SUBJECT: Mitigation of Potential 2008 Tax Operating Variance (CM08023) (City Wide)

RECOMMENDATION:

That the mitigation measures contained within the Executive Summary of CM08023, be approved.

Joseph L. Rinaldo, Acting City Manager

EXECUTIVE SUMMARY:

In July of 2008, Council received the first operating variance report which included a projected deficit for 2008 tax operations of ($7.6 million). The report included a recommendation that staff report back on potential mitigation measures by August of 2008. The majority of this projected variance ($5.3 million) relates to Public Works operations, with the remainder ($2.4 million) relating primarily to gapping shortfall and Recreation division shortfall.
The following identifies about $6.0 million in mitigation options. None of these options materially affects services to taxpayers. If approved, these mitigation options would reduce the deficit to about $1.6 million. Staff are recommending that the City proceed with these options and revisit the variance projections in October when the next variance report is scheduled for Council. Alternatively, service level impacts would be the next options presented.

The following highlights the staff recommendations:

**Updated Forecasts:**
- Updated projection of non-program revenue - $500,000
- Updated projection of debt charge savings - $1.0 million
- LCBO Interim Blue Box Funding – estimated additional $100,000
- New funding announcement for Household Hazardous Waste Program - $50,000

**Non-Service:**
- Transfer of $1.2 million in base budget from the corporate contingency to Recreation Services ($1.1 million) and Customer Contact Centre ($56,000) to offset the impact of CUPE 5167 contractual changes. The contingency is available from a provision made for 5167 job evaluation (JE) impacts. The 5167 JE has been implemented and the cost was less than the contingency.
- Transfer of $0.4 million in base budget from corporate contingency to program areas impacted by the new statutory provincial holiday (“Family Day”).
- Limitations on discretionary spending.
- Delayed hiring to increase gapping in non-essential positions.

**Use of Reserves:**
(only implemented if the deficit remains at year-end)
- Gas Tax funding to partially offset Transit shortfall - $800,000.
- Winter Control reserve - $1,800,000.
- Reduce transfer to Fleet reserve by $145,000.

**Service Impacts:**
- None recommended at this time.

**Tax Stabilization Reserve**

The tax stabilization reserve is available to fund operating budget shortfalls that may occur. Currently, net of prior commitments, the reserve has a balance of about $3.0 million. Ideally, the reserve would have approximately $30.0 million balance based on the approved reserve policy (representing about 5% of the levy). Utilizing all of the remaining reserve fund would leave the City in a fiscally precarious position for 2009. Staff are not recommending a planned use of the reserve to mitigate the deficit, however, Council should be aware of this should the mitigation options not completely eliminate the deficit at year-end.
BACKGROUND:

In July of 2008, Council received the first operating variance report which included a projected deficit for 2008 tax operations of ($7.6 million). The report included a recommendation that staff report back on potential mitigation measures by August of 2008.

ANALYSIS/RATIONALE:

The following provides additional information related to the variances and mitigation measures addressed within this report.

Revised Projections

Staff have completed a thorough review of non-program revenue and estimate an additional $500,000 will be achieved by year-end. Revenue within this category include supplementary taxes, penalty and interest and payments-in-lieu.

As well, debt issuance has been completed and an additional $1.0 million in savings is anticipated.

Public Works staff have identified two positive revenue variances. First, the LCBO Interim Blue Box Program funding is expected to provide an additional $100,000. As well, recently announced household hazard waste funding from the Province should amount to about $50,000.

Non-Service Related Options

CUPE 5167 Contract Obligations

Coinciding with the recent CUPE 5167 negotiated agreement, a significant number of largely part-time positions were deemed to be part of 5167 that were previously non-union. Incorporation into the CUPE agreement affected a number of pay provisions including stat pay, shift premiums and pay-in-lieu. This largely affected the Recreation Division which employs a significant part-time staffing including life guards, snack bar attendants and recreation program staff. The impact is about $1.1 million.

The impact is recommended to be funded from a contingency made in the 2008 budget related to the recent 5167 Job Evaluation (JE). The impact in 2008 of the 5167 JE was estimated to be about $5.0 million. The actual impact in 2008 is less than this and there is sufficient funds to cover the Recreation budget shortfall. Part of this contingency surplus is due to the impact that will occur in future budgets as the employees that were moved to an increased pay grid, move through the steps in that grid. However, this impact will be spread out over time and staff are recommending that, part of the available funds from contingency, be used to offset the 5167 part-time and language impacts of $1.1 million.
Family Day
The 2008 budgeted corporate contingency provided for $400,000 to offset potential impacts of the new statutory holiday. Staff are recommending that these funds be allocated based on actual costs incurred to offset program variances.

Other
Staff will be monitoring to ensure all discretionary spending is limited. Also, hiring of non-essential employee vacancies will be delayed to facilitate gapping savings.

Use of Reserves

The following reserves would be used to offset program specific deficits should an overall corporate deficit be realized in 2008:

Winter Control Reserve – Current projected balance is about $1.9M. Based on current operating deficit, this reserve could be wiped-out by end of 2008.

Use of Gas Tax Revenue to offset Transit Deficit – The current transit deficit is projected to be about $800,000. Use of gas tax revenue to fund the deficit will reduce the amount available for future projects.

Reduce transfer to Fleet reserve by $145,000 – This will partially offset the variance due to fuel cost increases. Using the funds for this purpose will reduce the amount available for replenishment of the fleet.

**ALTERNATIVES FOR CONSIDERATION:**

Council could consider more intensive mitigation measures such as service level reductions, however, staff are recommending proceeding with the aforementioned measures combined with further monitoring of the potential 2008 deficit. The next variance report will be presented to Council in the Fall of 2008 (likely October).

**FINANCIAL/STAFFING/LEGAL IMPLICATIONS:**

These implications are highlighted in the Executive Summary and Analysis sections of the report.

**POLICIES AFFECTING PROPOSAL:**

N/A

**RELEVANT CONSULTATION:**

All departments were consulted.
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

Environmental Well-Being is enhanced.  □ Yes  ☑ No

Economic Well-Being is enhanced.  ☑ Yes  □ No

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