



A G E N D A
BUDGET COMMITTEE
May 9, 2017
5:00 p.m.
Council Chamber
MEETING NO. 1

Chair:	Councillor Logan Kanapathi
Vice-Chair:	Councillor Amanda Collucci
Members:	Regional Councillor Nirmala Armstrong
	Regional Councillor Jim Jones
	Councillor Don Hamilton
	Councillor Karen Rea
	Councillor Alex Chiu
	Mayor Frank Scarpitti (ex-officio)
	Deputy Mayor Heath (ex-officio)

- | | |
|---|-----------------|
| • 2017 BUDGET PRESENTATION | Slide 1 |
| 1. Proposed 2018 Budget Schedule | Slide 3 |
| 2. All Members of Council Budget Requests | Slide 4 |
| 3. Lifecycle Reserve Study | Slide 7 |
| A. Overview | Slide 7 |
| B. Lifecycle Reserve Funding Methodology | Slide 11 |
| C. Funding Challenges | Slide 17 |
| D. Summary of 25-Year Projected Lifecycle Expenditures (2017 vs. 2016) | Slide 22 |
| E. 2018 Infrastructure Investment Update | Slide 23 |
| 4. 2018 Operating Budget Status Update | Slide 24 |
| 5. Recommendation | Slide 25 |
| 6. Next Steps | Slide 26 |

2018 Budget

Budget Committee Meeting #1
May 9, 2017

Agenda

1. Proposed 2018 Budget Schedule
2. All Members of Council Budget Requests
3. Lifecycle Reserve Study
 - A. Overview
 - B. Lifecycle Reserve Funding Methodology
 - C. Funding Challenges
 - D. Summary of 25-Year Projected Lifecycle Expenditures (2017 vs. 2016)
 - E. 2018 Infrastructure Investment Update
4. 2018 Operating Budget Status Update
5. Recommendation
6. Next Steps

1. Proposed 2018 Budget Schedule

Propose to hold six Budget Committee meetings and a Public Consultation meeting.

Meeting #1	Tuesday, October 10 th	Economic scan, proposed tax rate increase including infrastructure investment and status on capital budget
Meetings #2, 3, 4	Friday October 13 th , Thursday October 19 th Friday October 27 th	Capital Budget
Meeting #5	Tuesday, October 31 st	Operating Budget
General Committee	Monday, November 6 th	Approval of proposed presentation for the public meeting
Public Meeting	Thursday, November 16 th	Public Budget Consultation meeting
Meeting #6	Friday, November 24 th	Feedback from the Public Budget Consultation meeting, Operating Budget, Planning & Design, Engineering, Building and Waterworks Operating Budgets
General Committee	Monday, December 4 th	General Committee Decision
Council	Tuesday, December 12 th	Council Decision
Press Conference	Wednesday, December 13 th	Press Conference

2. All Members of Council Budget Requests

Approach in Prior Years

- Each Councillor request was summarized and distributed to the respective department for analysis and discussion at Budget Committee meetings
- A placeholder of \$100k to \$150k per year was set aside for many years
- Total of 167 requests were received in the past 3 years:
 - 2015 - 58
 - 2016 - 50
 - 2017 - 59

2. All Members of Council Budget Requests

2015 – 1 approved out of 58 submissions

	\$
1. Waste receptacles to replace the Big Bellies at Main Street Unionville	24,000

2016 – 4 approved out of 50 submissions

	\$
1. Feasibility study for Main Street Unionville washrooms	35,000
2. Equipment for 2 additional contract By-law Officers	6,000
3. Storage shed at Main Street Unionville	5,000
4. Two benches at Markham Veterans Hall	1,000
Total	47,000

2017 – 4 approved out of 59 submissions

	\$
1. Speed display boards	41,000
2. Regional Councillor and Mayor newsletters	30,000
3. Basketball net	5,000
4. Fireside Lounge - fireplace	4,000
Total	80,000

