CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	October 6, 2016
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as of July 31, 2016 - Budget Control Policy Transfers (FCS16058(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kayla Petrovsky (905) 546-2424 Ext. 1335 Ashley Bono (905) 546-2424 Ext. 4169
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager Finance and Corporate Services

RECOMMENDATION

(a) 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 "C" to Report FCS16058(a), be approved;

(b) 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 "D" to Report FCS16058(a), be approved.

EXECUTIVE SUMMARY

Staff has 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 2016 based on the operating results as of July 31, 2016.

Tax supported operations are projecting an unfavourable variance of -$2.2 M (-0.3% of net levy). Departmental budgets are projecting an unfavourable variance of -$4.0 M and Boards & Agencies are projected to be an unfavourable variance of -$0.2 M, which is partially offset by a capital financing surplus of $2 M.

Rate supported operations are projecting a favourable variance of $3.4 M for the 2016 fiscal year, primarily due to savings in program expenditures of $1.4 M and a capital financing surplus of $1.8 M.

The following table summarizes the projected corporate results:

CITY OF HAMILTON
2016 Projected Year-End Variance
($000's)

	2016 Final Budget	2016 Year-End Forecast	Variance * $	Variance * %
TAX SUPPORTED				
Planning & Economic Development	29,904	29,301	604	2.0%
Public Health Services	12,385	12,380	5	0.0%
Community & Emergency Services	237,849	236,752	1,097	0.5%
Public Works	224,717	227,541	(2,824)	(1.3)%
Legislative	4,709	4,709	0	0.0%
City Manager's Office	13,814	14,085	(271)	(2.0)%
Corporate Services	19,741	19,415	326	1.7%
Corporate Financials/ Non Program Revenues	(31,371)	(28,435)	(2,936)	9.4%
Hamilton Entertainment Facilities	4,170	4,170	0	0.0%
TOTAL CITY EXPENDITURES	**515,918**	**519,917**	**(3,999)**	**(0.8)%**
Hamilton Police Services	153,250	153,250	0	0.0%
Library	28,816	28,816	0	0.0%
Other Boards & Agencies	12,317	12,526	(208)	(1.7)%
City Enrichment Fund	5,700	5,700	0	0.0%
TOTAL BOARDS & AGENCIES	**200,083**	**200,291**	**(208)**	**(0.1)%**
CAPITAL FINANCING	**111,666**	**109,666**	**2,000**	**1.8%**
TOTAL TAX SUPPORTED	**827,668**	**829,875**	**(2,207)**	**(0.3)%**
RATE SUPPORTED				
Operating Expenditures	84,433	82,990	1,443	1.7%
Capital Financing	107,881	106,113	1,768	1.6%
Revenues	(192,314)	(192,458)	144	0.1%
TOTAL RATE SUPPORTED	**0**	**(3,355)**	**3,355**	**0.0%**
TOTAL CITY	**827,668**	**826,520**	**1,148**	**0.1%**

* ( ) - Denotes unfavourable variance

Appendix “A” to Report FCS16058(a) summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix “B” to Report FCS16058(a) summarizes the Rate Supported Operating Budget results by program.

2016 Budget Transfers

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, approved by Council in February 2012, staff is recommending twelve items. The complement transfers identified in Appendix “C” to Report FCS16058(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. The tax operating budget amendments, identified in Appendix “D” to Report FCS16058(a), 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.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

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

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Staff has 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 2016 based on the operating results as of July 31.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

This Report is based on information provided from all the City of Hamilton Departments.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following provides an overview of the more significant issues affecting the 2016 projected operating deficit:

<u>TAX SUPPORTED OPERATING BUDGET</u>
The tax supported operating budget is forecasting a deficit of -$2.2 M for year-end.

<u>Departmental Budgets</u>
The major drivers of the variance within the departmental budgets are the projected surpluses in Community and Emergency Services, and Planning and Economic Development, which are offset by deficits in Public Works, City Manager, Corporate Financials/Non Program Revenues, and Other Boards & Agencies.

Departmental details are as follows:

Planning and Economic Development Department
Overall the Department is forecasting a favourable variance of $604 K.

