**CITY OF HAMILTON**

**CORPORATE SERVICES DEPARTMENT**

*Financial Planning & Policy Division*

| TO: | Mayor and Members  
Committee of the Whole | WARD(S) AFFECTED: CITY WIDE |
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<tr>
<td>COMMITTEE DATE:</td>
<td>June 21, 2010</td>
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<tr>
<td>SUBJECT/REPORT NO:</td>
<td>2011 Tax Budget Pressures, Process &amp; Schedule (FCS10055) (City Wide)</td>
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| SUBMITTED BY: | Roberto Rossini, General Manager  
Finance & Corporate Services |
| PREPARED BY: | T. Hewitson (905) 546-2424 ext 4159  
M. Di Santo (905) 546-2424 ext 6247 |
| SIGNATURE: | |

**RECOMMENDATION:**

a) That user fees (excluding golf, transit and ice fees) be increased by inflation and that any user fee adjustments, other than inflationary, be forwarded for consideration with appropriate explanation;

b) That the Boards & Agencies be requested to submit a 2011 budget to Committee of the Whole based on a guideline of at or below inflation and that Boards & Agencies be requested to justify any additional increase above this guideline; and

c) That the budget schedule as identified in Appendix A to report FCS10055 be approved.

*Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.*

*Values: Honesty, Accountability, Innovation, Leadership, Respect, Excellence, Teamwork*
EXECUTIVE SUMMARY

The 2011 tax budget pressures, guidelines and recommended budget schedule are submitted for Council’s consideration.

Based on feedback provided by Council and Senior Management Team, staff are proposing that the 2011 budget process continue similar to last year. The 2010 budget process, which utilized Committee of the Whole at the beginning of the process (corporate overview, approval of guidelines / schedule, etc), Standing Committees for the departmental budget deliberations and again Committee of the Whole for final deliberations / approval, worked well last year. Based on the feedback received by Council and Senior Management, staff are not recommending any changes to the current budget committee process for 2011.

With respect to 2011 budgetary guidelines, staff are recommending a Boards & Agencies guideline of at or below inflation. User fees are also being recommended to be increased by inflation.

With respect to departmental budgets, staff are proposing to develop their departmental budgets ensuring the lowest possible tax impact without affecting service levels. Identifying a specific target is difficult at this time due to the significant implications of the provincial guideline on wages. Until a labour negotiation strategy is developed, identifying specific targets for departmental budgets is not feasible.

With respect to the 2011 tax budget pressures, the following table identifies the draft pressures currently identified to date. The “Analysis / Rationale for Recommendation” section of this report provides more details on the specific pressures. As shown below, tax budget pressures totalling $32 million have been identified. Based on the current tax policies, the pressures to date would equate to approximately a 3.9% residential tax impact (municipal only). This includes an estimated growth/reassessment impact of -1.0%. These pressures, however, exclude any impacts/increases in salary/wage budgets as these are not known at this time given the directions provided by the Province and the uncertainty of their success. For every 1% increase in salary/wage budgets, the current pressures identified would increase by approximately $4.0 million. Also, there are a number of significant risks identified further in this report that may impact the levy.

Note that these preliminary pressures also assume continued receipt of special funding from the Province in 2011. The City of Hamilton will once again be requesting funding to fully offset the financial impacts of the reduction in OMPF and special funding in light of the ODSP and OW scheduled upload. Although staff have yet to finalize the special funding required for 2011, it is expected to be significantly lower than the amount required in 2010.
Due to the municipal election in late October, along with the forthcoming report in late December / early January on the labour negotiations strategy, staff are proposing not to commence the tax operating budget deliberations until late January, 2011. This timing is typical for many municipalities in an election year. Although this is a later start to the budget, it is not expected to extend the date in which the budget is normally approved (ie. March/April). Appendix A to this report identifies the proposed 2011 budget schedule.

