

**MINORITY REPORT PREPARED BY MAYOR PETER F. TRENT AND MAYOR
EDGAR ROULEAU IN RESPONSE TO THE RECOMMENDATIONS TABLED BY THE
COMMISSION AD-HOC DU BUDGET 2010 (VOLET AGGLOMERATION)**

A) ABSENCE OF BUDGET OBJECTIVES AND GUIDELINES

In both the public and private sectors, the annual budget process must be driven by clear objectives and guidelines (e.g. *operating expense increases must be limited to the estimated inflation rate; any tax increase for homeowners must not exceed an average of 2%; etc.*). While City of Montreal Mayor Tremblay stated on several occasions in 2009 (prior to the elections) that Montreal tax increases would be in the order of the rate of inflation, as President of the Agglomeration of Montreal he mentioned no such objective (or any other) for the Agglomeration budget.

The result was a 2010 Agglomeration budget with an average 12.6% increase in the suburban municipalities' quota, with a comparable increase for the City of Montreal itself. These are increases that are at least six times the projected inflation rate.

This is totally unjustifiable, both politically and financially.

RECOMMENDATIONS:

1. ASM representatives of the Commission Ad-hoc sur le Budget (volet agglomération) strongly recommends that all members of the Agglomeration Council vote against the 2010 Agglomeration budget.
2. For the 2011 and future Agglomeration budgets, clear objectives and guidelines should be submitted to the Agglomeration Council for review and approval no later than April of each year.

B) MANDATE OF THE AD-HOC AGGLOMERATION BUDGET COMMISSION

While the ASM welcomed the creation of the Ad-hoc Agglomeration Budget Commission which would include two of its members, the effectiveness and usefulness of the Commission was almost completely compromised for the following reasons:

The mandate and "role and function" of the Commission was vague;

No orientation of the Commission members was carried out prior to the start of the public meetings;

Two of the largest departments, those being the SPVM and SIM, did not make presentations to the Commission and a study of their budgets was excluded (see E);

The Commission's work should start much earlier in the year; otherwise it simply examines a cake already baked. In fact, the budget had already been tabled when the Ad-hoc Commission began its work.

RECOMMENDATIONS:

3. To increase transparency and the effectiveness of the Agglomeration budget process, the Ad-hoc Agglomeration Budget Commission must become a permanent Commission, with its mandate beginning in April of each year.
4. At the start of each budget process, Commission members should be provided with a series of detailed orientation meetings that would include, amongst other things:
 - Review of the objectives and guidelines for the next budget;
 - General overview of the budget process and schedule;
 - Identifying key administrative contacts that would be designated to provide budget-related background information. In fact, the Commission should work with the administrative staff to prepare the Agglomeration budget as opposed to simply examining a document presented to it by the City of Montreal.

C) MEANINGFUL INVOLVEMENT AND INPUT IN THE BUDGET PROCESS (AGGLOMERATION SECTION)

When the Ad-hoc Commission was created with the appointment of its members at the December 17th, 2009 Agglomeration Council meeting, there was a genuine expectation that this new Commission would be able to submit to Council meaningful recommendations to improve and/or modify the 2010 budget.

Yet, at the January 12th, 2010 Agglomeration Council meeting, the President of the Agglomeration, Mayor Tremblay, made it very clear that no changes would be made, or even considered, for the 2010 budget. We are very far from the "*esprit de collaboration avec tous les partenaires*" that Mayor Tremblay was committed to after last November's election.

Once again, the ASM has been shut out from any meaningful involvement in the budget process (even though its member cities finance almost 20% of the budget); however, the ASM Mayors remain willing to try again to create some form of effective partnership in preparation for the next budget process.

RECOMMENDATIONS:

5. If a Permanent Agglomeration Budget Commission (*Commission permanente sur le budget- volet agglomération*) is to be created for the 2011 budget process, its mandate and schedule should be established in order that the public hearings can be completed early enough to submit recommendations which, if accepted, will be incorporated into the 2011 budget numbers.
6. Most residents who attended and submitted requests to the Commission were clearly under the impression that they were doing so with the expectation that if said requests were accepted, they would be realized in 2010. If residents from across the island of Montreal are invited to participate in 2011 budget Commission hearings, then they should be given a firm guarantee that recommendations that are ultimately accepted will be reflected in a modification to the 2011 budget.

