



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

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	April 11, 2016
<b>SUBJECT/REPORT NO:</b>	Tax and Rate Operating Budget Variance Report as of December 31, 2015 – Budget Control Policy Transfers (Unaudited) (FCS15052(b)) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Tom Hewitson (905) 546-2424, Extension 4159 Katie Black (905) 546-2424, Extension 1335
<b>SUBMITTED BY:</b>	Mike Zegarac General Manager, Finance & Corporate Services
<b>SIGNATURE:</b>	

**RECOMMENDATION**

- (a) That, in accordance with the “Budget Control Policy”, the 2016 budget amendment, transferring budget from one department/division to another or from one cost category to another with no impact on the levy, as outlined in Appendix “C” to Report FCS15052(b), be approved;
- (b) That, in accordance with the “Budgeted Complement Control Policy”, the 2016 complement transfer, transferring complement from one department/division to another with no impact on the levy, as outlined in Appendix “D” to Report FCS15052(b), be approved;
- (c) That, subject to final audit, the Disposition of 2015 Year-End Operating Budget Surplus/Deficit be approved as follows:

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<b>DISPOSITION / RECONCILIATION OF YEAR-END SURPLUS/ (DEFICIT)</b>	<b>\$</b>	<b>\$</b>
<b>Corporate Surplus from Tax Supported Operations</b>		<b>\$ 10,844,830</b>
<b>Less: Disposition to Self-Supporting Programs &amp; Agencies</b>		<b>\$ (4,305,980)</b>
Police (Transfer to Police Reserve)	\$ (3,680,950)	
Library (Transfer to Library Reserve)	\$ (625,030)	
<b>Balance of Corporate Surplus</b>		<b>\$ 6,538,850</b>
Less: Transfer for Ontario Summer Student Jobs Services		\$ (9,976)
Less: Transfer to Unallocated Capital Levy Reserve		\$ (841,230)
Less: Transfer to Tax Stabilization Reserve		\$ (5,687,644)
<b>Balance of Tax Supported Operations</b>		<b>\$ 0</b>
<b>Corporate Surplus from Rate Supported Operations</b>		<b>\$ 7,970,043</b>
Less: Transfer to the Rate Supported Water Reserve		\$ (4,375,593)
Less: Transfer to the Rate Supported Wastewater Reserve		\$ (4,082,066)
Add: Transfer from the Rate Supported Stormwater Reserve		\$ 487,615
<b>Balance of Rate Supported Operations</b>		<b>\$ 0</b>

\* -anomalies due to rounding

### EXECUTIVE SUMMARY

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 final submission for 2015 based on the operating results as of December 31, 2015 (unaudited). Appendix “A” to Report FCS15052(b) summarizes the tax supported budget year-end variances by department and division while Appendix “B” to Report FCS15052(b) summarizes the year-end variances of the rate supported operations by program.

Both the Tax and Rate supported operations ended the year with positive variances of \$10.8m and \$8.0m respectively, resulting in an overall corporate surplus of \$18.8m. On a gross budget basis, the surplus represents a 1.1% variance.

Additional details are presented in the Analysis section of this report.

<b>CONSOLIDATED CORPORATE SURPLUS/ (DEFICIT)</b>	<b>\$</b>
<b>Tax Supported Programs</b>	
Police	\$ 3,680,950
Library	\$ 625,030
Capital Financing	\$ 841,230
Other Tax Supported Programs	\$ 5,697,620
<b>Total Tax Supported Surplus</b>	<b>\$10,844,830</b>
<b>Rate Supported Programs</b>	<b>\$ 7,970,043</b>
<b>Consolidated Corporate Surplus/ (Deficit)</b>	<b>\$18,814,873</b>

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Staff submitted report FCS15052(a) to the Audit, Finance and Administration Committee in October 2015, which forecasted the surplus for tax supported services at \$2.2m. Subject to final audit, the 2015 surplus is \$10.8m. The difference is largely attributed to surpluses in Corporate Financials/Non-Program Revenue of \$5.1m, Hamilton Police Services of \$3.7m, and Public Works of \$1.1m.

