



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 19, 2012	
SUBJECT/REPORT NO: 2013 Tax Budget Guideline and Preliminary Outlook (FCS12065) (City Wide)	
SUBMITTED BY: Roberto Rossini General Manager Finance & Corporate Services Department	PREPARED BY: Tom Hewitson (905) 546-2424 ext 4159 Victoria Terella (905) 546-2424 ext 4169
SIGNATURE:	

RECOMMENDATION

- (a) That 2013 user fees (excluding golf, transit and ice fees) be increased by an inflation rate of 2.3% (Ontario CPI), 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 2013 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 2013 budget guideline of 0% increase, and that any increase be forwarded for consideration with appropriate explanation.

EXECUTIVE SUMMARY

The 2013 tax operating budget guidelines, preliminary pressures / risks (outlook) and the 2013 budget draft timeline are submitted for Council's consideration.

In accordance with the direction set at the beginning of this term of Council, the budget guideline for 2013 continues to call for a goal of a zero percent increase as previously approved. 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 2013. During a scan of the 2013 tax budget, each department provided a list of potential pressures / risks.

Currently the identified pressures / risks for 2013 would require a levy increase of \$44.8 million. This would translate into a 5.5% projected residential tax increase if no mitigating budget measures are undertaken as seen in the Table below. Note that this is inclusive of an estimated assessment growth and reassessment benefit of -1.0%. A 1% municipal tax impact is equivalent to about \$6.9 million.

	2013 Tax Impact (Average Residential)	
	DRAFT	
	\$	%
Municipal Taxes		
City Departments	\$ 128	4.5%
Boards & Agencies	\$ 15	0.5%
Capital	\$ 15	0.5%
Total Municipal Taxes	\$ 158	5.5%

The "Analysis / Rationale for Recommendation" section of this report provides more details on the specific pressures / risks.

In addition, there have been a number of items referred to the 2013 tax budget process by Council. Currently these pressures are estimated to be approximately \$13 million.

As indicated, staff have begun the detailed budget process and, as such, the pressures and risks will be thoroughly reviewed to ensure that the 2013 budget request minimizes the impact to the levy. Staff will be providing an update at the operating budget workshops planned for November, 2012.

Where the 2013 budget guideline takes into account inflation (in the case of user fees), staff are proposing to use a rate of 2.3% based on the Ontario CPI (all items, excluding energy) average for the last twelve months (May 2011 – April 2012).

Staff will provide a more detailed draft budget, including budgets by departments, at the November operating budget workshops.

Alternatives for Consideration – See Page 11

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

Financial: The preliminary tax operating budget pressures/risks identified within this report total approximately \$44.8 million (inclusive of user fee increases). In addition, Council referred items for consideration in 2013 are currently estimated at \$13 million.

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

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

HISTORICAL BACKGROUND (Chronology of events)

The 2012 tax operating budget approved by Council in April, 2012, resulted in an average city-wide residential tax impact of 0.9%. This represented the second lowest residential tax impact since amalgamation. Council has expressed their intent to continue this trend and, as such, staff are recommending a 2013 budget guideline similar to the 2012 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 2013. Staff have also consulted with Council, Clerks and the operating departments in developing the timeline for the 2013 budget.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

2013 PRELIMINARY TAX BUDGET PRESSURES (Outlook)

A number of pressures / risks have been identified for 2013 and further explanation is provided in the following sections.

City Departments

Approximately \$35.6 million in preliminary 2013 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	\$ 7.3 M
- Merit / Step Increases	\$ 2.5 M
- Change in Non-union Merit Policy	-\$ 0.1 M
- OMERS	\$ 4.2 M
- Government Benefits	\$ 0.7 M
- Employer Benefits	\$ 1.0 M
TOTAL	\$ 15.6 M

The above salary/wage compensation pressures / risks take into account increases per settled union contracts, as well as an allowance for non-settled contracts. The identified benefits / pressures take into account the latest published rates or estimates for OMERS, EI, CPP and employer benefits.

These compensation estimates are based on preliminary 2013 budget estimates as at the end of June 2012 and assume no cost sharing by the Province. The Province has advised their funding partners that for 2013, they will not provide additional subsidy for compensation related expense increases. The impact on the City's budget will be about \$2.6 million and is included in the above estimate.