Only 9 out of the 167 requests (5%) were approved over the past 3 years

2. All Members of Council Budget Requests

Staff recommends the elimination of All Members of Council Budget requests for the following reasons:

- There is considerable Staff time taken to analyze, validate and assess the financial impact of each request
- Only 9 of the 167 submissions (5%) were approved over the past 3 years, with total budget of \$151k
- E3 opportunity - 9 Budget Committee meetings, totalling over 25 hours, were held over the past 3 years to discuss, review and deliberate on each request
- Low dollar or nominal value requests by Council members can be made to the respective departments throughout the year. Other funding requests should be addressed through Standing Committees

Recommendation: Eliminate All Members of Council budget requests

3A. Lifecycle Reserve Overview

- In 1998, Council recognized the need to set aside funds for the rehabilitation and eventual replacement of aging assets, and approved an 8% property tax increase for this purpose
- Markham formally established the Lifecycle Replacement and Capital Reserve in 2004 to address the on-going capital replacements and preventative maintenance of capital assets
- The adequacy of the Lifecycle Reserve is reviewed annually using a 25-year rolling planning horizon

From 2005 to 2016, the City was able to ensure there were sufficient funds in the reserve for the rehabilitation and replacement of infrastructure for the next 25 years based on known inflows and outflows at the time

3A. Lifecycle Reserve Overview

1. There were shortfalls when updating the reserve forecast each year to maintain sufficient funding for 25 years.

2013 – (\$21.0M)	2014 – (\$33.9M)
2015 – (\$40.5M)	2016 – (\$68.0M) with mitigating strategies (\$23.0M)
2. In the past, the impacts of these pressures were mitigated through:
 - Increase in projected Alectra (PowerStream) and MDEI dividends
 - Allocation of \$3.0M of Federal Gas Tax funding towards incremental lifecycle expenditures
 - Lifecycle E3 opportunities

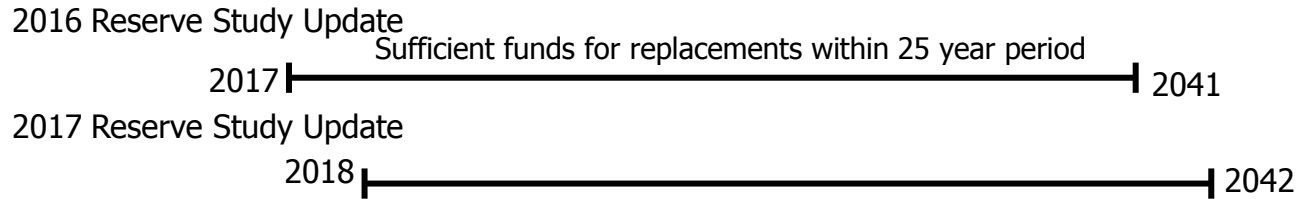
As part of the of 2017 Budget, an infrastructure investment of 0.5% was approved to ensure there are sufficient funds in the lifecycle reserve for 25 years based on known inflows and outflows

3A. Lifecycle Reserve Overview

- Staff forecast the incremental increase in 2018 and beyond will need to be at least 0.5% due to inflation, past growth and new assets.
- In conjunction with this annual incremental increase of 0.5%, Staff will continue to investigate other potential funding/cost reduction options to optimize lifecycle reserve funding through the following:
 - Additional revenue tools through the Province (e.g. Land Transfer Tax, Vacant Home Tax, Hotel Tax)
 - Additional Gas Tax revenues from the Federal Government
 - New technology resulting in lower cost/longer lifecycle
 - Service level adjustments
 - Sale of assets (e.g. Alectra, MDEI, etc.)

3A. Lifecycle Reserve Overview

- The Lifecycle Reserve forecast is updated each year and the current year is dropped from the forecast and a new 25th year is added to the forecast.