The year-end disposition of the \$18.8m surplus identified above is outlined in Recommendation (c) of Report FCS15052(b) and is highlighted as follows:

- Year-end variances for Police and Library will be allocated its own source reserves.
- Ontario Summer Jobs Services - The Ontario Summer Jobs Service is a summer student wage subsidy program funded by the Ministry of Training, Colleges and Universities and administered by Mohawk College for Hamilton employers. It is recommended that the wage subsidy in the amount of \$9,976 received by Human Resources in October of 2015 be transferred to a reserve account to be accessed to support the Student Recruitment Program.
- Unallocated Capital Reserve – Transfer of the Capital Financing savings of \$841k to the Unallocated Capital Reserve.
- Tax Stabilization Reserve – After the above allocations, staff recommend that the resulting tax surplus of \$5.7m, be transferred to the tax stabilization reserve.
- Rate Supported – The Rate surplus of \$8.0m is made up of three main components. There are separate Rate Supported Reserves for each of the water, wastewater and storm water programs. Staff recommend that the surpluses of \$4.4m from water and \$4.1m from wastewater be transferred to their respective reserves, as well as the deficit of -\$487k in storm water be transferred from the storm water reserve.

### **2016 Budget Transfers**

In accordance with the “Budget Control Policy” & “Budgeted Complement Control Policy”, approved by Council in February 2012, staff are submitting fourteen items recommended for transfer. The tax operating budget amendments, identified in Appendix “C” to Report FCS15052(b), moves budget from one cost category to another within the same division or from one division to another within the same cost category. 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(b), moves 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 budget amendment and complement transfers identified were not realized at

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the time of 2016 budget submission. However, these transfers will amend the 2016 operating budget once approved with no impact on the levy.

***Alternatives for Consideration – See Page 11***

**FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

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

Staffing: None.

Legal: None.

**HISTORICAL BACKGROUND (Chronology of events)**

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 final submission for 2015 based on the operating results as of December 31, 2015. Council approval is required to allocate year-end surplus/deficit to/from reserves.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

N/A

**RELEVANT CONSULTATION**

This report is based on information provided from all departments.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION**

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

**TAX SUPPORTED BUDGET**

The following Table provides a summary of the departmental results as of December 31, 2015. The final tax-supported operating budget surplus amounts to \$10.8m or approximately 0.8% of the gross levy and 1.4% of the net levy.

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

	2015	2015	Variance	
	Approved Budget	Year-End Actuals YTD	\$	%
<b><u>TAX SUPPORTED</u></b>				
Planning & Economic Development	27,800	28,066	(265)	(1.0)%
Public Health Services	11,096	11,225	(129)	(1.2)%
Community & Emergency Services	230,856	232,037	(1,181)	(0.5)%
Public Works	215,406	214,319	1,087	0.5%
Legislative	4,288	3,724	565	13.2%
City Manager	13,064	12,633	432	3.3%
Corporate Services	20,127	19,136	991	4.9%
Corporate Financials/ Non Program Revenues	(31,481)	(36,625)	5,144	16.3%
Hamilton Entertainment Facilities	4,050	4,212	(162)	(4.0)%
<b>TOTAL CITY EXPENDITURES</b>	<b>495,207</b>	<b>488,725</b>	<b>6,481</b>	<b>1.3%</b>
Hamilton Police Services	148,377	144,696	3,681	2.5%
Library	28,514	27,889	625	2.2%
Other Boards & Agencies	12,118	12,902	(785)	(6.5)%
City Enrichment Fund	5,333	5,332	1	0.0%
<b>TOTAL BOARDS &amp; AGENCIES</b>	<b>194,341</b>	<b>190,818</b>	<b>3,522</b>	<b>1.8%</b>
<b>CAPITAL FINANCING</b>	<b>108,071</b>	<b>107,230</b>	<b>841</b>	<b>0.8%</b>
<b>TOTAL TAX SUPPORTED</b>	<b>797,618</b>	<b>786,773</b>	<b>10,845</b>	<b>1.4%</b>

( ) - Denotes unfavourable variance

As indicated above the department budgets (City Expenditures) ended 2015 in a favourable position of \$6.4m. The Corporate Financials/Non Program Revenues surplus of \$5.1m is mainly attributed to additional Supplementary Tax Revenue of \$6.0m. Adding to the surplus is the additional HUC dividend of \$947k and provincial funding of \$671k under the Ice Storm Assistance Program. Contributing to the overall surplus in the Public Works departmental budget were the savings from gapping, higher than anticipated revenues and miscellaneous expenditure savings. Largely offsetting the departmental surpluses is the Community & Emergency Services deficit, mainly for Hamilton Paramedic Services and Employment and Income Support.

Highlights of the departmental results are included in the following sections.

### **Planning & Economic Development**

Planning & Economic Development reported an unfavourable variance of -\$265k. The main driver of the deficit were the revenue shortfalls in Parking and By-Law Services. Adding to the deficit is lower than anticipated activity levels for Zoning Compliance, Inspection Fees and Re-Occupancy fees in the Building division as well as contractual obligations in Tourism & Culture due to five additional cultural sites being added to the contract. Partially offsetting the deficit was gapping savings.

