



Report to: General Committee

Report Date: February 6, 2012

SUBJECT: 2012 Operating Budget
PREPARED BY: Andrea Tang, Manager of Financial Planning

RECOMMENDATION:

- 1) That the report dated February 6, 2012 entitled, "2012 Operating Budget" be received;
- 2) And that Council approve the 2012 Operating Budget for Town services totalling \$171,652,698 (excluding the 2011 surplus) which represents a 1.58% tax rate increase over 2011(\$164,637,871) the principle components of which are detailed in Appendix 1;
- 3) And that the gross operating expenditures of \$171,652,698, (excluding the 2011 surplus) be funded from the following sources:

	<u>2012 Budget \$</u>
<u>Revenue</u>	
Taxation Levies	119,967,329
Grants-in-lieu of Taxes	1,209,007
Grant & Subsidy Revenues	1,529,273
General Revenues (Investment Income, Fines, Permits, Interest & Penalties)	25,310,189
User Fees & Service Charges (User Fees, Rentals, Sales)	19,929,716
Other Income / Recoveries	3,707,184
Total Revenues	<u>171,652,698</u>

- 4) And that Council approve the 2012 Planning & Design Budget that totals \$6,686,379, (excluding the 2011 deficit) the principle components of which are detailed on Appendix 2;
- 5) And that Council approve the 2012 Engineering Budget that totals \$6,319,540, (excluding the 2011 surplus) the principle components of which are detailed on Appendix 3;
- 6) And that Council approve the 2012 Building Standards Budget that totals \$7,972,783, (excluding the 2011 surplus) the principle components of which are detailed on Appendix 5;
- 7) And that Council approve the 2012 Waterworks Budget that totals \$81,642,620, (excluding the 2011 surplus) the principle components of which are detailed on Appendix 7;
- 8) And that upon finalization of the 2011 audited financial statements, the 2012 Operating, Planning & Design, Engineering, Building Standards and Waterworks budgets be adjusted to reflect the 2011 operating results;

- 9) And that a copy of the budgets be made available to the public through the Clerk's Department, Town's website and each of the Markham Public Libraries;
- 10) And that the "Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09" be received for information purposes;
- 11) 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 Town of Markham's 2012 Operating Budget which recommends a 1.58% tax rate increase (2011 budget at \$164,637,871 and 2012 budget at \$171,652,698).

BACKGROUND:

A total of six Budget Sub-Committee meetings were held in the period from October 2011 to January 2012 to discuss, review and finalize the 2012 Operating, Capital, Planning & Design, Engineering, Building Standards and Waterworks budgets. As well, four public consultation meetings (Thornhill, Unionville, Milliken Mills & Markham) were held in October where residents provided their input to the 2012 budget process.

The Development Fee By-law was amended on December 13, 2011 to include a 4.54% increase in the 2012 Building fees for Building Permit applications and a 3.3% increase in Planning & Engineering fees. The 2012 operating budgets for the following Development Services departments are: Planning & Design at \$6,686,379 with a budgeted draw from reserve of \$516,589, Engineering at \$6,319,540 with a budgeted draw from reserve of \$873,503, and Building Standards at \$7,972,783 with a budgeted contribution to reserve of \$468,596.

Based on the preliminary 2011 year end results and the 2012 operating budgets, the Planning & Engineering reserve is projected to be in a deficit position of \$4,213,000 (Appendix 4) and the Building reserve will have a positive balance of \$7,076,000 (Appendix 6).

The 2012 Water and Wastewater rate was approved at the October 25, 2011 Council meeting with an increase of 8.2%. The 2012 Waterworks operating budget is \$81,642,620 with a budgeted contribution to reserve of \$12,086,292, bringing the projected 2012 Waterworks reserve balance to \$14,201,000 (Appendix 8).

The Capital Budget also was approved at the December 13, 2011 Council meeting. Subsequently, the Capital Budget was amended from \$107,257,600 to \$106,839,100.

All budget sub-committee meetings were open to the general public, and the following topics were discussed:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2012 operating and capital budgets;

- a review of the 2012 new support staffing requests;
- a review of the 2012 Councillor requests
- the Town's asset lifecycle and water & wastewater reserve studies;
- 2013 and 2014 operating budget projections.

