



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	October 13, 2015
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as of July 31, 2015 - Budget Control Policy Transfer (FCS15052(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Tom Hewitson (905) 546-2424, Extension 4159 Katie Black (905) 546-2424, Extension 1335
SUBMITTED BY:	Larry Friday Acting General Manager Finance & Corporate Services Department
SIGNATURE:	

RECOMMENDATION

- (a) That, in accordance with the “Budget Control Policy”, the 2015 budget restatements, transferring budget from one department/division to another with no impact on the levy, as outlined in Appendix “C” to Report FCS15052(a), be approved;
- (b) That, in accordance with the “Budgeted Complement Control Policy”, the 2015 complement transfers, transferring complement from one department/division to another with no impact on the levy, as outlined in Appendix “D” to Report FCS15052(a), be approved.

EXECUTIVE SUMMARY

Staff have committed to provide Council with three variance reports for the Tax and Rate Operating Budget during the fiscal year (Spring/Fall/Year-End). This is the second submission for 2015 based on the operating results as of July 31, 2015.

Tax supported operations are projecting a favourable variance of \$2.2m. Primary contributors to this positive variance are savings in Non Program Revenues of \$3.7m, Capital Financing of \$3.5m and Planning & Economic Development of 681k. Partially offsetting the projected surplus is the deficit in Public Works of -\$5.3m.

Staff will continue to monitor variances and review mitigation measures.

Rate supported operations are projecting a favourable variance of \$2.2m for the 2015 fiscal year, primarily due to projected savings in operating expenditures of \$2.7m.

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Partially offsetting the projected surplus is an unfavourable variance in revenues of -\$552k based on the current 2015 water consumption trends.

The following table summarizes the projected corporate results:

**CITY OF HAMILTON
2015 Projected Year-End Variance
(\$000's)**

	2015 Final Budget	2015 Year-End Forecast	Variance	
			\$	%
<u>TAX SUPPORTED</u>				
Planning & Economic Development	27,800	27,119	681	2.4%
Public Health Services	11,096	11,394	(298)	(2.7)%
Community & Emergency Services	230,856	231,174	(318)	(0.1)%
Public Works	215,406	220,741	(5,335)	(2.5)%
Legislative	4,288	4,288	0	0.0%
City Manager	13,064	12,948	117	0.9%
Corporate Services	20,127	19,760	367	1.8%
Corporate Financials/ Non Program Revenues	(31,481)	(34,953)	3,473	(11.0)%
Hamilton Entertainment Facilities	4,050	4,064	(14)	(0.4)%
TOTAL CITY EXPENDITURES	495,207	496,536	(1,329)	(0.3)%
Hamilton Police Services	148,377	148,377	0	0.0%
Library	28,514	28,514	0	0.0%
Other Boards & Agencies	12,118	12,118	0	0.0%
City Enrichment Fund	5,333	5,312	21	0.4%
TOTAL BOARDS & AGENCIES	194,341	194,320	21	0.0%
CAPITAL FINANCING	108,071	104,571	3,500	3.2%
TOTAL TAX SUPPORTED	797,618	795,427	2,192	0.3%
TOTAL RATE SUPPORTED	0	(2,185)	2,185	0.0%
TOTAL CITY	797,618	793,242	4,376	0.5%

() - Denotes unfavourable variance

Appendix "A" to report FCS15052(a) summarizes the tax supported budget year-end variances by department and division and Appendix "B" to Report FCS15052(a) summarizes the rate budget results by program.

2015 Budget Transfers

In accordance with the "Budget Control Policy" & "Budgeted Complement Control Policy", approved by Council in February 2012, staff are recommending five items. The tax budget restatements identified in Appendix "C" to Report FCS15052(a) transfer budget from one cost category to another within the same department/division to more

accurately reflect the actual expense that is occurring. Completing these transfers simplifies the budget review process for the following year by ensuring comparable budget data. The complement transfers identified in Appendix "D" to Report FCS15052(a) transfer budgeted complement from one department/division to another to accurately reflect where the staff complement is allocated within the department/division for the purpose of delivering programs and services at desired levels. The recommended transfers will not have an impact on the levy.

Alternatives for Consideration – Departments will continue to monitor the operating results and will report any significant changes in their projections during the 2016 budget process.

FINANCIAL – STAFFING – LEGAL IMPLICATIONS (for recommendation(s) only)

Financial: The financial information is provided in the analysis section of this report.

Staffing: None.

Legal: None.

