



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	September 21, 2016
SUBJECT/REPORT NO:	2017 Budget Guidelines, Preliminary Outlook and Process (FCS16070) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Tom Hewitson (905) 546-2424, Ext. 4159 Ashley Bono (905) 546-2424 Ext. 4169 Kayla Petrovsky (905) 546-2424 Ext. 1335
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services
SIGNATURE:	

RECOMMENDATIONS

- (a) That 2017 user fees (excluding golf, transit and ice fees) be increased by a rate of 2.0%, 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 2017 operating budget based on a guideline 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 2017 operating budget guideline, based on an increase of 2.0%, and that any increase beyond the guideline be forwarded for consideration with appropriate explanation.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

EXECUTIVE SUMMARY

The 2017 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 2017. Staff are also seeking direction in respect of a guideline for the 2017 tax increase.

2017 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 2017 Outlook. A summary of the 2017 Tax Supported Operating Budget Outlook can be found in the Analysis and Rationale for Recommendation section of Report FCS16070. In total, the tax levy is estimated to require an increase, for 2017, of \$42.1 M. This increase is mainly driven by staffing costs (\$13.2 M), contractual obligations (\$12.2 M) and operating impacts from prior approved capital projects (\$2.1 M). The total pressures are partially off-set by an estimated increase in user fees (-\$2.8 M).

The currently identified pressures would result in a tax increase of approximately 4.2% (refer to the following Table). Note that this is inclusive of an estimated assessment growth and reassessment benefit of 1.0%. A 1.0% municipal tax impact is equivalent to a tax levy increase of about \$8 M.

	2017 Preliminary Impact (Average Residential)	
	Draft	
	\$	%
Municipal Taxes		
City Departments	\$ 109	3.3%
Boards & Agencies	\$ 15	0.4%
Capital Financing	\$ 16	0.5%
Total Municipal Taxes	\$ 140	4.2%

In addition, there have been a number of items referred to the 2017 tax budget process by Council. Currently, these pressures are estimated to be approximately \$1.0 M and are not included in the present outlook.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

2017 Tax Supported Operating Budget Guideline

While the 2017 Tax Supported Operating Budget Outlook projects a tax increase of 4.2%, 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% inclusive of 0.5% for capital. The projected rate of inflation is 1.8%, however, the cost of city services are not directly aligned to the inflation rate due to influences such as collective bargaining, energy and provincial subsidies. Therefore, a 2% guideline is requested. In 2016, the Municipal tax increase was an average of 2.1% and the total tax increase was an average of 1.7%.

To achieve a 2.0% residential tax increase, based on the current outlook of \$42.1 M, would require a reduction of about \$17.6 M. This will be difficult to achieve while maintaining current service levels.

Multi-Year Budget and Business Planning

Business planning is evolving to improve service delivery while considering City fiscal commitments through new approaches. Staff and Council will be engaged in discussions throughout 2016 around an integrated planning, budgeting, and performance measurement process to help achieve this balance in service and resource allocation. An integrated framework will provide a strategic process that supports decision making with meaningful information to assess policy impacts, service performance, and demonstrate whether the service delivery practices provide value for money.

2017 Budget Process Timeline

Appendix "A" to Report FCS16070 provides a high level summary of the budget calendar for the 2017 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 2017 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 10

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The preliminary tax operating budget pressures / risks identified within this report, result in a levy increase of approximately \$42.1 M (inclusive of user fee

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

increases). In addition, Council referred items, for consideration in 2017, are currently estimated at \$1.0 M.

Staffing: There are no staffing implications as a result of Report FCS16070. During the budget process, staffing changes are highlighted for approval.

Legal: There are no legal implications in respect of Report FCS16070.

HISTORICAL BACKGROUND

Tax Supported Operating Budget

The 2016 Tax Operating Budget approved by Council in March 2016, resulted in an average city-wide residential tax impact of 1.7%. The 2016 Tax Operating Budget focused on investing in the Hamilton community while improving on our long-term financial sustainability. The budget also focused on growing the non-residential tax base.

Multi-Year Budget and Business Planning

Council at its meeting on December 9, 2015 endorsed the creation of a multi-year budgeting and business planning framework through a Multi-Year Budget Planning Subcommittee. The main goal of the committee is to develop an updated process for communicating the cost and performance of City services, based on the Community Vision, Strategic Plan and priorities.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

There are no policy implications related to the recommendations within Report FCS16070.

RELEVANT CONSULTATION

Tax Supported Operating Budget

Staff have consulted with operating departments in determining the projected tax budget pressures / risks for 2017. Staff have also consulted with Council, Clerks and the operating departments in developing the timeline for the 2017 budget.

