



INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: September 18, 2013	
SUBJECT/REPORT NO: 2014 Tax Budget Preliminary Outlook (FCS13062) (City Wide)	
SUBMITTED BY: Mike Zegarac Acting General Manager Finance & Corporate Services	PREPARED BY: Tom Hewitson (905) 546-2424 ext 4159 Victoria Terella (905) 546-2424 ext 4169
SIGNATURE: 	

Council Direction:

N/A

Information:

The 2014 tax operating budget preliminary pressures / risks (outlook) are submitted for Council’s information. The budget guideline and process have already been approved by Council (June, 2013) through staff report FCS13048/CM13010 “2014 Tax Budget Guideline and Process”.

The budget guideline for 2014 continues to call for a goal of a zero per cent increase for City departments and boards and agencies. Although the outlook for 2014 is starting in a favourable position compared to recent years, there is still a significant gap between the current pressures and the goal of zero. To achieve zero, some reductions would likely be required. This was recognized in the June guideline report. As such, the guideline approved by Council provided direction to bring forward opportunities/ suggestions to alter service levels as a way of achieving the 0% budget guideline, as per recommendation (c) (ii) of Report FCS13048/CM13010, “*Options to modify service levels or reduce services be brought forward based on the Service Delivery Review opportunities and emerging initiatives.*”

Departments are currently reviewing the Service Delivery Review (SDR) opportunities list to identify options based on any of these opportunities (or variations of them) or emerging initiatives in order to mitigate the pressures / risks identified. Potential options will be presented during the budget process for Council's feedback and consideration.

During a scan of the 2014 tax budget, each department provided a list of potential pressures / risks. Currently the identified pressures / risks for 2014 would require a levy increase of \$27.5 million. This would translate into a 2.8% projected residential tax increase if no mitigating budget measures are undertaken. This increase is inclusive of estimated assessment growth of 1.0% and user fee increases based on 2014 guideline.

	2014 Tax Impact (Average Residential)	
	DRAFT	
	\$	%
Municipal Taxes		
City Departments	\$ 56	1.9%
Boards & Agencies	\$ 13	0.4%
Capital	\$ 15	0.5%
Total Municipal Taxes	\$ 84	2.8%

In addition, there have been a number of items referred to the 2014 tax budget process by Council not included in the impact noted above. Currently these pressures are estimated to be approximately \$2.6 million.

Staff will provide a more detailed draft budget, including divisional draft budgets, at the November operating budget workshop.

2014 PRELIMINARY TAX BUDGET PRESSURES (Outlook)

A number of pressures / risks have been identified for 2014 and further explanation is provided in the following sections.

City Departments

Approximately \$18.6 million in preliminary 2014 budget pressures / risks have been identified for City departments. The tables below provide further details.

Salary/Wage Compensation

	Levy Impact \$
Salary / Wage Compensation:	
- COLA / Settlements	\$ 5.0 M
- Merit / Step Increases	\$ 2.4 M
- OMERS	\$ 0.9 M
- Government Benefits	\$ 0.5 M
- Employer Benefits	\$ 0.5 M
- Retiree Benefits	\$ 0.9 M
TOTAL	\$ 10.1 M

The above salary/wage compensation pressures / risks take into account negotiated and projected wage increases, as well as merit increases per City Policy. The identified benefits pressures take into account the latest published rates or estimates for OMERS, EI and WSIB. For 2014 there is no increase in OMERS contribution rates (the increase identified is commensurate with COLA/merit increase), and EI & WSIB contribution increases are estimated at about 2.0%. The pressure of \$900,000 related to Retiree Benefits includes estimated costs for sick bank, vacation, employment benefits and the deferred income plan for retirees. A staff report on retiree benefits will be presented to a future meeting of the Audit, Finance and Administration Committee.

The above estimates are net and assume normal provincial subsidies and other recoveries.

Operating Impact of Capital Projects

	Levy Impact \$
Operating Impact of Capital Projects:	
- Approved through Capital Budget (FCS12096)	\$ 1.10 M
- Deferred from previous years	\$ 0.20 M
- Area Rated Special Capital Reinvestment projects	\$ 0.03 M
TOTAL	\$ 1.30 M

As part of the annual Capital budget approval, staff estimate the operating costs related to these approved Capital projects. Through staff report FCS12096 "2013 Tax Supported Capital Budget", Council approved *"That the operating and FTE impacts of the 2013 capital budget, estimated to be \$1,343,700 and 4.1 FTE's, attached as Appendix "C" to Report FCS12096, be incorporated into the 2014 Tax Supported base Operating Budget"*. The above pressure of \$1.3 million is a revised estimate of the approved operating impact from capital of \$1.3 million down to \$1.1 million, plus approximately \$200,000 related to operating impacts deferred from previous years and \$32,000 related to the 2013 Area Rated Special Capital Reinvestment.

