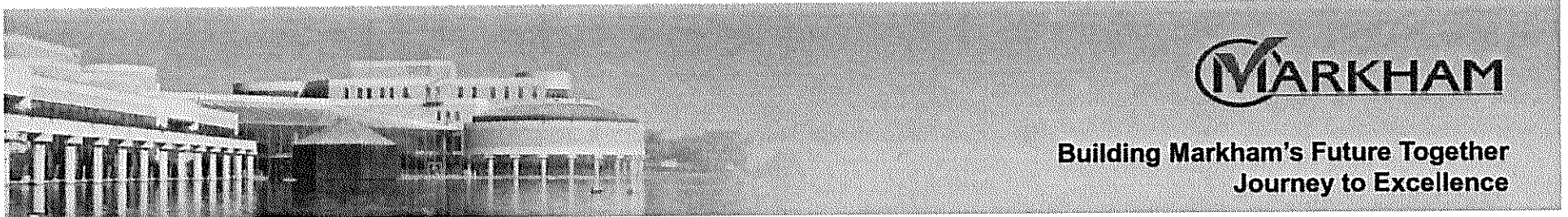


Allocation of Gas Tax Revenue

General Committee
October 28th, 2013



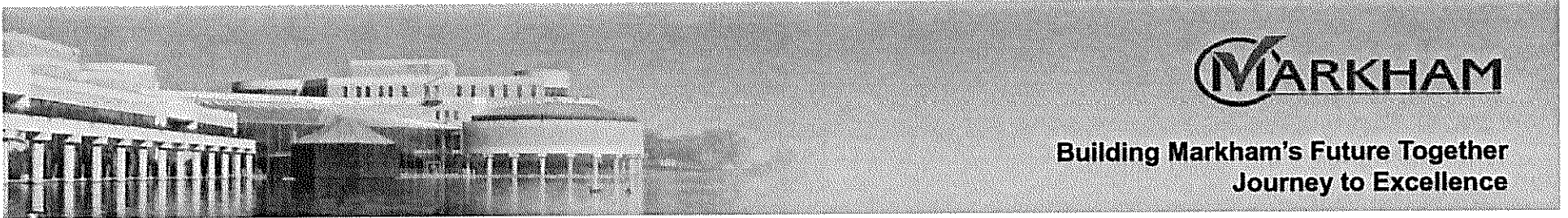
Agenda

- A. Purpose
- B. Federal Gas Tax Program
- C. Proposed Framework for Prioritizing Use of Gas Tax
 - 1. Lifecycle Investment
 - 2. Strategic Investments
 - 3. Committed Funding Approved by Council
 - i. Non-DC Growth
 - ii. Stormwater Management
 - 4. Other Unfunded Proposed Initiatives
- D. Recommendations



A. Purpose

To approve the framework for the allocation of Federal Gas Tax revenue for the period 2014 to 2018



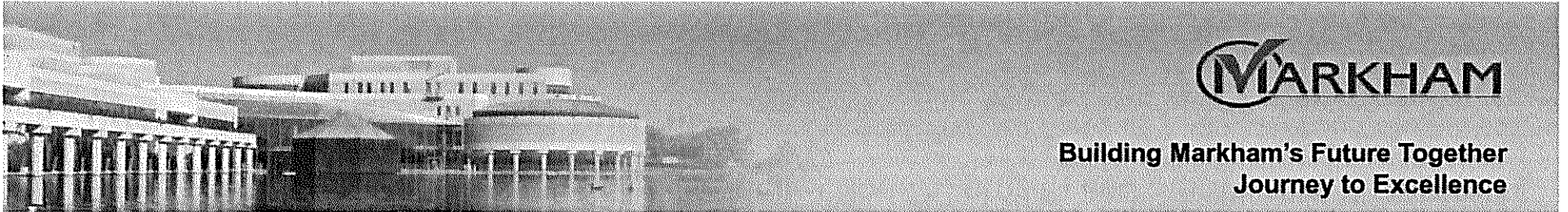
B. Federal Gas Tax Program - Background

Canada's Gas Tax Funding of \$13 billion investment supports the development of:

Current program (2005 – 2013)

- public transit systems
- water and wastewater systems
- solid waste management
- community energy systems, community capacity building
- rehabilitation of municipal roads and bridges

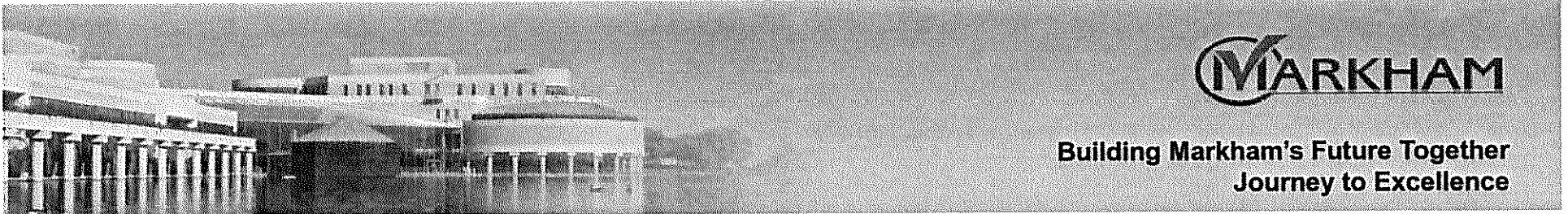
Markham has received \$49.04M (2005-2013) with an annual contribution of \$8.02M