- Every year the Lifecycle study is updated, there is a funding shortfall due to:
 - i. Inflation
 - ii. Past Growth
 - iii. New Assets

3B. Lifecycle Reserve Funding Methodologies

Options:

1. Pay as you go
2. Fully funding amortization
3. 25-year approach (status-quo)

Example:

Assuming a Town was newly established with 5 houses and 1 fire station. The fire station cost \$1,000 and has a life cycle of 50 years (assuming no inflation). It is assumed each of the households paid \$200 towards the building of the new fire station through payment of Development Charges when they first bought the home.

3B. Lifecycle Reserve Funding Methodologies

Assumptions:

- Town has 5 houses and 1 fire station
- Fire station costs \$1,000 and a life cycle of 50 years (assuming no inflation)

1. Pay as you go

Year 1 to Year 49: No financial outlay for future replacement of the fire station



Year 50: Each household pays \$200 ($\$200 \times 5 \text{ houses} = \$1,000$) or the City borrows \$1,000 for the fire station replacement



3B. Lifecycle Reserve Funding Methodologies

Assumptions:

- Town has 5 houses and 1 fire station
- Fire station costs \$1,000 and a life cycle of 50 years (assuming no inflation)

2. Fully funding amortization

Year 1 to Year 49: \$4 contribution per household per year
 (\$4 x 5 houses = \$20 per year x 49 years = \$980)



Year 50: Fund replacement from accumulated reserve of \$1,000



3B. Lifecycle Reserve Funding Methodologies

Assumptions:

- Town has 5 houses and 1 fire station
- Fire station costs \$1,000 and a life cycle of 50 years (assuming no inflation)

3. 25-year approach

Year 1 to 25: No contribution will occur as replacement is outside the 25 year window



Year 26 to 49: \$8 contribution per household per year
(\$8 x 5 houses = \$40 per year x 24 years = \$960)



Year 50: Fund replacement from accumulated reserve of \$1,000





3B. Lifecycle Reserve Funding Methodologies

Pay As You Go

- Yr 1 to 49: \$0/house
- Yr 50: \$200/house
- Reactive
- Potential fluctuations year-over-year
- Burden on future tax payers
- Borrowing may be required

Fully Funding Amortization

- Yr 1 to 50: \$4/house/yr
- Proactive
- Higher burden on current tax payers
- Large reserve balance (require \$582M now vs. current balance of \$78M)

25-Year (Current methodology)

- Yr 1 – 25: \$0/house
- Yr 26 – 50: \$8/house/yr
- Proactive
- Smooths out year-over-year fluctuations
- Hybrid approach with partial burden on both existing and future tax payers

Staff recommend continuing with the 25-year method to fund the reserve

3B. Lifecycle Reserve Funding Methodologies

Why 25 years?

As a comparison, the minimum requirement for the Asset Management Plan is 10 years while the Condominium Act, 1998 requires condominium corporations to plan and fund for all major repairs and replacements for the next 30 years.

25 years was selected due to the following:

1. City's average infrastructure life cycle is greater than 30 years
2. Many of the City's investments funded through the life cycle have longer investment horizons

3C. Funding Challenges

ii) Past Growth

Past Growth

As an example, if the average useful life of an asset is 30 years:

- The 2017 outflow that gets dropped from the forecast is for replacement of assets that were built in 1987 and prior
- The 2042 outflow that gets added is for assets built in 2012 and prior
- Markham has more than doubled in size over that period therefore more funding is required every year the Lifecycle is updated



