



Report to: General Committee

Report Date: March 31, 2015

SUBJECT: 2015 Budget
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) That the report dated March 31, 2015 entitled, “2015 Budget” be received;
- 2) And that Council approve a 2.34% 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% tax rate increase to fund the response and recovery costs associated with the December 2013 ice storm (Year 2 of 3);
- 4) And that Council approve the 2015 Operating Budget for City services totalling \$185,892,264;
- 5) And that Council approve the 2015 Library Operating Budget totalling \$13,403,487, the principal components of which are detailed in Appendix 2;
- 6) And that the gross operating expenditures of \$199,295,751 (Operating \$185,892,264 + Library \$13,403,487), (excluding the 2014 deficit), of which the principal components are detailed in Appendix 1, be funded from the following sources:

	<u>2015 Budget \$</u>
Taxation Levies	136,791,439
Payments-in-lieu of Taxes	1,209,007
Grant & Subsidy Revenues	1,539,126
General Revenues (Investment Income, Fines, Permits, Interest & Penalties)	30,394,738
User Fees & Service Charges	24,248,707
Other Income / Recoveries	5,112,734
Total Revenues	<u>199,295,751</u>

- 7) And that Council approve the remaining 2015 Capital Budget totalling \$66,988,600 of which the projects are detailed in Appendix 3;
- 8) And that Council approve the 2015 Planning & Design Operating Budget totalling \$8,212,073, (excluding the 2014 deficit), the principal components of which are detailed in Appendix 4;
- 9) And that Council approve the 2015 Engineering Operating Budget totalling \$6,566,574, (excluding the 2014 deficit), the principal components of which are detailed in Appendix 5;
- 10) And that Council approve the 2015 Building Standards Operating Budget totalling \$8,529,259, (excluding the 2014 deficit), the principal components of which are detailed in Appendix 6;

- 11) And that Council approve the 2015 Waterworks Operating Budget totalling \$101,754,579, (excluding the 2014 adjustment), the principal components of which are detailed in Appendix 7;
- 12) And that upon finalization of the 2014 audited financial statements, the 2015 Operating, Planning & Design, Engineering, Building Standards, and Waterworks Operating Budgets be adjusted to reflect the 2014 operating results;
- 13) And that By-law 2002-276, a by-law to impose fees and charges for services or activities provided by the City of Markham, be amended to reflect the following changes in Finance and Tax fees and charges effective June 1, 2015:
 - a. Ownership Change Administration Fee from \$31.00 to \$34.00
 - b. Non-Property Tax related charge added to the tax account from \$36.00 to \$45.00
 - c. Returned Cheque Fee from \$36.00 to \$40.00
 - d. Tax Certificate from \$60.50 to \$76.00
- 14) And that the Treasurer be authorized to set future increases for the above Finance and Tax fees and charges annually based on the change in the Consumer Price Index (Toronto All Items September -September) with such increases effective January 1 and rounded to the nearest half dollar;
- 15) 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;
- 16) And that the "Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09" be received for information purposes;
- 17) And that this report be brought forward to Council on Tuesday, March 31, 2015 for approval;
- 18) 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 2015 Operating Budget which recommends a total 2.50% tax rate increase comprised of a 2.34% tax rate increase to support the day-to-day operations, and a 0.16% tax rate increase to address the response and recovery costs associated with the December 2013 ice storm (Year 2 of 3).

BACKGROUND:

Seven Budget Sub-committee meetings were held from January to March 2015 to discuss and review the 2015 Operating and Capital Budgets.

All Budget Committee meetings were open to the public, and the meetings were audio streamed through Markham's web portal. Following the meetings, the presentation could be

viewed and listened to on the City's website. A public consultation meeting was held on March 23rd, 2015 at 7pm at the Civic Centre. In addition, there was a meeting held on February 25, 2015 at 7pm at the Civic Centre with the Markham Action Group for Improved Community (MAGIC). MAGIC provides support to Markham Community Ratepayer Associations.

At the public consultation meeting four residents gave deputations on the budget. Staff are currently addressing the items raised at the meeting.

Markham's innovative Citizen Budget Tool was available on Markham's web portal (under Municipal Government: Budget and Business Plan section) for the 2015 budget process. This is the 2nd year utilizing the tool and it provides residents the opportunity to express their views on how residential tax dollars should be used.

The following topics were discussed at the Budget Committee meetings:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2015 operating and capital budgets;
- a review of the 2015 new support staffing requests;
- a review of the 2015 Councillor requests;
- the City's asset lifecycle reserve study.

The 2015 Library budget is \$13,403,487, details of which are shown in Appendix 2.

In September and November 2014, two 2015 Capital Budget pre-approval reports were approved by Council. The two reports included 46 projects totaling \$35,175,000. Pre-approval was requested in order to achieve better pricing and to begin the procurement process ahead of the construction season.

The approval of \$66,988,600 requested in this report is for the remaining 236 projects.