D) 2010 VERSUS 2009 SPENDING

Total 2010 operational spending (excluding debt repayment) will be up by \$189.6 million (\$2,007.3 in 2009; \$2,196.9 in 2010). This represents a 9.4% increase, nearly five times the projected rate of inflation.

Two major new expenses make up more than 80% of the \$189.6 million increase; an additional \$91.9 million that allegedly must be paid into employee pension funds (no details are yet available, even though they were requested by the Commission on January 15th), and a \$62.2 million increase in mass transit spending, being the proposed payments to be made to the STM and the AMT.

As it is mentioned in the Auditor's Report of September 2009, the members of Council and the Agglomeration must not be kept in the dark about essential information which would allow them to make an informed decision. No council should be asked to vote on spending without the information and detailed breakdown of the one line item which contributes the most to this substantial increase in taxes – the \$91.9 million increase for pensions funds.

Clearly, this is an unacceptable budget increase, especially when considering the current difficult economic situation.

RECOMMENDATIONS:

7. The \$189.6 million in new spending should be reviewed.

E) EXCLUSION OF POLICE AND FIRE SERVICES FROM THE MANDATE OF THE COMMISSION AD-HOC

While all agglomeration related services made detailed presentations to the Ad-hoc Commission two of the largest departments, those being the SPVM and the SIM, were excluded. Rather, they presented their respective budgets to the Commission de la sécurité publique.

How can the Ad-hoc Commission carry out its mandate to review the entire Agglomeration budget when the two largest departments (whose combined budgets represent 40% of the total Agglomeration budget) did not make formal presentations to it? This simply does not make sense.

RECOMMENDATIONS:

8. If a Permanent Agglomeration Budget Commission (Commission permanente sur le budget-volet agglomération) is to be created it should be mandatory that both the SPVM and the SIM make presentations to it, either separately or in a combined meeting with the *Commission de la sécurité publique*.

F) ABSENCE OF ANY TREND ANALYSIS

Virtually all budget presentations focused only on 'budget-to-budget' numbers (i.e. 2009 vs. 2010). In some cases, the 'actual' results as published in the 2008 Rapport financier were also provided, but never used for any type of comparative analysis. No 2009 forecast numbers were given (forecast numbers are budget numbers updated to reflect actual experience).

Budget-to-budget comparisons are often misleading and perpetuate the underestimation of revenues and overestimation of expenses. A ‘trend analysis’ over several years past experience (preferably five) gives a far more accurate assessment of the true financial performance of a said department/service and the city as a whole, especially if actual year-end results are used.

Based on information obtained from the City of Montréal’s budget documents and the Rapport financier 2006, a sampling of spending trends over the past four years has yielded some very startling results, as follows:

<u>Service</u>	<u>2006 Rapport financier</u>	<u>2010 Budget</u>	<u>2006-2010 Budget/ Réel (Inflation : 7%)</u>
SPVM	488 038,1*	577 375,5	18.3%
SIM	263 956,6	307 786.8	16.6%
STM contribution	320 798,4	433 701,3	35.2%

*\$11.9 M for ‘parking surveillance’ included

Based on these numbers, it cannot be disputed that Montreal is, on average, budgeting expenses for Agglomeration-related services at a rate of three times the rate of inflation, something which is totally unacceptable to the ASM.

RECOMMENDATIONS:

9. A five-year trend analysis of all actual expenses and revenues should be a mandatory component of all presentations made to the Permanent Agglomeration Budget Commission (Commission permanente du budget-volet agglomération). The presentations should also include comments as to the compliance of the trend analysis results with the budget objectives and guidelines that were established over the same five-year period, with explanations as to the source(s) of any major variance.

G) STM CONCERNS

Based on the information contained in its 2010 budget presentation documents, the STM is in dire straits. Total expenses will increase by 6% in 2010 (with its debt service increasing by 13.1%). On the revenue side, Client revenues (Revenus-clients) will increase by 3.8%, which means that greater funding is being requested from various government agencies to balance the budget. With regard to the Agglomeration contribution, the STM is requesting additional funding of 8.3% (\$332 000,0 in 2009, 359 400,0 \$ in 2010).

