

CITY OF HAMILTON

CORPORATE SERVICES DEPARTMENT
Financial Planning & Policy Division

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: September 12, 2011	
SUBJECT/REPORT NO: 2012 Tax Budget Guideline and Preliminary Outlook (FCS11074) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department	PREPARED BY: T Hewitson (905) 546-2424 ext 4159 M Di Santo (905) 546-2424 ext 6247
SIGNATURE:	

RECOMMENDATION

- (a) That 2012 user fees (excluding golf, transit and ice fees) be increased by an inflation rate of 2.2%, and that any user fee adjustments, other than inflationary, be forwarded for consideration with appropriate explanation;
- (b) That Boards & Agencies be requested to submit a 2012 budget based on a guideline of 0% increase, and that any increase be forwarded for consideration with appropriate explanation;
- (c) That, in an effort to achieve the goal of an overall tax impact of zero percent for City Services, all City departments target a 2012 budget guideline of 0% increase, and that any increase be forwarded for consideration with appropriate explanation.

EXECUTIVE SUMMARY

The 2012 tax operating budget guidelines and preliminary pressures / risks (outlook) are submitted for Council's consideration. The budget process and schedule has already been approved by Council (August, 2011) through staff report FCS11050 "2012 Budget Process and Draft Timeline".

In concurrence with the 2011 budget, the budget guideline for 2012 continues to call for a goal of a zero percent increase. During the 2011 budget process, Council's messaging was clear that this was the objective during this term. While it will be difficult to meet this guideline, given the pressures identified further in this report, the City's Senior Management Team are resolved to make every effort to achieve this objective.

Staff have initiated the internal budget process for 2012. During a scan of the 2012 tax budget, each department provided a list of potential pressures / risks.

The Table below identifies the current preliminary pressures / risks for 2012.

	2012 Preliminary Pressures / Risks
City Departments	\$32.2 million
Boards & Agencies	\$5.6 million
Capital	\$3.4 million
Less: estimated growth and reassessment benefit (1.3%)	(\$8.7 million)
2012 Preliminary Pressures / Risks	\$32.5 million

As shown above, staff have identified preliminary tax operating budget pressures / risks of approximately \$32.5 million for 2012. This is inclusive of an estimated assessment growth of -1.0% and reassessment benefit of -0.3%, which translates into an estimated \$8.7 million. A 1% municipal tax impact is equivalent to about \$6.7 million. The \$32.5 million in net pressures / risks identified above would translate into a 4.8% projected residential tax increase if no mitigating budget measures are undertaken. The "Analysis / Rationale for Recommendation" section of this report provides more details on the specific pressures / risks.

As indicated, staff have begun the detailed budget process and, as such, the pressures and risks will be thoroughly reviewed to ensure that the 2012 budget request minimizes the impact to the levy. Staff will be providing an update at the budget workshop planned for October/November, 2011.

Where the 2012 budget guideline takes into account inflation (in the case of user fees), staff are proposing to use a rate of 2.2% based on the Ontario CPI (all items, excluding energy) average for the last twelve months (June 2010 – May 2011). It should be noted, however, that the Ontario CPI (all items) during this same time period is 3.1%.

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

Financial: The preliminary tax operating budget pressures/risks identified within this report total approximately \$32.5 million (inclusive of estimated growth/reassessment benefit of 1.3% and user fee increases).

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

Legal: N/A.

HISTORICAL BACKGROUND (Chronology of events)

The 2011 tax operating budget approved by Council in April, 2011, resulted in an average city-wide residential tax impact of 0.8%. This represented the lowest residential tax impact since amalgamation. Council has expressed their intent to continue this trend and, as such, staff are recommending a 2012 budget guideline similar to the 2011 guideline, being a goal of zero percent.

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 / risks for 2012.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

2012 Preliminary Tax Budget Pressures / Risks (Outlook)

A number of pressures / risks have been identified for 2012, as shown in the following Tables.