Alternatives for Consideration – See Page 9

### FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

**Financial:** The preliminary tax budget pressures identified within this report total approximately $32 million and would result in an estimated residential municipal tax impact of approximately 3.9% (inclusive of growth/reassessment). **This estimate excludes any cost of living wage increases for any staff as these are uncertain at this time given the current environment.** Staff have also identified a number of risks that may potentially further add to these pressures.

**Staffing:** Some of the preliminary budgetary pressures identified in this report may have staffing implications.

**Legal:** N/A
HISTORICAL BACKGROUND (Chronology of events)

In 2008, and again in 2010, Council approved a new budget process. Changes to the budget process are in response to concerns raised when feedback is sought following the completion of the annual budget process. A questionnaire was sent out to both Council and Senior Management Team in order to determine their satisfaction with the 2010 process and any suggestions for improvements. Generally, positive feedback was received. As such, staff are proposing to maintain the current budget process (CoW – Standing Committees – CoW).

With 2011 being the first year of a new Council, staff are not recommending any significant changes to the current process. Various budgeting models will be explored for 2012 and future years (i.e. zero based budgeting, multi-year budgeting). For the 2012 budget year, staff will endeavour to develop business plans and financial strategies in order to assist budget deliberations and the movement towards financial sustainability.

POLICY IMPLICATIONS

There are no policy implications related to the recommendations within this report.

RELEVANT CONSULTATION

Staff have consulted with operating departments in determining the projected tax budget pressures for 2011.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

2011 Tax Budget Pressures

For 2011, a number of pressures have been identified as shown in the following tables.
Non-Salary/Wage Compensation Pressures

As shown below, to date, a total of $7.7 million has been identified as a 2011 tax budget pressure for compensation (exclusive of salary/wage).

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<th>Levy Impact</th>
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<tr>
<th>Non-Salary/Wage Compensation Base Budget Pressures</th>
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<tbody>
<tr>
<td>OMERS draft rate increase</td>
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<td>EI rate draft increase</td>
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<td>Employer Benefits</td>
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<tr>
<th>Non-Salary/Wage Compensation Base Budget Pressures</th>
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As part of the 2010 Ontario Budget, the Public Sector Compensation Restraint to Protect Public Services Act, 2010 was introduced. It essentially ensures that compensation plans are not increased for a period of two years. Although municipal governments are not covered under this legislation, in light of the significant provincial deficit, municipalities are being asked to follow the Province’s lead. Given current uncertainties, this staff report does not include any salary/wage increases for 2011. It should be noted, however, that every 1% increase in salary/wage equates to approximately $640,000 for non-union and $3.0 million for union. Any potential salary/wage pressures will be fully borne by the City, as the Province’s fiscal plan does not provide funding for compensation increases for future collective agreements and non-union groups. For the most part, all of the City’s collective agreements will expire by December 31, 2010.

Accordingly, any salary and wage increases paid in 2010 and 2011 within cost shared programs (eg. Child care, OW, Public Health and Land Ambulance), will likely NOT attract increased provincial subsidy payments.

The Municipal Employer Pension Centre of Ontario (MEPCO) anticipates a 3.75% increase in employer rates by 2013 for OMERS. The 2011 pressure of $5.1 million equates to 1/3 of this projected increase (1.25% for 2011). The Employment Insurance rate pressure of $571,000 relates to the employer’s share of the annual impact of increasing EI rates by $0.15 per $100 of insurable earnings each year until 2014. Finally, the $2 million pressure identified for employee benefits is based on an 8% increase in health and dental costs (historical average).
Provincial Impacts & Pre-approvals / Annualizations

Other tax budget pressures identified for 2011 are related to items previously approved by Council or due to Provincial Impacts. Previously approved items include such things as the phase-in of the street tree trimming program, lost revenue due to the approved reduction in ice fees and the approval of operating impacts of capital projects.