DISCUSSION:**Operating**

The following exhibit reconciles the 2011 approved operating budget to the 2012 operating budget from \$164,637,871 to \$171,652,698 (figures exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2012 Budget \$</u>
Approved 2011 Budget Revenues	164,637,871
2012 Assessment Growth - Tax Revenue (2.75%)	3,384,336
Proposed 1.58 % Tax Increase	1,770,000
East Markham Community Centre User and Program Fees	540,000
8100 Warden Lease	410,000
CPI Adjustment for User and Program Fees	260,000
2012 Increase in Investment Income	200,000
Additional Parks Maintenance Recovery from the Region	110,000
Increase in Revenues (New Tax Account Set-up Fees, Tax Ownership Changes, Tax Certificates)	100,000
2012 Adjustment in Other Revenues	240,491
Total 2012 Budget Revenues (excluding the 2011 surplus)	<u>171,652,698</u>
<u>EXPENDITURES</u>	
Approved 2011 Budget Expenditures	164,637,871
2012 Adjustment in Wage Settlements	5,260,000
2012 Additional Transfer to the Capital Program	500,000
Future Staff Ramp-up Related to New Facilities	420,000
Growth (Roads, Waste, Parks, Streetlights Maintenance & Streetlight Hydro)	400,000
Winter Maintenance Requirement and Phase-in	260,000
Future Support Staff Ramp-up	200,000
2012 Adjustment in Other Expenditures	(25,173)
Total 2012 Budget Expenditures (excluding the 2011 surplus)	<u>171,652,698</u>

The 2011 Operating results are excluded from the above figures until the Town's audited financial statements are finalized and approved by Council. Staff will present the preliminary year-end operating results to General Committee in March. Upon finalization of the 2011 audited financial statements, the 2012 Operating, Planning & Design, Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the surplus/deficit, if any, in revenues and offsetting expenditures.

Markham faces inflationary pressures in many aspects of its operations. General inflation, contract renewals such as the winter maintenance contract, utility costs and wage settlements have resulted in increased operating expenditures.

Markham is a growing municipality and it continues to add to its inventory of parks, streetlights, and roads each year, thereby requiring additional resources for the maintenance and replacement of these assets.

Further, Markham continues the practice of phasing-in future personnel costs related to facility openings and funds have been allocated towards the South East Community Centre, Pan Am Facility, Regional Sports Park and Operations Work Yard. As well, the first \$0.5M from assessment growth revenues are committed to support the capital program.

In summary, the 2012 operating budget has an increase in expenditures of \$7.02M offset by an increase in revenues of \$5.26M resulting in a net shortfall of \$1.76M, equivalent to a tax rate increase of 1.58%. The 2012 operating budget achieves fiscal sustainability by not using one-time funding to balance the budget.

Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09

Ontario Regulation 284/09 requires the 2012 budget be provided in accordance to the Public Sector Accounting Board 3150 format prior to budget approval. The Town'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 budget, 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 2012 budget is restated in accordance to Ontario Regulation 284/09 as part of the 2012 budget approval process.

The Regulation requires that the report contain the following information:

1. An estimate of the change in the accumulated surplus of the Town to the end of the year resulting from the exclusion of any expenses, and
2. An analysis of the estimated impact of the exclusion of any expenses, on the future TCA funding requirements of the Town.

DISCUSSION:

The 2012 budget excludes the following expenses:

1. The budget does not include an expense for the amortization of its tangible capital assets in the sum of \$57.0M; however, the budget did include reserve contributions of \$36.1M to the Life Cycle Replacement & Capital and Waterworks reserve funds.

The Life Cycle Replacement Reserve and the Waterworks Reserve were established in 2005 & 2007 to address the funding requirements for on-going capital replacements and preventative maintenance of the Town's capital assets

over its useful life. The Town does annual reserve studies to ensure there is adequate funding in these reserve funds for the next 25 years. The last update was presented at the October 25th, 2012 Council meeting, which concluded that based on the 2011 updated reserve study, there is sufficient funds for the major replacement and rehabilitation of existing assets with known work programs for the next 25 years (2012 to 2036) with the exception for items not yet included that relate to flood control allowances, town-wide watercourse erosion control and watercourse management. These excluded programs are currently being reviewed as part of a stormwater rate study. The 2012 update will be completed and presented to Council in June 2012.

2. The budget does not contain the current year's post employment benefit expenses totaling \$0.7M for employees. This is consistent with prior year budgeting practice. However, the Town will be fully funding the 2011 post employment benefit obligations in 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 2012 budget, restated in accordance with the full accrual method of accounting and Ontario Regulation 284/09, is detailed in Exhibit 1.

Restating the budget in PSAB & Ontario Regulation 284/09 format, nets an additional budgeted surplus for 2012 in the amount of \$28.7 M.

