



Report to: General Committee

Report Date: February 3, 2014

SUBJECT: 2014 Operating Budget
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) That the report dated February 3, 2014 entitled, “2014 Operating Budget” be received;
- 2) And that Council approve a 2.33% 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;
- 4) And that Council approve the 2014 Operating Budget for City services totalling \$187,466,019 (excluding the 2013 surplus/deficit) which includes a 2.49% tax rate increase over 2013 (\$180,795,409), of which the principal components are detailed in Appendix 1;
- 5) And that the gross operating expenditures of \$187,466,019, (excluding the 2013 surplus/deficit), be funded from the following sources:

	<u>2014 Budget \$</u>
Revenue	
Taxation Levies	130,499,439
Grants-in-lieu of Taxes	1,209,007
Grant & Subsidy Revenues	1,554,994
General Revenues (Investment Income, Fines, Permits, Interest & Penalties)	26,498,941
User Fees & Service Charges (User Fees, Rentals, Sales)	23,158,473
Other Income / Recoveries	4,545,165
Total Revenues	<u>187,466,019</u>

- 6) And that Council approve the 2014 Planning & Design Operating Budget totalling \$7,829,268, (excluding the 2013 surplus/deficit), the principal components of which are detailed in Appendix 2;
- 7) And that Council approve the 2014 Engineering Operating Budget totalling \$6,527,807, (excluding the 2013 surplus/deficit), the principal components of which are detailed in Appendix 3;
- 8) And that Council approve the 2014 Building Standards Operating Budget totalling \$8,386,048, (excluding the 2013 surplus/deficit), the principal components of which are detailed in Appendix 4;
- 9) And that upon finalization of the 2013 audited financial statements, the 2014 Operating, Planning & Design, Engineering and Building Standards Operating Budgets be adjusted to reflect the 2013 operating results;

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- 10) 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;
- 11) And that the "Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09" be received for information purposes;
- 12) 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 2014 Operating Budget which recommends a total 2.49% tax rate increase comprised of a 2.33% 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.

BACKGROUND:

Six Budget Sub-committee meetings were held in October 2013 to discuss and review the 2014 Operating and Capital Budgets. One meeting was held in February 2014 to finalize the 2014 Operating Budget.

All Budget Sub-Committee meetings were open to public, and the meetings were audio-streamed through Markham's webpage. Notices of the Budget Sub-Committee meetings were advertised in the local newspapers, through social media and on Markham's webpage. A public consultation meeting was held on October 24th, 2013 at the Civic Centre, and a Ward 2 budget meeting was held at the Thornhill Community Centre and Library on November 20th, 2013.

This year, the City initiated an additional innovative step to engage Markham residents in the budget process, through the Citizen Budget Tool. This online tool helps residents better understand how tax dollars are used for Markham's programs and services. It also provides residents with an opportunity to express their views on how residential tax dollars should be used.

The following topics were discussed at the Budget Sub-committee meetings:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2014 operating and capital budgets;
- a review of the 2014 new support staffing requests;
- a review of the 2014 Councillor requests;
- the City's asset lifecycle reserve study.

The Development Fee By-law was amended on December 10, 2013 to include a 5% increase in the 2014 Building fees for Building Permit applications and a 10% increase in Planning & Engineering fees. The 2014 operating budgets for the following Development Services departments are: Planning & Design at \$7,829,268 with a budgeted draw from reserve of \$855,026, Engineering at \$6,527,807 with a budgeted draw from reserve of \$1,547,135, and Building Standards at \$8,386,048 with a budgeted draw from reserve of \$1,538,917.

The 2014 Water and Wastewater rate of \$3.0649/m³ effective April 1st, 2014 (an increase of 8.0% over 2013's rate), 2014 Waterworks operating budget of \$96,505,681 and 2014 Capital Budget of \$119,879,300 were approved by Council on December 10, 2013.

