & Design	8,194,104
Engineering	6,968,616
Building Standards	8,640,992
Waterworks	115,294,759
Total Budget	468,531,226

Details on the 2016 Primary Operating Budget and Library Budget are shown on page 4.

2016 Capital Budget

In September 2015, Council pre-approved 19 projects totaling \$16,835,000. Pre-approval was requested in order to begin the procurement process ahead of the construction season with the potential of achieving better pricing.

The approval of \$106,060,400 requested in this report is for the remaining 235 projects.

	# Projects	\$
September 21st pre-approval report	19	16,835,000
Additional projects approved by Budget Committee	235	106,060,400
Total	254	122,895,400

As part of the annual Life Cycle reserve study update, Staff reviewed the adequacy of the Life-Cycle Replacement and Reserve Fund to sustain future rehabilitation and replacement requirements for the City’s existing assets based on known inflows and outflows for the next 25 years.

The 2015 update of the Life Cycle Reserve Study identified that the Life Cycle Replacement and Capital reserve has sufficient funds for the major replacement and rehabilitation of existing assets for the next 25 years (2016 to 2040) based on projected inflows including the additional \$1,500,000 of Federal Gas Tax funding to a total of \$3,000,000 and work programs.

At the first Budget Committee, Staff also identified that the City’s asset base will grow by approximately \$78,000,000/year through capital projects and the assumption of subdivision internal works from 2016 to 2031 (build-out). The anticipated growth in assets will require an

incremental \$1,500,000/year to fund the periodic rehabilitation and eventual replacement of these assets.

Staff proposed an incremental 1% infrastructure surcharge per year starting with the 2016 Budget. The Budget Committee directed Staff to report back in Spring 2016 to address:

- replacement of existing assets outside the 25 year period; and
- new assets being added to the City’s inventory from 2016 to 2031; and
- the potential need for an infrastructure surcharge per year.

2016 Planning & Urban Design, Engineering and Building Standards Operating Budgets

A 10% increase in Planning & Urban Design fees has been incorporated into the Planning & Urban Design operating budget which totals \$8,194,104 with a budgeted draw from reserve of \$215,355.

An 8% increase Engineering fees has been incorporated Engineering operating budget which totals \$6,968,616 with a budgeted draw from reserve of \$786,795.

A 5% increase in the 2016 Building fees for Building Permit applications has been incorporated into the Building Standards operating budget which totals \$8,640,992 with a budgeted draw from reserve of \$1,613,843.

2016 Waterworks Operating Budget

The 2016 Water and Wastewater rate of \$3.5751/m³ effective April 1st, 2016 (an increase of 7.8% over 2015’s rate) is incorporated into the 2016 Waterworks operating budget of \$115,294,759.

2016 Primary Operating Budget

The following exhibit reconciles the 2015 approved Operating Budget to the 2016 Operating Budget from \$199,295,751 to \$206,537,355 (figures include Library and exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2016 Budget \$</u>
Approved 2015 Budget Revenues	199,295,751
Assessment Growth including Supplemental Taxes (property taxes from new homes and businesses)	2,643,978
2.28% Property Tax Rate Increase	3,035,235
0.16% Property Tax Rate Tax Increase for December 2013 Ice Storm (Year 3 of 3)	223,000
Annualization of Administrative Monetary Penalties	520,000
CPI and Volume Adjustments for User and Program Fees	506,184
Property Tax Installment Penalty	300,000
Other	13,207
Total 2016 Budget Revenues - excluding 2015 surplus/deficit	<u>206,537,355</u>
<u>EXPENDITURES</u>	
Approved 2015 Budget Expenditures	199,295,751
Salaries and Benefits	4,615,578
Growth (roads, waste, parks, streetlights and winter maintenance)	1,720,000
Municipal Service Contracts	1,160,000
Chargeback for support services to Building, Engineering, Planning & Design, Waterworks/Other	(253,974)
Total 2016 Budget Expenditures - excluding 2015 surplus/deficit	<u>206,537,355</u>

The 2016 Library budget is \$13,339,317, details of which are shown in Appendix 2.

The 2015 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 2015 consolidated financial statements to General Committee in April 2016. Upon finalization of the 2015 audited financial statements, the 2016 Operating (including Library), Planning & Design, Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the 2015 surplus/deficit.

The 2016 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 2016 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, general inflation, increasing utility costs and third party contract renewals such as winter maintenance and waste collection contracts.

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 South East Community Centre and Library, Pan Am Facility, City of Markham Sports Park, Markham Centre Fire Station, Milliken Mills Library Expansion, Operations Works Yard and 2nd crew at the Cornell Fire Station some of which are subject to Council approval. Markham continues the policy of allocating the first \$500,000 from new assessment growth revenues to support the capital program.

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 \$22,000,000 in operational savings and revenue enhancements since 2009 which would have resulted in a need for an approximately 20% property tax rate increase over that period.