In addition, a line item appears in the proposed revenue budget entitled “Nouvelles sources de revenus: 40 000,0 \$”. At this point in time, the STM cannot confirm with any degree of certainty that this 40 000,0 \$ will ever be realized. Should this ultimately be the case, either 2010 expenses will have to cut by \$40 M or a deficit of this amount will be incurred. As submitted, it would appear that the STM budget is not in conformity with Section 119 of the Act Respecting Public Transit Authorities (ARPTA), which states:

“The budget may not provide for expenditures that exceed the revenues of the Transit Authority.”

In this case, the proposed expense budget exceeds the revenue budget by \$40M, since the \$40M on the revenue side is 'virtual', i.e. the source of this \$40M cannot be validated. This is a serious issue.

RECOMMENDATIONS:

10. The apparent legal irregularity with the STM budget must be addressed immediately.
- 11 The ASM cities and the City of Montreal must join forces to petition the provincial government to support the operating costs of the STM (which were downloaded to Montreal in 1991 via the Ryan Reform, representing a present day value of some \$250 million that used to be provided by Quebec).
12. A formula must be developed and implemented to ensure that “municipalités membres de la Communauté métropolitaine de Montréal-CMM, hors de l'Île-de-Montréal” contribute their fair share of the real cost of services rendered to their communities and residents by the STM.

H) CONFUSION REGARDING THE 2010-2012 PTI BUDGET

The table below outlines the progression of the Agglomeration PTI budget from 2006 to 2010, along with projected budgets through 2012.

Year	Total PTI Budget
2006	286,344,000
2007	357,703,000
2008	563,189,000
2009	534,367,000
2010	389,146,900
2011	625,615,100
2012	590,477,100

Clearly, the 2010 PTI budget is an anomaly when compared to the historical trend and with suggested future budgets. To achieve such a significant reduction in the 2010 PTI budget (which was proposed to be \$535,876,000 in the 2009-2011 PTI budget tabled last year), some form of “project prioritization” must have been carried out. Yet at the Service des finances presentation to the Ad-hoc Commission, it was stated that the 2010 PTI prioritization process has not been completed, but should be finalized by the end of February. In addition to the PTI budget proposed, it was also indicated that funds for “approved priority PTI projects” are also available in a special “corporate reserve”. Reference to such a corporate reserve was also made during presentations made by several other departments. At this point, there is considerable confusion as to how the projects identified in the proposed 2010 PTI budget were actually selected. In addition, it is unclear as to how the project prioritization process will be completed over the next few weeks.

The last point of confusion (and concern) relates to the corporate reserve; how large is it; is there a pre-determined list of projects that will be financed through this fund and how much of this fund is projected to be expensed in 2010?

RECOMMENDATIONS:

13. It is strongly recommended that the master prioritized list of all projects submitted for PTI funding be made available to the Commission Ad-hoc, identifying those that were retained and those that were deferred or rejected. With this information, the Commission will be better prepared to respond to PTI project-related questions at the public meetings.
14. Detailed information on all dedicated “corporate reserves” should be made available at the outset of each budget process.
15. Since the ASM cities will ultimately finance some 20 % of new debt incurred for all Agglomeration PTI projects, a mechanism must be developed and implemented whereby the ASM will be involved in the prioritization and final selection of projects that will be recommended for inclusion in the 3-year PTI budget.

I) RESOLUTION OF THE CENTRE-VILLE/WATER ISSUES

One of the commitments made by all three “partners” that signed the agreement which led to the adoption of Bill 22 was to resolve once and for all two major issues; the centre-ville and water dossiers. For a number of reasons, significant delays have incurred that have prevented any meaningful progress from being made amongst representatives from MAMROT, the Ville de Montreal and the ASM to develop recommendations that would lead to a permanent resolution to both problems.

Baie d’Urfé, Beaconsfield, Dorval, Kirkland and Pointe Claire do not consume any water from Montreal, yet these five cities will, once again, pay \$17 million for water reserve and water-related charges in 2010.