B. Federal Gas Tax Program - Background

Proposed additional eligible categories (2014 onwards)

- Culture, tourism, sport, and recreation facilities
- Highways, local and regional airports, short-line rail, short-sea shipping, disaster mitigation, broadband and connectivity, brownfield redevelopment

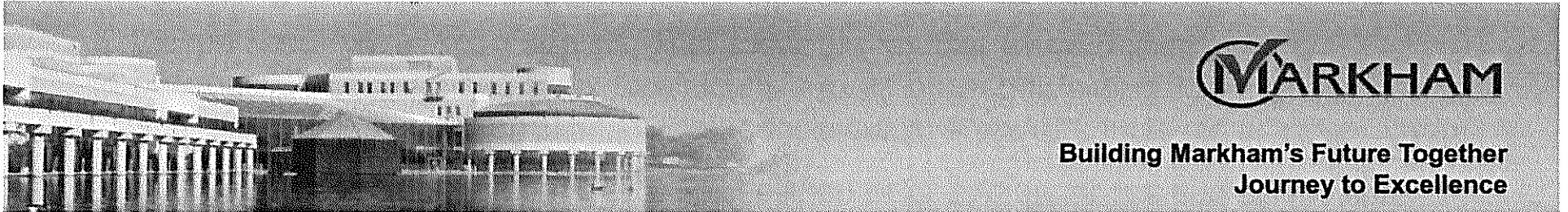


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C. Proposed Framework for Prioritizing Use of Gas Tax (\$8M to \$9M annually)

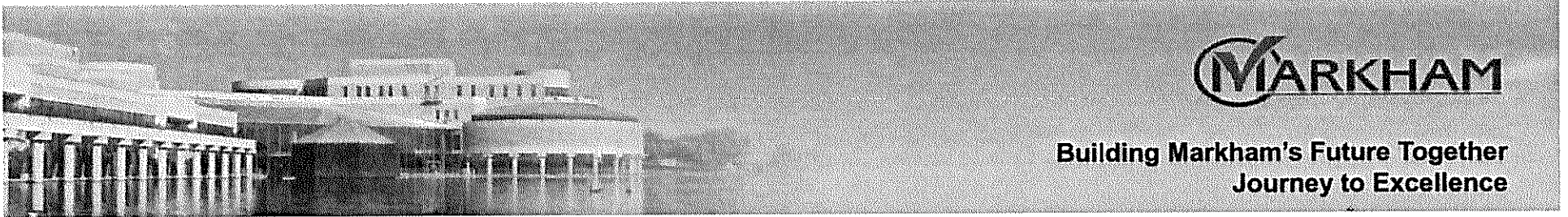
Investments/initiatives that support environmentally, socially and economically sustainability

- 1. Lifecycle Investment** – Funding of the Lifecycle Reserve ensures economic vitality and quality of life. Investment in the replacement and rehabilitation of a growing and expanding asset base in order to ensure a sufficient reserve balance to meet the most current 25 year period and new assets that will be coming on stream within the 25 year period
- 2. Strategic Investments** that have a positive financial return on investments
- 3. Committed Funding Approved by Council** – Non-DC growth and Stormwater Management
- 4. Other Unfunded/ Proposed Initiatives**



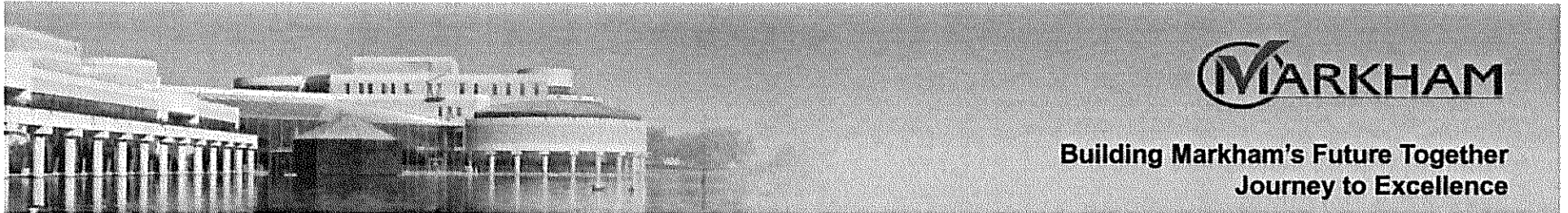
C1. Lifecycle Investment

- Council endorsed the practice of maintaining a 25 year Lifecycle Reserve
- The Lifecycle Reserve Study is updated annually to assess if there are sufficient funds to sustain the future replacement and rehabilitation requirements for the following 25 years based on known inflows and outflows