Note that the above pressure assumes Public Health Services commitment to offset \$500,000 in accommodation costs. However, all of the \$500,000 pressure may not occur in 2014 as occupation of the facility will be phased and start well into 2014. The commensurate reductions will be matched.

Corporate Impacts

	Levy Impact \$
Corporate:	
- Inflationary / Contractual Requirements	\$ 3.1 M
- User Fees (excluding Transit, Ice, Golf)	(\$ 1.6 M)
- Energy (Fuel, Natural Gas, Electricity)	\$ 0.5 M
- Cost Allocation Review - Implement cost shift from Rate / Capital Budget to Tax Budget (3 yr phase-in)	\$ 0.2 M
- Risk Management - Phasing out contribution from reserve	\$ 0.6 M
- Risk Management - Insurance Claim Costs	\$ 2.8 M
TOTAL	\$ 5.6 M

A potential pressure / risk of approximately \$3.1 million has been identified for inflationary and contractual requirements (mandatory indexing of service contracts). This is partially offset by a potential increase in user fees of -\$1.6 million. This estimated increase of \$1.6 million in user fee revenue assumes the recommended guideline rate of 2.0% as per recommendation (a) of Report FCS13048/CM13010 *"That 2014 user fees (excluding golf, transit, ice rental fees and web transaction or convenience fees) be increased by a rate of 2.0% and that any user fee adjustments, other than this rate, include an appropriate explanation when submitted"*.

Energy pressures of approximately \$0.5 million have been identified and include a projected fuel increase for unleaded from \$1.09/litre to \$1.11/litre and for diesel from \$1.10/litre to \$1.12/litre (\$120,000), a reduction of -6% for Natural Gas (-\$260,000) and an increase of 6% for Electricity (\$630,000). The respective 2013 budgets for these three commodities are:

- Fuel \$19.1 million
- Natural Gas \$ 4.4 million
- Electricity \$10.5 million

Department Specific:

The departmental specific pressures are above and beyond the pressures identified in the corporate section. All departments will have salary / wage compensation and contractual pressures.

Planning & Economic Development

Major pressures / risks identified by Planning & Economic Development include:

- \$500,000 parking revenue for the non-metered parking lots in Stoney Creek and Waterdown that were previously approved to be paid lots. The revenue shortfall is currently covered by a budgeted transfer from the Tax Stabilization Reserve (not sustainable),
- \$176,000 loss of on-street parking revenue due to removal of meters in Stoney Creek, Ancaster and Waterdown PED11104(a),
- \$412,000 licencing fee shortfall due to the business licenses fee review PED01104(a),
- \$193,000 reduced revenues in lotteries as a result of the lower activity in the Nevada/Bingo Halls, and
- \$85,000 for legal support.

Community & Emergency Services

Major pressures / risks identified by Community Services include:

- \$634,000 revenue shortfall for rental ice due to steadily decreasing participation rates with the Hamilton core ice users,
- \$473,000 annual increase due to inflationary factors for CityHousing Hamilton as per the Provincial benchmarking formula,
- \$380,000 due to the \$200-a-month earnings exemption effective September 2013 for caseloads as per the 2013 Provincial Budget,
- \$172,000 related to the \$14 increase to benefits (cost per case) for single cases as per the 2013 Provincial Budget,
- \$148,000 increase of 1% in Ontario Works benefits (cost per case) as per the 2013 Provincial Budget,
- \$130,000 Long Term Disability benefit costs at the Lodges,
- \$70,000 corporate radio system change in data line circuit type included in new radios for the fire department,
- \$66,000 decreased Federal Funding for Social Housing, and

- \$64,000 for the fire departments dispatch/communications increase in software maintenance fees and mobile data software.

Offsetting these pressures are the Ontario Works upload savings of -\$3.3 million plus savings of -\$29,000 in the Farmer's Market.

Public Works

Major pressures / risks identified by Public Works include:

- \$890,000 eliminating the reserve contributions currently utilized to support recycling revenues (not sustainable),
- Potential \$500,000 in operating costs for snow disposal downtown arising from the possible sale of the snow disposal facility at 41 Stuart Street. If a suitable alternate site is not found, energy and equipment costs to melt the snow would be required,
- \$450,000 Ontario Bus Replacement Program (OBRP) Phase-In Strategy,
- \$400,000 in fleet related charges,
- \$300,000 to eliminate the transfer from Energy Reserve for street lighting (unsustainable),
- \$184,000 for disposal contracts based on tonnage growth,
- \$150,000 Vehicle Parts Contract Renewals,
- \$127,000 from the annualization of the council referred item related to the Red Hill Business Park Transit Service approved in the 2013 budget
- \$100,000 Heavy Duty Repair Outside Service Contract (most of this cost will impact Waste Collection),
- \$100,000 HRPI Dividend Reduction, and
- \$100,000 in additional smaller pressures from increases in Contractual Services, Tree Trimming Contract, Signal Engineering training and funding to support Cootes to Escarpment.

