



INFORMATION REPORT

TO: Mayor and Members General Issues Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: March 7, 2013	
SUBJECT/REPORT NO: 2012 Draft Tax and Rate Operating Year End Variance (Unaudited) (FCS13025) (City Wide)	
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Council Direction:

During the 2013 Tax Operating Budget deliberations, Council has requested that staff provide an update in respect of the potential 2012 year-end surplus.

Information:

The 2012 year end process is well under way, providing staff with a good reference for projecting final variances. A final report to Council is expected in Mid-April.

At this time, staff are forecasting the total surplus for tax supported services as \$2.7 million (+0.4% of net levy). Also, there is forecasted to be a favourable variance in rate supported services of \$8.7 million. Therefore, the forecasted year end operating surplus for all City services is \$11.4 million.

With respect to tax supported services, the surplus is largely a result of a surplus in Capital Financing (\$8.5 million) and surpluses in operations for Public Works (\$5.0 million), Community Services (\$2.8 million) and Corporate Services (\$1.7 million). The favourable variances are partially offset by deficits in Corporate Financials/Non Program Revenues (-\$14.3 million) and Planning (-\$1.2 million).

Contributing to the overall surplus in the Public Works departmental budget is the savings in the Winter Control program of \$4.1 million due to the number and severity of snow events being lower than the budgeted average. Additionally, lower than anticipated tonnages resulted in waste processing contractual savings of \$1.9 million and these were partially offset by unfavourable streetlighting program costs of -\$1.3 million.

Community Services positive variance is due to reduction in Ontario Works caseload, social housing prior year subsidy adjustments and gapping due to various vacancies as well as delays in Recreation facility openings. These are partially offset by pressures in Macassa and Wentworth Lodges due to employee related costs and subsidy adjustments. Gapping due to vacancies and timing of hires is highlighted as the driver for the positive variance in Corporate Services.

Planning is projecting an overall deficit due to a -\$412,000 Business & Trade Licenses Revenue shortfall (PED01104(e)), On-street meter parking revenue shortfall of -\$224,000 (PED11104(a)), and the loss of private lot enforcement -\$385,000 (PED10184).

The Corporate Financials/Non Program Revenues deficit is mainly a result of high write-offs from unfavourable assessment decisions and allowances (-\$12 million). There has been significant successful challenges to MPAC's industrial assessments recently, requiring staff to increase allowances. As well in the Corporate Financials, there is a budgeted savings of -\$4.1 million for gapping which the actuals are not realized within this area, but in the program area variances resulting in an unfavourable variance within Corporate Financials. These negative variances have been partially offset by debt financing savings of \$8.5 million. Normally 50% of these savings (about \$5.0 million for 2012) are transferred to the unallocated capital reserve to fund future infrastructure requirements; however, this would put the tax budget into a deficit position. Therefore, only \$2.0 million has been transferred during this year-end process. Also, partially offsetting the Corporate Financials unfavourable variance is favourable dividends from HUC of approximately \$4.5 million.

The \$8.7 million surplus in Rate is a result of savings in employee related costs, materials and supplies, contractual services and capital financing costs. This helped to mitigate the shortfall in revenues as a result of declining consumption across all sectors.

Historical Year End Variance

As indicated below, the year-end variance can vary significantly from year to year. The tax supported year end variance has averaged \$5.1 million over the last six years (including 2012 projected). However, this has ranged from a significant surplus in 2010 of \$14.4 million to a deficit in 2007 of -\$2.0 million. On the rate supported side, the range has been from a surplus of \$8.9 million in 2011 to a deficit of -\$9.2 million in 2010.

Tax & Rate Operating Budget Year-End Variances

	(\$ Millions)					
	2007	2008	2009	2010	2011	2012 Projected
Total Tax Supported	(2.0)	5.8	3.8	14.4	6.1	2.7
Total Rate Supported	7.4	1.6	(7.1)	(9.2)	8.9	8.7
Total City	5.4	7.4	(3.3)	5.2	15.0	11.4

() - denotes unfavourable variance

Historical Year End Staff Gapping Savings

The table below provides a six year history of the net gapping savings realized in the tax supported services (2012 is projected). Over the six years, the City has averaged about \$4.5 million in net gapping savings.