The Growth Management Division is expecting a favourable variance of $150 K driven by positive gapping due to vacancies ($619 K) and higher than budgeted Sub-Processing and Service Recovery Fees ($200 K) which is partially offset by renovation and peer-review consulting expenses (-$126 K) and forecasted Planning Reserve contribution (-$526 K).

The GM, Finance & Support Services Division is projecting a favourable variance of $51K due to positive gapping variances ($43 K).

The Planning Division is forecasting a favourable variance of $264 K, mainly due to positive gapping ($682 K) attributed to vacancies and greater than budgeted revenues from fees ($598 K). The positive variance is reduced by contribution to Development Fee Stabilization Reserve (-$954 K) and renovation expenses (-$50 K).

The overall favourable variance is enhanced by the anticipated positive variance in the Parking and By-Law Services Division of $78 K. This is largely attributed to positive gapping due to vacancies ($326K) which is partially offset by maintenance, property tax, and rent expenses (-$250K). The Tourism & Culture Division is adding to the favourable variance mainly due to higher than budgeted film shoot revenue ($40 K) and grounds maintenance savings. This is partially offset by negative gapping and snow removal expenses.

Public Health Services Department
Overall, the Department is expecting a favourable variance of $5 K. Please note, Public Health Services (PHS) Department has assumed approval of Ministry one-time requests and if not approved there is a risk that PHS will need to mitigate unfunded requests toward year-end.

The Office of the Medical Officer of Health, Clinical and Preventative Services Division, and Healthy Protection Division are forecasting a combined deficit of -$239 K. This is largely attributable to overstaffing pressures from Vaccine Preventable Disease to meet program demands and employee related costs partially offset by vacancies and gapping in Dental programs.

Family Health Division, Healthy Living Division, and Planning and Business Improvement Division are projecting a combined positive variance of $244 K. This is mainly due to gapping and salary differentials as a result of delays in filling positions and underspending.

Community and Emergency Services Department
Overall, the Department is projecting a positive variance of $1.1 M.

Hamilton Paramedic Service is projecting a favourable variance of $508 K due to the unexpected extension of Community Paramedicine funding, gapping, and lower than expected vehicle fuel costs.

Housing Services Division is reflecting a favourable variance of $469 K mainly as a result of savings in Community Homelessness Prevention Initiative (CHPI), related to the Housing Stability Benefit, a delay in the implementation of the Housing Allowance Program and savings in payments for mortgages due to renewals. Partially offsetting the favourable variance is an unfavourable property tax variance in Social Housing.

Benefit Eligibility Division is forecasting a positive variance of $313 K mainly due to gapping, special supports low income benefits, and unbudgeted subsidies available. Partially offsetting the positive variance is Ontario Works (OW) Business Transformation team costs and staffing reserve funding, which has not been utilized.

Administration – Community and Emergency Services and Children’s and Home Management Services Divisions are expecting a combined favourable variance totalling $128 K mainly due to gapping as a result of vacancies and timing of hires, offset by increased facility related costs and reduced Red Hill child care fee subsidy recoveries due to anticipated lower enrolment in September.

Macassa Lodge is projecting a favourable variance of $106 K due to unanticipated provincial subsidy increases, preferred accommodation increases, surplus in supplies, and gapping. The favourable variance is partially offset by unbudgeted long-term disability costs.

Hamilton Fire Department is forecasting a positive variance of $84 K due to gapping, which is partially offset by unbudgeted Operating expenses related to the implementation of the EpiPen Program and other vehicle expenses.

The Recreation Division is forecasting a favourable variance of $81 K mainly due to gapping and temporary vacancies offset by increases in hydro and water & sewer costs.

The Employment and Income Support Division is projecting an unfavourable variance of -$462 K as a result of client cost pressures due to increases in caseload and cost per case, and staffing reserve funding not utilized which is offset by positive gapping and maximizing subsidies available.

The Neighbourhood and Community Initiatives Division is anticipating a negative variance of -$150 K mainly in employee related costs due to an unfunded Neighbourhood Action Strategy Manager and temporary Senior Project Manager for Syrian newcomer resettlement work.

Public Works Department
Overall, the Department is forecasting an unfavourable variance of -$2.8 M.

