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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 12, 2017
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at April 30, 2017– Budget Control Policy Transfers (FCS17060) (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: **SIGNATURE:**	Mike Zegarac General Manager Finance and Corporate Services Department

RECOMMENDATIONS

(a) That, in accordance with the "Budget Control Policy", the 2017 budget amendment, transferring budget from one department / division to another with no impact on the levy, as outlined in Appendix "C" to Report FCS17060, be approved;

(b) That, in accordance with the "Budgeted Complement Control Policy", the 2017 complement transfer, transferring complement from one department / division to another with no impact on the levy, as outlined in Appendix "D" to Report FCS17060, 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 first submission for 2017 based on the operating results as of April 30, 2017.

Tax supported operations are projecting a favourable variance of $5.6 M (0.7% of net levy). Primary contributors to this positive variance are the projected surpluses in Capital Financing ($5 M), Planning and Economic Development ($1.1 M), Community and Emergency Services ($0.9 M), and Corporate Services ($0.4 M). Partially offsetting the surplus are deficits in Corporate Financials / Non Program Revenues (-$1.8 M) and Public Works (-$0.2 M). Staff will continue to monitor variances and review mitigation measures.

In 2017, $10.2 M in budget reductions were approved as part of the 2017 approved budget. These reductions were approved on an annualized basis. However, some costs associated with these reductions will be incurred in 2017. Council previously approved the use of $3.2 M in reserves to offset these costs (in Report FCS17001(a)) and therefore year-end variance projections assume no variance as a result of these expenditures.

Rate supported operations are projecting a favourable variance of $1.7 M for the 2017 fiscal year, primarily due to savings in overall program expenditures of $1.5 M. In addition, there is a favourable revenue variance projection of $195 K, also adding to the surplus.

The following table summarizes the projected corporate results:

CITY OF HAMILTON
2017 Projected Year-End Variance
($000's)

	2017 Approved Budget	2017 Year-End Forecast	Variance $	Variance %
TAX SUPPORTED				
Planning & Economic Development	29,240	28,164	1,076	3.7%
Public Health Services	12,436	12,446	(10)	(0.1)%
Community & Emergency Services	239,723	238,849	874	0.4%
Public Works	230,090	230,330	(240)	(0.1)%
Legislative	4,875	4,875	-	0.0%
City Manager	8,949	8,846	103	1.2%
Corporate Services	24,050	23,637	413	1.7%
Corporate Financials/ Non Program Revenues	(28,715)	(26,878)	(1,837)	(6.4)%
Hamilton Entertainment Facilities	3,764	3,764	0	0.0%
TOTAL CITY EXPENDITURES	**524,412**	**524,033**	**379**	**0.1%**
Hamilton Police Services	**156,617**	**156,617**	**-**	**0.0%**
Library	**29,339**	**29,109**	**230**	**0.8%**
Other Boards & Agencies	**12,789**	**12,792**	**(3)**	**(0.0)%**
City Enrichment Fund	**6,040**	**6,040**	**-**	**0.0%**
TOTAL BOARDS & AGENCIES	**204,785**	**204,558**	**227**	**0.1%**
CAPITAL FINANCING	**116,196**	**111,195**	**5,000**	**4.3%**
TOTAL TAX SUPPORTED	**845,392**	**839,786**	**5,606**	**0.7%**
TOTAL RATE SUPPORTED	**0**	**(1,670)**	**1,670**	**100.0%**
TOTAL CITY	**845,392**	**838,116**	**7,276**	**0.9%**

( ) - Denotes unfavourable variance

Appendix “A” to Report FCS17060 summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix “B” to Report FCS17060 summarizes the Rate Supported Operating Budget results by program.

2017 Budget Transfers

In accordance with the “Budget Control Policy” & “Budgeted Complement Control Policy”, approved by Council in February 2012 and March 2016, staff are submitting 12 items recommended for transfer. The Tax Operating Budget amendments, identified in Appendix “C” to Report FCS17060, moves budget 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 FCS17060, moves budgeted complement from one department / division to another to accurately reflects 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 – None

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 first submission for 2017 based on the operating results as of April 30, 2017.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Staff in all of the City of Hamilton Departments and Boards provided the information in this Report.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following provides an overview of the more significant issues affecting the 2017 projected tax operating budget surplus.

TAX SUPPORTED OPERATING BUDGET

Departmental Budgets

As indicated, the department budgets (City Expenditures) are projecting a year-end favourable position of $0.4 M. The overall budget surplus in the Planning and Economic Development department is largely the result of gapping. The savings projected in Community and Emergency Services is mainly the result of favourable variances in Recreation due to the temporary closure of certain recreational facilities, in addition to unanticipated revenues and positive gapping. Corporate Services is also showing a favourable variance due to gapping. Offsetting these surpluses are deficits in Public Works of -$241 K and Corporate Financials / Non Program Revenues with a projected deficit of -$1.8 M. This is attributable to gapping budgeted in Corporate Financials of $4.5 M while actual savings are realized in the department actuals.