Estimated Net Gapping Savings 2007-2012

Tax Supported City Departments

	(\$ Millions)					
	2007	2008	2009	2010	2011	2012 Projected
Actuals	2.0	6.1	4.8	2.7	5.3	6.2
Budget	3.0	4.1	4.1	4.1	4.1	4.1

Variance	(1.0)	2.0	0.7	(1.4)	1.2	2.1
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() - denotes unfavourable variance

Conclusion

Detailed variance information will be forthcoming to GIC in April. In addition, through this same report, staff will recommend options for the disposition of the 2012 tax and rate support surpluses.

The following Table identifies the projected balance of corporate surplus after the disposition to self-supported programs and agencies.

Projected Disposition/Reconciliation of Year-End Surplus/(Deficit)

	(\$ Millions)	
Corporate Surplus from Tax Supported Operations		\$ 2,744
Less: Disposition to Self-Supporting Programs &		\$ (589)
Police (Transfer from Police Reserves)	\$ 310	
Library (Transfer to Library Reserve)	\$ (1,208)	
HECFI (Transfer from HECFI Reserve)	\$ 309	
Balance of Corporate Tax Surplus		\$ 2,155
Corporate Surplus from Rate Supported Operations		\$ 8,700
Less: Transfer to the Rate Supported Reserves		\$ (8,700)
Balance of Rate Supported Operations		\$ 0

With respect to the forecasted tax surplus balance of \$2.155 million, staff are reviewing disposition options. There are a number of items requiring significant funding in 2013 including HECFI Transition costs.

Staff may also recommend allocating part of the 2012 tax surplus to partly address deficiencies in some of the City's liability accounts (retiree benefits, sick bank, WSIB), capital reserves and operational reserves (Fleet).

The remainder of the surplus is typically allocated to the Tax Stabilization Reserve or the Unallocated Capital Reserve. Of note, the in-year Council approvals of temporary enhancements/pressures (approx. \$6.1 million) and the Provincial Funding Transition (\$2.0 million) have been absorbed by departmental/corporate surpluses benefiting the Tax Stabilization Reserve that would have otherwise been drawn upon to support these items. Additionally, \$2.0 million of the debt charge savings has already been

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transferred to the Tax Capital Reserve as the 2014 capital forecast included \$2.0 million from the 2012 tax operating surplus.

Attached in Appendix "A" to report FCS13025 is a summary of all variances by Department for consideration and will be included in the forthcoming report to Council.

CITY OF HAMILTON
2012 Draft Year-End Variance (Unaudited)
(\$000's)

	2012 Final Budget	2012 Year-End Actuals	Variance	
			\$	%
<u>TAX SUPPORTED</u>				
Planning & Economic Development	22,094	23,264	(1,170)	(5.3)%
Public Health Services	10,314	9,680	634	6.1%
Community Services	131,475	128,692	2,784	2.1%
Hamilton Emergency Services	94,523	94,323	200	0.2%
Public Works	182,033	176,988	5,046	2.8%
Legislative	3,947	3,251	696	17.6%
City Manager	9,784	9,789	(5)	(0.1)%
Corporate Services	19,417	17,724	1,693	8.7%
Corporate Financials/ Non Program Revenues	(35,961)	(21,619)	(14,342)	39.9%
TOTAL CITY EXPENDITURES	437,626	442,092	(4,466)	(1.0)%
Hamilton Police Services	135,642	135,951	(310)	(0.2)%
HECFI	3,247	3,556	(309)	(9.5)%
Library	28,039	26,830	1,208	4.3%
Other Boards & Agencies	14,377	14,309	68	0.5%
Community Grants	3,212	3,194	18	0.6%
TOTAL BOARDS & AGENCIES	184,516	183,841	675	0.4%
CAPITAL FINANCING	84,928	76,394	8,535	10.0%
PROVINCIAL FUNDING LOSS TRANSITION	(2,000)	0	(2,000)	(100.0)%
TOTAL TAX SUPPORTED	705,071	702,327	2,744	0.4%
TOTAL RATE SUPPORTED	0	(8,700)	8,700	0.0%
TOTAL CITY	705,071	693,627	11,444	1.6%

() - Denotes unfavourable variance