3C. Funding Challenges

ii) Past Growth

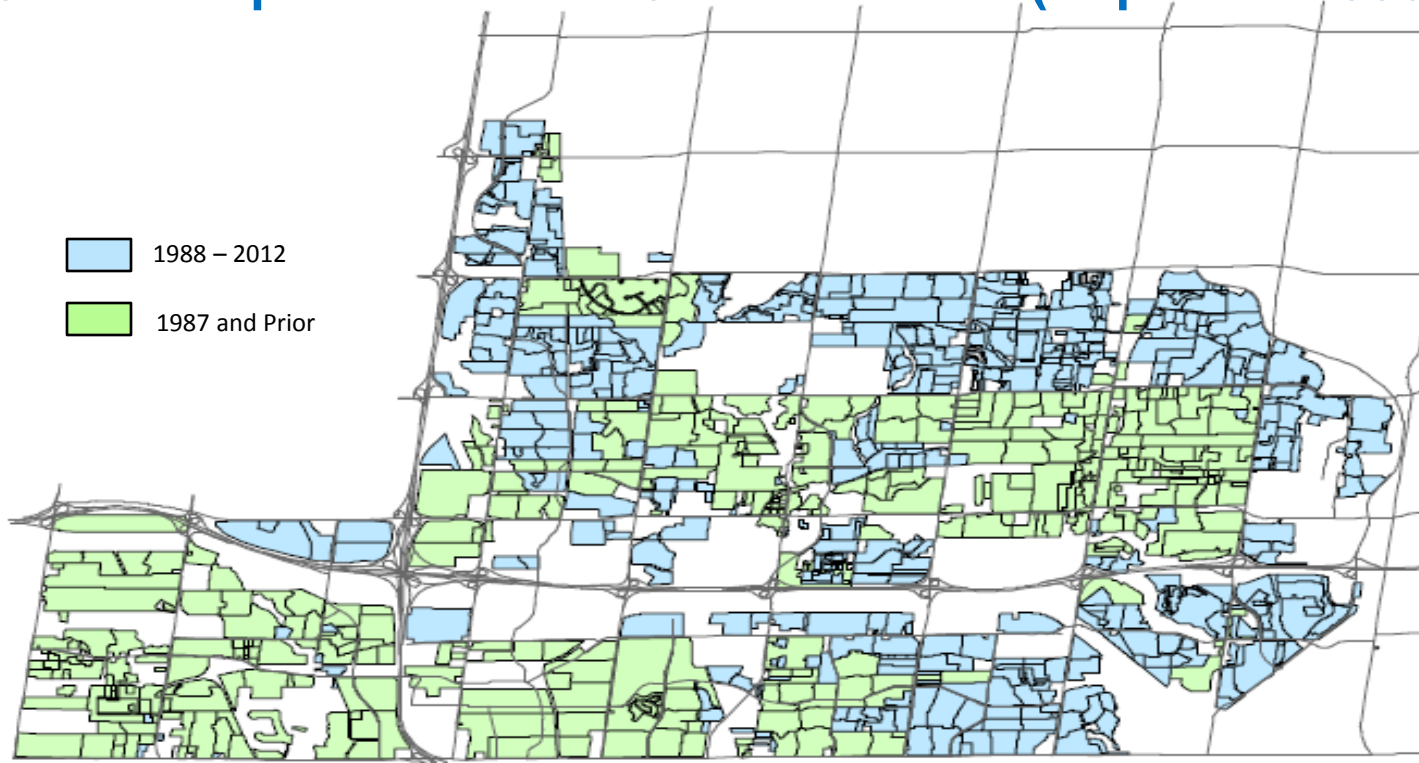
2017 work: performed on 1987 asset base (Population 117,000)



3C. Funding Challenges

ii) Past Growth

2042 work: performed on 2012 asset base (Population 306,000)