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

Planning and Economic Development Department

Planning and Economic Development is forecasting a favourable variance of $1.1 M, which is mainly the result of gapping savings ($756 K) across several divisions. Licensing and By-Law Services are expecting a favourable variance of $675 K attributable to positive gapping ($508 K), greater than budgeted revenues from fees ($232 K) which are slightly offset by vehicle expenses. The Growth Management and Planning Divisions are projecting a combined positive variance of $456 K which is driven by positive gapping.

The remaining divisions slightly offset the above projected favourable variances with a combined unfavourable projected variance of -$54 K.

Public Health Services Department

Overall, the Public Health Services Department is expecting an unfavourable variance of -$10 K. Pressures in the Communicable Disease Control and Wellness division (-$171 K) are a result of the Vaccine Preventable Disease program and increased employee related costs to meet program requirements. This is offset by gapping in timing of staff vacancies/hires across the majority of divisions.

Community and Emergency Services Department

Overall, the Community and Emergency Services Department is projecting a positive variance of $0.9 M. The Recreation division is projecting a favourable variance of $774 K due to the temporary closure of five recreation centres during maintenance periods (Ancaster, Huntington Park and Camp, Dundas Arena, Newer Lower Stoney Creek and Jimmy Thompson), in addition to positive gapping. The Ontario Works division also has a projected favourable variance ($282 K). This is a result of maximization of additional available subsidies. The Hamilton Fire Department is forecasting a positive variance of $131 K due to gapping and underspent operating accounts, offset partially by increased fire vehicle repairs and lower than anticipated shop recoveries.

Partially offsetting the surplus are unfavourable variances in Neighbourhood and Community Initiatives (-$269 K), Administration (-$29 K), and Housing Services (-$24 K). The Neighbourhood and Community Initiatives unfavourable variance is due to higher than budgeted employee related costs due to unfunded and extended temporary positions needed for program requirements.

Public Works Department

Overall, the Department is forecasting an unfavourable variance of -$241 K. There are a number of contributors, both favourable and unfavourable, across the divisions that are leading to this projected deficit.

Operations is forecasting an overall positive variance of $3.7 M. This is due to gapping ($1 M) from the inability to recruit seasonal plow operators as backfills for numerous vacancies, savings in de-icing materials cost as a result of warmer weather conditions ($1 M) and hired equipment activation and snow disposal management savings in the first part of 2017 season due to lower levels of snow accumulation ($1.6 M) .

The projected surplus in Operations was offset by anticipated negative variances in the following divisions:

- Transit is projecting an unfavourable variance of -$2.5 M. The majority of this unfavourable variance is due to to higher than anticipated employee related costs for overtime and sick costs, offset by savings in wages and salaries for a total of -$1.8 M. It is projected that transit fare revenues will show an unfavourable variance of -$1.1 M at year-end, though this is slightly offset by a favourable variance projected in the Taxi Contract of $270 K.

- Environmental Services is projecting an unfavourable variance of -$869 K. This is due to higher storm costs, resulting in more hired work needed ($200 K) and an unexpected increase in waste collection contractual costs due to the rebound of diesel fuel / index pricing ($300 K). Cemetery revenues (-$172 K) and commodity revenues (-$150 K) are also projecting below anticipated levels.

- Energy, Fleet, and Facilities is reflecting a deficit of -$575 K for year-end. The majority of this variance (-$ 500 K) is due to central fleet recoveries that were budgeted based on staffing levels, which are not expected to be reached. The Division recovers on an hourly rate set each year based on the fixed costs of the fleet garage. Currently, there is a staffing shortage which results in less billable hours and as a result, the recoveries are projected to fall short of budget. Golf course revenue is also projecting a negative surplus of -$75 K due to inclement weather conditions.

City Manager's Office

City Manager's Office projects a favourable variance of $103 K primarily related to positive gapping in Audit Services of $96 K. Increased revenues realized in the Strategic Partnerships and Revenue Generation division is also is projecting a favourable variance ($7 K).

Corporate Services Department

Corporate Services is forecasting an overall positive variance of $413 K. This is driven by combined positive gapping of $729 K in the Financial Services, Information Technology and Legal Services divisions. Partially offsetting this was combined negative gapping of -$336 K in the Customer Service and City Clerk's Office divisions. In the Customer Services division, favourable savings relating to training and other employee related costs, security, consulting, advertising and lease and service contracts are also expected.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -$1.8 M combined unfavourable variance. Contributing factors are identified as follows:

Corporate Financials

Gapping

For 2017, the City has budgeted $4.5 M in gapping savings corporately. As of April 2017, departments have identified $1.1 M in projected savings for the year. The following Table summarizes the projection by department.

