



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

| | |
|---------------------------|---|
| TO: | Chair and Members Audit, Finance and Administration Committee |
| COMMITTEE DATE: | April 10, 2017 |
| SUBJECT/REPORT NO: | Tax and Rate Operating Budget Variance Report as of December 31, 2016 – Budget Control Policy Transfers (Unaudited) (FCS16058(b)) (City Wide) |
| WARD(S) AFFECTED: | City Wide |
| PREPARED BY: | Kayla Petrovsky (905) 546-2424 Ext. 1335 Tom Hewitson (905) 546-2424 Ext. 4159 |
| SUBMITTED BY: | Mike Zegarac General Manager Finance and Corporate Services Department |
| SIGNATURE: | |

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 FCS16058(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 FCS16058(b), be approved;
- (c) That, subject to final audit, the Disposition of 2016 Year-End Operating Budget Surplus / Deficit be approved as follows:

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 2 of 14**

| DISPOSITION / RECONCILIATION OF YEAR-END SURPLUS/ (DEFICIT) | \$ | \$ |
|---|--------------|----------------------|
| Corporate Surplus from Tax Supported Operations | | \$ 8,660,660 |
| Less: Disposition to Self-Supporting Programs & Agencies | | \$ (217,438) |
| Police (Transfer to Police Reserve) | \$ (76,983) | |
| Library (Transfer to Library Reserve) | \$ (140,455) | |
| Balance of Corporate Surplus | | \$ 8,443,222 |
| Less: Transfer for Ontario Summer Student Jobs Services | | \$ (10,130) |
| Less: Transfer for Concessionary Loans | | \$ (550,000) |
| Less: Transfer to Unallocated Capital Levy Reserve | | \$ (5,514,131) |
| Less: Transfer to Tax Stabilization Reserve | | \$ (2,713,961) |
| Add: Transfer from Best Start Reserve | | \$ 345,000 |
| Balance of Tax Supported Operations | | \$ 0 |
| Corporate Surplus from Rate Supported Operations | | \$ 21,786,806 |
| Less: Transfer to the Rate Supported Wastewater Reserve | | \$ (21,786,806) |
| Balance of Rate Supported Operations | | \$ 0 |

* -anomalies due to rounding

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 final submission for 2016 based on the operating results as of December 31, 2016 (unaudited). Appendix "A" to Report FCS16058(b) summarizes the tax supported budget year-end variances by department and division while Appendix "B" to Report FCS16058(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 \$8.7 M and \$21.8 M respectively, resulting in an overall corporate surplus of \$30.5 M. On March 2, 2017 at General Issues Committee, staff presented a draft variance projecting a \$7.5 M Tax surplus and a \$16.8 M Rate surplus. On the Tax side, the additional surplus is related to a favourable loan adjustment and on the Rate side the additional surplus is related to favourable year end revenue accruals.

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

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 3 of 14**

| CONSOLIDATED CORPORATE SURPLUS/ (DEFICIT) | \$ |
|--|----------------------|
| Tax Supported Programs | |
| Police | \$ 76,983 |
| Library | \$ 140,455 |
| Capital Financing | \$ 5,514,131 |
| Other Tax Supported Programs | \$ 2,929,091 |
| Total Tax Supported Surplus | \$ 8,660,660 |
| | |
| Rate Supported Programs | \$ 21,786,806 |
| | |
| Consolidated Corporate Surplus/ (Deficit) | \$ 30,447,466 |

Staff submitted Report FCS16058(a) to the Audit, Finance and Administration Committee in October 2016, which forecasted a deficit for tax supported services at \$2.2 M. The difference is largely attributed to higher than forecasted year-end surpluses in Capital Financing of \$5.5 M and Public Works of \$5.3 M.

The year-end disposition of the \$30.5 M surplus identified above is outlined in Recommendation (c) of Report FCS16058(b) and is highlighted as follows:

- Year-end budget variances for Police and Library will be allocated to their 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 \$10,130 received by Human Resources in 2016 be transferred to a reserve account to be accessed to support the Student Recruitment Program.
- Concessionary Loans - When the City issues interest free or low interest loans, there is a requirement to recognize the liability of these loans. Each year this liability is assessed based on changes in loan balances and a provision is made. A journal entry is then made to either increase or decrease this provision. The entry can vary considerably either as a charge or a credit. For 2016, a credit entry was made to the operating revenues resulting in a surplus of \$1.1 M. It is recommended that 50% of this amount, or \$550 K, be earmarked for future fluctuations from concessionary loans.
- Unallocated Capital Reserve – The Capital Financing savings of \$5.5 M be allocated to the Unallocated Capital Reserve.