C1. Lifecycle Investment

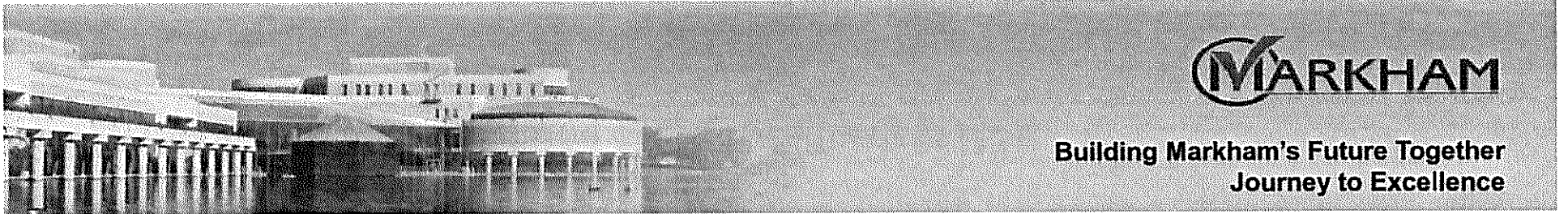
- The 2013 Lifecycle Reserve Study update included the following additional assets:
 - watercourse erosion control remediation
 - tree inventory
 - replacement and rehabilitation requirements for Pan Am Centre and Southeast Community Centre
- Based on the known inflows (including allocating \$0.3M of the annual \$1.0M Section 37 funds to upgrade existing parks), outflows and inclusion of the above items, there will be sufficient funds in the Reserve for 15 years (gap of 10 years)
- The Reserve balance will be in a deficit position of of \$68.4M at the end of 25 years
- This creates a shortfall of \$1.82M/year, equivalent to a tax rate increase of 1.5%. Staff previously recommended a tax rate increase to be phased-in over 3 years (0.5% per year for the years 2014, 2015 and 2016) to meet the 25 year funding level



C1. Lifecycle Investment

- At the request of Budget Sub-Committee, Staff have undertaken further analysis to mitigate the need for a tax rate increase related to infrastructure
- Allocating annual Gas Tax revenues of \$1.51M beginning in 2015, as well as the additional Markham District Energy (MDE) dividends beginning in 2018*, will eliminate the need for a 0.5% tax increase in 2014, 2015 and 2016 for infrastructure

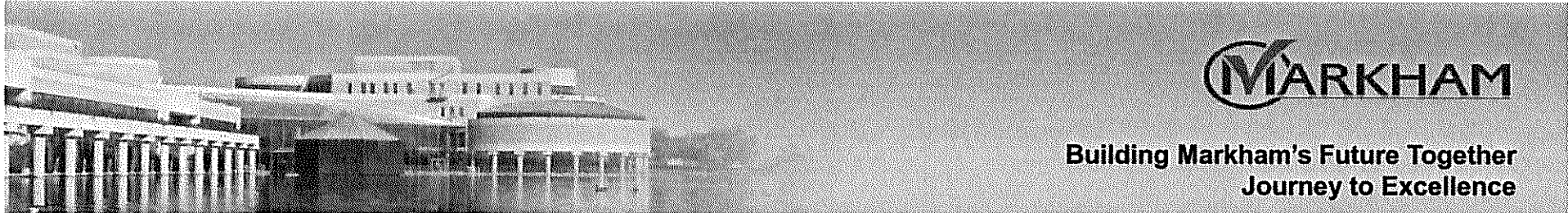
* Subject to approval of the \$16M investment in MDE



C1. Lifecycle Investment

Recommendation

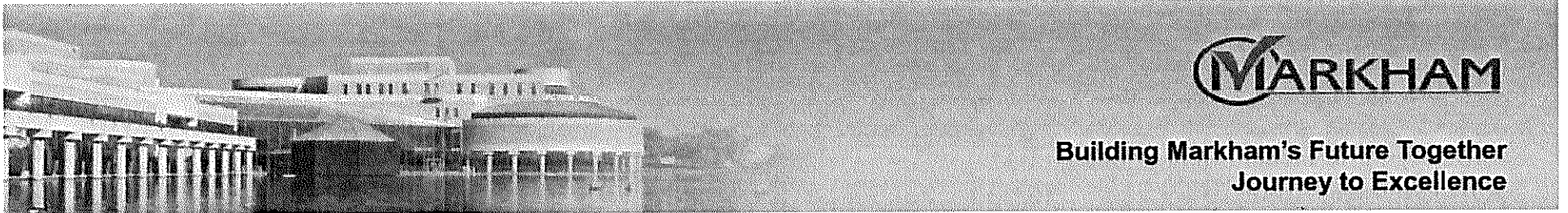
- **That Council approve the allocation of \$1.51M/year of the Gas Tax revenues to address the shortfall in the Lifecycle reserve in order to meet the 25 year funding level starting in 2015**



C. Proposed Framework for Prioritizing Use of Gas Tax (\$8M to \$9M annually)

Investments/initiatives that support environmentally, socially and economically sustainability

- 1✓ Lifecycle Investment** – Funding of the Lifecycle Reserve ensures economic vitality and quality of life. Investment in the replacement and rehabilitation of a growing and expanding asset base in order to ensure a sufficient reserve balance to meet the most current 25 year period and new assets that will be coming on stream within the 25 year period
- 2. Strategic Investments** that have a positive financial return on investments
- 3. Committed Funding Approved by Council** – Non-DC growth and Stormwater Management
- 4. Other Unfunded Proposed Initiatives**



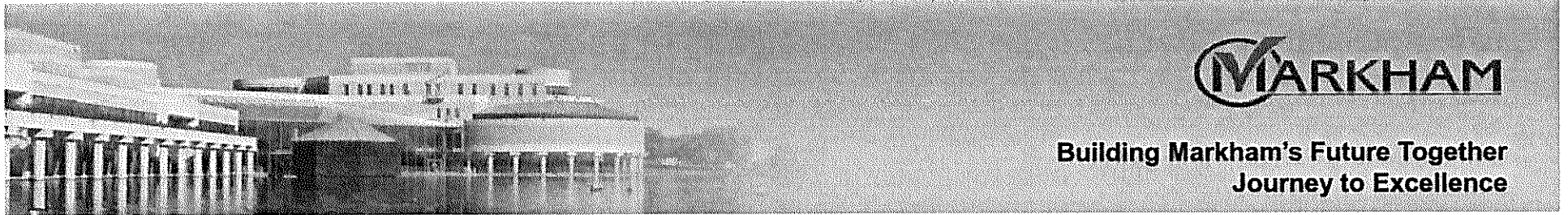
C2. Strategic Investments

- Strategic investments include District Energy, solar and other renewable energy that generate positive financial returns that can be re-invested in other categories of the framework