According to the full accrual method of accounting, the \$57.0M TCA amortization (item A) and \$0.7M Post employment Benefits (item B) would be budgeted as expenses and would decrease the projected year end surplus. Also, an estimated \$17.3M for expenditures, included in the Capital budget, that are not considered Tangible Capital Assets (item C), would be added to the operating expenses, further decreasing the annual surplus. The budget would, at this point, show a deficit projection of \$75.0M (\$57.0M + \$0.7M + \$17.3M).

The impact would be mitigated by changes to how reserve and reserve fund transfers are accounted for under the full accrual method of accounting. Operating budget transfers to reserve funds and transfers from obligatory reserve funds (such as Development Charges Reserve Funds) to fund capital, are now reflected in the statement of operations as revenues only. This change made to the 2012 budget would add estimated net revenues of \$103.7M to the projected year end surplus (\$67.6M additional revenue (item D) plus \$36.1M reduction to expenses (item E)).

The final restated budget for 2012 projects a surplus of \$28.7M (item F).

EXHIBIT 1 2012 CONSOLIDATED BUDGET

- Re-stated in Accordance with the Full Accrual Method of Accounting -
 - In Compliance with Ontario Regulation 284/09 -

REVENUES

- Town (excl. Waterworks, Building Standards, Planning and Engineering)	\$171,652,698	
- Waterworks	\$81,642,620	
- Building standards	\$7,972,783	
- Planning & Design	\$6,686,379	
- Engineering	\$6,319,540	
Total Revenues from Operations		\$274,274,020
Non-Tangible Capital	\$17,357,100	
Tangible Capital Assets	\$89,482,000	
Total Capital - Tangible & Non-Tangible	\$106,839,100	
Less: Transfer from Reserve / Reserve Funds (1)	(\$39,270,844)	
Net (new) Revenues to fund Capital		\$67,568,256 D

TOTAL REVENUES	\$341,842,276
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EXPENSES

- Town (excl. Waterworks, Building Standards, Planning and Engineering)	\$171,652,698	
- Waterworks	\$81,642,620	
- Building standards	\$7,972,783	
- Planning & Design	\$6,686,379	
- Engineering	\$6,319,540	
Total Operating Expenses	\$274,274,020	
Less: Transfer to Reserve / Reserve Funds (2)	(\$36,144,065)	E
Add: TCA Amortization Expenses (3)	56,976,828	A
Add: Post-employment benefit Expenses (4)	\$719,100	B
Net Operating Expenses		\$295,825,883
Non-Tangible Capital	\$17,357,100	
Tangible Capital Assets	\$89,482,000	
Total Capital Expenses	\$106,839,100	
Less: Tangible Capital Assets Capitalized	(\$89,482,000)	
Net Capital Expenses - Not Capitalized		\$17,357,100 C

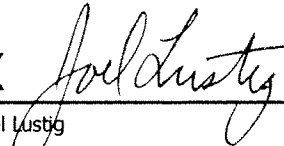
TOTAL EXPENSES	\$313,182,983
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ADJUSTED BUDGET: 2012 FULL ACCRUAL ACCOUNTING BUDGET SURPLUS / (DEFICIT	\$28,659,293 F
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NOTES:

- (1) Transfer from Reserve / Reserve Funds represents transfers from reserves and/or reserve funds to fund expenditures. These are not considered revenues under the full accrual method of accounting.
- (2) Transfer to Reserve / Reserve Funds 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).
- (3) *TCA Amortization Expenses* is a calculated figure. It is arrived at by adding the actual amortization expense from "in-service" assets in 2011, to the 1/2 year rule amortization expense for assets projected to be "put-into-service" in 2012.
- (4) *Post-employment benefit Expenses* is the estimated, incremental figure for 2011, provided by Morneau Sobeco in the Actuarial Valuation prepared December, 2010. Estimate for 2012 is not available at time of statement preparation.

RECOMMENDED BY:

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Joel Lustig
Treasurer

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Nasir Kenea
Acting Corporate Services Commissioner

ATTACHMENTS:

Appendix 1 – 2012 Operating Budget

Appendix 2 – 2012 Planning & Design Operating Budget

Appendix 3 – 2012 Engineering Operating Budget

Appendix 4 – Projected 2012 Planning & Engineering Reserve Balance

Appendix 5 – 2012 Building Standards Operating Budget

Appendix 6 – Projected 2012 Building Standards Reserve Balance

Appendix 7 – 2012 Waterworks Operating Budget

Appendix 8 – Projected 2012 Waterworks Reserve Balance