CITY DEPARTMENTS

Approximately \$32.2 million in preliminary 2012 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	\$3.9 M
- Merit / Step Increases	\$4.0 M
- OMERS	\$2.2 M
- Government Benefits	\$0.5 M
- Employer Benefits	<u>\$1.1 M</u>
TOTAL	\$11.7 M

The above salary/wage compensation pressures / risks take into account the recently settled contracts (i.e. CUPE Local 5167 @ 1.9%; Fire Local 228 @ 3.48%), as well as an allowance for non-settled contracts. The identified benefits pressures take into account the latest OMERS published rates, EI rate increase of \$0.10 per \$100 of insurable earnings, an increase to CPP earnings limit and an estimated increase of approximately 4% in employer benefits.

These compensation estimates are based on preliminary 2012 budget estimates as at the end of June 2011 and assume full cost sharing by the Province for all cost shared programs.

Pre-Approvals / Annualizations

	Levy Impact \$
Pre-approvals / Annualizations:	
- Operating Impacts from Capital	\$2.5 M
- Pedestrian Traffic Signals (FCS10040) – maintenance	\$0.1M
- Street Tree Trimming / Emerald Ash Borer Control (PW10088)	TBD
- HRPI Dividend (FCS11002)	<u>\$0.1M</u>
TOTAL	\$2.7 M

The main pressure / risk identified above is with respect to operating impacts from capital. As part of the annual Capital budget approval, staff identify the operating costs related to these approved Capital projects. Through staff report FCS11011(a) “2011 Tax Supported Capital Budget”, Council approved “*That the operating impacts of the 2011 capital budget, estimated to be \$1,100,000, be approved and incorporated into the 2012 Tax Support Operating Budget*”. The above pressure of \$2.5 million includes this approved operating impact from capital of \$1.1 million, plus \$1.4 million related to the 2012 operating impacts from the various ISF capital projects.

Provincial Impacts

	Levy Impact \$
Provincial Impacts:	
- Provincial Upload:	
- OW Upload: from 18.8% in 2011 to 17.2% in 2012 (-\$2.2 M)	
- Court Security Upload (Police): 14% in 2012 (-\$0.6 M)	
- Removal of Budgeted Grant (\$4.0 M)	
- Net Provincial Upload Impact	\$1.2 M
- OLG: Reduction of Municipal Share of Revenues	<u>\$0.1 M</u>
TOTAL	\$1.3 M

Staff are estimating the upload shortfall in 2012 to equate to \$1.2 million, which is significantly less than the 2011 upload shortfall of \$4.0 million. The 2012 upload shortfall of \$1.2 million is calculated based on the estimated OW upload savings of \$2.2 million (which is based on the 2011 OW Caseload projections) plus estimated court security upload savings of \$600,000, less the \$4.0 million upload shortfall included in the 2011 base budget. The assumption is that the Province will not fund this estimated shortfall of \$1.2 million and, as such, staff have identified it as a pressure / risk in 2012.

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Although the Province declined the City's request to fund the \$4.0 million shortfall in 2011, this issue has been referred to the Fairness to Hamilton Campaign Sub-Committee. The 2012 Outlook does not assume receipt of the projected \$1.2 million provincial funding shortfall. It is expected that the City of Hamilton will finally see a net benefit of this upload in 2013.

Although the upload savings in court security costs is noted within the "City Departments" section of this report (above), it is anticipated that the savings will occur within the Police Services budget. It is combined in this section to give a full picture of the provincial upload impacts.

As reported to Council in August, 2011, the accounting change implemented by the OLG will result in a revenue reduction of \$110,000 in 2012. Staff report FCS11065 "Reduced Flamboro Slot Revenue Due to OLG Accounting Change" recommends that the OLG amend the Racetrack Municipal Contribution Agreement to ensure that the City's revenue is not adversely impacted.

Corporate Impacts

	Levy Impact \$
Corporate:	
- Inflationary / Contractual Requirements	\$8.3 M
- User Fees (excluding Transit, Ice, Golf)	(\$1.5 M)
- Energy (Fuel, Natural Gas, Electricity)	\$2.1 M
- Cost Allocation Review – Implement cost shift from Rate / Capital Budget to Tax Budget (3 yr phase-in)	\$0.6 M
- Risk Management – Phasing out contribution from reserve	\$0.3 M
- Lister Block Operating Costs	<u>TBD</u>
TOTAL	\$9.8 M

A potential pressure / risk of approximately \$8.3 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 -\$1.5 million. This estimated increase of \$1.5 million in user fees assumes the recommended inflationary guideline of 2.2% and does not assume any increase in Transit fares, Ice fees or Golf fees.

