



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning, Administration and Policy Division**

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	July 8, 2019
<b>SUBJECT/REPORT NO:</b>	2020 Budget Guidelines, Outlook and Process (FCS19054) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Gloria Rojas (905) 546-2424 Ext. 6247 John Savoia (905) 546-2424 Ext. 7298
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
<b>SIGNATURE:</b>	

**RECOMMENDATION(S)**

- (a) That staff be directed to report back on a list of user fees that can be increased towards full cost recovery, or user fee waivers (including marginal cost facility leases) that can be reduced or eliminated over a one to three-year phase in period;
- (b) That for all other user fees, the fee be increased by a rate of 3.0% and that any user fee increases below the guideline be forwarded for consideration with appropriate explanation;
- (c) That staff report back by October 2019 with an updated 2020 Tax Budget Outlook and provide a number of scenarios:
  - (i) Options that result in a 2.0% tax increase for City Departments, plus a 1.3% tax increase for Capital and a tax increase for Provincial Funding Shortfalls (currently estimated at 1.3%). This would result in a tax increase of about 4.6% and require \$18.3 M in reductions from the current Outlook position;

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- (ii) Options that result in a 1.0% tax increase for City Departments plus a 1.3% tax increase for Capital and a tax increase for Provincial Funding Shortfalls (currently estimated at 1.3%). This would result in a tax increase of about 3.6% and require \$27.0 M in reductions from the current Outlook position;
- (iii) Options that result in a 0.0% tax increase for City Departments, plus a 1.3% tax increase for Capital and a tax increase for Provincial Funding Shortfalls (currently estimated at 1.3%). This would result in a tax increase of about 2.6% and require \$35.7 M in reductions from the current Outlook position;
- (d) That Police, Library and Conservation Authorities target a 2020 tax operating budget guideline based on an increase of 2.0% and that any increase beyond the guideline be forwarded for consideration with explanation;
- (e) That all other Boards and Agencies including Hamilton Beach Rescue Unit, Royal Botanical Gardens, Farmers' Market and the Community Enrichment Fund target a 0% increase and that any increase beyond the guideline be forwarded for consideration with explanation;
- (f) That the 2020 Tax Capital budget be submitted with a 0.5% tax increase for capital financing of discretionary block funded projects; an additional 0.26% tax increase for capital financing of Public Transit Infrastructure Fund (PTIF) projects; an additional 0.23% for DC Exemptions; an additional 0.14% increase for capital financing of the Downtown Office Accommodation Strategy; and a 0.13% increase for capital financing of West Harbour Development (WH) for a total of 1.3% tax increase;
- (g) That staff report back with options that include the use of reserves, reducing reliance on debt and reducing operating costs in order to reduce the current projection of a rate 4.5% increase when submitting the 2020 Rate Supported Budget.

## **EXECUTIVE SUMMARY**

The 2020 budget process has begun internally for programs and services of the City Tax Supported Operating Budget, capital infrastructure investments of the Tax Supported Capital Budget and programs, services and capital infrastructure of the Rate Supported Operating and Capital Budgets. Staff is providing information regarding the process and an estimate of the pressures the City is facing for 2020.

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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 2020 Outlook. A summary of the 2020 Tax Supported Operating Budget Outlook can be found in the Analysis and Rationale for Recommendation section of Report FCS19054. In total, the 2020 tax levy is estimated to require an increase of \$62.3 M. The most significant departmental items are the \$12.1 M shortfall due to cuts in provincial funding, \$7.5 M in transit and \$6.1 M in corporate financials. Additional details of these pressures can be found in the Analysis and Rationale section of Report FCS19054.

The total levy increase of \$62.3 M would result in a tax increase of approximately 6.7% as shown in the Table 1. Note that this is inclusive of estimated assessment growth (1.0%) which reduces the tax impact and reassessment shifts (0.5%) which increases the tax impact.

While the 2020 Tax Supported Operating Budget Outlook projects a tax increase of 4.5% for City Departments, including a 1.3% due to the impact of the provincial funding shortfall, staff is continuing to review expenditure reductions and revenue opportunities to achieve a lower tax increase.