### **Public Health Services**

Public Health Services experienced a negative variance in 2015 of -\$129k. This was a result of a provincial funding allocation announcement resulting in approved funding levels lower than budgeted, insufficient funding for Panorama staffing response and transitioning to the new Children In Need Of Treatment (CINOT) funding model. To partially mitigate departmental funding pressure, intentional delays in recruitment were implemented where possible resulting in gapping savings and staffing vacancies. Maximizing available subsidies and one time funding also partially offset the negative variance.

### **Community & Emergency Services**

Community & Emergency Services had an overall negative variance of -\$1.2m for 2015. The major driver was the unfavourable variance in Hamilton Paramedic Services of -\$1.0m as a result of employee related costs and increased costs for prescription medication supplies and linen services. Employment & Income Support also had a deficit of -\$695k due to client cost pressures from increased caseloads, absorbing costs related to Phase 2/3 OW caseworker staffing and OW organizational review costs. Other factors contributing to the deficit include unfavourable employee related costs for the Hamilton Fire Department due to contract limitations as well as unanticipated building maintenance / repairs at Macassa and Wentworth Lodges. Social Housing pressures mainly due to property taxes were partially mitigated by transferring from the Social Housing Stabilization Reserve (\$1.3m).

Partially offsetting the deficit are favourable variances in Recreation of \$298k and Benefit Eligibility of \$242k. Overall gapping in the department amounted to savings of \$341k. Other factors partially offsetting the deficit are favourable variances due to maximizing available and / or unbudgeted subsidies, maintenance costs, lower vehicle fuel costs and temporary facility closures.

### **Public Works**

The Public Works department had an overall surplus of \$1.1m for 2015 year-end. There were a number of contributors, both favourable and unfavourable, across the divisions that lead to the overall surplus.

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Corporate Assets and Strategic Planning had a deficit of -\$1.1m. The overall variance was due to unfavourable revenue at Tim Hortons Field coupled with supplies and repair expenditures. Partially offsetting the deficit were employee related savings.

Engineering Services had a -\$369k deficit mainly relating to the Streetlighting program.

Environmental Services had a favourable surplus of \$238k. Gapping savings of \$1.0m and contractual surpluses were partially offset by deficits in Forestry's Emerald Ash Borer and Tree Planting programs.

Operations had an overall positive variance of \$3.9m. The main driver of the surplus was the Roads section mainly due to intentional gapping and vacancies held to accommodate the introduction of District South. Additional positive variances were realized in revenues relating to funding from the Waste Diversion Ontario Program and reduced contractual escalations, predominately fuel and vehicle savings. Winter control had an overall unfavourable variance of -\$2.7m.

Transit had an overall negative variance of -\$1.6m for 2015. Employee related sick costs totalled -\$1.7m coupled with revenue shortfalls of -\$1.2m. Partially offsetting these are favourable variances in Fleet costs.

### **Legislative**

Legislative reported a favourable variance of \$565k. Two major contributors to this positive variance were the surplus in the Mayor's Office of \$173k as a result of gapping and savings in contractual services, and unspent Wards Budgets of \$267k. In addition, unspent Contingency funds and contractual / meeting expenses for the Integrity Commissioner / Lobbyist Registrar of \$102k and unspent committee funds of \$23k contributed to the surplus.

### **City Manager's Office**

City Manager's Office had a favourable variance of \$432k with the main drivers being gapping, and increased revenues from Marriage Licenses and Death Certificates. These were partially offset by unfavourable variances in mediation and arbitration costs and consulting fees for the HR Administrative Review.

### **Corporate Services**

Corporate Services finished 2015 with a positive variance of \$991k. Expenditure variances that were favourable included: savings in consulting, computer software / hardware, printing / postage and increased revenues realized through Revenue Generation, Taxation revenues and increased revenues in Procurement and Accounts Payable cash discounts. Partly offsetting the favourable position is negative gapping partially due to the Call Handling and Web Redevelopment projects and negative variance in the Hamilton Farmers' Market due to the free parking program and building maintenance.

### **Corporate Financials**

Several drivers were responsible for the deficit of -\$1.3m in Corporate Financials.

#### *Corporate Pensions, Benefits & Contingency*

The favourable variance in the Corporate Pensions/Benefits and Contingency of \$2.3m was a result of contingency that is budgeted corporately but expensed within the department budgets.

