SUBJECT: 2007 Budget Enhancement for Economic Development Division (PED07134) (City Wide)

RECOMMENDATION:

(a) That the 2007 Budget enhancement for the Economic Development Division as set out in PED07134, including an increase in staff complement by four (4) full time employees, be approved.

(b) That the 2007 cost estimated at $182,000 be funded from the Tax Stabilization Reserve as a one-time expenditure and that the annualized impact of $486,000 commencing in 2008 be funded from the levy.

(c) That the Economic Development Division be required to generate an increase of $486,000 in taxes attributable to incremental new assessment in 2008 to offset the impact to the levy.

Lee Ann Coveyduck
General Manager
Planning and Economic Development Department

EXECUTIVE SUMMARY:

Pursuant to Council direction of March 29, 2007, staff was directed to prepare a report on Budget enhancements for the Economic Development Division. Hamilton’s funding on Economic Development, particularly on a per capita basis, is considerably lower than the majority of urban centres in Ontario and across the country. These Budget enhancements will increase both the complement and program dollars in the Division. Performance measures will be assigned with the approval of these enhancements.
Funding for 2007 will be from the Tax Stabilization Reserve on a one-time basis as no expenditures are anticipated until the fourth quarter. The 2008 annualized costs will be covered by taxes generated from incremental increased assessment growth attributable to the enhancement.

**BACKGROUND:**

The 2007 Base Budget for the Economic Development Division, exclusive of Tourism Hamilton’s Budget, is $1,819,330. For this funding, the Division provides business attraction, retention and expansion services as well as the publication of all business/economic statistics, marketing and promotion of the City of Hamilton.

Unlike the majority of municipal and privately-led economic development organizations in Canada, Hamilton’s Economic Development Division also has responsibility for the delivery of a number of specialized services. These include a Small Business Enterprise Centre, a Business Incubator, a Film and Television Office, a Brownfields Office, Industrial Park Development and Sales, and the management of an Airport Lease Agreement.

When the cost of providing these additional services is extracted from the Division’s Current Budget, it becomes clearly evident that Hamilton’s economic development efforts are significantly under funded (see Appendix A for analysis). Although Hamilton is recognized as a national leader in innovative practises (i.e. web-site, on-line directory, etc.) in the profession, the Division’s lack of resources leaves Hamilton lagging far behind in the critical areas of external marketing, investment attraction, international trade, and Provincial/Federal lobbying.

The Business Development Section’s current complement totals sixteen (16) but when the positions related to administration and the delivery of special services are removed it drops to seven (7). Again, this is a number that is very small for a municipality of a half a million people and over 17,000 businesses. In comparison, Halifax has a total of 33 staff delivering the same basic economic development services.

A flat organization structure has been employed since amalgamation which has the advantage of increasing the management/staff ratio but it unfortunately sacrifices management control (i.e. the Executive Director has fifteen (15) direct reports). This existing organization structure is also absent of another critical function and that is the dedication of a senior position exclusively for marketing Hamilton as a location for business.

The annual work plans for staff in the Economic Development Division are based on the short and long-term deliverables that have been identified and approved in its community based Economic Development Strategy, a document that has been recognized both Provincially and nationally. The third version of this Strategy is currently being redrafted and it is anticipated that it will be before Council for final approval this Fall. Due to the massive structural changes in the City’s economy over the last three years, this Strategy will be significantly different than previous versions. It
will also require the allocation of these additional resources in order to compensate for the increased workload required to rebuild the assessment and replace the job losses now being experienced in Hamilton.

Consequently, there must be sufficient funding in place to deliver the approved Strategy and to increase the business attraction and marketing activities for the City. It is recommended that any increases in the Division’s Budget be implemented incrementally as opposed to an immediate “doubling” of the Current Budget. This “staging” of funding has a number of advantages: 1) a smaller impact on the levy; 2) it provides sufficient time for proper recruitment; 3) the ability to properly plan for the implementation of the Strategy and Council direction on the economy; and 4) the identification of specific deliverables and performance measures related to the new positions and resources.

There are four (4) positions that are required immediately that would provide new assessment growth to the City - a Manager of Business Development (that was eliminated at amalgamation) which will focus solely on business retention and expansion efforts; a Manager of Marketing and Business Attraction who will be a senior level position with knowledge of “global” business trends and changing needs of business. This position’s responsibility would also include proactive strategy with other levels of government as well as with key partners for economic development; and a Business Analyst position with the specific responsibility of undertaking research on the economic trends in various business sectors in Hamilton (not the Hamilton CMA) and recording established performance measures related to the local economy and the Division. The fourth position would be administrative support to these new additions to the complement and to supplement the existing Administrative Assistant and the Administrative Clerk positions for the entire Division. The estimated cost of these four (4) positions including benefits would be approximately $386,000 per annum. These are positions that can be found in virtually all municipal and private organizations across the country. For example, the recently restructured Windsor-Essex Economic Development Corporation just added both of these management functions at the Director level and also added a Director of Innovation. Finally, at least $100,000 will be required for programs related to this new emphasis on marketing and business attraction. Without program dollars the new positions/Division will not be able to implement the Strategy and Council direction related to economic development.