**Table 1  
2020 Municipal Residential Tax Impact Outlook**

	<b>\$</b>	<b>%</b>
Municipal Taxes		
Provincial Funding Shortfall	\$ 46	1.3 %
Other City Departments	\$113	3.2 %
Boards and Agencies	\$ 34	1.0 %
Capital Financing	\$ 45	1.3 %
<b>Municipal Taxes</b>	<b>\$237</b>	<b>6.7 %</b>

Note - Anomalies due to rounding

### **2020 Tax Supported Operating Budget Guideline**

In previous years, staff has requested a guideline from Council in regard to the increases to the user fees and the target tax increase for City Departments and Boards and Agencies and these increases have been traditionally tied to the annual Canadian inflation rate (Canadian Consumer Price Index – CPI).

The CPI, however, is not an adequate measure of the inflation for the City's operating expenses because the mix of goods and services purchased by the City is different than those purchased by the average household. Several municipalities including Toronto, Edmonton, Kitchener, Milton and Waterloo use a Municipal Price Index (MPI) in which the inflationary increases are based on the weight of each expenditure category within the operating budget, resulting in the MPI being consistently higher than the CPI.

The Government Finance Officers Association (GFOA) recommends the use of an MPI noting the importance of understanding that the pattern of municipal spending is different than those of the common household. The City will consider the use of the MPI in the preparation of future budgets.

For this year, staff is requesting direction to report back in the fall on a series of scenarios in order to mitigate the projected average residential tax impact of 6.7% and the projected average rate increase of 4.5%. These scenarios include the budget reductions needed to reach a desired tax impact and the use of reserves, reducing reliance on debt and reducing operating costs to reduce the projected rate increase.

In addition, staff is recommending that, where possible, user fees be increased towards full cost recovery in a period of one to three years or by 3%. User fees are an important revenue source for municipalities and the City is now moving towards using the fees as a tool to fully recover the cost directly from those benefiting from a particular program or service. Also, considering the extraordinary pressures that the City is facing in 2020 resulting in a projected tax increase of 6.7%, staff is recommending that those user fees that cannot be moved towards full cost recovery in a period of three years, be increased by 3%.

### **2020 Rate Supported Operating Budget Outlook**

The 2020 Preliminary Rate Supported Budget Outlook projects a gross expenditure budget increase of \$10.6 M, an increase in other revenues of \$0.3 M and an increase in rate revenues of \$10.3 M. The projected 2020 impact on an average residential ratepayer is \$32 or 4.5% as can be seen in Table 2.

A summary of this Outlook can be found in the Analysis and Rationale for Recommendation section of Report FCS19054.

**Table 2  
2020 Projected Average Rate Impact  
Based on Current Outlook**

	\$	%
City Division (Hamilton Water)		
Energy and Other Operating Costs	\$ 8	1.2 %
Capital Financing	\$ 24	3.3 %
<b>Preliminary Pressures / Risks</b>	<b>\$ 32</b>	<b>4.5 %</b>

### **2020 Rate Supported Operating Budget Guideline**

When Council approved the 2019 Rate Supported Budget in December 2018, a projected combined rate increase for the 2020 Rate Supported Budget of 4.5% was included. Staff will review options including the use of reserves, reducing reliance on debt and reducing operating costs in order to reduce the current projection of a 4.5% increase in the 2020 Rate Supported Budget

The 2020 Rate Supported Operating Budget Outlook projects a rate increase of 1.2% for net divisional operating expenditures and 3.3% for capital financing expenditures. These rate increase requirements are driven by Operating expenditures that are projected to increase by an average of 2.9% and Capital Financing expenditures are projected to increase by 7.6%. The projected increase in capital financing costs is driven by a significantly increased Rate Capital program of \$320 M projected for 2020 versus \$284 M in 2019. The projected increase in capital investment in 2020 is primarily in the wastewater system with the continuation of construction of the Clean Harbour project. Water consumption affecting Rate Revenue is projected to increase by less than 1% from the water consumption in the 2019 Rate Budget.

