SUBJECT: Proposed 2010 Budget Process (FCS09065/CM09010) (City Wide)

RECOMMENDATION:

That Option Two, as per Table One, be selected as the process for the 2010 Budget.

Roberto Rossini
General Manager
Finance and Corporate Services

Chris Murray
City Manager
EXECUTIVE SUMMARY:

Following the end of the 2009 budget process, senior staff met with Councillors to solicit feedback on the process, issues and possible changes for 2010. A number of themes were fairly consistent from this feedback:

- The 2009 Rate budget and Tax Capital budget process went well and the same process and timeline should be followed for 2010.
- That dealing with the HSR budget and User Fees in the Fall is ideal.
- The 2009 Tax Operating budget process is improving, but is still too long, with a later than desired approval date. Staff and Council should work towards an earlier completion.
- Sending the tax operating budget to Budget Steering Committee (BSC), after Standing Committee and before Committee of the Whole, did not add value and only served to lengthen the budget process.
- That the role of Budget Steering Committee may be best suited to setting process, guidelines and timelines and dealing with the rate and tax capital budgets.
- That, while improvements are welcome, the current public engagement process was acceptable.

The first step for the 2010 budget is to select a process. Once this is set, staff will engage either CoW or BSC quickly to provide an outlook, set timelines, determine budget guidelines (targets), set roles/terms of reference for committees and update strategic initiatives (Strategic Plan, Financial Sustainability Planning). Currently the inaugural BSC/CoW meeting for the 2010 budget process are scheduled for the week of July 6, 2009.

Based on the feedback provided in the Councillor meetings, there was an interest in keeping a role for BSC, but streamlining the process. Therefore, staff are recommending Option Two which has BSC involved in the front end of the process, setting timetables and guidelines, etc. while eliminating BSC from the actual deliberations phase. Deliberations would be done at standing committee and forwarded directly to CoW.

BUDGET PROCESS OPTIONS

A number of options have been developed based on Council feedback. It should be noted that under all options, Councillors will continue to receive all materials/information and be welcomed to each budget meeting.
Table One highlights the budget process options that have been developed:

Table One

<table>
<thead>
<tr>
<th>Options</th>
<th>Preliminary Process</th>
<th>Presentations / Deliberations</th>
<th>Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status Quo</td>
<td>BSC</td>
<td>Standing Committee - BSC</td>
<td>CoW</td>
</tr>
<tr>
<td># 2</td>
<td>BSC</td>
<td>Standing Committee</td>
<td>CoW</td>
</tr>
<tr>
<td># 3</td>
<td>CoW</td>
<td>Standing Committee</td>
<td>CoW</td>
</tr>
<tr>
<td># 4</td>
<td>CoW</td>
<td>CoW</td>
<td>CoW</td>
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</tbody>
</table>

Note: For Rate & Capital, budgets will be submitted to either BSC or CoW based on option chosen above, not standing committee.

Table Two in the “Analysis” section of this report provides an explanation of the options and provides some comment on the merits of each. This section also provides some preliminary information with respect to the financial challenges that the City may face in 2010. As well, a draft timeline has been developed; however, this timeline will be subject to change based on the budget process option selected by Council.

As indicated, based on the feedback, the process for the Rate and Tax Capital budgets was well received in 2008 and 2009. For the Tax Capital budget BSC was utilized for the preliminary process and then submission to CoW. The Rate budget utilized CoW. If Council chooses Options #3 or #4, Rate and Capital budget process will be conducted solely within CoW.

**BACKGROUND:**

In 2008, Council approved a new budget process. The revised budget process comprised a course of actions that included utilizing BSC for guidelines and timetables and the submission of tax supported budgets for each department to their respective Standing Committees. The Standing Committee approved budgets were submitted to the Budget Steering Committee made up of the Mayor and Chairs of each Standing Committee. The total of the budget was then approved and submitted to Committee of the Whole for consideration. Finally, the budget was deliberated at Council.

Each Committee received a budget report outlining the departmental submissions relevant to their Committee. The Standing Committees deliberated the requested budgets, referred enhancements and requested program enhancements. When deliberations were completed, the departmental budget was submitted to BSC highlighting any recommended amendments.
The Rate budget and Tax Capital budget were submitted directly to CoW. This process was followed again for the 2009 budget.