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 4 of 14**

- Best Start Reserve – Staff recommend the transfer of \$345 K from the Best Start Reserve to offset the deficit in the Children’s and Home Management Services division.
- Tax Stabilization Reserve – After the above allocations, staff recommend that the resulting tax operating budget surplus of \$2.9 M be transferred to the tax stabilization reserve. These funds will be used to offset the one-time impacts of the 2017 Tax Operating Budget Reductions.
- Rate Supported Operating Budget Variance – During approval of the 2017 Rate Budget, Council recommended that the 2016 surplus be directed to the Waste Water Reserve.

2017 Budget Transfers

In accordance with the “Budget Control Policy” & “Budgeted Complement Control Policy”, approved by Council in February 2012, staff is submitting ten items recommended for transfer. The tax operating budget amendments, identified in Appendix “C” to Report FCS16058(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 FCS16058(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 the time of 2017 budget submission. However, these transfers will amend the 2017 operating budget once approved with no impact on the levy.

Alternatives for Consideration – See Page 12

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 is 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

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 5 of 14**

submission for 2016 based on the operating results as of December 31, 2016. 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 the City of Hamilton Departments.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following provides an overview of the more significant issues affecting the 2016 tax and rate budget operating surplus.

Tax Supported Operating Budget

The following Table provides a summary of the departmental results as of December 31, 2016. The final tax-supported operating budget surplus amounts to \$8.7 M or approximately 1.0% of the net levy.

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 6 of 14**

| | 2016 | 2016 | Variance | |
|---|--------------------|-------------------------|--------------|----------------|
| | Approved Budget | Year-End Actuals YTD | \$ | % |
| <u>TAX SUPPORTED</u> | | | | |
| Planning & Economic Development | 29,904 | 28,243 | 1,661 | 5.6% |
| Public Health Services | 12,385 | 11,887 | 498 | 4.0% |
| Community & Emergency Services | 237,849 | 236,154 | 1,695 | 0.7% |
| Public Works | 224,717 | 219,458 | 5,259 | 2.3% |
| Legislative | 4,709 | 4,364 | 345 | 7.3% |
| City Manager | 14,706 | 14,040 | 666 | 4.5% |
| Corporate Services | 18,849 | 17,997 | 851 | 4.5% |
| Corporate Financials/ Non Program Revenues | (31,371) | (24,198) | (7,172) | (22.9)% |
| Hamilton Entertainment Facilities | 4,170 | 4,114 | 56 | 1.3% |
| TOTAL CITY EXPENDITURES | 515,919 | 512,059 | 3,859 | 0.7% |
| | | | | |
| Hamilton Police Services | 152,534 | 152,457 | 77 | 0.1% |
| Library | 28,816 | 28,675 | 140 | 0.5% |
| Other Boards & Agencies | 12,317 | 13,247 | (930) | (7.5)% |
| City Enrichment Fund | 5,700 | 5,700 | 0 | 0.0% |
| TOTAL BOARDS & AGENCIES | 199,367 | 200,079 | (712) | (0.4)% |
| | | | | |
| CAPITAL FINANCING | 112,383 | 106,868 | 5,514 | 4.9% |
| TOTAL TAX SUPPORTED | 827,668 | 819,007 | 8,661 | 1.0% |

() - Denotes unfavourable variance

Departmental Budgets

As indicated above the department budgets (City Expenditures) ended 2016 in a favourable position of \$3.8 M. Contributing to the overall surplus in the Public Works departmental budget were the savings from gapping, higher than anticipated revenues and various expenditure savings. The savings in Community and Emergency Services were mainly the result of the delay in implementation of the Housing Allowance Program. The surplus in Planning and Economic Development was largely the result of gapping. Offsetting the City department surpluses were the Corporate Financials / Non Program Revenues with a deficit of -\$7.2 M. This was mainly attributed to shortfalls in Supplementary Tax Revenue of \$1.3 M, increased Tax Write-Offs of \$4.4 M and gapping budgeted in Corporate Financials of \$4.5 M which is realized in the department actuals.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

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

Planning and Economic Development Department

Planning and Economic Development reported a favourable variance of \$1.7 M, which is mainly the result of gapping savings (\$1.0 M) across several divisions. Parking and By-Law Services had an increase in revenues from budget to add to the surplus. The Growth Management Division had a surplus of \$475 K due to higher than budgeted processing fees and sewer repair permit revenues as well as below budget software costs. A deficit in the Economic Development Division offset some of the favourable variance as a result of unfavourable gapping, unanticipated building repairs due to residual effects of water damage at Hamilton Technology Centre (HTC) and higher facilities and operating expenses.