Staff is recommending that the 2020 Rate Supported Budget include options to reduce the 4.5% rate increase through a review of reserves, capital financing and operating expenses.

### **2020 Budget Process Timeline**

Appendix "A" to Report FCS19054 provides a high-level summary of the budget calendar for the 2020 Rate and Tax Budgets (Operating and Capital). The Rate Operating and Capital Budgets and Tax Capital Budget are scheduled to be deliberated in late November 2019. The Tax Supported Operating Budget (which sets the tax increase) is scheduled to commence in January 2020 with an expected approval in March 2020. All budgets will be deliberated at meetings of the General Issues Committee.

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**Alternatives for Consideration – Not Applicable**

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

**Financial:** The Preliminary Tax Operating Budget pressures / risks identified within Report FCS19054 result in a levy increase of approximately \$62.3 M (inclusive of City Departments, Provincial Funding Shortfall, Boards and Agencies and Capital Financing) which represents a residential tax increase of 6.7%.

The Preliminary Rate Operating Budget pressures / risks identified within Report FCS19054 result in a projected operating budget expenditure increase of approximately \$10.6 M which represents a combined rate increase of 4.5%. As noted above, options including the use of reserves, reducing reliance on debt and reducing operating costs will be reviewed in order to reduce the current projection of a 4.5% increase in the 2020 Rate Supported Budget

**Staffing:** There are no staffing implications as a result of Report FCS19054. During the budget process, staffing changes are highlighted for Council approval.

**Legal:** There are no legal implications in respect of Report FCS19054.

**HISTORICAL BACKGROUND**

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 Sub-Committee. The main goal of the Sub-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.

Council, at its meeting on December 14, 2016, approved General Issues Committee (GIC) Report 16-032 and Multi-Year Budget Planning Sub-Committee Report 16-001 (Report FCS16087) adopting a Rolling Budget Cycle Without a Fixed Period as its Multi-Year Budget Process beginning with the 2018 Budget.

Council, at its meeting on July 14, 2017, approved GIC Report 17-015 and Multi-Year Budget Planning Sub-Committee Report 17-001 (Report FCS17066) adopting the Multi-Year Business Planning and Budget Policy (“Policy”) for City Departments and forwarding the Policy to Hamilton Police Service, Hamilton Public Library and Hamilton Farmers’ Market Boards for consideration.

The 2019 Tax Operating Budget approved by Council in April 2019 included a 2020-2022 Multi-Year Budget Outlook with a preliminary budget increase of \$39.1 M for 2020, which is the starting point of the budget presented in Report FCS19054.

The 2019 Rate Supported Budget approved by Council in December 2018, resulted in a combined rate increase of 4.66%. The budget also included a projection for 2020 of a 4.5% rate increase. The 2019 Rate Supported Budget reflects Council's ongoing commitment and dedication to implement a sustainable financing plan while bridging the divide between the funding shortfalls for necessary infrastructure with affordable rates.

## **POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

There are no policy implications related to the recommendations within Report FCS19054.

## **RELEVANT CONSULTATION**

### **Tax and Rate Supported Operating Budgets**

Staff has consulted with operating departments in determining the projected tax budget and rate budget pressures / risks for 2020. Staff has also consulted with Council, the City Clerk's Office and the operating departments in developing the timeline for the 2020 budget.

## **ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

### **2020 Preliminary Tax Budget Pressures (Outlook)**

During the 2019 budget process, staff prepared a 2020-2022 Multi-Budget Year Outlook which was included in the budget book and presented by the General Managers.

The initial Outlook for 2020 was projecting a levy increase of \$39.1 M and a 3.9% tax increase. Based on updated information, the initial projection has been revised to a levy increase of \$62.3 M and a 6.7% tax increase as shown in the Table 3.

**Table 3  
2020 Budget Outlook**

	Levy Increase \$	Tax Impact %
2020 Initial Outlook	\$ 39,087,000	3.9 %
Annualizations	\$ 1,666,000	0.2 %
Other Adjustments	\$ 21,588,000	2.5 %
<b>2020 Outlook</b>	<b>\$ 62,341,000</b>	<b>6.7 %</b>

Note - Anomalies due to rounding

The major item included in the Annualizations is the \$1.2 M in the Hamilton Police Service due to the annualization of 27 FTE's and the most significant item in the Other Adjustments is the \$12.1 M due to provincial funding shortfall. Additional details will be provided in the following sections of Report FCS19054.