**ANALYSIS/RATIONALE:**

**PROCESS OPTIONS**

The following table provides an overview of each option and a brief discussion on merits of each.

**Table Two**

<table>
<thead>
<tr>
<th>OPTION</th>
<th>OVERVIEW</th>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status Quo</td>
<td>- Represents the process followed for the 2008 and 2009 budgets</td>
<td>- BSC acts as steering group with a corporate perspective, made up of committee chairs</td>
<td>- Based on the majority of feedback, BSC deliberations after standing committees were not productive and did not add value to the process. In two budget years, BSC made no amendments</td>
</tr>
<tr>
<td>Preliminary Process: BSC</td>
<td>- BSC is utilized for preliminary budget process (guidelines, timelines, etc.)</td>
<td>- Provides opportunity to vet recommendations coming out the standing committees; seek additional information or clarification</td>
<td>- Standing committee and BSC may not be perceived as inclusive as CoW</td>
</tr>
<tr>
<td>Staff Presentations /Deliberation: Standing Committee to BSC</td>
<td>- formal budget report and presentations are submitted to the standing committees</td>
<td>- designed to be a more detailed process with standing committee and BSC having the opportunity to review prior to CoW</td>
<td>- This option extends the length of the process</td>
</tr>
<tr>
<td>Approval: CoW</td>
<td>- Standing Committees then recommend any amendments to BSC for deliberations</td>
<td>- Adds presentation requirements</td>
<td>- Potential requirement for additional presentation of standing committee info at CoW (ie. process can be repetitive)</td>
</tr>
</tbody>
</table>

<p>| #2 Preliminary Process: BSC   | - utilizes BSC at the beginning of the process to make recommendations re: guidelines, timelines and other preliminary issues | - less time intensive for Council members regarding mandate for BSC | - Standing committee and BSC may not be perceived as inclusive as CoW |
| Staff Presentations /Deliberation: Standing Committee | - formal budget report and presentations are submitted to the standing committees | - detailed review at standing committee level utilizes the committee’s knowledge of the programs | - Potential requirement for additional presentation of standing committee info at CoW (ie. process can be repetitive) |
| Approval: CoW                 | - standing committees forward recommendations to CoW for further deliberations and approval | - more flexibility in scheduling BSC meetings compared with CoW | |</p>
<table>
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<tbody>
<tr>
<td>#3 Preliminary Process: CoW</td>
<td>- utilizes CoW at the beginning of the process to set guidelines, timelines and discuss other preliminary issues</td>
<td>- CoW provides an inclusive forum for providing staff direction during the development of the budget</td>
<td>- Standing committee may not be perceived as inclusive as CoW</td>
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<tr>
<td></td>
<td>- formal budget report and presentations are submitted to the standing committees</td>
<td>- once budget is submitted, standing committees can utilize their detailed understanding of the programs</td>
<td>- Potential requirement for additional presentation of standing committee info at CoW (i.e. process can be repetitive)</td>
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<td>- standing committees forward recommendations to CoW for deliberations and approval</td>
<td></td>
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<tr>
<td>Approval: CoW</td>
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<tr>
<td>#4 Preliminary Process: CoW</td>
<td>- utilizes CoW for all steps in the budget process, i.e. sets guidelines, timelines and discusses other preliminary issues; hears all staff presentations; receives budget report for all Departments; deliberates all budgets and approves final budget</td>
<td>- CoW may be perceived as more inclusive than BSC and Standing Committees</td>
<td>- discontent with CoW process led to change in 2008</td>
</tr>
<tr>
<td>Staff Presentations /Deliberation: CoW</td>
<td>- All Councillors receive and debate information at the same time.</td>
<td>- All Councillors receive and debate information at the same time.</td>
<td>- potential for longer meetings</td>
</tr>
<tr>
<td>Approval: CoW</td>
<td>- Avoid potential of standing committees working in “silos”</td>
<td>- More difficult to provide detailed program info at larger committees</td>
<td>- More difficult to provide detailed program info at larger committees</td>
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<td></td>
<td></td>
<td>- more difficulty regarding scheduling</td>
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Assumptions:
1. All budget materials regardless of process will be available to all members of Council.
2. All members of Council have the opportunity to attend any and all committee meetings.
3. Final approval for all recommendations rest with Committee of the Whole.