HISTORICAL BACKGROUND

Staff have committed to provide Council with three variance reports on the Tax and Rate Operating Budget during the fiscal year (Spring/Fall/Final). This is the second submission for 2015 based on the operating results as of July 31, 2015.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

This report is based on information provided from all the departments.

ANALYSIS AND RATIONAL FOR RECOMMENDATION (Include Performance Measurement/Benchmarking Data if applicable)

The following provides an overview of the more significant issues affecting the 2015 projected operating surplus:

TAX SUPPORTED BUDGET

The tax supported budget is forecasting a positive variance of \$2.2m for year-end. The major drivers are the projected surpluses in Non-Program Revenues, Capital Financing

and Planning & Economic Development which are partially offset by the deficit in Public Works.

Departmental details are as follows:

Planning & Economic Development

Overall the department is projected to have a positive variance of \$681k for year-end. This is mainly due to a favourable variance in Planning of \$1.2m and Growth Management of \$662k.

Within Planning, contributing factors to the \$1.2m projected favourable variance include: gapping of \$753k and increased revenues in various fees of \$545k. This is partially offset by a decrease in Site Plan Control revenue of \$118k.

The Growth Management division is showing a favourable variance of \$662k as a result positive gapping of \$540k and higher than budgeted revenue of \$120k.

Parking and By-law Services is forecasting a negative variance of -\$773k. This is largely attributed to a -\$1.7m shortfall in revenues for: Business licensing (-\$250k), Animal Tags (-\$260k), Sign Fees (-\$90k), Lottery (-\$155k), Inspection Fees (-\$285k), Fines (-\$620k) and Non-compliance fees for vacant buildings (-\$50k). Other budget pressures include non-budgeted overtime costs (-\$85k) and property tax expenses (-\$40k). This unfavourable variance is offset by increased net gapping of \$755k and Parking Revenue of \$290k.

Tourism & Culture is forecasting an unfavourable variance of -\$370k, primarily due to backfilling of extended sick absences (-\$285k) and the remainder due to snow removal and facilities recovery expenses over budget due to five additional cultural sites being added to the contract.

The Building division anticipates a year-end deficit of -\$47k due to lower than budgeted revenues for the Illegal Grow Operations program.

Public Health Services

Public Health Services is expecting an unfavourable variance in 2015 of -\$298k mainly due to Mandatory Public Health Subsidy forecasting a deficit of -\$469k. The recent provincial funding announcement indicated approved funding levels will be lower than budgeted.

Medical Officer of Health, Clinical & Preventative Services, Family Health, Health Protection and Healthy Living are forecasting a combined surplus of \$23k. This is largely attributable to gapping and maximizing subsidies, offset by an increased demand in the needle exchange program and various staffing pressures and employee related costs.

The Planning & Business Improvement division is projecting a positive variance of \$148k. This is mainly a result of gapping due to an administrative review implementation mid-year, offset by staffing and consultant costs to support key records and information initiatives.

Community & Emergency Services

The Community and Emergency Services Department is projecting a negative variance of -\$318k for 2015.

In Recreation, a negative variance of -\$632k is expected mainly due to unfavourable variances in utilities costs as well as a reduction in revenues due to programming changes and temporary closures of Laurier, Dalewood, Spring Valley and permanent closure of Scott Park which are partially offset by gapping due to vacancies and programming changes.

Hamilton Paramedic Service projects a deficit of -\$447k due to employee related costs (overtime shift replacement and benefits), uniforms due to timing of received goods and new medications contract with higher costs. Any shortfall in funding relating to the 2015 Budget enhancement (Ambulance) is assumed to have reserve funding with no net levy impact.

Housing Services is reflecting a deficit of -\$83k. Unfavourable variances due to the City Housing Hamilton Operational review. Partially offset by savings in gapping, available transportation funding and rent supplement savings. Anticipated social housing pressures of -\$1.7m are assumed to be partially offset by funding from the Social Housing Stabilization Reserve balance of \$1.3m.

The Administration – Community & Emergency Services, Children's & Home Management Services and Neighbourhood and Community Initiatives divisions are expecting a combined favourable variance of \$261k for year-end mainly due to gapping and timing of hires.

Benefit Eligibility is forecasting a positive variance of \$248k mainly due to a revised funding formula for the Ministry's Low Income Dental Initiative program and gapping. Partially offsetting the surplus are Ontario Works Business Transformation team costs.