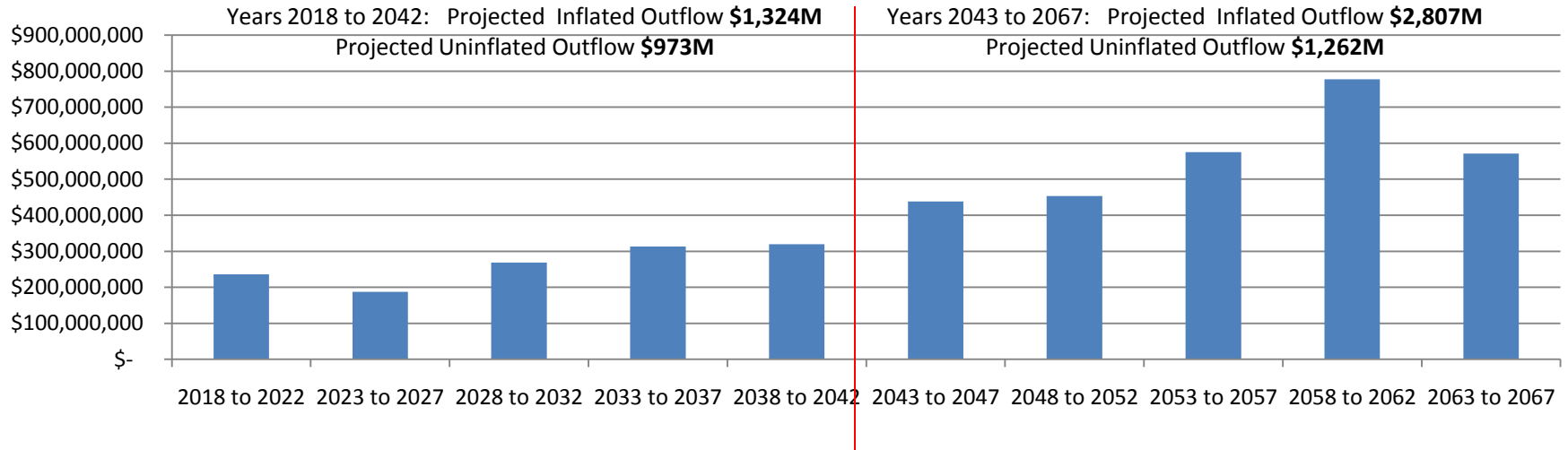




3C. Funding Challenges

i + ii) Inflation & Past Growth

Inflated Outflows



As a result of inflation and past growth, it is anticipated the infrastructure replacement and rehabilitation needs will be more than double in years 26 to 50 compared to the next 25 years.