**ANALYSIS/RATIONALE:**

The Economic Development Division is both under-staffed and under-funded in program dollars to properly deliver on the basic attraction, retention and expansion services. When the added responsibilities of Brownfields, Film, Small Business, Incubator, Industrial Land Development and Sales, and the Management of the Airport P3 Agreement are considered, the Division provides exceptional value for the taxpayers’ dollar.
Results: Performance Measures and Benchmarks

If the budget enhancement is approved, job descriptions, job evaluation reviews and recruitment will take four (4) to six (6) months before all positions are filled. Results from the addition of these positions will, therefore, be predominantly felt in 2008 and not 2007.

Additional new assessment growth will be one of the main measures used to determine the benefit of adding the positions. As highlighted in the April 3, 2007, Economic Development and Planning Committee meeting, there is a large differential in the assessment growth in the former suburbs of the Region of Hamilton-Wentworth compared to old City of Hamilton. The large negative growth numbers in the old City of Hamilton’s non-residential classes are the result of many uncontrollable factors like tax write-offs, assessment appeals, demolition, and abandoned/Brownfield properties. And due to the magnitude of these classes they “drag” the overall performance of the City down. It is therefore proposed that separate targets for assessment growth be established for the former City of Hamilton (to be delivered by the Brownfields Office) and the remainder of the municipality. It should also be noted that any gains in the City’s assessment usually do not appear on the rolls for over a year because of the lag effect from land acquisition to completion of construction to the time the new investment actually hits the assessment rolls. Staff is confident that starting in 2008 the addition of these positions will bring in new incremental assessment growth that will compensate for the cost of the enhancement. This will be tracked. If the additional assessment growth does not occur, then consideration for cutting back the positions should be examined at that time.

A second measure will be the creation of new jobs and with the addition of the Business Analyst, the Division will have the resources to start tracking new jobs as well as setting measures. The remainder of the Division’s performance measures will be linked directly to the Economic Development Strategy, that is currently being developed, and the annual work plans of staff.

**ALTERNATIVES FOR CONSIDERATION:**

The alternatives to approving the program enhancements as presented are either to approve a portion of the enhancements or remain at status quo for the Division’s Budget and complement.

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

**Staffing:** An increase of four (4) new positions to the complement – Manager of Business Development, Manager of Marketing and Business Attraction, a Business Analyst and an administrative support position.

**Legal:** None
Finance: The maximum anticipated cost to be incurred in 2007 is $182,000 because of the delayed start. It is recommended that the 2007 cost be funded from the Tax Stabilization Reserve as a one-time expenditure and that the annualized impact of $486,000 commencing in 2008 be funded from the levy.

The Economic Development Division will be required to generate an increase of $486,000 in taxes attributable to incremental new assessment in 2008 to offset the annualized cost of the enhancement.

POLICIES AFFECTING PROPOSAL:
N/A

RELEVANT CONSULTATION:
Corporate Services Department

CITY STRATEGIC COMMITMENT:
By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Community Well-Being is enhanced. ☑ Yes ☐ No
The public are involved in the definition and development of local solutions.

Environmental Well-Being is enhanced. ☑ Yes ☐ No
Human health and safety are protected.

Economic Well-Being is enhanced. ☑ Yes ☐ No
Investment in Hamilton is enhanced and supported.

Does the option you are recommending create value across all three bottom lines? 
☑ Yes ☐ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? 
☐ Yes ☑ No

NE:db
Attach. (1)
APPENDIX A : Budget Enhancements – Economic Development Division

Current Economic Development Budget (All Services)

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>503,770</td>
</tr>
<tr>
<td>Business Development *</td>
<td>1,178,050</td>
</tr>
<tr>
<td>Incubator</td>
<td>13,140</td>
</tr>
<tr>
<td>Small Business Centre</td>
<td>124,370</td>
</tr>
<tr>
<td><strong>Total Net Levy</strong></td>
<td><strong>$1,819,330</strong></td>
</tr>
</tbody>
</table>

* Cost of Additional Services included in Business Development function:*

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brownfields’ Office</td>
<td>140,000</td>
</tr>
<tr>
<td>Film Office and Television Office</td>
<td>200,000</td>
</tr>
<tr>
<td>Airport Management</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Sub -Total Costs</strong></td>
<td><strong>$365,000</strong></td>
</tr>
<tr>
<td>Incubator</td>
<td>13,140</td>
</tr>
<tr>
<td>Small Business Center</td>
<td>124,370</td>
</tr>
<tr>
<td><strong>Total Costs of Additional Services</strong></td>
<td><strong>$502,510</strong></td>
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</table>

Current Economic Development Budget (Basic Services)

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
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</thead>
<tbody>
<tr>
<td>Administration **</td>
<td>503,770</td>
</tr>
<tr>
<td>Business Development</td>
<td>813,050</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,316,820</strong></td>
</tr>
</tbody>
</table>

** includes salaries, rent, telephones, parking, office supplies, etc