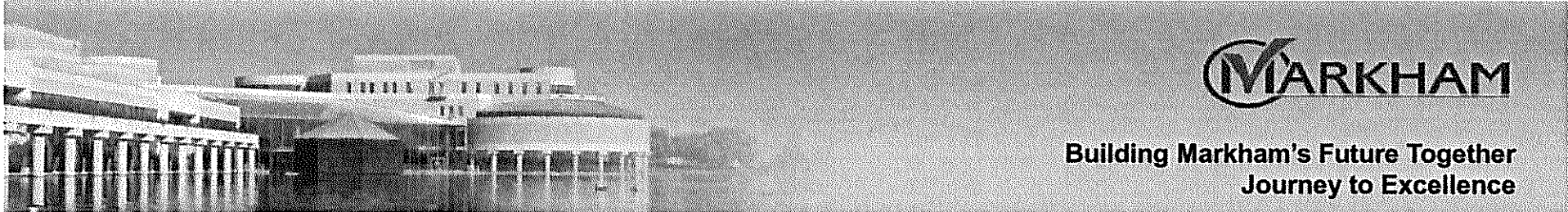
C2. Strategic Investments – Markham District Energy

- Markham's investment in district energy delivers tangible community benefits in 4 strategic areas:
- **Building Operations:** The district energy system allows building owners to avoid the up-front cost and complexity of installing heating and cooling plants within buildings.
- **Environmental Performance:** MDE's system and technology reduces green-house gas emissions by over 50%;
- **Economic Development:** MDE's district energy system has been a factor in attracting businesses to Markham Centre including IBM and Bell Canada. A Natural Resources Canada concluded that every \$1 invested in district energy generates \$1.37 of economic activity in the community (not including the company's actual return on investment).
- **Emergency Preparedness:** MDE's power generation fleet combined with the heating system would be capable of powering and heating over 5 million ft² of designated buildings located in Markham Centre and Cornell Centre as an emergency evacuation centre for Markham residents.



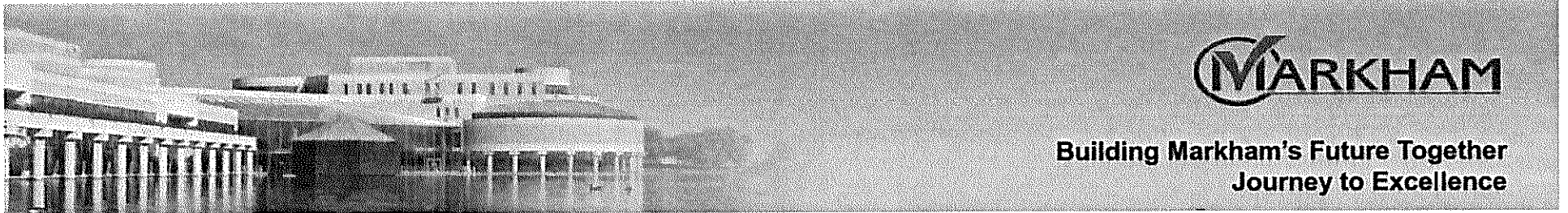
C2. Strategic Investments – Markham District Energy

- MDE requires \$16 million to complete their Base-Case Capital Plan, which involves connecting 5.5 million sq ft of buildings in Markham Centre
- MDE needs to maintain a manageable debt/equity ratio, otherwise a significant portion of after-tax profits would be used to pay third party lenders instead of declaring dividends



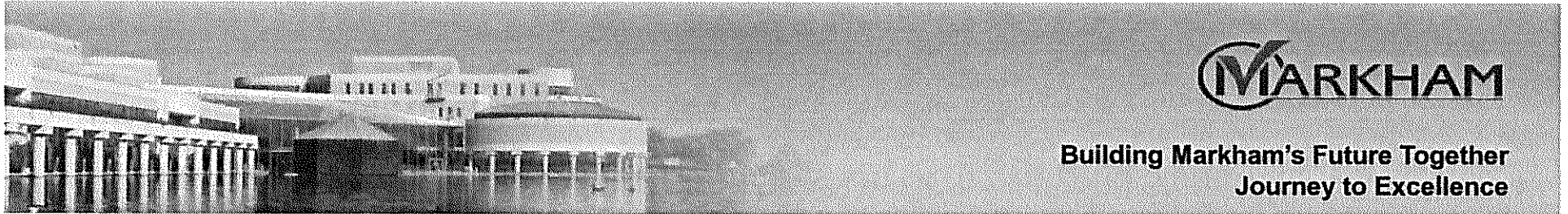
C2. Strategic Investments – Markham District Energy

- The additional dividends the City will receive as a result of allocating \$16.0 million of Gas Tax Revenue to MDE equates to an approximate 8-10% return on investment. (In comparison, long-term Canada bonds are currently trading in the 3.10-3.20% range)
- As well, the value of MDE will also increase as there will be more revenue generating assets and contracts as a result of the equity injections