#### *Gapping*

While gapping savings of \$4.54m are budgeted in Corporate Financials, actual savings are reported in the operating departments resulting in an unfavourable balance in the corporate financials of -\$4.54m. As shown in the table below, a review of savings in the departments indicates the net savings from gapping in 2015 actually amounted to \$4.88m or about a \$337k gapping savings surplus.

<b>NET GAPPING BY DEPARTMENT</b>	<b>(\$000's)</b>
Planning & Economic Development	\$ 1,776
Public Health Services	\$ 284
Community & Emergency Services	\$ 341
Public Works	\$ 1,837
Legislative	\$ 52
City Manager	\$ 553
Corporate Services	\$ 35
<b>Consolidated Corporate Savings/ (Deficit)</b>	<b>\$ 4,877</b>

#### *Corporate Initiatives*

A surplus of \$1.8m in Corporate Initiatives was due to a one time HST adjustment of \$1.3m, additional interest earnings of \$399k and Hamilton Renewable Power Dividend of \$249k.

#### *Risk Management*

An unfavourable variance of -\$851k in Risk Management was caused by higher corporate claims of -\$523k as well as higher than anticipated insurance premiums of -\$295k.

### **Hamilton Entertainment Facilities**

Hamilton Entertainment Facilities ended the year with an unfavourable variance of -\$162k. The main drivers for the deficit were heat and other utility costs being over budget.

### **Non-Program Revenues**

The Non Program Revenues show a favourable variance of \$6.4m.



General revenues had a positive variance of \$1.6m resulting from surplus HUC dividends of \$947k, the corporate share of the provincial funding of \$671k under the Ice Storm Assistance Program and POA revenue of \$119k. Partially offsetting the general revenues favourable variance is a deficit in Slot Revenues of -\$102k.

The tax revenues show a positive variance of \$4.8m attributable to the favourable variance in Supplementary Taxes of \$6.1m reflecting three supplementary billings in 2015 and higher than anticipated new construction due to building permit activity being higher than average. Also adding to the favourable variance were higher collections of penalties and interest of \$802k and higher than budgeted Payment in Lieu of \$601k. Partially offsetting the favourable variance is a deficit in Tax Remissions and Write Offs of -\$2.6m due to higher appeals with a larger amount required to be transferred to the allowance to offset potential write offs that may occur in 2016 or later.

### **Capital Financing**

Capital financing had an overall positive variance of \$841k due to budgeted debt that has not been issued to date, resulting in actual debt charges less than budgeted.

### **Boards & Agencies**

In Boards & Agencies, there was a surplus of \$3.5m attributable to the favourable variances in Police and Other Boards & Agencies.

The 2015 Hamilton Police Service had a favourable year-end variance of \$3.7m mostly due to the unbudgeted grant funding for the recovery of expenses incurred for the security and policing costs during the planning, operations, and demobilization phases of the 2015 Pan Am Games. Other factors include greater than anticipated Police Clearance and Police Fees. In addition, savings were realized in employee compensation mainly due to the settlement of the various collective agreements and in less than anticipated charges in Investigative Services (OPP contract) and vehicle expenses, mainly fuel.

Library experienced a surplus of \$625k at the end of 2015 mainly due to additional unanticipated provincial funding and gapping.

Partially offsetting the favourable variance is a deficit in Conservation Authorities of -\$785k due to the on-going appeal with the Niagara Peninsula Conservation Authority.

### **RATE SUPPORTED BUDGET**

For 2015, the Rate supported operating budget finished the year with a favourable variance of \$8.0m due to savings in overall program expenditures of \$5.7m as well as

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revenue surpluses of \$2.2m. In 2014 the year end surplus was \$6.1m due to expenditure savings of \$8.7m offset by a revenue shortfall of -\$2.6m.

**Expenditures**

Overall Rate budget expenditure savings of \$5.7m or 3.1% of budget were earned at year end. The driving factors behind this favourable expenditure variance are as follows:

<b>Expenditure Type</b>	<b>(000's)</b>
Capital Financing	\$ 5,545
Contractual Services	\$ 1,715
Employee Related Costs	\$ 1,487
Building & Grounds	\$ 835
Financial Expenses	\$ 171
Vehicle Expenses	\$ 109
Corporate Cost Allocations	\$ (78)
Recoveries	\$ (356)
Agencies & Support Payments	\$ (535)
Materials & Supplies	\$ (946)
Reserves & Capital Recoveries	\$ (2,218)
<b>Total</b>	<b>\$ 5,729</b>

The Rate operating program budgets annually for debt servicing costs on new and existing debt based on debenture financing needs for approved capital projects. The favourable variance in Capital Financing of \$5.5m reflects less debt of \$5.6m being issued and indicates that the existing capital projects are adequately funded. Partially offsetting this favourable variance was an unfavourable variance of -\$2.2m for funds not transferred from Reserve.