For 2013, the OMERS Sponsor Corporation proposed a contribution rate of 9% up to the CPP earnings limit and 14.6% thereafter for those with normal retirement age of 65; for those with the normal retirement age of 60, the rates were 9.3% and 15.9%

respectively. When compared to 2012 contribution rates, the 2013 set rates represent an increase of about 10.8%. The 2013 OMERS budget for the tax supported City departments (excluding ABCs) is impacted by this rate increase as well as by merit increases and COLA increases for City staff. The overall impact for the 2013 budget on account of OMERS is estimated at about \$4.2 million. In May 2012, Tony Dean was appointed to undertake a review of the governance model of the Ontario Municipal Employees Retirement System (OMERS). The review will focus on the actual governance and administration of OMERS since the 2006 OMERS legislation was proclaimed.

Pre-Approvals / Annualizations

	Net Levy Impact \$
Pre-approvals / Annualizations:	
- Operating Impact of Capital Projects (FCS11111)	\$ 1.3 M
- HRPI Dividend Reduction	\$ 0.1 M
TOTAL	\$ 1.4 M

The main pressure / risk identified above is with respect to operating impacts from capital. As part of the annual Capital budget approval, staff estimate the operating costs related to these approved Capital projects. Through staff report FCS11111 "2012 Tax Supported Capital Budget", Council approved *"That the operating and FTE impacts of the 2012 capital budget, estimated to be \$2,631,000 and 8.35 FTE's, attached as Appendix C to Report FCS11111, be received, and incorporated into the 2013 Tax Supported Operating Budget submission for Council's consideration"*. The above pressure of \$1.3 million is a revised estimate of the approved operating impact from capital of \$2.6 million down to \$1.2 million, plus \$51,000 related to the 2012 Area Rated Special Capital Reinvestment. Most of this reduction is due to the deferral of the levy requirement to 2014.

Provincial Impacts

	Levy Impact \$
Provincial Impacts:	
- OW Upload: from 82.8% in 2012 to 85.8% in 2013	-\$ 3.9 M
- Court Security Upload (Police)*	-\$ 0.7 M
- Loss of Provincial Subsidy for Compensation related Expense Increases**	\$ 2.6 M
- Removal of Budgeted Grant	\$ 2.0 M
TOTAL	\$ 0.0 M

*Court Security Upload is also included in the Police net levy explanation.

**Loss of Provincial Subsidy for Compensation related Expense Increases is also included in Salary/Wage Compensation explanation.

Staff are estimating no upload savings in 2013 as the loss of provincial subsidies and grants completely offset the estimated upload savings. This is still positive in comparison to the 2012 upload shortfall of \$1.3 million. The 2013 provincial impacts is calculated based on estimated OW upload savings of -\$3.9 million (which is based on 2012 subsidy rate of 82.8% increasing to 85.8% for 2013) plus estimated court security upload savings of -\$700,000, less the \$2.6 million loss of additional subsidy for compensation related expense increases and the \$2.0 million upload shortfall funded by reserve in the 2012 base budget.

This upload benefit estimate does not take into consideration the possibility of an impact due to the changes to OW Discretionary Benefits. This issue will be included in the Council Referred Items to be considered during the 2013 budget process.

Although the upload savings in court security costs is noted within the “Provincial Impacts” section of this report (above table), the savings will occur within the Police Services budget and has been reflected in the Boards & Agencies section of this report as well (overall it is counted only once, within the Police Budget). Additionally, the loss of additional subsidy for compensation related expense increase has also been reflected in the Salary/Wage Compensation section of this report. These were combined in this section to give a full picture of the provincial upload impacts.

Corporate Impacts

	Net Levy Impact \$
Corporate:	
- Inflationary / Contractual Requirements	\$ 6.8 M
- User Fees (excluding Transit, Ice, Golf)	-\$ 1.8 M
- Energy (Fuel, Natural Gas, Electricity)	\$ 1.4 M
- Cost Allocation Review - Implement cost shift from Rate / Capital Budget to Tax Budget (3 yr phase-in)	\$ 0.2 M
- Risk Management - Phasing out contribution from reserve	\$ 0.3 M
- Risk Management - Insurance Claim Costs	\$ 2.0 M
- Vehicle Replacement Reserve Underfunding	\$ 0.9 M
TOTAL	\$ 9.8 M

A potential pressure / risk of approximately \$6.8 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 -\$1.8 million. This estimated increase of \$1.8 million in user fee revenue assumes the recommended inflationary guideline of 2.3% and does not assume any increase in Transit fares, Ice fees or Golf fees.