NET GAPPING BY DEPARTMENT	**($000's)**	
Planning & Economic Development	$	756
Public Health Services	$	87
Community & Emergency Services	$	842
Public Works	$	(1,045)
Legislative	$	-
City Manager	$	88
Corporate Services	$	414
Consolidated Corporate Savings/ (Deficit)	**$**	**1,142**

Public Works is projecting a net gapping deficit of $1 M, primarily due to Transit overtime and to a lesser extent special project staffing costs that were unbudgeted. Transit overtime budgets are insufficient to cover the existing cost of employee sick absences that require replacement to ensure adequate service levels are maintained.

Council will note that the budget savings of $4.5 M resides in the Corporate Financials and the $1.5 M actual savings projection is identified within the Department projections. The remaining amount required to achieve the target is $3.4 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.

Risk Management
A projected unfavourable variance of -$241 K in Risk Management is caused by unfavourable gapping as well as aligning the forecast to actual spend with insurance premiums. Insurance premiums saw an increase due to the addition of cyber security coverage.

Non Program Revenues

Non Program Revenues show an unfavourable variance of -$452 K. This is due to a net shortfall in POA revenue. This was slightly offset by certain POA expenditures being funded from reserves, reducing the unfavourable variance.

Boards and Agencies

In Boards and Agencies, there is a favourable variance projected of $227 K attributable to Library Services. This is due to new grants received in the year, additional fee revenues and a decline in employee related costs.

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 -$786 K.

Capital Financing

Capital financing is projecting a year-end surplus of $5 M due to a decision to delay debt issuance with projected principal and interest savings.

RATE SUPPORTED OPERATING BUDGET

As at April 30, 2017, the Rate supported operating budget is projecting a favourable variance of $1.7 M due to savings in overall program expenditures of $1.5 M and a favourable revenue projection of $195 K.

Expenditures

Program spending for 2017 is projected to be a favourable variance of $1.5 M or 0.7% of gross budget by year-end. The driving factors behind this favourable expenditure variance are as follows:

Expenditure Type	Variance ($000's)
Contractual	256
Materials & Supplies	249
Agencies & Support Payments	142
Buildings & Grounds	70
Recoveries	12
Vehicle Expenses	1
Employee Related	(40)
Reserve & Capital Recoveries	(38)
Total Operating	**652**
Debt Charges	4,132
DC Debt Charges Recoveries	(3,309)
Capital Financing	**823**
Total Expenditures	**1,475**

The Contractual cost category has a positive variance of $256 K, mainly due to the BioSolids Contract, offset slightly by other unfavourable contractual variances.

Materials and Supplies have a projected favourable variance of $249 K due to fluid and chemical cost savings.

Agencies and Support Payments savings of $142 K are projected for year-end, mainly as a result of a favourable variance in CSCO Environmental Incentives ($100 K).

Buildings and grounds savings of $70 K are mainly attributed to less than expected renovation / relocation expenditures.

Debt charge savings of $4.1 M projected for year-end are mainly attributed to a delay in debt issuance. A portion of the unissued forecasted debt relates to DC related debt and, therefore, debt charge savings are offset by an unfavourable DC Debt Charges Recoveries of $3.3 M.

Revenues

Overall revenues are projecting a small surplus of approximately $195 K (0.1% to budget). This is mainly due to a favourable variance in rate related revenue of $121 K and non-rate revenue of $74 K.

Rate Related Revenue

Rate related revenues are projecting a slightly favourable variance of $121 K (0.1% to rate related revenue budget) mainly due to several minor variances in third party hauler sales, private fire lines program and non-metered revenue.

Customer sectors, Multi-Residential, Industrial, Commercial and Institutional are on track to meet budget. However, due to the record levels of precipitation that has occurred during the spring of 2017, it is too early to determine if rate revenues will continue to trend to be on budget. A reoccurrence of last year's seasonal usage and revenue surplus is unlikely to materialize in 2017.

The City of Hamilton's water sales contracts with Halton and Haldimand are forecasting to align to budget.

Staff will continue to monitor precipitation and consumption trends through the summer to provide a more accurate 2017 forecast with the next Budget Variance Report.

Non Rate Revenue

Non Rate revenues are projecting a favourable amount of $74 K (2.6% to non-rate revenue budget) mainly due general fees and recoveries.

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" – Tax Operating Budget Variance Report as at April 30, 2017

Appendix "B" – Rate Operating Budget Variance Report as at April 30, 2017

Appendix "C" – Budget Restatement Schedule

Appendix "D" – Budgeted Complement Transfer Schedule

KP/dt