Table 4 below shows the 2020 Outlook by Department.

**Table 4  
2020 Operating Budget Outlook**

	2019 Approved \$	2020 Outlook \$	Change from 2019 \$	Change from 2019 %
Planning and Economic Development	\$29,671,770	\$30,952,103	\$1,280,333	4.3 %
Healthy and Safe Communities	245,133,660	264,695,680	19,562,020	8.0 %
Public Works	242,414,070	256,020,080	13,606,010	5.6 %
Legislative	5,018,500	4,958,540	-59,960	-1.2 %
City Manager	11,758,900	12,059,510	300,610	2.6 %
Corporate Services	30,207,450	31,116,740	909,290	3.0 %
Corporate Financials / Non Program Revenues	-25,499,670	-19,335,910	6,163,760	24.2 %
Hamilton Entertainment Facilities	3,912,390	4,084,600	172,210	4.4 %
<b>Total City Expenditures</b>	<b>\$542,617,070</b>	<b>\$584,551,343</b>	<b>\$41,934,273</b>	<b>7.7 %</b>
Hamilton Police Services	164,290,320	170,362,040	6,071,720	3.7 %
Other Boards and Agencies	43,795,170	47,148,060	3,352,890	7.7 %
City Enrichment Fund	6,115,890	6,209,090	93,200	1.5 %
<b>Total Boards and Agencies</b>	<b>\$214,201,380</b>	<b>\$223,719,190</b>	<b>\$9,517,810</b>	<b>4.4 %</b>
<b>Capital Financing</b>	<b>129,968,934</b>	<b>140,857,090</b>	<b>10,888,156</b>	<b>8.4 %</b>
<b>Total Levy Requirement</b>	<b>\$886,787,384</b>	<b>\$949,127,623</b>	<b>\$62,340,239</b>	<b>7.0 %</b>

Note - Anomalies due to rounding



## City Expenditures

Staff has identified a levy pressure of approximately \$41.9 M, which represents a 7.7% levy increase. This increase includes three major drivers that collectively add to \$25.8 M as shown in Table 5.

**Table 5  
200 Outlook – Major Drivers**

Provincial Funding Shortfall	\$ 12,124,000
Transit	\$ 7,509,000
Corporate Financials	\$ 6,164,000
Major Drivers	\$ 25,797,000

### Provincial Funding Shortfall

Over the last several weeks, there have been a number of announcements by the provincial government regarding funding cuts for a number of programs. Staff estimates that the impact of these cuts for the 2020 year are approximately \$12.1 M. This includes pressures in Children’s Services and Neighbourhood Development for \$3.4 M, \$650 K for Long-Term Care, \$1.9 M for Paramedics, \$1.5 M in Ontario Works and \$4.7 M in Public Health. These pressures are partially mitigated by an increase of \$100 K on Housing. Report FCS19053 “Impact of Provincial Policy Changes” presented at GIC on June 19, 2019 contains additional details on these items. Staff will continue to review the impacts of any new announcements and will adjust the budget accordingly.

### Transit

A pressure of approximately \$7.5 M in transit is the result of contractual increases in DARTS (\$2.3 M), the continuation of the 10-year transit strategy (\$3.4 M), PRESTO maintenance agreement (\$1.2 M) and transfer to the fleet reserve (\$0.6 M).

Year 5 of the 10-Year Transit Strategy (and onward) is reliant on receiving Investing in Canada Infrastructure Project (Provincial) funding for both the Transit Maintenance and Storage Facility and 13 additional buses. No commitment or timelines have been announced by the current Provincial Government as it relates to the previous Government’s commitment to provide 33% of the capital funding needs. Delays in the announcement and the uncertainty around whether or not the original commitment will materialize impacts the ability to move forward with Year 5 of the Transit Strategy as planned in 2020 unless the funding gap is fully mitigated by the City which would result in a total contribution from the City of approximately 60% to support the capital needs. This uncertainty will also delay the need to hire 35 FTE’s as planned in 2020 if capital needs cannot be met to add 13 additional buses.