C2. Strategic Investments – Markham District Energy

- Other funding sources such as Markham Enterprises Corporation or the Lifecycle Reserve are not viable options as the cash balances are not sufficient (after accounting for other current and projected investments)



C2. Strategic Investments – Markham District Energy

Recommendation

- **That Council approve the allocation of 50% of the Gas Tax revenues, up to a maximum of \$4.0 million per year, for the years 2014-2017, to MDE**

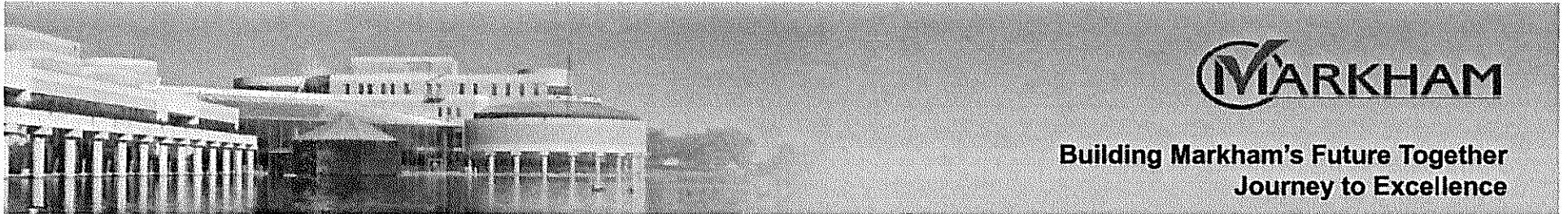


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C. Proposed Framework for Prioritizing Use of Gas Tax (\$8M to \$9M annually)

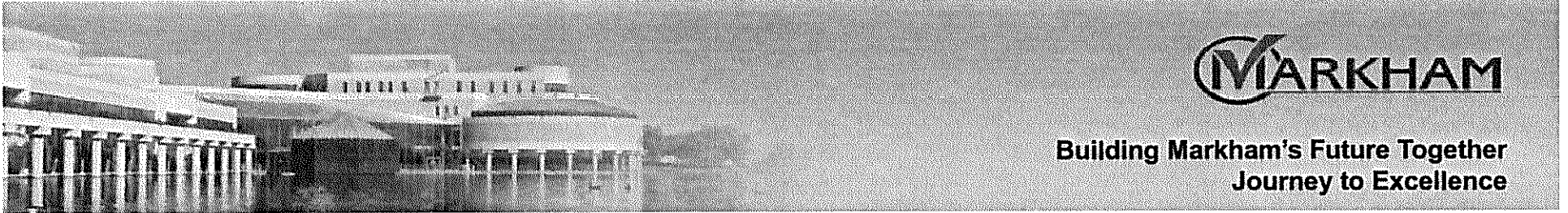
Investments/initiatives that support environmentally, socially and economically sustainability

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- 2✓ Strategic Investments** that have a positive financial return on investments
- 3. Committed Funding Approved by Council** – Non-DC growth and Stormwater Management
- 4. Other Unfunded Proposed Initiatives**



C3. Committed Funding Approved by Council

- Council approved initiatives include:
 - Non-DC growth portion of growth related projects
 - Stormwater Management program



C3. Committed Funding Approved By Council - Non-DC Growth Projects

- Council approved the DC Background study in May 2013
- Included a commitment from Council to build the infrastructure to accommodate growth (\$1.5 billion) which includes \$112M in non-growth costs

Hard Services : \$70M to 2031

Soft Services : \$42M to 2022

Total : \$112M



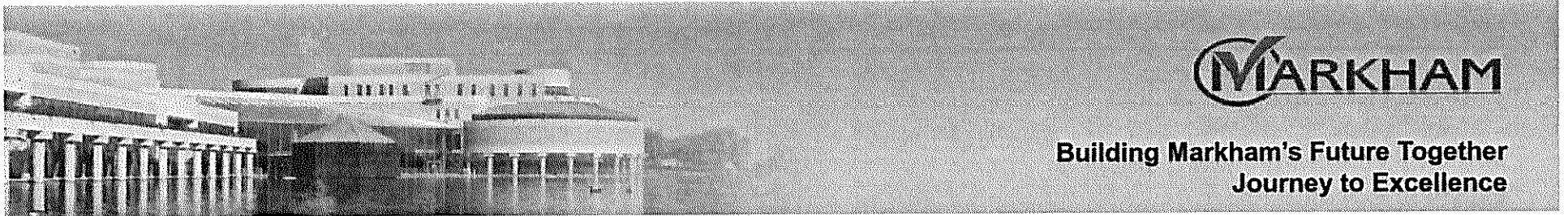
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C3. Committed Funding Approved by Council – Non-DC Growth Projects

(in \$millions)	2014	2015	2016	2017	2018	Total
Roads and Bridges	1.4	0.9	0.7	0.4	0.0	3.4
Annual Engineering Projects*	0.4	3.0	3.0	3.0	3.0	12.4
Parks (including Sports Park)	0.7	0.8	0.9	1.7	2.5	6.8
Recreation & Library	0.0	0.0	0.8	0.0	0.0	0.8
Total Funding Required	2.5	4.7	5.4	5.1	5.5	23.4
Less: Operating Non-Lifecycle Funds	(0.7)	(1.5)	(1.5)	(1.5)	(1.5)	(6.7)
Less: Non-DC Growth Reserve	(1.8)	(3.2)	(3.9)	(3.6)	0.0	(12.5)
Gas Tax Funding	0.0	0.0	0.0	0.0	4.0	4.0
Unfunded Growth Projects	0.0	0.0	0.0	0.0	0.0	0.0