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<th>Levy Impact</th>
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<table>
<thead>
<tr>
<th>2010 Pre-approvals &amp; Annualizations</th>
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<tbody>
<tr>
<td>Street Tree Trimming Program - phase 4</td>
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<tr>
<td>Ice Revenues (CS10029 approved rates decrease)</td>
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<tr>
<td>Operating Impact of Capital Projects (FCS09114) - 2010</td>
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<table>
<thead>
<tr>
<th>Provincial Impacts</th>
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<tr>
<td>ODSP / OW upload net of OMPF / Provincial funding reduction</td>
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<tr>
<td>Transit: Loss of Provincial Gas Tax Funding</td>
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<table>
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<tr>
<th>Pre-approvals/annualizations &amp; Provincial Impacts</th>
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<td>1,787,000</td>
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| 1 assumes receipt of special Provincial funding in 2011 to fully offset the impact of ODSP/OW upload net of the reduction of OMPF / 2010 special funding |

The provincial impacts identified relate to the uploading of ODSP/OW and the corresponding impact on the City’s OMPF and special funding. Staff are assuming that the City will continue to receive special Provincial funding in 2011 to fully offset any financial impact. It is expected that the 2011 special funding requirement will be significantly lower than the $14.2 million requested and ultimately received in 2010. Preliminary estimates of the special funding required for 2011 identified an amount of $9.1 million (staff report FCS10010 “Municipal Impact of Provincially Mandate Programs”). Current figures are indicating increased ODSP costs which will now be assumed by the Province, may result in a lower special grant requirement.

Another pressure related to provincial impacts includes the loss of Provincial gas tax funding of $300,000 due to Hamilton’s reduced ridership and below average population growth relative to other GTA municipalities.

Corporate / Departmental Pressures

As shown below, the corporate pressures identified include an allowance of $8.0 million for inflationary/contractual requirements, Boards & Agencies projected pressures of $3.3 million and energy costs of approximately $1.4 million primarily driven by a projected 10% increase in hydro costs and fuel prices increasing from $0.87/litre to
$0.95/litre. Other corporate pressures include $900,000 due to the cost allocation review which results in a shift from the rate to the tax budget and $300,000 for the phasing out of Risk Management’s contribution from reserves.

Departments identified pressures totalling $2.1 million above normal inflationary increases. The more significant pressures include:

- $750,000 for additional costs related to the addition of one ambulance in response to the McMaster adult emergency department closing. This additional ambulance is required to maintain current service levels. The 2011 pressure is only associated with costs for ½ year – annualized costs total $1.5 million.
- $500,000 HRPI dividend. This pressure is dependent on Council’s decision with respect to a pending policy review. The 2010 budget included a contribution of $500,000 to offset reduced recycling revenues – this pressure simply assumes that a similar contribution is not expected in 2011 (subject to the policy review).
- $400,000 in reduced recycling revenues. The 2010 budgeted revenues were based on a 5-year average. Although recycling revenues are expected to gradually increase over the next couple of years, it will not be sufficient to meet the current budgeted revenues. This projection has been confirmed by a third party. As such, a reduction of $400,000 in the budgeted recycling revenues is required in 2011 to more accurately reflect the current trend.
- $225,000 potential pressure in bus advertising revenue. Discussions ongoing with respect to the bus advertising contract.
Levy Impact

$8,000,000
$1,368,000
$900,000
$3,340,000
$300,000
$225,000
$400,000
$500,000
$85,000
$750,000
$150,000
$16,018,000

Corporate Pressures

Inflationary/Contractual Requirements
Energy (Fuel, Hydro)
Cost Allocation Review - Shift to Rate (1st of 3yr phase)
Boards & Agencies
Contribution from Reserves Phase-out - Risk Management

$8,000,000
$1,368,000
$900,000
$3,340,000
$300,000
$225,000
$400,000
$500,000
$85,000
$750,000
$150,000

Public Works

Transit: Loss of Bus Advertising Revenue
Recycling Revenues
HRPI Dividend (pending policy review)

$225,000
$400,000
$500,000

Community Services

Macassa / Wentworth Lodge - mandatory training requirements

$85,000

Hamilton Emergency Services

EMS - MUMC adult emergency department closure
(annualized = $1.5M)

$750,000

Corporate Services

IS - Microsoft software licence upgrade

$150,000

Corporate / Departmental Pressures

$16,018,000

2011 Total Tax Pressures & Risks

The combined pressures identified to date total $32 million (inclusive of $6.5 million for capital infrastructure) which would result in a residential municipal tax impact of 4.9%. An estimated growth/reassessment impact of -1.0% would reduce this residential municipal impact to 3.9%. Note that these pressures assume no allowance for salary/wage increases and the continued receipt of special provincial funding.