Pre-Approved	# Projects	\$
First Request: September 23rd	13	26,647,500
Second Request: November 17th	33	8,527,500
Total Pre-Approved	46	35,175,000
Remaining Projects to be Approved	236	66,988,600
Total	282	102,163,600

The Development Fee By-law was amended on December 16, 2014 to include a 3.6% increase in the 2015 Building fees for Building Permit applications, a 15% increase in Planning & Urban Design and a 10% increase Engineering fees. The 2015 operating budgets for the following Development Services departments are: Planning & Design at \$8,212,073 with a budgeted draw from reserve of \$963,264, Engineering at \$6,566,574 with a budgeted draw

from reserve of \$1,474,546, and Building Standards at \$8,529,259 with a budgeted draw from reserve of \$1,464,007.

The 2015 Water and Wastewater rate of \$3.3154/m³ effective April 1st, 2015 (an increase of 8.2% over 2014's rate) is incorporated into the 2015 Waterworks operating budget of \$101,754,579.

In summary, the total 2015 Budget is \$426,521,836 and the breakdown is as follows:

	\$
Operating Budget	185,892,264
Library	13,403,487
Capital Budget	102,163,600
Planning & Design	8,212,073
Engineering	6,566,574
Building Standards	8,529,259
Waterworks	101,754,579
Total 2015 Budget	<u>426,521,836</u>

DISCUSSION:

2015 Operating Budget

The following exhibit reconciles the 2014 approved Operating Budget to the 2015 Operating Budget from \$187,591,019 to \$199,295,751 (figures include Library and exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2015 Budget \$</u>
Approved 2014 Budget Revenues	187,591,019
Assessment Growth including Supplemental Taxes (Property taxes from new homes and businesses)	3,075,000
2.34% Operating Tax Increase	2,975,000
0.16% Tax Increase for December 2013 Ice Storm	212,000
Markham Enterprise Corporation Dividend and Hydro Interest (including 1st year of solar dividend)	3,629,652
CPI and Other Adjustments for User and Program Fees	600,313
Annualization of Pan Am Facility	530,539
Theatre Professional Entertainment Series (corresponding offset in expenses)	246,500
Museum and Theatre - Subsidy Reduction	150,000
Other	285,728
Total 2015 Budget Revenues - excluding 2014 deficit	<u>199,295,751</u>
<u>EXPENDITURES</u>	
Approved 2014 Budget Expenditures	187,591,019
Salaries and Benefits	4,132,207
Markham Enterprise Corporation Dividend and Hydro Interest (including 1st year of solar dividend)	3,629,652
Growth (roads, waste, parks, streetlights and winter maintenance)	1,756,873
Municipal Service Contracts	1,650,000
Support Services for Building, Engineering, Planning & Design, Waterworks/Corporate Items/Other	536,000
Total 2015 Budget Expenditures - excluding 2014 deficit	<u>199,295,751</u>

The 2014 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 2014 consolidated financial statements to General Committee in April 2015. Upon finalization of the 2014 audited financial statements, the 2015 Operating (including Library), Planning & Design,

Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the deficit/adjustment in revenues and offsetting expenditures.

The 2015 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 2015 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 general inflation, increasing utility costs and third party contract renewals such as winter maintenance 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 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 and 2nd crew at the Cornell Fire Station some of which are subject to Council approval. Markham continues the policy of allocating the first \$0.5M from new assessment growth revenues to support a sustainable 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 \$20M in operational savings and revenue enhancements since 2009 which would have resulted in a need for a 20 per cent tax increase over that period.

Adjustments to the 2015 Operating Budget

A. Markham Enterprise Corporation Dividend and Interest

The City receives annually a dividend from Markham Enterprise Corporation and interest income on loans to Powerstream, Markham Enterprise Corporation, and Markham District Energy. Of the funding received, \$1M is retained in the Operating Budget as a means of reducing the tax rate increase while the majority of the funding goes to the Life Cycle Repair and Replacement Reserve.

The 2015 Budget reflects an increase of \$3.6M from dividends and interest revenues primarily due to 2015 being the first year of the City receiving a solar dividend. The net impact to the budget is zero as there is a corresponding increase of \$3.6M in the transfer to reserves expense.

B. User Fee Changes Over and Above Consumer Price Index (CPI)

While it is the City's policy to increase user fees by CPI each year, Staff reviewed Finance related fees and identified additional increases based on municipal comparators. The fees identified were: Ownership change administrative fees, non-property tax related charge added to the tax account, returned cheque fees, and tax certificates. The fees will become effective in June 2015. These adjustments resulted in additional revenue of approximately \$0.04M for 2015 and \$0.03M in 2016 due to annualization (January-May).

Summary

In summary, the 2015 Operating Budget has an increase in expenditures of \$11.71M (including \$0.21M for continuing costs associated with the December 2013 ice storm), offset by an increase in revenues of \$8.52M, resulting in a net shortfall of \$3.19M, equivalent to a total tax rate increase of 2.50%: 2.34% to support day-to-day operations and 0.16% to fund the response and recovery costs associated with the December 2013 ice storm (Year 2 of 3).

Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09

Ontario Regulation 284/09 requires the 2015 Budget be provided in accordance to the Public Sector Accounting Board 3150 format prior to budget approval. The City's financial statements, specifically the Accumulated Surplus, now include 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 2015 Budget is restated in accordance to Ontario Regulation 284/09 as part of the 2015 Budget approval process.

FINANCIAL CONSIDERATIONS:

The 2015 Budget excludes the following expenses:

1. The budget excludes TCA amortization expenses in the amount of \$68.81M, and includes reserve contributions of \$41.81M to reserves and reserve funds. Therefore, the budget is restated to comply with the Regulation.

The Life Cycle and Waterworks reserve studies were implemented in 2005 and 2007 respectively to address the funding requirements for on-going capital replacements and preventative maintenance of the City's capital assets over their useful lives. The City updates the reserve studies annually to ensure that there are adequate funding, based on known inflows and outflows, in the reserves for the next 25 years.

The 2014 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 (2015 to 2039) based on projected inflows and work programs.

2. The budget excludes the current year's post employment benefit expenses estimated at \$0.87M based on actuarial valuation. This is consistent with prior year budgeting practice. However, the City will be fully funding the 2015 post employment benefit obligations as part of the year-end accounting accruals and other adjustments;

The restatement of the 2015 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected a deficit of (\$6.81M). Details of the restated budget are outlined in Exhibit 1 and restatement of revenues and expenses to the balanced budget are highlighted below:

	<u>Reference to Exhibit 1</u>	<u>\$ in M</u>
Balanced Budget		0.00
Revenues:		
Net (new) revenues to fund Capital	2	47.86
Expenses:		
Less: transfer to reserve/reserve funds	3	41.81
TCA amortization	4	(68.81)
Post-employment benefits	5	(0.87)
Non-tangible capital assets	6	<u>(26.80)</u>
Adjusted budget - 2015 budget deficit	7	<u>(6.81)</u>

EXHIBIT 1**2015 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)		\$198,213,154	
- Library		\$1,082,597	
- Planning & Design		\$7,248,809	
- Engineering		\$5,092,028	
- Building Standards		\$7,065,252	
- Waterworks		\$101,754,579	
Total Revenues from Operations			\$320,456,419
Non-Tangible Capital		\$26,803,300	
Tangible Capital Assets		\$75,360,300	
Total Capital - Tangible & Non-Tangible		\$102,163,600	
<i>Less: Transfer from Reserve / Reserve Funds</i>	(1)	<i>(\$54,300,180)</i>	
Net (new) Revenues to fund Capital			(2) \$47,863,420
TOTAL REVENUES			\$368,319,839

EXPENSES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$185,892,264	
- Library		\$13,403,487	
- Planning & Design		\$7,248,809	
- Engineering		\$5,092,028	
- Building Standards		\$7,065,252	
- Waterworks		\$101,754,579	
Total Operating Expenses		\$320,456,419	
<i>Less: Transfer to Reserve / Reserve Funds</i>	(3)	<i>(\$41,812,451)</i>	
<i>Add: TCA Amortization Expenses</i>	(4)	<i>68,810,629</i>	
<i>Add: Post-employment benefit Expenses</i>	(5)	<i>\$867,500</i>	
Net Operating Expenses			\$348,322,097
Non-Tangible Capital	(6)	\$26,803,300	
Tangible Capital Assets		\$75,360,300	
Total Capital Expenses		\$102,163,600	
<i>Less: Tangible Capital Assets Capitalized</i>		<i>(\$75,360,300)</i>	
Net Capital Expenses - Not Capitalized			\$26,803,300
TOTAL EXPENSES			\$375,125,397
ADJUSTED BUDGET: 2015 FULL ACCRUAL ACCOUNTING BUDGET DEFICIT	(7)		(\$6,805,558)

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 2015 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 2014 and amortization expenses for assets projected to be "in-service" in 2015 using the 1/2 year rule.
- (5) Post-employment Benefit Expenses are 2015 estimates provided by Morneau Shepell.
- (6) Non-Tangible Capital are included in the 2015 capital budget, and they will be restated as operating expenses.
- (7) Projected deficit is based on the restated 2015 budget.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED BY:

30/03/2015

30/03/2015

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner, Corporate Services

ATTACHMENTS:

[Appendix 1 – 2015 Total Corporation Operating Budget \(Including Library, excluding Planning & Design, Engineering, Building Standards and Waterworks\)](#)

[Appendix 2 – 2015 Library Operating Budget](#)

[Appendix 3 – 2015 Capital Budget \(including Pre-Approved Capital Projects\)](#)

[Appendix 4 – 2015 Planning & Design Operating Budget](#)

[Appendix 5 – 2015 Engineering Operating Budget](#)

[Appendix 6 – 2015 Building Standards Operating Budget](#)

[Appendix 7 – 2015 Waterworks Operating Budget](#)

[Appendix 8 – By-law XXXX-XXX A by-law to amend By-law No. 2002-276](#)