Partially offsetting these pressures, is a revenue increase of -\$80,000 from the Recycling Council of Ontario for Phase 2 Funding.

Legislative

A budget pressure of \$70,000 is related to the annualization of the increased assistance to ward councillors (Ward 7 & 8) approved in the 2013 budget.

City Manager

The City Manager's Office identified preliminary pressures / risks including \$250,000 in Legal Fees and \$100,000 for Arbitration/Mediation Fees as these have been consistently greater than budget.

Corporate Financials

An estimated savings of -\$1.6 million from the new business model for the former HECFI and -\$750,000 related to the annualized impact of raising penalty and interest from 1% to 1.25% as approved in the 2013 budget.

BOARDS & AGENCIES

Based on historical trends and consultation with Police Services, staff have identified budget pressures / risks for Boards and Agencies of approximately \$5.2 million. The Police pressure of \$5.1 million (as provided by Police Services) is based on an increase of 3.65% and includes the Court Security Upload savings of -\$700,000 and \$770,000 from the 2014 impact of the additional 16 FTE. For the remaining Boards & Agencies, staff have assumed 1.0% for legislated Boards & Agencies (MPAC and Conservation Authorities) and 0% for non-legislated Boards & Agencies.

	Levy Impact \$
Boards & Agencies:	
- Police (3.65%)	\$ 5.1 M
- Boards & Agencies (excluding Police)	
Conservation Authorities & MPAC @ 1.0%	\$ 0.1 M
Other Boards & Agencies @ 0.0%	\$ 0.0 M
Community Partnership @ 0.0%	\$ 0.0 M
TOTAL	\$ 5.2 M

CAPITAL

Based on preliminary Council direction, a contribution to capital equivalent to a 0.5% municipal tax impact is assumed which equates to approximately \$3.6 million.

	Levy Impact \$
Capital: - Preliminary direction at 0.5%	\$ 3.6 M
TOTAL	\$ 3.6 M

COUNCIL REFERRED ITEMS

The Council approved “2014 Tax Budget Guideline and Process” report FCS13048/CM13010 provided direction to limit service enhancements in an effort to achieve the goal of a zero per cent tax impact, as per the following recommendation (c) (iii) “*Service enhancements, either Council directed or staff initiated, be limited or not considered for 2014.*” However, currently there is an estimated \$2.6 million in council referred items. This includes \$2.0 million for the Integrated Pest Management and \$500,000 related to Rapid Ready Local Transit System. Additional items include the James Street North Supercrawl event, Hamilton Centre for Civic Inclusion, Language Line Enhancement Pilot, Agriculture and Rural Affairs Advisory Committee and the Strategic Municipal Investment in the Arts.

OTHER POTENTIAL RISKS

Additional risks that are not captured above as insufficient information exists to determine the dollar impact on the 2014 budget. These risks include licensing alternatives for rental housing, Ontario Works increase in the asset limits which may increase the number of new applicants, funding for Discretionary Benefits, ATS AODA Implementation and the McMaster Lease. These issues will be addressed during the 2014 budget process as required.

PROVINCIAL IMPACTS

The provincial impacts have already been reflected in their related departments and were combined in this section to give a full picture of the provincial upload savings.

	Levy Impact \$
Provincial Impacts:	
- OW Upload: from 85.8% in 2013 to 88.6% in 2014	(\$ 3.3 M)
- Court Security Upload (Police)	(\$ 0.7 M)
- Annual increase due to inflationary factors for CityHousing Hamilton	\$ 0.5 M
- \$200-a-month earnings exemption effective September 2013 for Ontario Works caseloads	\$ 0.4 M
- \$14 increase to Ontario Works benefits (cost per case) for single cases	\$ 0.2 M
- 1% increase in Ontario Works benefits (cost per case)	\$ 0.1 M
- Decreased Federal Funding for Social Housing	\$ 0.1 M
TOTAL	(\$ 2.7 M)

Staff are estimating the net upload savings in 2014 to equate to -\$2.7 million, which is significantly higher than 2013 which estimated no upload savings as the loss of provincial subsidies and grants completely offset the estimated upload savings. The 2014 upload savings of -\$4.0 million is calculated based on estimated Ontario Works upload savings of -\$3.3 million (which is based on 2013 subsidy rate of 85.8% increasing to 88.6% for 2014) plus estimated court security upload savings of -\$700,000. The upload savings help mitigate an estimated \$1.3 million in pressures from provincially mandated programs. The identified pressures include the annual increase due to inflationary factors for CityHousing Hamilton using the Provincial benchmarking formula, \$200-a-month earnings exemption for OW benefits caseloads, decreased federal funding for social housing and the increases to OW benefits (cost per case) as per the 2013 Provincial Budget.