



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	September 16, 2015
SUBJECT/REPORT NO:	2016 Budget Guidelines, Preliminary Outlook and Process (FCS15062) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Mike Zegarac General Manager Finance & Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That 2016 user fees (excluding golf, transit and ice fees) be increased based on an inflation rate of 2.0% (Average Ontario CPI from June 2014 to May 2015), and that any user fee adjustments, other than inflationary, be forwarded for consideration with appropriate explanation;
- (b) That Boards and Agencies be requested to submit their 2016 operating budget based on a guideline of an inflation rate increase of 2.0%, and that any increase beyond the guideline, be forwarded for consideration with appropriate explanation;
- (c) That all City departments target a 2016 operating budget guideline, based on an inflation rate increase of 2.0%, and that any increase beyond the guideline be forwarded for consideration with appropriate explanation.

EXECUTIVE SUMMARY

The 2016 budget process has begun internally for City tax supported operating budget programs and services, tax supported capital budget and rate supported operating and capital budgets. Staff are providing information regarding the process and an estimate of pressures and opportunities for 2016. Staff are also seeking direction in respect of a guideline for the 2016 tax increase.

2016 Tax Supported Operating Budget Outlook

One of the initial steps in the budget cycle is preparing an estimate of the levy requirement for the next budget year. This is referred to as the 2016 Outlook. A summary of the 2016 Tax Supported Operating Budget Outlook can be found in the Analysis and Rationale for Recommendation section of report FCS15062. In total, the tax levy is estimated to require an increase, for 2016, of \$37.8 million. This increase is mainly driven by staffing costs (\$11.1 million), contractual obligations (\$8.5 million) and operating impacts from prior approved capital projects (\$3.4 million). The total pressures are partially off-set by an estimated increase in user fees (-\$2.2 million).

The currently identified pressures would result in a tax increase of approximately 3.8% (refer to the following Table). Note that this is inclusive of an estimated assessment growth and reassessment benefit of -1.0%. A 1% municipal tax impact is equivalent to a tax levy increase of about \$7.8 million.

	2016 Impact (Average Residential)	
	Draft	
	\$	%
Municipal Taxes		
City Departments	\$ 89	2.8%
Boards & Agencies	\$ 18	0.6%
Capital	\$ 16	0.5%
Total Municipal Taxes¹	\$ 123	3.8%

¹ Assumes 1% growth

In addition, there have been a number of items referred to the 2016 tax budget process by Council. Currently, these pressures are estimated to be approximately \$2.0 million and are not included in the present outlook.

2016 Tax Supported Operating Budget Guideline

While the 2016 Tax Supported Operating Budget Outlook projects a tax increase of 3.8%, staff are continuing to review expenditure reductions and revenue opportunities to achieve a lower tax increase. The recommended guideline is for a tax increase of 2.0% (total tax increase municipal and education). This would be slightly less than the current rate of inflation and over one per cent lower than the 2015 tax increase which was an average of 2.7%.

To achieve a 2.0% residential tax increase, based on the current outlook of \$37.8 million, this would require a reduction of about \$13 million on a tax levy of \$835.4 million. This will be difficult to achieve while maintaining current service levels.

2016 Budget Process

Appendix "A" to Report FCS15062 provides a high level summary of the budget calendar for the 2016 Rate and Tax Budgets (Operating and Capital). The Rate Operating and Capital budgets are scheduled to be deliberated in late November. This is also the timing for the 2016 Tax Supported Capital Budget. The Tax Supported Operating Budget (which sets the tax increase), is scheduled to commence in January with an expected approval in March. All budgets will be deliberated at meetings of the General Issues Committee.

Alternatives for Consideration – See Page 9

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The preliminary tax operating budget pressures / risks identified within this report, result in a levy increase of approximately \$37.8 million (inclusive of user fee increases). In addition, Council referred items, for consideration in 2016, are currently estimated at \$2.0 million.

Staffing: There are no staffing implications as a result of this report FCS15062. During the budget process, staffing changes are highlighted for approval.

Legal: There are no legal implications in respect of this report FCS15062.

HISTORICAL BACKGROUND (Chronology of events)

The 2015 Tax Operating Budget approved by Council in April 2015, resulted in an average city-wide residential tax impact of 2.7%. The 2015 Tax Operating Budget focused on significant investment in economic growth-related enhancements and less reliance on reserves.