The Employment & Income Support division is forecasting a positive variance of \$157k attributed to favourable gapping combined with maximizing available subsidies. This is partially offset by OW organizational review costs and client cost pressures due to an increase in caseload and cost per case. It should be noted that Ontario Works client costs including Housing Stability Benefits are estimated based on current information available, however due to the lack of reporting capability and data integrity within the Social Assistance Management System (SAMS), financial reports cannot be validated which may pose a potential risk with the reliability of this budget forecast.

The Hamilton Fire Department is forecasting a positive variance of \$138k due to temporary vacancies and unscheduled retirements as well as savings in maintenance contracts and licence fees due to lower negotiated contracts for 2015.

Macassa and Wentworth Lodges are showing a combined favourable variance of \$41k as a result of unanticipated provincial subsidy increases and gapping partially offset by unbudgeted work accommodation, long term disability costs, sick costs and required building maintenance and repairs.

Public Works

Public Works is forecasting an overall unfavourable variance of -\$5.3m.

In the Operations Division a deficit of -\$4.6m is anticipated. The main driver is Roads Winter Control with a deficit of -\$5.0m due to the severe weather in the first quarter of 2015. This caused an unfavourable variance in Materials & Supplies (-\$2.4m), Contractual Costs (-\$1.9m) and Vehicle Costs (-\$600k). Adding to the unfavourable variance is a deficit of -\$600k in the waste programs caused by the declining prices of recycling commodities. Partially offsetting the deficit is a favourable variance in WDO funding of \$900k.

Corporate Assets & Strategic Planning is reflecting a deficit of -\$540k due to lower than anticipated revenue from Tim Hortons Field.

Transit projects an unfavourable variance of -\$214k. The agreement with the Metrolinx contracted supplier of parts was not renewed by the province, therefore, Transit has gone back to purchasing from various vendors. Without the economies of scale offered in the previous contract, vehicle parts are higher than anticipated.

City Manager

City Manager projects a favourable variance of \$117k. Positive gapping of \$138k and savings in Lease & Service Contracts is partially offset by excess meeting expenses, and mediation and arbitration costs to be recovered from operating areas.

Corporate Services

Corporate Services has an overall positive variance of \$367k with gapping accounting for \$145k of the variance. Other significant expenditure and revenue variances that were favourable include: Tax Certificate revenues, Tax Transfer fees, capital recoveries, risk management recoveries and materials and supplies. Partially offsetting the favourable position is higher than budgeted employee related costs, consulting services, temp agency fees and facilities chargebacks.

Corporate Financials/Non Program Revenues

Corporate Financials/Non Program Revenues are projecting a \$3.5m favourable variance. Contributing factors are identified as follows:

Corporate Financials

Corporate Pensions / Benefits & Contingency

The positive variance of \$288k is attributable to savings in corporate salary contingency.

Gapping

For 2015, the City has budgeted \$4.5m in gapping savings corporately. As of July 2015, departments have identified \$2.6m in projected savings for the year. The following table summarizes the projection by department.

NET GAPPING BY DEPARTMENT	(\$000's)
Planning & Ec. Development	\$ 1,824
Public Health Services	\$ 87
Community & Emergency Services	\$ 305
Public Works	\$ 108
Legislative	\$ -
City Manager	\$ 138
Corporate Services	\$ 145
Consolidated Corporate Savings/ (Deficit)	\$ 2,608

Council will note that the budget savings of \$4.5m resides in the Corporate Financials and the \$2.6m actual savings projection is identified within the department projections. The remaining amount required to achieve the target is \$1.9m and is identified in the Corporate Financials. If this does not materialize, a variance could result. Staff expect the gapping savings target should be met by year-end.

Corporate Initiatives

A positive variance of \$2.7m is due to the projected one-time grant revenue related to the 2013/2014 Ice Storm.

Risk Management

An unfavourable variance of -\$652k in Risk Management is attributable to higher than anticipated Corporate Claims expenses and the addition of Cyber and Terrorism policies.

Non-Program Revenues

Non-Program Revenues are projecting a favourable variance of \$3.7m. Favourable variances due to increased revenue are forecasted in several areas including Payment In Lieu (\$597k), Penalties & Interest (\$1.3m), Supplementary Taxes (\$2.0m) and POA Revenues (\$445k). The Tax Remissions and Write Offs are expected to have an unfavourable variance of -\$400k due to additional grants relating to the LEED Grant Program to be paid by year-end. Slot revenues are also unfavourable at -\$200k under budget for 2015. An additional \$1.5m in HUC Special Dividends was communicated to

Council in August of this year (FCS15054) and, as approved by Council, will be transferred to unallocated capital levy reserve.