RECOMMENDATIONS:

16. Serious discussions should resume in the first quarter of 2010, with a commitment from all parties to resolve the centre-ville and water issues or, at the very least, arrive at a “resolution in principle” prior to the adoption of the 2011 budget next December.

J) PROMISED BUDGET FOR THE ACQUISITION OF NATURAL GREEN SPACE

As indicated on page 5 of the summary document entitled “*Budget 2010: L’essentiel en un clin d’oeil*”, the following commitment is documented:

Parcs et Milieux Naturels

- *12 M\$ par année pour les trois prochaines années pour la protection, l’acquisition, l’aménagement et le maintien des milieux naturels*

Yet in the 2010 Agglomeration 2010 – 2012 PTI budget, the only reference to an initiative of this nature is project number 32300 – “Programme d’acquisition d’espaces naturels d’envergure : 3 006,0 \$” (in 2010 only). This does not reflect the commitment that was made by Montreal’s administration to make 36 M\$ available over the next 3 years for the acquisition of natural green spaces.

Recommendations:

17. Being given to understand that a considerable 'corporate reserve' is available to fund 2010-2012 PTI projects as they are ultimately prioritized and approved, it is recommended that the commitment to make available 12 M\$ per year over the next 3 years for the acquisition (and acquisition only) of natural green spaces be reinstated in the PTI budget.

K) LACK OF INFORMATION AND JUSTIFICATION FOR A 91,9 M\$ INCREASE IN PENSION FUND EXPENDITURES

As indicated on page 175 of the budget document under the category "CHARGES", the budget for 'Administration Général' will increase from 197 935,5 \$ in 2009 to 304 866,3 \$ in 2010 (106 930,8 \$ or 54%). The only explanation for this increase is presented on page 185, as follows:

"un apport de 91,9 M\$ principalement aux frais de régime de retraite pour pallier les impacts des fluctuations importantes des marchés financiers, entre autres, durant l'année 2008, et pour harmoniser certains régimes de retraite"

The 91,9 M\$ increase represents 4.2% of the total budget (before financing costs) and one-half of the overall spending increase in the 2010 budget (which in turn is responsible for approximately one half of the 12.6% increase in the quotes-parts contributions). Yet all that is presented for justification of the new 91,9 M\$ expenditure is the above-mentioned sentence. This amount exceeds the total budget of some departments and paramunicipal services, for which each was required to prepare and present a detailed budget document.

At the first Commission Ad-hoc meeting on January 15th, the question was raised regarding the extra 91,9 M\$ for pension fund financing included in the Agglomeration budget. It was also noted that a considerably smaller amount (20,8 M\$) related to additional pension fund expenses had been included in the city of Montreal's budget. The response from the Service des finances was that the details would be forthcoming; such was and is still not the case.

Based on the minimal amount of information that has been subsequently made available, it would appear that this significant increase is from two sources:

1. an alleged increase in the pension fund service costs and new debt financing (resulting from the investment losses incurred in 2008); and
2. an internal recalculation of the relative percentages of the service and debt repayment costs that will be assessed to the city of Montreal and the Agglomeration budgets, with considerably more to be charged to the Agglomeration in 2010 (45% in 2009, 58% in 2010)

Given the significant amounts of money involved, and the lack of any documentation (at this point in time) to justify passing all or even part of the 91,9 M\$ on to all Agglomeration taxpayers, it is urgent and imperative that there be a full disclosure of the facts.

Recommendations:

- 18.** A special meeting of the Commission sur les finances et l'administration be convened without delay at which Montreal's administration should make a full and detailed presentation of the information that resulted in their adding the 91,9 M\$ increase in the 2010 Agglomeration budget.
- 19.** In addition to administration's presentation, the appropriate actuarial and legal advisors should also be present to respond to questions and to provide the Commission with the full range of options that could be considered to improve the situation prior to authorizing the disbursement of any or all of the 91,9 M\$.
- 20.** The Commission sur les finances et l'administration be instructed to oversee the preparation of a detailed report on the projected long-term financial impact of the current employee pension funds on both the city of Montreal and the Agglomeration, especially in light of the employer's obligations to bear the full burden of financing any new debt and service costs related to these funds (as stipulated under current legislation in Quebec).