In addition to the above, roles and terms of each committee would need to address how recommendations flow from one committee to the next. Recommendations to reduce or add to the budget must be clear and provide the next committee (BSC or CoW) the opportunity to review. Some Councillors specifically expressed concern that savings identified by standing committees were being re-invested within that committee’s programs when they should be considered in context of overall corporate needs.

**POTENTIAL TIMELINE**

A sample timeline has been provided for Council’s information. The timeline will be refined based on the budget process option chosen by Council. A formal schedule will be presented to BSC/CoW during the summer.
The Rate budget and Tax Capital budget follow a timeline similar to 2009. The Tax Operating budget (Tax Levy) timeline provides for presentations to occur about a month earlier than 2009. This schedule is dependent on the option chosen and will be updated and presented to the first meeting of either BSC / CoW.

### 2010 PRESSURES

#### Tax Supported Levy

Consistent with each budget cycle, the process starts with a review of the major pressures that may need to be addressed. For 2010 a number of significant issues have been identified thus far. These include:

**Economic Downturn**

The economy is affecting many of the City’s program costs and revenues. This includes:
• Assessment Growth – Currently staff are projecting 0% - 0.5% assessment growth for 2010.

• Building / Planning Fees and Revenue – The 2009 budget included the use of about $1.5m - $2.0m in reserves to offset expected revenue declines. Staff are currently reviewing estimates for 2010, and if the trend continues, a combination of cost reductions and further reserve use may be required. If required, options will be introduced during the budget process for Council consideration.

• Social Assistance Caseloads – OW and ODSP caseloads have risen significantly. Staff are currently reviewing trends and consulting with the Province with respect to estimates for 2010. Also, staff will pursue funding of any shortfall in these programs through the OMPF grant.

• Tax Write-offs – Currently staff have not seen a significant increase in assessment write-offs, however, a prolonged slump in the economy will likely result in lost revenue. One area that will certainly see a significant increase is the vacancy rebate program.

• Commodity prices for Recyclables – as reported during the 2009 budget process, recycling revenues have dropped off significantly. Reserve use will mitigate this partially for 2009, however, this could be a significant pressure for 2010.

Other Items

• Provincial Funding – While the Province continues to upload significant costs in 2010, the OMPF grant will decrease a commensurate amount, resulting in no net benefit of the ODSP upload in 2010.

• The City will still require $16.5 million provincial funding reliance for 2010.

• Collective Agreements – Settlements for a number of the larger unions within the City are impacting labour costs for COLA in the area of 3%. A number of other significant unsettled contracts will be dealt with in 2009, likely impacting 2010.

• Potential for OMERS to increase contribution rates for 2010.

• Capital Financing – a planned 0.5% levy increase to support the capital program.

• Risk Management – Claims and premiums are expected to increase for 2010. As well, reserve contributions funding the program are not sustainable.
Harmonized Sales Tax (HST) – Currently the City is exempt from Provincial Sales Tax for most of our purchases. The HST may result in additional costs due to taxes being charged for purchased services and commodities. Staff will be submitting a report to A&A committee with respect to the HST issue.

In addition, staff are reviewing the strategic planning targets and preparing a discussion on priorities and resourcing for the strategic plan.

Water / Wastewater Rates

Rate supported services are facing considerable pressures for 2010 related to both significant capital financing requirements and declining commercial and industrial revenue.

PUBLIC ENGAGEMENT

Public engagement is an important component during the budget process and it has been the City's practice to provide an opportunity for citizens to address Council during the political review process. Over the past several years, staff has attempted to conduct public meetings and "road shows", however this approach has proven to be an ineffective way of soliciting citizen feedback.

Based on the Council feedback, for the 2010 budget process staff are recommending to maintain the public delegation meeting held during deliberations. As well, staff are planning a Budget Information Session when the tax budget is ready to be released with invitations to the boards and agencies to attend. Boards and Agencies will also be invited to CoW/BSC when an update of the budget outlook is presented in October.

Staff will also increase communication to Council and the public throughout the process through increased committee involvement, web based information, media releases and other measures. Enhanced opportunities for public engagement and feedback will also be explored.

ALTERNATIVES FOR CONSIDERATION:

Staff have provided Council with a number of alternatives for consideration in the executive summary to this report.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

There are no financial, staffing or legal implications incorporated within this report.

POLICIES AFFECTING PROPOSAL:
N/A

**RELEVANT CONSULTATION:**

All departments were consulted in the development of this recommendation.

**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