Slide 21

*Pathways & Trails, Sidewalks, Intersection Improvements, Illumination, Streetscapes, Downstream Improvements



C3. Committed Funding Approved by Council - Non-DC Growth Projects

Recommendation

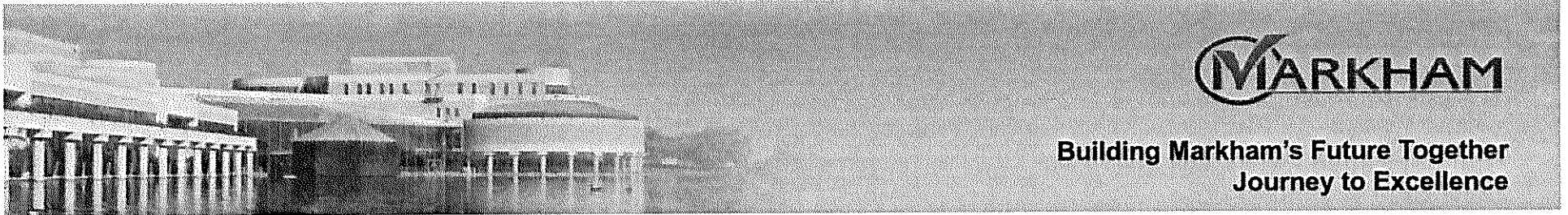
- **That Council approve the allocation of Gas Tax revenues to fund the unfunded portion of growth related projects approved in the 2013 Development Charges Background Study, estimated to be approximately \$4.0 million annually beginning in 2018**



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C3. Committed Funding Approved by Council - Stormwater Management

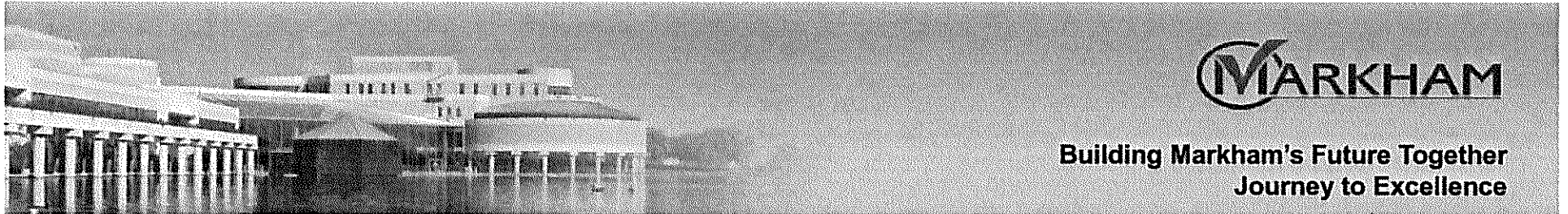
- Council approved a 100-year level of service target for City-wide storm drainage systems and 5-year level of service target for Don Mills Channel to be funded through a 100% City-Wide stormwater surcharge
- The total project cost is estimated at \$155M (West Thornhill \$36M, rest of the City \$77M and Don Mills Channel \$42M) over a 30 year implementation period
- An earlier presentation identified an option to fund \$2M annually from gas tax
- Staff will present options and recommendations on funding mechanisms at the November 18th General Committee



C3. Committed Funding Approved by Council – Stormwater Management

Recommendation

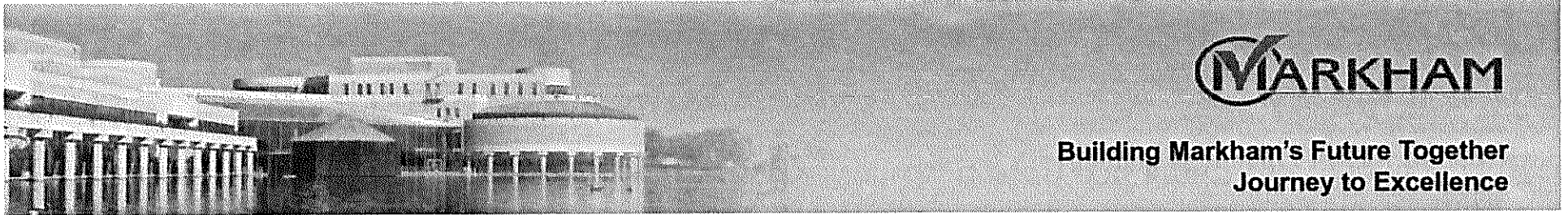
- **That \$2M annually in Gas Tax revenues beginning in 2014, be set aside for consideration as part of the discussions on funding source options at the November 18th General Committee**