The Transit Division is anticipating an unfavourable variance of -$1.8 M. This is mainly due to projected revenue shortfalls in Transit fare revenues (-$1.3 M) coupled with employee related costs, including sick and overtime (-$1.9 M). Favourable variances due to recent secured DARTS contract ($581 K), fuel ($469 K), the Taxi Contract ($253 K), and material and supplies helped to offset the above-noted and other unfavourable variances.

The Corporate Assets and Strategic Planning Division is reflecting a deficit of -$2.6 M mainly due to higher operational costs for Tim Hortons Field, attributable to a number of factors including part-time staff ($401K), operating supplies and general maintenance repairs ($525 K), hydro and heating fuel ($638 K), and contracted services such as security, snow removal, waste pickup, etc. totalling ($309 K). This was partially offset by higher than budgeted fee recoveries ($226 K) and a lack of transfer to reserve that was budgeted for ($145 K). Lower Diesel consumptions and affiliated revenue loss ($600 K) and the cost of vehicle repairs by Outside Services forecasted to be much higher than anticipated due to mechanics not being at full complement ($1 M) both contributed to the negative variance. Some of the variance was offset by positive gapping.

Partially offsetting the above pressures is the overall projected favourable variance of $1.5 M in the Operating Division. The main driver is the potential savings related to recycling and waste disposal contracts and road hired equipment ($1.4 M) and an expected recycling revenue surplus. Reducing the favourable variances are forecasted unfavourable variances for Roads Summer Program material usage (-$100 K) and driver safety and compliance training (-$100 K).

City Manager's Office

The City Manager's Office projects an unfavourable variance of -$271 K mainly driven by pressures arising from legal fees (Human Resources), mediation and arbitration costs, which are magnified by net negative gapping due to temporary agency costs and unbudgeted temporary positions in Records.

Corporate Services Department

The Corporate Services Department is forecasting an overall positive variance of $326 K. This is driven by increased revenues realized through Tax Certificate Revenues, Arrears Processing Fees, and Tax Transfer Fees ($298 K) and savings in Consulting within the Customer Service group ($66 K). Partially offsetting the positive variance is net negative gapping mainly due to higher than budgeted employee related costs.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues are projecting a -$2.9 M unfavourable variance. Contributing factors are identified as follows:

Corporate Financials

Risk Management

The anticipated negative variance of -$51 K is attributable to higher cost estimated for the administration of the Insurance Program.

Gapping

For 2016, the City has budgeted $4.5 M in gapping savings corporately. As of July 2016, departments have identified $2.5 M in projected savings for the year. The following table summarizes the projection by department.

NET GAPPING BY DEPARTMENT	**($000's)**	
Planning & Ec. Development	$	1,645
Public Health Services	$	16
Community & Emergency Services	$	1,491
Public Works	$	(539)
Legislative	$	-
City Manager's Office	$	(51)
Corporate Services	$	(17)
Consolidated Corporate Savings/ (Deficit)	**$**	**2,545**

Council will note that the budget savings of $4.5 M resides in the Corporate Financials and the $2.5 M actual savings projection is identified within the Department projections. The remaining amount required to achieve the target is $2.0 M and is identified in the Corporate Financials. If this does not materialize, a variance could result. Staff expects the gapping savings target should be met by year-end.

Non Program Revenues

Non Program Revenues are projecting a negative variance of $-340 K. This is mainly attributable to the 2016 LEED Grant Program and the deficit in Tax Remissions and Write Offs of -$2.0 M due to higher appeals with a larger amount required to be transferred to the allowance to offset potential write offs that may occur in 2017 or later. Partially offset by penalties and interest expected to be received from large industrial properties currently under appeal and higher than budgeted Payment in Lieu of $500 K and POA revenue of $500 K.

Boards and Agencies

There is an unfavourable variance forecasted for the Farmer's Market of -$208 K mainly due to building repairs, unfavourable monthly rental fee revenue due to vacancies, and other revenue shortfalls. There are no further variances to report for the remaining Boards and Agencies, however, there is an ongoing appeal from the Niagara Peninsula Conservation Authority levy. If the appeal is unsuccessful, the impact to the levy would result in an unfavourable variance of about -$780 K.

Capital Financing

Due to delay in debt issuance, principal and interest savings of $2 M are projected.