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## Corporate Financials

Operating impacts from capital projects approved in Report FCS18097 of \$3.1 M (including 20.0 FTE's) have been incorporated into the 2020 Outlook. Corporate Financials also include a \$2.0 M for increased insurance premiums and a \$1.0 M WSIB pressure to align budget to actuals.

## Other Departmental Pressures

The departmental specific pressures noted in the sections below are above and beyond the pressures identified in the previous section. All departments will have salary / wage compensation and contractual pressures included in their 2020 budget.

### Planning and Economic Development

- \$0.5 M in Growth Management due to decreased revenues and increase in salary and benefits
- \$37 K Wage increase for School Crossing Guards

### Healthy and Safe Communities

- \$375 K increase in Public Health programs (Rapid Risk Factor Surveillance System, vaccine fridge replacement and contractual costs of the Vector Borne Disease Program)
- \$360 K increase in Fire due to transfer to reserve
- \$107 K in annualizations of previously approved business cases

### Public Works

- \$328 K in annualizations of previously approved business cases
- \$223 K due to the maintenance of a number of vacant facilities

## Boards and Agencies

Based on historical trends and updated information, staff has identified budget pressures / risks for Boards and Agencies of approximately \$9.5 M (refer to Table 6). The Police budget pressure of \$6.0 M is based on a five-year average levy increase of \$4.8 M and an additional \$1.2 M for the annualization of 27 FTE's approved during the 2019 budget process.

The major pressure in Boards and Agencies, however, is related to the increase levy payable to the Conservation Authorities. During 2018, the Conservation Authorities levy payment was based on the formula per Ontario Regulation 670/00, section 2(1)(b). The 2018 and 2019 City budget for this was based on a prior agreement that was found to be non-existent by the Ontario Superior Court of Justice. For 2020, the Conservation Authorities budget outlook has been increased by \$2.5 M to reflect the court decision.

**Table 6  
Boards and Agencies Levy Impact**

Police	\$ 6,072,000
Conservation Authorities	\$ 2,500,000
Library	\$ 644,000
Other Boards and Agencies	\$ 302,000
<b>Total Impact</b>	<b>\$ 9,518,000</b>

### **Capital Financing**

The 2020 Outlook for Capital Financing includes a series of items that result in a 1.26% tax impact (Table 7). Following last year's Council direction, staff has assumed 0.5% tax increase for capital financing for discretionary / block funded capital projects which is equivalent to a levy increase of \$4.3 M. Additionally, debt financing requirements resulted in proposed tax levy increases of \$2.3 M or 0.26% for the City's funding share of Public Transit Infrastructure Fund (PTIF), \$2.0M or 2.3% for DC Exemptions, \$1.2 M or 0.14% for the Downtown Office Accommodation project and \$1.1 M or 0.13% for West Harbour Development.

**Table 7  
Capital Financing Levy Impact**

	Levy Increase	Tax Impact
	\$	%
Discretionary / Block Funding	\$ 4,300,000	0.50 %
PTIF - Storage Facility	\$ 2,304,000	0.26 %
DC Exemption	\$ 2,000,000	0.23 %
Office Accommodation	\$ 1,204,000	0.14 %
West Harbour	\$ 1,092,000	0.13 %
<b>Total Impact</b>	<b>\$ 10,900,000</b>	<b>1.26 %</b>

Note - Anomalies due to rounding

**Reduction Scenarios**

In order to achieve a desired tax impact while trying to protect the existing level of service, a series of budget reductions will need to be explored. Table 8 shows the reductions needed to achieve a number of scenarios:

**Table 8  
2020 Reduction Scenarios**

	Reductions	Levy Increase	Residential Tax Increase
Preliminary Budget		\$62,341,000	6.7 %
Total Reductions of	-\$18,270,000	\$44,071,000	4.6 %
Total Reductions of	-\$26,970,000	\$35,371,000	3.6 %
Total Reductions of	-\$35,670,000	\$26,671,000	2.6 %

**Council Referred Items**

Not included in the 2020 Operating Budget Outlook are a number of items that have been referred by Council to the 2020 budget process. To date, these items add to approximately \$1.2 M and the most significant item is the \$900 K related to the Service Delivery Plan of the Fire Department.