C. Proposed Framework for Prioritizing Use of Gas Tax (\$8M to \$9M annually)

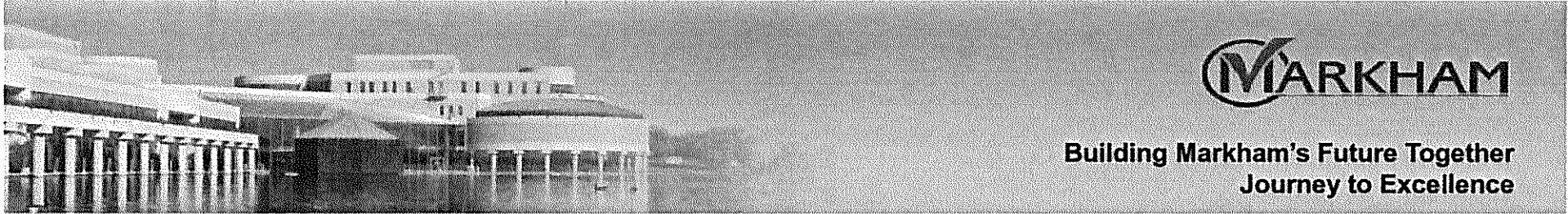
Investments/initiatives that support environmentally, socially and economically sustainability

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- 2✓ **Strategic Investments** that have a positive financial return on investments
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4. **Other Unfunded Proposed Initiatives**



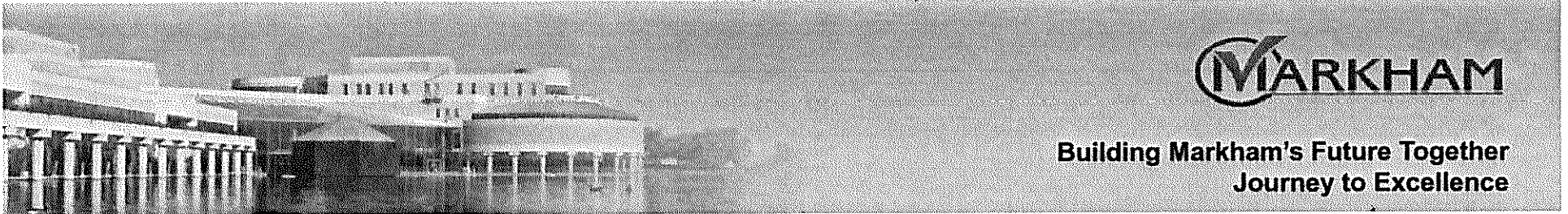
C4. Other Unfunded Proposed Initiatives

- Over the next ten years, a number of unfunded proposed projects totalling \$61M have been identified as outlined in the next slide
- Funding sources for these projects include remaining gas tax revenues where eligible, Section 37, operating non-life cycle funds and tax rate increases



C4. Other Unfunded Proposed Initiatives

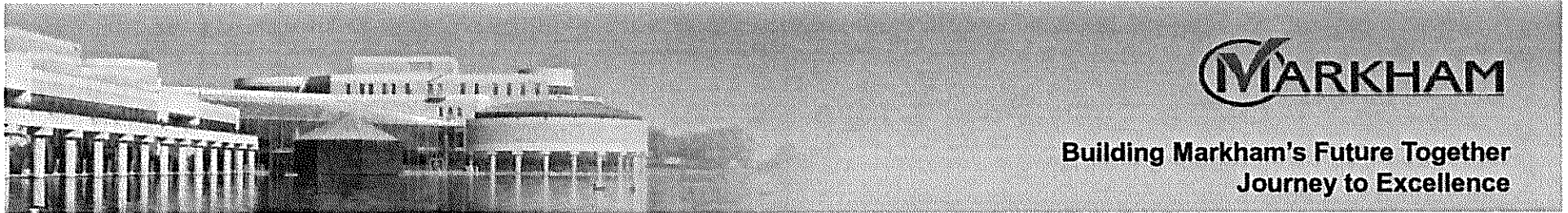
Facility upgrades	Stiver Mill expansion	Art Gallery exterior courtyard
Museum buildings restoration	Museum access to new park	Milliken Mills renovations
Morgan Pool – retrofit	Mount Joy conversion – dome	Park renaissance
Public art	Public realm	Decorative streetlights – LED
Romfield pedestrian tunnel	Waste programs	Pedestrian accessibility improvements
Disaster mitigation	Anti-whistling	Main Street Markham (Bullock Dr. to 16 th)
Reesor Road reconstruction	Community energy projects	Corporate energy projects



C4. Other Unfunded Proposed Initiatives

Recommendation

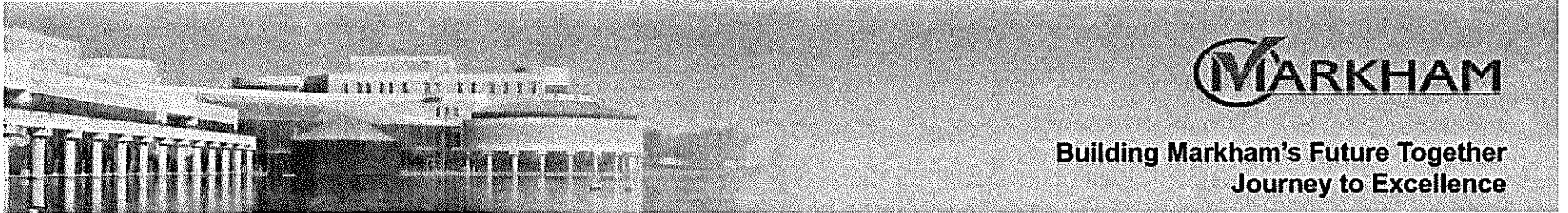
- **That the remaining annual balance of \$0.5M to \$1.5M be considered as a potential funding source for the unfunded proposed initiatives from 2015 to 2018**