In addition to the above pressures, staff have identified a number of potential risks. These risks include:

- no provision for wage increases. A 2% COLA would require about $8 million and add about 1.2% to the residential municipal tax impact
- loss of Ontario bus replacement program funding
- legislative requirements within the winter control program
- minimum maintenance standards to adequately defend against liability claims (roads / sidewalks)
- potential adequacy of development fee stabilization reserve
• job evaluations (report forthcoming)
• non-union percentile movement/adjustments

2011 Proposed Budget Guidelines

Staff are proposing a budgetary guideline for the Boards & Agencies of at or below inflation. An inflationary guideline is also being recommended for the 2011 user fees. With respect to the 2011 departmental budgets, staff are advising that a specific target not be adopted pending development of the labour relations strategy. Until such time, staff will develop program budgets to achieve the lowest possible tax increase while not impacting current service levels.

2011 Proposed Budget Schedule

The proposed budget schedule for 2011 is identified in Appendix A to report FCS10055. Typically, preliminary budget deliberations are scheduled to commence in September/October of each year, however, due to the municipal election, as well as the pending labour negotiations strategy scheduled for late December/early January, the budget deliberations of the Tax Operating budget is being proposed not to commence until late January, 2011.

The Rate and user fees process is expected to continue similar to previous years and is projected to be completed by December, 2010.

Staff will work with Clerks to incorporate the required budget meetings into the 2011 Committee Calendar expected to go forward in July/August, 2010. The proposed budget schedule is attached as Appendix A to this report.

ALTERNATIVES FOR CONSIDERATION:

(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Council can elect to commence budget deliberations in December following the inaugural meeting of Council (rather than late January, 2011), however this would be prior to receiving the proposed labour negotiations strategy, which will ultimately have an impact on the deliberations.
CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)


Skilled, Innovative & Respectful Organization
- More innovation, greater teamwork, better client focus
- Council and SMT are recognized for their leadership and integrity

Financial Sustainability
- Financially Sustainable City by 2020

APPENDICES / SCHEDULES

Appendix A – Proposed 2011 Budget Schedule
## 2011 Budget Schedule

<table>
<thead>
<tr>
<th>Date</th>
<th>Events</th>
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<tbody>
<tr>
<td>December 13-15, 2010</td>
<td>• Rate (Operating &amp; Capital) budget</td>
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<tr>
<td>(meeting dates</td>
<td>• User fees (including transit)</td>
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<tr>
<td>have already been</td>
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<td>scheduled)</td>
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<tr>
<td>Early January, 2011</td>
<td>• Tax Capital budget</td>
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<tr>
<td>Late January, 2011</td>
<td>• Distribution of Tax Operating Budget Book</td>
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<tr>
<td>First week of</td>
<td>• Special Budget Committee of the Whole – corporate overview,</td>
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<tr>
<td>February, 2011</td>
<td>revised tax budget pressures</td>
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<td>February, 2011</td>
<td>• Standing Committees – departmental budget</td>
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<td>overviews, deliberations</td>
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<tr>
<td>March, 2011</td>
<td>• Special Budget Committee of the Whole – public delegations,</td>
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<td></td>
<td>Boards &amp; Agencies, deliberations</td>
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<tr>
<td>Early April, 2011</td>
<td>• Final Council approval – 2011 Tax Operating Budget, Tax Policies</td>
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<td>(inclusive of Area Rating)</td>
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Actual meeting dates to correspond to the above schedule will be incorporated into the 2011 Committee Calendar, expected to be approved by Council in July/August 2010.