Public Health Services Department

Public Health Services experienced a favourable variance of \$498 K. Across the majority of divisions, the positive variance was the result of maximizing available subsidies, one time funding and gapping in timing of vacancies / hires. This offset a provincial funding allocation announcement which resulted in an unfavourable funding variance of -\$209 K. As well, emergency response provided an unfavourable variance. However, a request has been submitted for provincial one-time funding for these costs.

Community and Emergency Services Department

Community and Emergency Services had an overall favourable variance of \$1.7 M for 2016. The major driver was the favourable variance in Housing Services of \$1.3 M as a result of the delay in implementation of the Housing Allowance Program, Social Housing mortgage renewal and property tax savings and maximizing available subsidies. Recreation had a surplus of \$673 K due to gapping and temporary vacancies and increased user fee volumes for ice rentals and programming changes offset by a net pressure in utility costs. Ontario Works had a surplus of \$395 K due to gapping and special supports low income benefit savings. Hamilton Paramedic Services also had a surplus of \$192 K as a result of favourable employee related costs and gapping offset by overtime / vacation / stat pay, vehicle maintenance and fuel costs, special event revenue and unbudgeted additional subsidies due to extension of Community Paramedicine funding.

Partially offsetting the department surplus are unfavourable variances in Macassa Lodge (-\$403 K), Neighbourhood & Community Initiatives (-\$155 K) and minor deficits in Hamilton Fire Department. The reasons for the deficits are a combination of unfavourable employee related costs and utility and facility costs.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

Public Works Department

The Public Works Department had an overall surplus of \$5.3 M for 2016 year-end. There were a number of contributors, both favourable and unfavourable, across the divisions that lead to the overall surplus.

Operations had an overall positive variance of \$9.2 M. The main driver of the surplus was the Roads section of \$3.9 M. Fewer winter events resulted in a minor surplus in winter control, but a deficit in the winter maintenance programs. This is a result of redeployment of staff to alternative works not related to snow and ice control. This was more than offset by the surplus in non-winter related maintenance mainly relating to the delay in execution of the Capital Rehab group's contract for planned works in the non-winter programs. The Waste Collection and Recycling section had a surplus as a result of CPI estimates coming in lower than forecasted and increased recycling revenues (\$1.8 M). Waste Disposal realized a surplus in contractual services of \$3.6 M.

Environmental Services had a favourable surplus of \$1.1M as a result of gapping and contractual savings due to fewer major storms which resulted in less hired work needed.

Engineering Services had a \$323 K surplus as a result of the increase in revenues for various permit fees plus administrative fees associated with road cuts. These revenues in conjunction with the street light replacement program mitigated the impact of the energy costs realized for street lighting.

Corporate Assets and Strategic Planning had a deficit of -\$3.7 M. The overall variance was due to higher operational costs (employee related, general maintenance and repairs, hydro and heating fuel) for Tim Hortons Field than expected (-\$2.0 M). In addition there was an unfavourable variance from the Central Utilities Plant contract with Hamilton Community Energy (-\$0.9 M) for capacity charges and operating costs. Partially offsetting the deficit was internal debt repayment savings and interest revenue on loan.

Transit had an overall negative variance of -\$1.6 M for 2016. This was composed of a \$1.1 M favourable variance in DARTS and a -\$2.7 M unfavourable variance in HSR. Employee related sick costs totalled -\$2.1 M coupled with revenue shortfalls of -\$2.2 M. Accessible Transit was favourable at year end by \$1.06M, driven by the DARTS contract and the Taxi Scrip program which assisted in offsetting the negative variance. In addition, there were favourable variances in Diesel fuel costs, the Trans Cab Taxi Contract and uncommitted Run Time funds.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

City Manager's Office

The City Manager's Office had a favourable variance of \$666 K with the main drivers being gapping, savings in consulting, training and legal budgets and increased revenues from Marriage Licenses and Death Certificates. These were partially offset by unbudgeted staffing costs and media production expenses, facility charges and software upgrade costs.