Multi-Year Budget and Business Planning

Staff have begun sharing the concept of integrated business planning and budgeting with the organization's Corporate Leadership and Senior Leadership Teams. On October 3, 2016 work will continue with members of the Multi-Year Budget Planning Subcommittee to evolve the concept to ensure that the multi-year business and budget

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

planning, along with performance measurement framework addresses issues of affordability, transparency, and accountability.

Staff from Audit Services, City Manager's Office was consulted to validate the importance of integrating performance management practices in municipal business planning and budgeting.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

2017 PRELIMINARY TAX BUDGET PRESSURES (Outlook)

A number of pressures / risks have been identified for 2017 and further explanation is provided in the following sections.

City Departments

Approximately \$42.1 M in preliminary 2017 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	\$ 8.0 million
- Merit / Step Increases	\$ 2.4 million
- OMERS	\$ 1.2 million
- Government Benefits	\$ 0.5 million
- Employer Benefits	\$ 0.2 million
- WSIB Contributions	\$ 0.4 million
- Retiree Benefits	\$ 0.5 million
TOTAL	\$ 13.2 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. The pressures noted above result from the linkage of the contribution rates to the increase in salaries and wages. Retiree Benefit increases are estimated based on the actual experience for 2015/16. This is about \$150,000 less

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

**SUBJECT: 2017 Budget Guidelines, Preliminary Outlook and Process (FCS16070)
(City Wide) - Page 6 of 11**

than the annual increase identified in the 2014 Report (FCS13059) “Projected Costs for Retiree Benefits”.

Operating Impacts of Capital Projects

	Levy Impact \$
Operating Impact of Capital Projects:	
- Approved through Capital Budget (FCS15088)	\$ 1.8 million
- Deferred from previous years	\$ 0.3 million
TOTAL	\$ 2.1 million

As part of the annual Capital budget approval, staff estimate the operating costs related to these approved Capital projects. Through staff report FCS15088 “2016 Tax Supported Capital Budget”, Council approved *“That the operating budget and FTE impacts of the 2016 capital budget, estimated to be \$2,397,200 and 15.29 FTE’s, attached as Appendix “C” to Report FCS15088, be incorporated into the 2017 Tax Supported Operating Budget.”* The above pressure of \$2.1 M is mainly due to the revised estimate of the approved operating impact from capital of \$2.4 M down to \$1.8 M. The remaining amount of \$265K is related to operating impacts from deferred projects. Approximately \$900 K of pending projects remain deferred (unbudgeted) until 2018.

Corporate Impacts

	Levy Impact \$
Corporate:	
- Inflationary / Contractual Requirements	\$ 8.5 million
- User Fees (excluding Transit, Ice, Golf)	(\$ 2.8) million
- Energy (Fuel, Natural Gas, Electricity)	\$ 3.7 million
TOTAL	\$ 9.4 million

A potential pressure of approximately \$8.5 M has been identified for inflationary and contractual requirements (mandatory indexing of service contracts). This is partially off-

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

set by a potential increase in user fee revenue of -\$2.8 M at the guideline rate of 2%. Energy pressures of approximately \$3.7 M have been identified which is mainly driven by an average increase of 12% for electricity. The remaining energy pressure is due to anticipated minor price increases for natural gas and fuel mainly due to the Provincial Government's new Cap and Trade Program.

Department Specific

The departmental specific pressures, noted in the sections below, are above and beyond the pressures identified in the corporate section. All departments will have salary / wage compensation and contractual pressures which were noted previously.

Planning & Economic Development

Overall the Department has identified a budget pressure of \$125 K. The pressure is mainly driven by the Affordable Housing Fee Reduction Program (Report PED16098). The housing fee program authorizes reduced planning application fees for charitable and not-for-profit organizations proposing affordable housing projects resulting in an expected revenue shortfall of \$100 K. The remaining pressure is due an anticipated revenue loss of \$25 K attributable to the part lot fee review.

Public Health Services

Public Health Services is projecting a budget pressure of \$72 K in the Clinical and Preventive Services Division under the Vaccine Program due to increased demands to maintain existing service levels.

Community & Emergency Services

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

- \$1.5 M in social housing costs due to provincial benchmarking (based on a 5 year average);
- \$400 K from the annualization of Council approved program enhancements during the 2016 budget (\$275 K Portable Rent Subsidy Program, \$145 K Hamilton Paramedic Service - Ambulance);
- \$150 K due to an unfunded Manager FTE in the Neighbourhood Action Strategy program which was formerly funded through Public Health.
- Off-setting these pressures are the Ontario Works upload savings of -\$3.2 M (which is based on 2016 subsidy rate of 94.1% increasing to 97.2% in 2017).