In summary, the total 2014 Budget is \$426,594,123 and the breakdown is as follows:

	<u>\$</u>
Operating Budget	187,466,019
Capital Budget	119,879,300
Building Standards	8,386,048
Planning & Design	7,829,268
Engineering	6,527,807
Waterworks	<u>96,505,681</u>
Total 2014 Budget	<u>426,594,123</u>

DISCUSSION:

2014 Operating Budget

The following exhibit reconciles the 2013 approved Operating Budget to the 2014 Operating Budget from \$180,795,409 to \$187,466,019 (figures exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2014 Budget \$</u>
Approved 2013 Budget Revenues	180,795,409
Assessment Growth including Supplemental Taxes (Property taxes from new homes and businesses)	2,951,958
2.33% Operating Tax Increase	2,826,325
0.16% Tax Increase for December 2013 Ice Storm	194,000
CPI and Other Adjustments for User and Program Fees	451,144
Other	247,183
Total 2014 Budget Revenues - excluding 2013 surplus / (deficit)	<u>187,466,019</u>

<u>EXPENDITURES</u>	
Approved 2013 Budget Expenditures	180,795,409
Wages	603,743
Growth (roads, waste, parks, streetlights and winter maintenance)	1,493,127
Municipal Service Contracts	792,000
Support Services for Building, Engineering, Planning & Design, Waterworks/Corporate Items/Other	<u>3,781,740</u>
Total 2014 Budget Expenditures - excluding 2014 surplus / (deficit)	<u>187,466,019</u>

The 2013 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 preliminary year-end operating results to General Committee in March 2014. Upon finalization of the 2013 audited financial statements, the 2014 Operating, Planning & Design, Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the surplus/deficit, if any, in revenues and offsetting expenditures.

The 2014 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 2014 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 minimal tax rate increases 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, Pan Am Facility, City of Markham Sports Park and an Operations Work Yard. 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).

At the October 18th, 2013 Budget Sub-Committee meeting, Staff identified the need for a tax rate increase of 1.9% to support the City's day-to-day operations, as well as an infrastructure surcharge of 0.5% to address future asset replacements and rehabilitation, for a total proposed tax rate increase of 2.4%. On October 29th, 2013, Council approved the framework for the Gas Tax Revenue allocation that mitigated the need for an infrastructure surcharge of 0.5%, lowering the tax rate increase to 1.9%.

Since then, the following items need to be taken into consideration: 2014 assessment growth, winter maintenance and the December 2013 ice storm.

Adjustments to the 2014 Draft Operating Budget

A. 2014 Assessment Growth

Assessment growth represents the year over year increase in new properties (residential homes and businesses) that will be added to the City's tax roll. At the time of developing the 2014 draft Operating Budget, the 2014 assessment growth had not been finalized by the Municipal Property Assessment Corporation (MPAC). The draft budget included the 2014 assessment growth at 2.489%.

In December 2013, MPAC confirmed the City's 2014 assessment growth at 2.090%; below the City's assumption by 0.399% resulting in a shortfall of \$0.48M.

Staff are forecasting the 2014 supplemental taxes to be \$2.79M against a budget of \$2.62M. The additional supplemental taxes of \$0.17M will partially mitigate the shortfall in assessment growth netting the shortfall to \$0.31M.

B. Winter Maintenance

In 2013, there were significant winter storm activities. The chart below outlines the average winter maintenance expenditures over the past 5 years (from 2009 to 2013):

Average	\$ (average)	2014 Budget	2014 Budget Impact Increase/ (Decrease)
3-year average	\$7.07M	\$6.70M	\$0.37M
4-year average	\$6.58M	\$6.70M	\$(0.12)M
5-year average	\$6.57M	\$6.70M	\$(0.13)M

Historical data shows higher winter storm activity in recent years (2011 and 2013) resulting in the 3-year average being higher than the 4-year and 5-year averages. Winter storm activity varies by year; however the 3-year trend indicates a need for additional funds. Staff recommends aligning the winter maintenance budget to the 3-year average, and phase-in the shortfall of \$0.37M over 2 years. Additional funds of \$0.22M (60%) will be included in the 2014 Budget and \$0.15M (40%) will be included in the 2015 Budget.