Corporate Services Department

Corporate Services finished 2016 with a positive variance of \$851 K. This was mainly the result of gapping in addition to increased revenues realized through higher than anticipated tax certificate and ownership change fees, arrears processing fees and tax registration and transfer fees, (\$309 K). Partly offsetting the favourable position is negative gapping mainly due to higher than budgeted employee related costs in the Customer Service Division. The Customer Service Division also experienced unrealized advertising revenue.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -\$7.2 M combined unfavourable variance. Contributing factors are identified as follows.

Several drivers were responsible for the deficit of -\$2.5 M in Corporate Financials.

Corporate Pensions, Benefits & Contingency

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

Gapping

While gapping savings of \$4.54 M are budgeted in Corporate Financials, actual savings are reported in the operating departments resulting in an unfavourable balance in the corporate financials of -\$4.54 M. As shown in the Table below, a review of savings in the departments indicates the net savings from gapping in 2016 actually amounted to \$4.58 M or about a \$42 K gapping savings surplus.

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 10 of 14**

| NET GAPPING BY DEPARTMENT | (\$000's) |
|--|------------------|
| Planning & Economic Development | \$ 995 |
| Public Health Services | \$ 83 |
| Community & Emergency Services | \$ 653 |
| Public Works | \$ 2,357 |
| Legislative | \$ - |
| City Manager | \$ 247 |
| Corporate Services | \$ 247 |
| Consolidated Corporate Savings/ (Deficit) | \$ 4,582 |

Corporate Initiatives

A surplus of \$1.5 M in Corporate Initiatives was mainly due to a favourable concessionary loan adjustment of \$1.1 M and other miscellaneous financial revenues of \$343 K.

Risk Management

An unfavourable variance of -\$1.8 M in Risk Management was caused by higher corporate claims of \$1.6 M as well as higher than anticipated insurance premiums.

Non Program Revenues

Non Program Revenues show an unfavourable variance of -\$4.6 M.

General revenues had a negative variance of -\$510 K resulting from surplus Hamilton Utilities Corporation dividends of \$229 K which are offset by a Provincial Offences Administration (POA) revenue deficit of -\$744 K. POA introduced an "Early Resolution" process with fines being reduced for earlier payment, which contributed to the lower revenues.

The tax revenues show a negative variance of -\$4.1 M attributable to the unfavourable variance in Supplementary Taxes of -\$1.3 M as a result of a shift in focus by the Municipal Property Assessment Corporation (MPAC) in the 2016 year to property reassessment issues. Also adding to the unfavourable variance was the deficit in Tax Remissions and Write Offs of -\$4.4 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 offsetting the negative variance is the favourable variance in Penalties and Interest from several large industrial properties currently under appeal (\$1.1 M) and higher than budgeted Payments in Lieu (\$400 K).

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 11 of 14**

Boards and Agencies

In Boards and Agencies, there was a deficit of -\$615 K mainly attributable to the unfavourable variance in the Conservation Authorities of -\$778 K due to the on-going appeal with the Niagara Peninsula Conservation Authority.

Library experienced a surplus of \$140 K at the end of 2016 mainly due to gapping.

There is an unfavourable variance for the Farmer's Market of -\$151 K as a result of a lost marketing contract (\$45K), empty stalls, higher than budgeted employee related costs and increased parking expenses.

Capital Financing

Capital financing had an overall positive variance of \$5.5 M due to budgeted debt that has not been issued to date, resulting in actual debt charges being less than budget.

Rate Supported Operating Budget Variance

For 2016, the Rate supported operating budget finished the year with a favourable variance of \$21.8 M due to savings in overall program expenditures of \$9.5 M in addition to a favourable revenue variance of \$12.3 M. In 2015, the year end surplus was \$8.0 M due to expenditure savings of \$5.7 M as well as revenue surpluses of \$2.2 M.