Staff are now beginning the 2016 budget process and seeking a guideline from Council.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

There are no policy implications related to the recommendations within this report FCS15062.

RELEVANT CONSULTATION

Staff have consulted with operating departments in determining the projected tax budget pressures / risks for 2016. Staff have also consulted with Council, Clerks and the operating departments in developing the timeline for the 2016 budget.

ANALYSIS AND RATIONALE FOR RECOMMENDATION
(Include Performance Measurement/Benchmarking Data if applicable)

2016 PRELIMINARY TAX BUDGET PRESSURES (Outlook)

A number of pressures / risks have been identified for 2016 and further explanation is provided in the following sections.

City Departments

Approximately \$37.8 million in preliminary 2016 budget pressures / risks have been identified for City departments. The following Tables provide further details:

Salary/Wage Compensation

	Levy Impact \$
Salary / Wage Compensation:	
- COLA / Settlements	\$ 6.9 million
- Merit / Step Increases	\$ 1.4 million
- OMERS	\$ 1.2 million
- Government Benefits	\$ 0.4 million
- Employer Benefits	\$ 0.3 million
- WSIB Contributions	\$ 0.2 million
- Retiree Benefits	\$ 0.7 million
TOTAL	\$ 11.1 million

The above salary/wage compensation pressures / risks take into account increases for settled union contracts, as well as, an allowance for non-settled contracts. The contribution rates for OMERS and government and employer benefits are not expected to increase materially. In the estimates above, no increases in the contribution rates are assumed for these items; however, the increases estimated above for those items result from the linkage of those rates to the increase in salaries and wages. Retiree Benefits increases are estimated based on the actual experience for 2014/15 and the 2013 Report (FCS13059): Projected Costs for Retiree Benefits.

Operating Impacts of Capital Projects

	Levy Impact \$
Operating Impact of Capital Projects:	
- Approved through Capital Budget (FCS15011)	\$ 3.1 million
- Deferred from previous years	\$ 0.3 million
TOTAL	\$ 3.4 million

As part of the annual Capital budget approval, staff estimate the operating costs related to these approved Capital projects. Through staff report FCS15011 “2015 Tax Supported Capital Budget”, Council approved “*That the operating and FTE impacts of the 2015 capital budget (excluding the 2015 Tree Planting Program), estimated to be \$3,704,400 and 32.84 FTE’s, attached as Appendix “C” to Report FCS15011, be incorporated into the 2016 Tax Supported Operating Budget.*” The above pressure of \$3.4 million is a revised estimate of the approved operating impact from capital of \$3.7 million down to \$3.1 million, plus approximately \$300,000 related to operating impacts from deferred projects.

Corporate Impacts

	Levy Impact \$
Corporate:	
- Inflationary / Contractual Requirements	\$ 7.9 million
- User Fees (excluding Transit, Ice, Golf)	-\$ 2.2 million
- Energy (Fuel, Natural Gas, Electricity)	\$ 0.7 million
TOTAL	\$ 6.3 million

A potential pressure / risk of approximately \$7.9 million has been identified for inflationary and contractual requirements (mandatory indexing of service contracts). This is partially off-set by a potential increase in user fees of -\$2.2 million. This estimated increase of \$2.2 million assumes a user fee increase of 2.0%. Energy

pressures of approximately \$700,000 have been identified which is based on an increase of 6% for electricity. No increase is anticipated for natural gas or fuel at this time based on market conditions.

Department Specific

The departmental specific pressures are above and beyond the pressures identified in the corporate section. All departments will have salary / wage compensation and contractual pressures.

Planning & Economic Development

Major pressures / risks identified by Planning & Economic Development include:

- \$1.7 million Parking & By-Law Services revenue shortfalls including \$620,000 in Fines, \$250,000 in Business Licensing, \$260,000 in Animal Tags and \$285,000 for Inspection Fees;
- \$296,000 from the annualization of the Council approved program enhancements during the 2015 budget.

Public Health Services

A budget pressure of \$124,000 is related to the annualization of the Council approved program enhancements during the 2015 budget.

Community & Emergency Services

Major pressures / risks identified by Community & Emergency Services include:

- \$1.3 million annual increase due to inflationary factors for Housing Services as per the Provincial benchmarking formula;
- \$1.3 million from the annualization of the Council approved program enhancements during the 2015 budget (Hamilton Paramedic Service-Ambulance).