The \$1.2 M in Council Referred Items would add 0.1% to the currently estimate tax impact of 6.7%.

**2020 Preliminary Rate Budget Pressures (Outlook)**

A number of pressures / risks have been identified for 2020 (refer to Table 9).

**Table 9  
2020 Preliminary Rate Supported Budget Outlook**

	\$ M
City Division (Hamilton Water)	
Energy and Other Operating Costs	\$2.8
Capital Financing	\$7.8
<b>Preliminary Pressures / Risks</b>	<b>\$10.6</b>
<b>Combined Rate Impact</b>	<b>4.5%</b>

The preliminary outlook for the 2020 Rate Operating Budget projects an operating expenditure increase for Hamilton Water Division of approximately \$2.8 M or 2.9% over the 2019 Budget.

The projected increase in capital financing costs is driven by a significantly increased Rate Capital program of \$320 M projected for 2020 versus \$284 M in 2019. The projected increase in capital investment in 2020 is primarily in the wastewater system with the continuation of construction of the Clean Harbour project.

Water consumption is projected to increase by less than 1% from the water consumption in the 2019 Rate Budget and results in a projected 2020 Rate Revenue increase of \$10.6 M for a combined rate increase of 4.5%. Staff will review options including the use of reserves, reducing reliance on debt and reducing operating costs in order to reduce the current projection of a 4.5% increase in the 2020 Rate Supported Budget

### **2021 – 2023 Multi-Year Budget**

Multi-year budgeting strengthens the link between budgeting and strategic priorities and enables Council to implement a multi-year vision, assessing the long-term financial implications of current and proposed operating and capital budgets and policies.

The initial outlook for 2021 and 2022 prepared during the 2019 budget process resulted in projected tax increases of 3.6% and 3.3%, respectively. These projections, however, need to be re-evaluated to identify pressures and tax increases above inflation and other known factors such as contractual agreements and need to be adjusted based on the 2020 budget. Actions taken to mitigate the pressures in the 2020 budget should not include postponing expenditures to future years but rather, they should be geared towards finding sustainable solutions.

During the 2020 budget process, the multi-year budget outlook will also be updated to include the 2023 budget year.

### **2020 Budget Process and Schedule**

With Council approval of the Multi-Year Business Planning and Budget Policy in July 2017, Council can expect to receive integrated Business Plans and Budgets covering four years being 2020 to 2023. User fees, as well as the 2020 Rate Budget and 2020 Tax Capital Budget processes, are expected to follow the schedule from previous years and are expected to be approved by December 2019. The 2020 Tax Supported Operating Budget process follows a regular timeline with Council's approval by March 2020.

The 2020 Budget Schedule is attached as Appendix "A" to Report FCS19054 Budget Guidelines, Outlook and Process.

## **ALTERNATIVES FOR CONSIDERATION**

### **2020 Tax Supported Operating Budget**

Options have been included in the recommendations and will be brought back to Council in the Fall.

### **2020 Rate Supported Operating Budget**

Primarily because of favourable Operating Expenditures budget variances, the Rate Supported Program has seen significant year-end surplus results in recent years (\$16.5 M in 2018 and \$18.1 M in 2017). The surplus funds are deposited into the Rate reserve funds and subsequently, utilized to fund future capital works. Hamilton Water division is committed to build the 2020 Rate Operating Expenditure Budget by re-evaluating every expenditure line item to develop the 2020 budget accordingly, regardless of how much money has previously been budgeted to any given line item. This “right-sizing” of the Rate Operating Expenditure budget will permit the contribution to capital to increase to fund an ever-growing capital program.

## **ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

### **Economic Prosperity and Growth**

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

## **APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS19054 – 2020 City of Hamilton Budget Schedule

GR/JS/dt