The above adjustments to the 2014 Operating Budget will increase the net shortfall to \$2.83M, equivalent to a 2.33% tax rate increase to the City's tax levy to maintain and/or enhance service levels.

C. Ice Storm - December 2013

The City of Markham experienced an extreme winter storm from December 21-22, 2013. Freezing rain and ice pellets led to significant ice accumulation of approximately 1 inch, resulting in power outages due to fallen trees and tree limbs onto the overhead power lines. At the peak of the power outage period, as many as 17,200 Markham PowerStream customers were without power. Residents were displaced from their homes, or stayed in their homes in uncomfortable circumstances. Businesses were disrupted, in some cases could not operate at all due to the power outage. It is estimated that approximately 10,000 trees were damaged during the storm.

A comprehensive presentation from City Staff and PowerStream Staff was made to General Committee on January 8th, 2014. The City's presentation outlined the preliminary estimated response and recovery costs ranges from \$9.6M to \$13.2M which has now been updated at an estimated cost of \$17.2M. The Corporate Rate Stabilization Reserve has been identified as the funding source. Further updates regarding the total cost of the ice storm will be presented to General Committee.

After funding the ice storm costs, the Corporate Rate Stabilization Reserve will be reduced to \$7.7M, which leads to a shortfall of \$10.4M to maintain a reserve balance equivalent to 15% of local tax revenues. The 15% level of local tax revenues is a target approved by Council in 2005. It will require a 0.5% tax rate increase per year, starting in 2014, for the next 5 years in order to replenish the reserve.

On January 14, 2014, a special Council meeting was held and a resolution was passed requesting the Minister of Municipal Affairs and Housing (“MMAH”) to declare the City of Markham a "disaster area" for the purposes of the Ontario Disaster Relief Assistance Program (ODRAP).

The GTA Mayors and Chairs met on January 17, 2014 asking for financial assistance in a coordinated approach and passed the resolution that:

“the Provincial and Federal governments share equally in this disaster with municipalities by each funding 1/3 of the full costs of response and ongoing recovery from the ice storm for affected municipalities.”

Notwithstanding whether the City will receive any financial assistance from the Province, Staff recommends a 0.16% tax rate increase or \$0.19M in 2014, representing approximately one-third of the 0.5% tax rate increase requirement, to address a portion of the response and recovery costs associated with the December 2013 ice storm.

Summary

The chart below outlines the changes to the 2014 draft Operating Budget and their impact to the proposed tax rate increase:

	<u>\$ in M</u>	<u>Tax Rate Impact</u>
Status as of on Oct. 29/13	\$2.30	1.90%
A. Net adjustment for assessment growth	\$0.31	0.25%
B. Additional funds for winter maintenance	\$0.22	0.18%
Subtotal	\$2.83	2.33%
C. Ice storm response and recovery impact	\$0.19	0.16%
Revised 2014 Operating Budget shortfall	\$3.02	2.49%

In summary, the 2014 Operating Budget has an increase in expenditures of \$6.67M, offset by an increase in revenues of \$3.65M, resulting in a net shortfall of \$3.02M, equivalent to a total tax rate increase of 2.49%: 2.33% to support day-to-day operations and 0.16% to fund the response and recovery costs associated with the December 2013 ice storm.

Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09

Ontario Regulation 284/09 requires the 2014 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;
2. Post-employment benefits; and
3. Solid waste landfill closure and post closure expenses.

Hence, the 2014 Budget is restated in accordance to Ontario Regulation 284/09 as part of the 2014 Budget approval process.

FINANCIAL CONSIDERATIONS:

The 2014 Budget excludes the following expenses:

1. The budget excludes TCA amortization expenses in the amount of \$66.68M, and includes reserve contributions of \$37.62M to reserves and reserve funds. Therefore, these amounts require restatement of the budget to be compliant 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 2013 Life Cycle reserve study update was presented to the Budget Sub-committee in October 2013. Council adopted the strategy on Gas Tax Revenue Allocation that alleviated the need for a 0.5% infrastructure surcharge. This resulted in the Life Cycle Replacement and Capital reserve having sufficient funds for the major replacement and rehabilitation of existing assets for the next 25 years (2014 to 2038) based on known inflows and work programs.