Off-setting these pressures are the Ontario Works upload savings of -\$3.2 million (which is based on 2015 subsidy rate of 91.4% increasing to 94.2% in 2016) plus savings realized from the Ministry of Health assuming the Children's Dental Program in August, 2016, of approximately -\$131,000.

Public Works

Major pressures / risks identified by Public Works include:

- \$900,000 Contractual increases in the Operations Division;
- \$807,000 reduction in Provincial Gas Tax Revenue to reflect a previously reduced Provincial contribution that had been funded from reserves in 2015;
- \$545,000 phase-in of transfer to reserve (year 6 of 8) includes 2% inflation factor for Transit;
- \$300,000 reduction in Blue Box commodity sale revenues as a result of steadily declining market prices with no anticipated improvement in 2016;
- \$267,000 loss of Court House lease revenue;

- \$216,000 Household Hazardous Waste management and disposal, a new contract will commence during the second quarter of 2016. In addition, Council should be aware that program funding is under review which may impact revenue further.

Partially off-setting these pressures is a revenue increase of -\$500,000 from Waste Diversion Ontario.

City Manager

The City Manager's Office identified preliminary pressures / risks including \$300,000 in Legal Fees and \$100,000 for Arbitration / Mediation Fees as these have been consistently greater than their budget. In addition, new POA cost recovery rates for adjudication services (i.e., justices of the peace) and the monitoring and enforcing of the POA transfer agreements, effective January 1, 2016, add a \$270,100 pressure.

Corporate Services

Corporate Services will reflect a budget pressure of \$218,000 due to lost incentive payments, related to the Bell Mobility Contract which expired in 2014.

Corporate Financials / Non-Program Revenues

The 2016 Outlook includes a Corporate contingency of \$1.5m which is required to ensure funding is available for unforeseen budget pressures as the tax stabilization reserve has been in decline. In Non-Program Revenue, a budget pressure of \$300,000 is related to the provision for property tax write-offs.

Revenue Opportunities

During the Fall of 2015, the Financial Administration and Revenue Generation Division will report on a number of initiatives that, if approved, will result in increased revenue for 2016, which would reduce the pressures identified above. Staff will incorporate approved initiatives during the 2016 budget process.

Boards & Agencies

Based on historical trends and consultation with Police Services, staff have identified budget pressures / risks for Boards and Agencies of approximately \$6.5 million (refer to the following Table). The Police pressure of \$5.6 million is based on a five year average increase of 3.79%. For the remaining Boards and Agencies, staff have assumed 2.0%, resulting in a pressure of approximately \$800,000.

	Levy Impact \$
Boards & Agencies:	
- Police (3.79%)	\$ 5.6 million
- Boards & Agencies (excluding Police)	
Conservation Authorities & MPAC @ 2.0%	\$ 0.2 million
Other Boards & Agencies @ 2.0%	\$ 0.6 million
City Enrichment Fund @ 2.0%	\$ 0.1 million
TOTAL	\$ 6.5 million

Pending resolution of the City’s appeal of the Niagara Peninsula Conservation Authority (NPCA) apportionment, staff have assumed continuation of the existing agreement for 2016. If the NPCA’s new apportionment method was used by all Conservation Authority’s, the increase to Hamilton’s levy would be over \$2.5 million.

Capital

Following last year’s Council direction, staff are assuming 0.5% for capital, which is equivalent to \$3.9 million.

	Levy Impact \$
Capital:	
- Preliminary direction at 0.5%	\$ 3.9 million
TOTAL	\$ 3.9 million

2016 PROPOSED BUDGET SCHEDULE

The proposed budget schedule for 2016 is identified in Appendix “A” to Report FCS15062 Budget Guidelines, Preliminary Outlook and Process.

The Tax Supported Operating Budget process follows a regular timeline with Council’s approval by March 2016. User fees, as well as, the rate and capital budget processes, are expected to follow the schedule from previous years and are expected to be approved by December, 2015.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

Council can provide alternative direction to the budget guideline recommendations in this report FCS15062. Approving a tax increase, lower than the 2.0%, will almost certainly require Council to consider service reductions during the 2016 budget process.

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS15062 – 2016 City of Hamilton Proposed Budget Schedule.