Energy pressures of approximately \$2.1 million have been identified and include a projected fuel (unleaded/diesel) increase from \$0.92/litre to \$1.06/litre (\$1.9 million), a reduction of 10% for Natural Gas (-\$500,000) and an increase of 6% for Electricity (\$700,000).

Department Specific:

Public Works

Major pressures / risks identified by Public Works include \$1.7 million for ATS related to AODA compliance, expanded eligibility and client growth, \$1 million for street lighting due to both increase in rates and the reapportionment in the distribution of rates, \$450,000 in increased contribution to reserve to fund the reallocation of Provincial Gas Tax monies (as per report PW10101) and \$120,000 for disposal contracts based on tonnage growth. Partially offsetting these pressures, Transit is forecasting favourable fare revenue of -\$600,000 over the 2011 budget.

In addition, as noted in staff report FCS11068 "2010 Reserve Report", the City's fleet reserve is forecast to be in a deficit position by at least \$11 million by 2014. Staff in Finance and Public Works are reviewing options to increase vehicle reserve contribution rates, as well as reviewing the capital budget for fleet replacement and fleet rationalization. For the purpose of this report, staff have assumed that contributions to the fleet reserve will likely need to increase by about \$850,000 a year for 5 years.

Community Services

Major pressures / risks identified by Community Services include \$730,000 to increase the Rent Geared to Income units (this ensures that all providers are up to the Provincially mandated RGI targets) and \$640,000 due to reduced Federal funding in Public Housing and increased pressure on Provincially mandated rent supplement programs. Rising rent levels along with reduced income levels of tenants results in additional supplement requirements. Also identified was \$150,000 for rent and cleaning at the Career Development Centre which was previously funded from the Future Fund, for a limited time, as part of the Career Development Centre capital renovation project. A potential pressure / risk has also been identified for the Red Hill transportation costs (new contract), however, the amount has yet to be determined. OW caseload for 2011 is higher than projected and it is forecasted that the caseload will continue to increase in 2012 and 2013. Staff will be bringing forward an OW caseload report, in October 2011, for Council's review.

Hamilton Emergency Services (HES)

HES preliminary pressures / risks include \$1.0 million for the potential extension of the Council approved 7-month pilot project for the Hamilton Health Sciences Access to Best Care Plan. The pilot project is set to expire April 30, 2012.

Planning & Development

Planning & Development have identified a 2012 operating budget pressure / risk of \$150,000 for lost revenue for the non-metered parking lots in Stoney Creek and Waterdown that were previously approved to be paid lots.

City Manager

The City Manager's Office has identified preliminary pressures / risks of \$140,000 related to planning witness fees for OMB matters (Legal) and \$100,000 for rent which was being funded by swing space capital funds (Internal Audit).

The remaining departments have not identified significant pressures / risks at this time.

BOARDS & AGENCIES

Based on historical trends, staff have identified budget pressures / risks for Boards and Agencies of just under \$6 million. The Police pressure of \$5.4 million is based on a five year average increase of 4.1%. For the remaining Boards & Agencies, staff have assumed 2% for legislated Boards & Agencies (MPAC and Conservation Authorities) and 0% for non-legislated Boards & Agencies.

	Levy Impact \$
Boards & Agencies:	
- Police (5-yr average increase of 4.1%)	\$5.4 M
- Boards & Agencies (excluding Police)	<u>\$0.2 M</u>
TOTAL	\$5.6 M

CAPITAL

Based on preliminary direction, staff are assuming 0.5% for capital, which is equivalent to \$3.4 million.

	Levy Impact \$
Capital:	
- Preliminary direction at 0.5%	\$3.4 M

ALTERNATIVES FOR CONSIDERATION

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

Council can provide alternative direction to the guideline recommendations in this report.

CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ◆ Council and SMT are recognized for their leadership and integrity

Financial Sustainability

- ◆ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost-effective manner.

APPENDICES / SCHEDULES

N/A.