Capital Financing

Due to delay in debt issuance, principal and interest savings of \$5.5m are projected. However, a \$2.0m transfer to the unallocated capital levy reserve during the year-end process has been assumed which aligns to the 2016 capital forecast.

Boards & Agencies

There is no variance projected for Boards & Agencies, however, the appeal of the Niagara Peninsula Conservation Authority levy is on-going. If the appeal is unsuccessful the impact to the levy would be about -\$780k.

RATE SUPPORTED BUDGET

The Rate supported operating budget is projecting a favourable variance of \$2.2m for the 2015 fiscal year, representing 1.2% of the gross operating budget. A negative variance in revenues of -\$552k is being forecasted for year-end based on current 2015 water consumption trends. Projected savings in program expenditures of \$2.7m by year-end is expected, which should mitigate the expected shortfall in revenues.

Revenues

Rate related revenues are forecasted to reach a total shortfall of approximately -\$234k (0.1% of the total 2015 rate revenues). The Residential Sector is currently projected to have a revenue shortfall of -\$567k (0.7% short of budget) and the Multi-residential Industrial Commercial Institutional (ICI) sector has a forecasted shortfall of -\$141k (0.1% shortfall to budget). The expected shortfalls are attributed to continued conservation across all customer sectors. Partially offsetting these shortfalls is an expected surplus in revenue for Private Fire Lines of \$28k (3.2% surplus to budget).

A positive revenue variance for Overstrength Agreements of \$614k is projected but there is a revenue shortfall in Sewer Surcharge Agreements of -\$135k.

General Fees including User Fees are projected to have a shortfall of -\$318k or 12.6% of budget. A negative variance in New Construction Permits at -\$428k and Other Recoverable Fees at -\$101k is forecasted, but revenues from Broken Damaged Meters are positive at \$76k and other revenues amount a positive variance of \$134k.

Expenditures

Program spending for 2015 is projected to be a favourable variance of \$2.8m or 1.5% of gross budget by year-end. The driving factors behind this favourable expenditure variance are as follows:

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Expenditure Type	(000's)
Debt Charges	\$ 3,179
Contractual Services	\$ 1,127
Employee Related Costs	\$ 181
Agencies & Support Payments	\$ (1,468)
Reserves / Capital Recoveries	\$ (4)
Materials & Supplies	\$ (299)
Financial Expenses	\$ (54)
Building & Grounds	\$ 73
Vehicle Expenses	\$ 41
Cost Allocation	\$ (40)
Total	\$ 2,737

The Rate operating program budgets annually for servicing costs on new and existing debt based on debenture financing needs for approved capital projects. The favourable variance in Debt Charges of \$3.2m is due to delays in issuing debt of \$5.5m as the existing capital projects are adequately funded. Partially offsetting this is a planned transfer from reserve of -\$2.4m which will not be done, resulting in a net savings of \$3.2m.

Savings in Employee Related Costs of \$181k are mainly on account of gapping realized from staff vacancies.

Buildings and Grounds savings of \$73k are attributed to Relocation / Renovation expense savings at \$80k with other maintenance, repair and lease costs over budget at -\$7k.

Vehicle Charges savings of \$41k included Central Fleet charges of \$65k, with fuel and other related costs projected at -\$24k.

Materials and Supplies have a projected negative variance of -\$299k with operating Supplies at -\$347k, Equipment and Equipment Repairs at -\$281k. Partially offsetting the negative variance are Chemicals (\$100k) and recoveries from commercial companies (3) for sewer damage (\$155k) accounting for the majority of the total.

Contractual cost category has a positive variance of \$1.1m which is due to various contractual services including: advertising, equipment rentals and snow removal. Within Agencies and Support Payments, the Protective Plumbing Program (3P) is projected to be over its 2015 budget of \$2.5m by \$1.5m or 60% due to increased and organized activities as indicated by current trends.

ALTERNATIVES FOR CONSIDERATION

(Include Financial, Staffing, Legal and Policy Implications and Pros and Cons for each alternative)

N/A

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.

2.2 Improve the City's approach to engaging and informing citizens and stakeholders.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS15052(a) - Tax Operating Budget Variance Report to July 31, 2015.

Appendix "B" to Report FCS15052(a) - Rate Operating Budget Variance Report to July 31, 2015.

Appendix "C" to Report FCS15052(a) - Budget Restatement Schedule.

Appendix "D" to Report FCS15052(a) - Budgeted Complement Transfer Schedule.