Other expenditure areas showing savings included Contractual expenditures at a positive variance of \$1.7m from Contracted Services of \$ 880k from Water Distribution and Wastewater Collection, BioSolids at \$433k and Computer maintenance Contract \$163k; Employee Related costs of \$1.5m is mainly due to gapping savings realized from all staff vacancies; and Buildings & Grounds expenditure was also favourable at \$835k due mainly to less hydro consumption for a savings of \$300k and heating fuel natural gas savings of \$200k.

Agencies & Support Payments had an unfavourable amount of -\$535k due to the Protective Plumbing Program (3P) program being over budget by -\$635k.

Materials and Supplies were also unfavourable at -\$946k due to Operating Supplies expenditures at -\$1.7m over budget mainly due to the severity of the winter causing

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extra work and supplies. Fluids & Chemicals expenditures in this category had a positive variance at \$1.1m.

**Revenues**

The Rate supported operating budget revenues ended 2015 with a favourable variance of \$2.2m.

Overall 2015 rate revenues (Non-metered, Residential, Institutional / Commercial / Industrial (ICI) and Haldimand / Halton) amounted to approximately \$183m which was approximately \$1.6m or 0.9% favourable compared to budget. The favourable variance in revenues is significantly improved from 2014's unfavourable position of -\$4.2m.

The Residential sector ended the year with a favourable variance of \$770k or 1.0% to budget. The Private Fire Lines had a favourable variance of \$24k or 2.7%. This relatively newer fee, applicable to ICI customers with non-metered water supply lines dedicated to private fire protection systems, was approved by Council during the 2012 Rate budget with an effective date of July 1, 2012. Sewer Surcharge Agreements were favourable by \$390k or 10.1% and Overstrength Agreements were favourable by \$584k or 31.7%. Partially offsetting the favourable rate revenues surplus were deficits in Industrial/Commercial/Institutional (ICI) of approximately -\$110k and Non-Metered accounts of -\$128k. It should be noted that the ICI sector classification does include multi-residential customers with larger sized meters exceeding 20mm.

Non-Rate Revenues were favourable by \$606k or 24.1% mainly due to New Construction Permits at \$478k positive variance.

**YEAR-END DISPOSITION OF TRANSFERS**

The following Table identifies the recommended transfers as a result of the 2015 year-end.

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**Table 1 – Disposition of Year- End Surplus/Deficit**

<b>DISPOSITION / RECONCILIATION OF YEAR-END SURPLUS/ (DEFICIT)</b>	<b>\$</b>	<b>\$</b>
<b>Corporate Surplus from Tax Supported Operations</b>		<b>\$ 10,844,830</b>
<b>Less: Disposition to Self-Supporting Programs &amp; Agencies</b>		<b>\$ (4,305,980)</b>
Police (Transfer to Police Reserve)	\$ (3,680,950)	
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<b>Balance of Corporate Surplus</b>		<b>\$ 6,538,850</b>
Less: Transfer for Ontario Summer Student Jobs Services		\$ (9,976)
Less: Transfer to Unallocated Capital Levy Reserve		\$ (841,230)
Less: Transfer to Tax Stabilization Reserve		\$ (5,687,644)
<b>Balance of Tax Supported Operations</b>		<b>\$ 0</b>
<b>Corporate Surplus from Rate Supported Operations</b>		<b>\$ 7,970,043</b>
Less: Transfer to the Rate Supported Water Reserve		\$ (4,375,593)
Less: Transfer to the Rate Supported Wastewater Reserve		\$ (4,082,066)
Add: Transfer from the Rate Supported Stormwater Reserve		\$ 487,615
<b>Balance of Rate Supported Operations</b>		<b>\$ 0</b>

**ALTERNATIVES FOR CONSIDERATION**

Table 1 in the Analysis section identifies the recommended disposition of the surplus/deficit. Council can provide alternative direction to staff for the disposition of the surplus/deficit.

**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(b) Tax Operating Budget Variance Report as of December 31, 2015

Appendix “B” to Report FCS15052(b) Combined Water, Wastewater and Storm Systems Operating Budget Variance Report as of December 31, 2015

Appendix “C” to Report FCS15052(b) Budget Restatement Schedule

Appendix “D” to Report FCS15052(b) Budgeted Complement Transfer Schedule