Energy pressures of approximately \$1.4 million have been identified and include a projected fuel (unleaded/diesel) increase from \$1.06/litre to \$1.16/litre (\$1.4 million), a reduction of -12% for Natural Gas (-\$578,000) and an increase of 6% for Electricity (\$584,000). The respective 2012 budgets for these three commodities are:

- Fuel = \$16.9 million
- Natural Gas = \$4.6 million
- Electricity = \$10.4 million

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. The deficit is mainly the result of a decision made following amalgamation to only budget for 65% of the replacement value. As discussed in staff report PW10066 "Central Fleet Vehicle Replacement Reserve Fund", it was determined at that time that most divisions could not afford to pay the entire amount needed to fully pay for replacement vehicles. A reduction of approximately 35% was included in each division's reserve contributions beginning in 2002 and continuing to 2010. 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.

Department Specific:

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

Planning & Economic Development

Major pressures / risks identified by Planning and Economic Development include \$90,000 increase in Cashiering/Security Contracts for Parking Operations, \$318,000 lost revenues due to private companies providing parking enforcement services on private lots, an annual amount of \$75,000 for Hamilton Technology Centre building repairs/maintenance and a \$150,000 increase in interest expense for the residential loan program. Also, a \$300,000 pressure from the elimination of the Destination Marketing Provincial Funding is expected, however staff are reviewing options to mitigate this pressure and will report back to Council.

Public Health Services

Major pressures / risks identified by Public Health Services include \$36,000 loss in licensing fee revenue as Retirement Home Act (RHA) homes will not be required to pay the per bed licensing fee under the Residential Care Facilities (RCF) bylaw, \$21,000 for the Healthy Babies, Healthy Children program, and \$90,000 from increased demand in the CINOT program. This maybe worsened by the cancellation of the Interim Federal Health Program dental benefits effective June 30, 2012.

Community Services

Major pressures / risks identified by Community Services include \$500,000 increased pressure on provincially mandated rent supplement programs, \$75,000 decrease in Federal Funding for social housing, \$500,000 annual increase due to inflationary factors for social housing subsidies using the Provincial benchmarking formula, and another \$750,000 annual increase due to benchmarking factors allocated to CityHousing Hamilton. Additionally, pressures of \$58,000 for the training budget in Recreation and \$398,500 in annualized enhancements approved in 2012 (Beemer Park, Lower Stoney Creek, Westmount, North Wentworth) have been noted.

As part of the 2012 Ontario Provincial budget, it was announced that Community Start-Up and Maintenance Benefit (CSUMB) will be eliminated effective January 1, 2013. CSUMB is a mandatory benefit for Ontario Works and the Ontario Disability Support Program (ODSP) clients for costs related to maintaining a residence in the community. Instead, 50% of the provincial expenditures from CSUMB will be rolled up into the consolidated funding envelope for housing and homelessness programs. This creates an estimated savings in Ontario Works of (\$860,000). However, Housing Services will

need to reinvest the OW savings to fund supports to help homeless households secure housing and households at risk of homelessness to maintain their housing.

Not included in the preliminary outlook is the impact that may occur from the elimination of the OW discretionary benefit. In 2012, Council approved a temporary budget for the continuation of the program and referred the on-going impact to the 2013 budget process. The estimated impact of a full continuation of the program in 2013 is about \$3.8 million.

Hamilton Emergency Services (HES)

HES preliminary pressures include \$100,000 for Recruit Classes Equipment, \$12,000 for Recruit Training, \$10,500 for the modification of personal protective equipment, \$15,000 in annual maintenance fees for the electronic patient care records software and \$2,500 in annualized enhancements approved in 2012 (Washer/Extractors for Protective Clothing)

Public Works

Major pressures / risks identified by Public Works include \$3.3 million for Winter Control and Maintenance based on a five year average. In 2012, Council approved a \$1 million reduction to the winter control budget, which was done to reflect the mild winter conditions. Staff will be reviewing alternative models for budgeting winter control costs as part of the 2013 budget process.