RATE SUPPORTED OPERATING BUDGET

As at July 31 2016, the Rate supported operating budget is projecting a favourable variance of $3.4 M (1.7% to budget) mainly due to savings in overall program expenditures of $3.2 M and revenue surplus of approximately $150 K.

Expenditures

Program spending for 2016 is projected to be a favourable variance of $3.2 M (1.7% to budget). The driving factors behind this favourable expenditure variance are as follows:

Expenditure Type	Variance ($000's)
Employee Related	1,307
Contractual	1,162
Financial Charges	139
Buildings & Grounds	(16)
Vehicle Expenses	(10)
Materials & Supplies	(193)
Agencies & Support Payments	(946)
Total Operating	**1,443**
Debt Charges	5,518
DC Debt Charges Recoveries	(3,750)
Capital Financing	**1,768**
Total Expenditures	**3,211**

Savings in employee related costs of $1.3 M are mainly on account of gapping realized from staff vacancies.

Contractual cost category is projecting a positive variance of $1.2 M which is due to various contractual services.

Financial charges are expecting a favourable variance of $139 K mainly due to property taxes and Ontario Infrastructure and Lands Corporation payments.
Buildings and grounds are forecasting a negative variance of -$16 K which is largely attributable to rent for office & buildings of -$38 K partially offset by a positive relocation/renovation forecast of $30 K.

Vehicle Expenses are expecting a negative variance of -$10 K mainly due to expected increases in the cost of parts and repairs for Central Fleet.

Materials and Supplies have projected a negative variance of -$193 K mainly due to repairs and equipment and operating supplies.

Agencies and Support Payments includes the Protective Plumbing Program (3P) which is projected to be over budget by -$946 K due to increased and organized activities as indicated by current trends.

Appendix “B” to Report FCS16058(a) summarizes the Rate Budget results by program.

The annual debt charges for the Rate operating program budget are budgeted based on existing and anticipated debt issuances. When unissued Council approved debt exists there is an assumption that a portion will be issued each year. When debt issuances are delayed the anticipated level of debt charges is not realized.

A portion of the total debt charges is related to debt issued on DC projects. The portion related to these projects is recovered from the DC Reserves so that the net charge to the Rate operating program budget reflects only the portion of debt issued on Rate operating program projects.

Debt charges are projected to be a favourable variance of $5.5 M, however are partially offset by unissued DC project debt amounts of $3.7 M; a large portion of this is related to the delay of issuing debt for the wastewater treatment plant as it was assumed to be substantially completed in 2016. The resulting net favourable variance of $1.8 M relates to debt issuances delayed on Rate operating program projects.

Revenues

Overall revenues are projecting a surplus of approximately $150 K (0.1% to budget). This is mainly due to favourable variance in non-rate revenue of $750 K which is partially offset by a deficit in rate revenue of -$600 K.

Rate related revenues are projected to reach a total shortfall of approximately -$600 K (0.3% shortfall to rate revenue budget). This is mainly due to unfavourable variances forecasted in sewer surcharge agreements and over strength agreements of -$640 K and -$94 K, respectively. Partially offsetting these shortfalls is an expected surplus in revenue related to private fire lines of $46 K and non-metered revenue of $93 K.

Customer sectors, Multi-Residential, Industrial, Commercial and Institutional, Halton and Haldimand, are forecasting to align to budget. This is mainly due to the drought like conditions experienced during summer 2016. Without the dry conditions, revenue shortfalls would have been projected across all customer sectors for a cumulative shortfall of approximately $3 M to $4 M (1.7% shortfall to budget). The expected shortfalls that would have been projected are attributed to continued conservation and updating to new, more water efficient fixtures / appliances.

Non Rate revenues are projecting a favourable amount of $750 K (29% surplus to non-rate revenue budget) mainly due to Local Improvements Commutations at $550 K and other recoverable of $210 K.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance
Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS16058(a) - Tax Operating Budget Variance Report as of July 31, 2016

Appendix “B” to Report FCS16058(a) - Rate Operating Budget Variance Report as of July 31, 2016

Appendix “C” to Report FCS16058(a) - Budgeted Complement Transfer Schedule

Appendix “D” to Report FCS16058(a) - Budget Restatement Schedule