2. The budget excludes the current year's post employment benefit expenses estimated at \$2.06M. This is consistent with prior year budgeting practice. However, the City will be fully funding the 2014 post employment benefit obligations as part of the year-end accounting adjustments;
3. All expenses related to the former Sabiston landfill site are included in the budget and are therefore not further mentioned in this report.

The restatement of the 2014 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected a surplus of \$10.62M. 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	58.90
Expenses:		
Reversal of transfer to reserve/reserve funds	3	37.62
TCA amortization	4	(66.68)
Post-employment benefits	5	(2.06)
Non-tangible capital assets	6	(17.15)
Adjusted budget - 2014 budgeted surplus	7	<u>10.62</u>

EXHIBIT 1		2014 CONSOLIDATED BUDGET	
- Re-stated in Accordance with the Full Accrual Method of Accounting -			
- In Compliance with Ontario Regulation 284/09 -			
REVENUES			
- City (excl. Planning & Design, Engineering, Building Standards and Waterworks)		\$187,466,019	
- Planning & Design		\$6,974,242	
- Engineering		\$4,980,672	
- Building Standards		\$6,847,131	
- Waterworks (Approved by Council in December 2013)		\$96,505,681	
Total Revenues from Operations			\$302,773,745
Non-Tangible Capital		\$17,151,500	
Tangible Capital Assets		\$102,727,800	
Total Capital - Tangible & Non-Tangible		\$119,879,300	
<i>Less: Transfer from Reserve / Reserve Funds</i>	(1)	<i>(\$60,983,980)</i>	
Net (new) Revenues to fund Capital			(2) \$58,895,320
TOTAL REVENUES			\$361,669,065
EXPENSES			
- City (excl. Planning & Design, Engineering, Building Standards and Waterworks)		\$187,466,019	
- Planning & Design		\$6,974,242	
- Engineering		\$4,980,672	
- Building Standards		\$6,847,131	
- Waterworks (Approved by Council in December 2013)		\$96,505,681	
Total Operating Expenses		\$302,773,745	
<i>Less: Transfer to Reserve / Reserve Funds</i>	(3)	<i>(\$37,619,315)</i>	
<i>Add: TCA Amortization Expenses</i>	(4)	<i>66,675,275</i>	
<i>Add: Post-employment benefit Expenses</i>	(5)	<i>\$2,064,100</i>	
Net Operating Expenses			\$333,893,805
Non-Tangible Capital	(6)	\$17,151,500	
Tangible Capital Assets		\$102,727,800	
Total Capital Expenses		\$119,879,300	
<i>Less: Tangible Capital Assets Capitalized</i>		<i>(\$102,727,800)</i>	
Net Capital Expenses - Not Capitalized			\$17,151,500
TOTAL EXPENSES			\$351,045,305
ADJUSTED BUDGET: 2014 FULL ACCRUAL ACCOUNTING BUDGET SURPLUS / (DEFICIT)			(7) \$10,623,760

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 2014 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 2013 and amortization expenses for assets projected to be "in-service" in 2014 using the 1/2 year rule.
- (5) Post-employment Benefit Expenses are 2014 estimates provided by Morneau Shepell.
- (6) Non-Tangible Capital are included in the 2014 capital budget, and they will be restated as operating expenses.
- (7) Projected Surplus is based on the restated 2014 budget.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

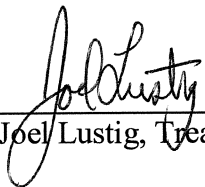
ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED

BY: 

Joel Lustig, Treasurer



Trinela Cane, Commissioner,
Corporate Services

ATTACHMENTS:

- Appendix 1 – 2014 Total Corporation Operating Budget (Excluding Planning & Design, Engineering, Building Standards and Waterworks)
- Appendix 2 – 2014 Planning & Design Operating Budget
- Appendix 3 – 2014 Engineering Operating Budget
- Appendix 4 – 2014 Building Standards Operating Budget