Other PW pressures include \$483,000 from reduced Stewardship Ontario funding for Household Hazardous Wastes, \$815,000 from fluctuations in MRF Commodity revenues, \$136,000 for disposal contracts based on tonnage growth, \$463,000 for increases in fleet labour, parts and services contracts, \$1.0 million for street lighting energy and maintenance costs, \$246,000 reduction to Provincial Gas Tax allocation, \$350,000 for tire contracts and \$164,000 for annual small equipment reserve underfunding. Additionally, smaller pressures include \$35,000 for properties that are proposed as Parkland but not yet developed or assumed and \$40,000 from increases in Vehicle Licensing. These pressures are partially offset by (\$174,000) increase in revenues for Waste Diversion Ontario based on a four year average and savings of (\$23,000) for Central Composting Facility operations contracts.

The 2013 Outlook also assumes that the \$1.7 million Waste Management contract savings anticipated for 2013, but budgeted in 2012 by use of reserve funding, will materialize leaving no impact on the 2013 budget.

City Manager

The City Manager's Office identified preliminary pressures / risks including \$55,000 in lease costs at 120 King Street (Human Resources), \$80,000 in Expert Witness Fees, and an increase in fees for Human Resources Labour Relations, \$100,000 in Legal Fees and \$100,000 for Arbitration/Mediation Fees.

Corporate Services

Corporate Services has identified budget pressures / risks which include \$90,000 for Wireless Hamilton, \$18,000 needed for security measures at 330 Wentworth St. (Customer Contact Centre) and \$84,000 in lease costs at 120 King Street (Financial Services).

BOARDS & AGENCIES

Based on historical trends and consultation with Police Services, staff have identified budget pressures / risks for Boards and Agencies of approximately \$5 million. The Police pressure of \$4.7 million is based on an increase of 3.5% and includes the aforementioned Court Security Upload savings of \$700,000 (estimate provided by police Services). For the remaining Boards & Agencies, staff have assumed 2.3% for legislated Boards & Agencies (MPAC and Conservation Authorities) and 0% for non-legislated Boards & Agencies.

	Levy Impact \$
Boards & Agencies:	
- Police (3.5%)*	\$ 4.7 M
- Boards & Agencies (excluding Police) Conservation Authorities & MPAC @ 2.3%	\$ 0.2 M
Other Boards & Agencies @ 0.0%	\$ 0.0 M
Community Partnership @ 0.0%	\$ 0.0 M
TOTAL	\$ 5.0 M

* Includes Court Security Upload for 2013 of \$700,000.

CAPITAL

Based on preliminary Council direction, staff are assuming 0.5% for capital, which is equivalent to \$3.5 million.

	Levy Impact \$
Capital:	
- Preliminary direction at 0.5%	\$ 3.45 M
TOTAL	\$ 3.45 M

OTHER POTENTIAL RISKS

Staff have identified additional risks that are not captured above as insufficient information exists to determine the dollar impact they may have on the 2013 budget. These include the revised Winter MMS Compliance, DARTS Contract expiry and revisions to OLG Slot Revenues.

2012 PROPOSED BUDGET SCHEDULE

The proposed budget schedule for 2013 is identified in Appendix “A” to report FCS12065.

The tax budget process follows a similar timeline to the 2012 process. Additional workshops related to the Service Delivery Review have been incorporated as well. The rate and capital budget processes are expected to continue, similar to previous years, and are projected to be completed by December, 2012.

Tentative dates for meetings to the end of 2012 have been sent to Council.

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

Appendix “A” – Proposed 2013 Budget Timeline.

Proposed 2013 Budget Timeline

Key GIC Budget Dates

ITEM	GIC DATE
Capital Budget Workshop - #1	September 13 th
2013 Tax Budget Guideline & Preliminary Outlook	September 19 th
Capital Assets/Projects Tour Sites	September 21 st
Capital Budget Workshop - #2	September 28 th
Service Delivery Review Workshop - #1	October 18 th
Service Delivery Review Workshop - #2	October 19 th
Service Delivery Review Workshop - #3	October 23 rd
Service Delivery Review Workshop - #4	October 29 th
Service Delivery Review Workshop - #5	October 31 st
Rate Budget Workshop	November 1 st
2013 User Fees	November 21 st
Operating Budget Workshop - #1 (Department / Divisions)	November 27 th
Operating Budget Workshop - #2 (Overview)	November 29 th
2013 Rate Budget	December 7 th
2013 Capital Budget	December 11 th
2013 Preliminary Tax Operating Book	Mid-January
Boards and Agencies Presentations	Late January
Department Presentations	Late January
Public Delegations	February
GIC Deliberations	February
GIC/Council Approval	March