C. Proposed Framework for Prioritizing Use of Gas Tax (\$8M to \$9M annually)

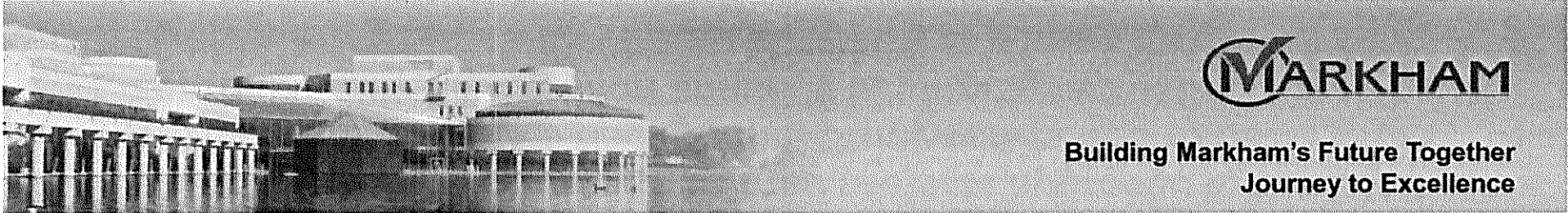
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- 2✓ Strategic Investments** that have a positive financial return on investments
- 3✓ Committed Funding Approved by Council** – Non-DC growth and Storm Water Management
- 4✓ Other Unfunded Proposed Initiatives**



Gas Tax Allocation

(in \$millions)	2014	2015	2016	2017	2018	Total
Gas Tax Revenue	8.7	8.0-9.0	8.0-9.0	8.0-9.0	8.0-9.0	40.7-44.7
Lifecycle Reserve	0.0	(1.5)	(1.5)	(1.5)	(1.5)	(6.0)
Remaining Gas Tax	8.7	6.5-7.5	6.5-7.5	6.5-7.5	6.5-7.5	34.7-38.7
Strategic Investment MDE	(4.0)	(4.0)	(4.0)	(4.0)	0.0	(16.0)
Remaining Gas Tax	4.7	2.5-3.5	2.5-3.5	2.5-3.5	6.5-7.5	18.7-22.7
Non-DC Growth	0.0	0.0	0.0	0.0	(4.0)	(4.0)
Stormwater Management	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(10.0)
Remaining Gas Tax for other unfunded proposed initiatives	2.7*	0.5-1.5	0.5-1.5	0.5-1.5	0.5-1.5	4.7-8.7



C4. Other Unfunded Proposed Initiatives

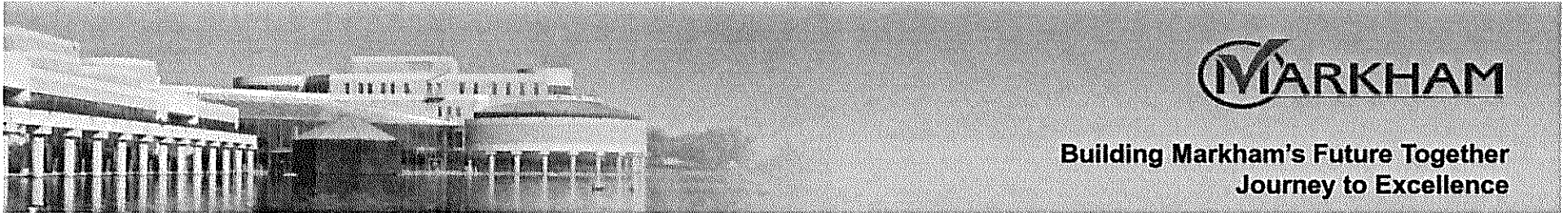
2014 Proposed Gas Tax Funded Projects

Department	Project	Project Name	Total Budget	Gas Tax	Funding	
					Operating Non-Life Cycle Funded	DCA
Engineering	14030	Sidewalk Program	643,800	47,489		596,311
Engineering	14405	Cycling and Trails EA - Thornhill/Milliken	152,200	98,930		53,270
Engineering	14403	Cycling and Trails - Toogood Pond to Bob Hunter Park	2,540,700	1,651,455		889,245
Engineering	14404	Cycling and Trails - Warden Ave (16th to M. McKenzie)	260,000	169,000		91,000
Sustainability Office	14061	PowerStream Embedded Energy Projects	203,500	203,500		
Sustainability Office	14065	Integrated Community Energy Plan	183,200	91,600		91,600
Waste & Environmental Mgmt	14290	Carpet Recycling Program	14,200	14,200		
Waste & Environmental Mgmt	14295	Specialty Recycling Containers Program	51,000	47,000	4,000	
Grand Total			4,048,600	2,323,174	4,000	1,721,426



D. Recommendations

- **That Council approve the allocation of \$1.51M per year of the Gas Tax revenues to address the shortfall in the Lifecycle reserve in order to meet the 25 year funding level starting in 2015**
- **That Council approve the allocation of 50% of the Gas Tax revenues, up to a maximum of \$4.0 million per year, for the years 2014-2017, to MDE**
- **That Council approve the allocation of Gas Tax revenues to fund the unfunded portion of growth related projects approved in the 2013 Development Charges Background Study, estimated to be approximately \$4.0 million annually beginning in 2018**



D. Recommendations (continued)

- **That \$2M annually in Gas Tax revenues beginning in 2014, be set aside for consideration as part of the discussions on funding source options at the November 18th General Committee**
- **That the remaining annual balance of \$0.5M to \$1.5M be considered as a potential funding source for the unfunded proposed initiatives from 2015 to 2018**