3C. Funding Challenges

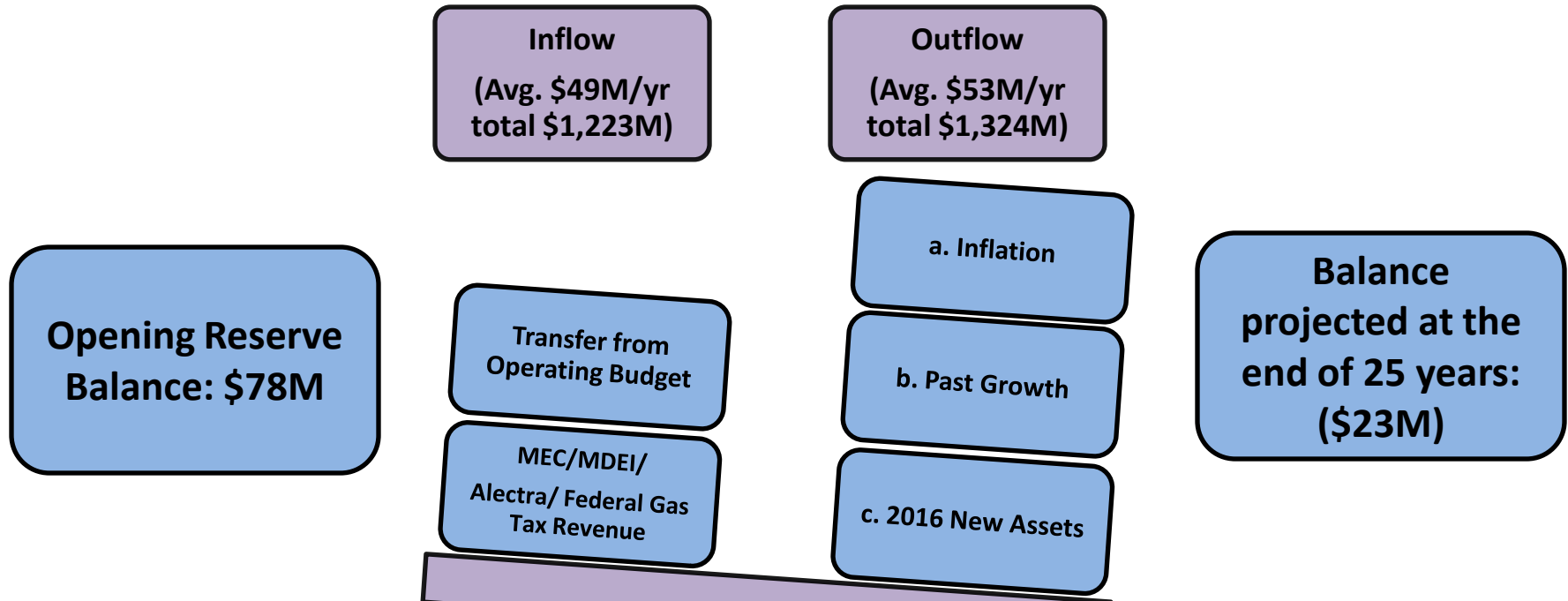
iii) New Assets

- Markham is a growing City and builds/assumes approximately \$80M of new assets per year
- This translates into approximately \$30M to \$35M of repair/rehabilitation/replacement work needing to be performed over the next 25 years

3D. Summary of 25-Year Projected Lifecycle Expenditures (2017 vs. 2016)

in \$ millions	2017 versus 2016			
	2017 (2018 to 2042)	2016 (2017 to 2041)	Variance	% Change
Parks	\$ 93.6	\$ 68.3	\$ 25.3	37.0%
Facilities	369.7	347.0	22.7	6.5%
Roads	286.2	279.1	7.2	2.6%
Vehicles & Operations Equipment	104.0	97.8	6.2	6.3%
Structures (Bridges & Culverts)	107.5	102.6	4.9	4.8%
Streetlights	86.2	81.4	4.7	5.8%
ITS Infrastructure	58.5	54.1	4.4	8.1%
SWM, Storm Sewers, Erosion, Watercourse, Landfill	98.4	95.8	2.6	2.7%
Library Collections	89.8	87.9	1.9	2.1%
Fire Fighter Equipment	16.8	15.1	1.7	11.5%
Traffic Signals	13.0	12.1	0.9	7.3%
Total	\$ 1,323.8	\$ 1,241.3	\$ 82.5	6.6%

3E. 2018 Infrastructure Investment Update



The City requires a 2018 infrastructure investment of 0.5% to ensure there is sufficient funds in the lifecycle reserve for 25 years based on known inflows and outflows



4. 2018 Operating Budget Status Update

	Incremental Increase (\$ in Millions)	Tax Rate Increase %
Revenues (A)		
- Assessment growth		
- CPI increase on user and program fees	(1.71)	-1.16%
Expenditures (B)	6.57	4.48%
Personnel		
- existing staff and benefits		
Growth		
- Future staff and non-personnel ramp-ups related to new facilities		
- New roads and parks (including new part-time staff), waste, streetlights and winter maintenance		
- Transfer to capital program		
Municipal Service Contracts		
- Utilities		
- Contract escalations		
Infrastructure investment (0.5%) (C)	0.73	0.50%
Net shortfall (D = A + B + C)	5.59	3.82%

5. Recommendation

- That the staff presentation be received
- And That the proposed 2018 Budget schedule be approved
- And That the elimination of All Members of Council Budget Requests be approved
- And That a status update on the 2017 Lifecycle Replacement and Capital Reserve Study and 2018 Operating Budget be tabled at the 2nd Budget Committee meeting on October 10th

6. Next Steps

- General Committee – Tuesday, June 6th
 - 2018 Budget Committee Schedule
 - Elimination of All Members of Council Budget Requests
 - 2017 Lifecycle Replacement and Capital Reserve Fund Update
 - 2018 Operating Budget Status Update
- Budget Committee #2 – Tuesday, October 10th