Public Works

Major pressures / risks identified by Public Works include:

- \$2.6 M Transit due to phase-in of Year 1, Year 2, and Year 3 of the Ten Year (2015 to 2024) Local Transit Strategy Plan - Report PW14015a;
- \$1.5 M due to transit reserve needs for fleet and terminal;

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

**SUBJECT: 2017 Budget Guidelines, Preliminary Outlook and Process (FCS16070)
(City Wide) - Page 8 of 11**

- \$1.0 M for Transit overtime to align with actual;
- \$1.5 M for Tim Horton's Field due to higher than anticipated operational pressures from first full year of operations. Pressure is to meet annual operational needs of the stadium (Information Update CASP1602);
- \$600 K due to an increase in contribution to the Fleet Vehicle Reserve as a result of vehicle cost increases and impact of exchange rate;
- \$400 K due to an expected increase in the cost of parts and repairs for Central Fleet Vehicle Charges;
- \$147 K from the Environmental Services, Hamilton Cemeteries, Business Plan Strategy & Land Needs Assessment Report (Report PW15075) which identified that the program can no longer use the Care & Maintenance Fund (C&MF) interest to offset operating costs. This will be phased out over three (3) years commencing in 2017.

Corporate Services

Major pressures / risks identified by Corporate Services include:

- \$700 K due to annual software upgrades that were previously funded through the Capital Budget;
- Partially off-setting this pressure is savings of -\$300 K due to the implementation of the new Ricoh printing contract.

Non-Program Revenues

The 2017 Outlook includes a Non-Program Revenue budget pressure of \$300 K related to the provision for property tax write-offs.

Revenue Opportunities

During the Fall of 2016, the Financial Administration and Revenue Generation Division will report on a number of initiatives that, if approved, will result in increased revenue for 2017, which would reduce the pressures identified above. Staff will incorporate approved initiatives during the 2017 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 \$6.0 M (refer to the following Table). The Police pressure of \$4.9 M is based on a five year average increase of 3.20%. For the remaining Boards and Agencies aside from the City Enrichment Fund which was based on approved 2017 funding, staff have assumed 2.0%, resulting in a pressure of approximately \$800 K.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

**SUBJECT: 2017 Budget Guidelines, Preliminary Outlook and Process (FCS16070)
(City Wide) - Page 9 of 11**

	Levy Impact \$
Boards & Agencies:	
- Police (3.20% - based on five year average)	\$ 4.9 million
- Boards & Agencies (excluding Police)	
Conservation Authorities & MPAC @ 2.0%	\$ 0.2 million
Other Boards & Agencies @ 2.0%	\$ 0.6 million
- City Enrichment Fund - 2017 funding (GIC16-003)	\$ 0.3 million
TOTAL	\$ 6.0 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 2017. If the NPCA's new apportionment method was used by all Conservation Authorities, 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 \$4.0 M.

	Levy Impact \$
Capital:	
- Preliminary direction at 0.5%	\$ 4.0 million
TOTAL	\$ 4.0 million

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

MULTI-YEAR BUDGET AND BUSINESS PLANNING

The development of an integrated planning, budgeting and performance management process is expected to provide Council and the public with a better understanding of the City's programs and services, cost drivers and performance while increasing the accountability and transparency. To illustrate, business plans focus Council's strategic priorities into actions that are intended to be accomplished by the City, multi-year budgets support the business plans by ensuring all activities outlined in the plans are funded for multiple years, and a performance measurement and monitoring framework assess service performance by monitoring progress in achieving the intended results.

2017 PROPOSED BUDGET SCHEDULE

2017 Budget Process

The proposed budget schedule for 2017 is identified in Appendix "A" to Report FCS16070 Budget Guidelines, Preliminary Outlook and Process.

The Tax Supported Operating Budget process follows a regular timeline with Council's approval by March 2017. 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, 2016.

Multi-Year Budget and Business Planning

Staff and Council will be engaged in discussions in 2016 around an integrated planning, budgeting and performance measurement process.

ALTERNATIVES FOR CONSIDERATION

Tax Supported Operating Budget

Council can provide alternative direction to the budget guideline recommendations in this report FCS16070. Approving a tax increase, lower than the 2.0%, will almost certainly require Council to consider service reductions during the 2017 budget process.

ALIGNMENT TO THE 2016 – 2025 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.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.

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 FCS16070 – 2017 City of Hamilton Budget Schedule.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

OUR Priorities: Community Engagement & Participation; Economic Prosperity and Growth; Healthy and Safe Communities; Clean and Green; Built Environment and Infrastructure; Culture and Diversity and Our People and Performance.