During the budget process, Staff identified \$1,560,000 of E3s which assisted in reducing the initial proposed tax rate increase from 3.63% to 2.44%. These efficiencies included a property tax instalment penalty, reallocation of long-term disability budgeted funds to offset other increased benefit costs, additional Administrative Monetary Penalty revenues, funding of the Southeast Community Centre & Library net expenses from the Ramp-up Reserve and various Commission expenditure reductions and revenue enhancements.

Summary

In summary, the 2016 Primary Operating Budget expenditures increased by \$7,241,604 (including \$223,000 for continuing costs associated with the December 2013 ice storm), offset by an increase in revenues of \$3,983,369, resulting in a net shortfall of \$3,258,235, equivalent to a property tax rate increase of 2.44%: 2.28% to support day-to-day operations and 0.16% to fund the response and recovery costs associated with the December 2013 ice storm (Year 3 of 3).

The 2016 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 2016 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 2016 Budget is restated in accordance to Ontario Regulation 284/09 as part of the 2016 Budget approval process.

	Reference to Exhibit 1	\$ in M Increase/ (Decrease)
Balanced Budget		0.00
Net revenues to fund Capital projects	2	70.52
Transfer to reserve/reserve funds	3	45.04
Tangible Capital Assets (TCA) amortization	4	(71.92)
Post-employment benefits	5	(0.87)
Non-tangible capital assets	6	(27.65)
Adjusted budget - 2016 budget surplus	7	<u>15.12</u>

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 2016 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 2015 and amortization expenses for assets projected to be "in-service" in 2016 using the 1/2 year rule.

Reference #5: Post-employment benefits – The budget excludes the current year's post employment benefit expenses estimated at \$867,500 based on actuarial valuation. This is consistent with prior year budgeting practice. However, the City will fully fund the 2016 post employment benefit obligations as part of the year-end accounting accruals and other adjustments.

Reference #6: Non-tangible capital assets – Included in the 2016 capital budget, and they will be restated as operating expenses.

The restatement of the 2016 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected surplus of \$15,120,416. Details of the restated budget are outlined in Exhibit 1.

EXHIBIT 1**2016 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)		\$205,448,136	
- Library		\$1,089,219	
- Planning & Design		\$7,978,749	
- Engineering		\$6,181,821	
- Building Standards		\$7,027,149	
- Waterworks		\$115,294,759	
Total Revenues from Operations			\$343,019,833
Non-Tangible Capital		\$27,652,600	
Tangible Capital Assets		\$95,242,800	
Total Capital - Tangible & Non-Tangible		\$122,895,400	
<i>Less: Transfer from Reserve / Reserve Funds</i>	(1)	<i>(\$52,376,096)</i>	
Net Revenues to fund Capital			\$70,519,304
TOTAL REVENUES			\$413,539,137

EXPENSES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$193,198,038	
- Library		\$13,339,317	
- Planning & Design		\$7,978,749	
- Engineering		\$6,181,821	
- Building Standards		\$7,027,149	
- Waterworks		\$115,294,759	
Total Operating Expenses		\$343,019,833	
<i>Less: Transfer to Reserve / Reserve Funds</i>	(3)	<i>(\$45,040,848)</i>	
<i>Add: TCA Amortization Expenses</i>	(4)	<i>71,919,636</i>	
<i>Add: Post-employment benefit Expenses</i>	(5)	<i>\$867,500</i>	
Net Operating Expenses			\$370,766,121
Non-Tangible Capital	(6)	\$27,652,600	
Tangible Capital Assets		\$95,242,800	
Total Capital Expenses		\$122,895,400	
<i>Less: Tangible Capital Assets Capitalized</i>		<i>(\$95,242,800)</i>	
Net Capital Expenses - Not Capitalized			\$27,652,600
TOTAL EXPENSES			\$398,418,721
ADJUSTED BUDGET: 2016 FULL ACCRUAL ACCOUNTING BUDGET SURPLUS			\$15,120,416

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 2016 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 2015 and amortization expenses for assets projected to be "in-service" in 2016 using the 1/2 year rule.
- (5) Post-employment Benefit Expenses based on estimates provided by Morneau Shepell.
- (6) Non-Tangible Capital are included in the 2016 capital budget, and they will be restated as operating expenses.
- (7) Projected surplus is based on the restated 2016 budget.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED

11/12/2015

11/12/2015

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

[Appendix 1 – 2016 Total Corporation Primary Operating Budget \(Including Library, excluding Planning & Design, Engineering, Building Standards and Waterworks\)](#)

[Appendix 2 – 2016 Library Operating Budget](#)

[Appendix 3 – 2016 Capital Budget \(including Pre-Approved Capital Projects\)](#)

[Appendix 4 – 2016 Planning & Design Operating Budget](#)

[Appendix 5 – 2016 Engineering Operating Budget](#)

[Appendix 6 – 2016 Building Standards Operating Budget](#)

[Appendix 7 – 2016 Waterworks Operating Budget](#)