Expenditures

Overall Rate budget expenditure savings of \$9.5 M or 4.9% of budget were earned at year end. The driving factors behind this favourable expenditure variance are as follows:

SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31, 2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) - Page 12 of 14

| Expenditure Type | Variance (\$000's) |
|---------------------------------|-------------------------------|
| Contractual | 4,356 |
| Employee Related | 1,379 |
| Buildings & Grounds | 1,068 |
| Materials & Supplies | 529 |
| Recoveries | 218 |
| Cost Allocations | 176 |
| Vehicle Expenses | (15) |
| Financial Charges | (62) |
| Agencies & Support Payments | (284) |
| Reserve & Capital Recoveries | (1,094) |
| Total Operating | 6,271 |
| Debt Charges | 6,981 |
| Contributions for DC Exemptions | (9) |
| DC Debt Charges Recoveries | (3,750) |
| Capital Financing | 3,222 |
| Total Expenditures | 9,493 |

Contractual expenditures had a favourable variance of \$4.4 M which is due to the Water Distribution System of \$2.5 M and the Biosolids Contract of \$1.4 M. Mild winter weather in 2016 resulted in less frozen service / emergency work to the Water Distribution System allowing for more maintenance and repairs to be performed by in-house staff instead of outside contractors. Biosolids production was lower than the annual benchmark, along with a reduction in disposal tonnage costs from the last contract renewal contributed to a favourable variance.

Savings in employee related costs of \$1.4 M are mainly due to gapping realized from staff vacancies (i.e. retirements, internal transfers, etc.).

Buildings and grounds had a favourable variance of \$1.1 M which is largely attributable to savings in Hydro of \$521 K and Heating Fuel of \$317 K. Hydro savings were attributable to a reduction in the electrical load and consumption during peak hours at the Woodward Treatment Plant that contributed to a Hydro Global Adjustment and cost offset. The warmer than average winter and summer temperatures in 2016 resulted in less heating requirements for the primary sludge feeds into the digesters.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**SUBJECT: Tax and Rate Operating Budget Variance Report as of December 31,
2016 - Budget Control Policy Transfers (FCS16058(b)) (City Wide) -
Page 13 of 14**

Materials and Supplies were also favourable at \$529 K mainly due to fluid and chemical cost savings. A number of fluids and chemical contracts were renewed in 2016 including liquid chlorine and WAS polymer that contributed to lower chemical usage costs. The favourable variance was offset mainly by higher than projected repair and maintenance costs of \$232 K.

Vehicle Expenses and Financial Charges both had slightly unfavourable variances of \$15 K and \$62 K, respectively. This was due to higher costs of parts and repairs in Central Fleet with regard to vehicle expenses and higher property taxes and legal fees with regard to financial charges.

The main reason for the negative year-end variance in Agencies and Support Payments was the Protective Plumbing Program (3P) which was over budget by -\$366 K in 2016.

Appendix "B" to Report FCS16058(b) summarizes the Rate Operating Budget Variance 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 Development Charge (DC) funded projects. The portion related to these projects is recovered from the DC Reserves so that the net charge to the Rate operating budget reflects only the portion of debt issued on Rate supported capital projects.

Debt charges have favourable variance of \$6.9 M, which 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. After taking into account the contribution for DC exemptions of \$9.0 K, the resulting net favourable variance of \$3.2M relates to debt issuances delayed on Rate supported capital projects.

Revenues

The Rate supported operating budget revenues ended 2016 with a favourable variance of \$12.3 M.

Overall, 2016 rate revenues (Non-metered, Residential, Industrial / Commercial / Institutional (ICI) and Haldimand / Halton) amounted to approximately \$202 M which was approximately \$11.8 M or 6.2% favourable compared to budget. The favourable variance in revenues is significantly improved from 2015's favourable position of \$1.6 M.

The Residential sector ended the year with a favourable variance of \$6.4 M or 7.7% to budget. An increase in consumption, particularly in the residential sector, was the primary reason for the significant positive variances driven by the hot and dry summer of 2016 that resulted in higher than normal seasonal usage. The Private Fire Lines had a favourable variance of \$135 K or 14.2%. 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. Partially offsetting the favourable rate revenues surplus were deficits in Sewer Surcharge Agreements were unfavourable by -\$55 K or -1.3% and Overstrength Agreements were unfavourable by -\$59 K or -2.7%. 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 \$454 K or 17.6% mainly due to New Construction Permits at a \$288 K positive variance.

Staff will report back through the 2018 Rate supported Budget on strategies to reduce future rate increases by applying the 2016 rate surplus against future rate supported debt.

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 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” – Tax Operating Budget Variance Report as of December 31, 2016

Appendix “B” – Rate Operating Budget Variance Report as of December 31, 2016

Appendix “C” – Budget Restatement Schedule

Appendix “D” – Budgeted Complement Transfer Schedule

KP/dt