



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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	October 5, 2017
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at July 31, 2017 – Budget Control Policy Transfers (FCS17060(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services Department
SIGNATURE:	

RECOMMENDATION

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 “C” to Report FCS17060(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 2017 based on the operating results as at July 31, 2017.

Tax supported operations are projecting a favourable variance of \$6.2 M (0.7% of net levy). Primary contributors to this positive variance are the projected surpluses in Capital Financing (\$5 M), Community and Emergency Services (\$3.1 M), Planning and Economic Development (\$0.9 M) and Corporate Services (\$0.7 M). Partially offsetting the surplus is a deficit in Corporate Financials / Non Program Revenues (-\$4.4 M).

Staff will continue to monitor variances and review mitigation measures.

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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 \$2.9 M for the 2017 fiscal year, primarily due to lower than projected debt charges of \$4.3 M and a favourable revenue variance projection of \$120 K, offset by a deficit in overall program expenditures of \$1.5 M.

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	
			\$	%
Tax Supported				
Planning and Economic Development	29,240	28,290	950	3.2
Public Health Services	12,436	12,248	188	1.5
Community and Emergency Services	227,126	224,044	3,082	1.4
Public Works	230,090	229,594	496	0.2
Legislative	4,875	4,875	-	0.0
City Manager	8,949	8,944	5	0.1
Corporate Services	24,050	23,360	690	2.9
Corporate Financials / Non Program Revenues	(16,118)	(11,667)	(4,451)	(27.6)
Hamilton Entertainment Facilities	<u>3,764</u>	<u>3,764</u>	<u>-</u>	<u>0.0</u>
TOTAL CITY EXPENDITURES	524,412	523,452	960	0.2
Hamilton Police Services	156,617	156,617	-	0.0
Library	29,339	29,109	230	0.8
Other Boards and Agencies	12,788	12,788	-	0.0
City Enrichment Fund	<u>6,040</u>	<u>6,040</u>	<u>-</u>	<u>0.0</u>
TOTAL BOARDS AND AGENCIES	204,784	204,554	230	0.1
CAPITAL FINANCING	116,196	111,196	5,000	4.3
TOTAL TAX SUPPORTED	845,392	839,202	6,190	0.7
TOTAL RATE SUPPORTED	0	(2,900)	2,900	100.0
TOTAL CITY	845,392	836,302	9,090	1.1

() – Denotes unfavourable variance

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Appendix “A” to Report FCS17060(a) summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix “B” to Report FCS17060(a) 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 is submitting seven items recommended for transfer. The complement transfers, identified in Appendix “C” to Report FCS17060(a), move 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. There are no recommended transfers that move budget from one division to another within the same cost category.

Alternatives for Consideration – None

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the analysis sections of Report FCS17060(a).

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 2017 based on the operating results as of July 31, 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 Report FCS17060(a).

ANALYSIS AND RATIONALE FOR RECOMMENDATION

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

TAX SUPPORTED OPERATING BUDGET

Departmental Budgets

As indicated, the department budgets (City Expenditures) are projecting a year-end favourable position of \$1 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 of \$1.1 M due to the temporary closure of certain recreational facilities and a positive variance of \$1.4 M in Housing. This is mainly in Social Housing related to prior year-end reconciliation adjustments for Rent Geared to Income subsidy and underspent Community Homelessness Prevention Initiative program costs. After offsetting some divisional deficits in Public Works, overall the Department is projecting a favourable variance of \$0.5 M, mainly due to gapping. Corporate Services is also showing a favourable variance due to gapping. Offsetting these surpluses is a deficit in Corporate Financials / Non Program Revenues of -\$4.4 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 \$950 K, which is mainly the result of gapping savings (\$875 K) across several divisions. The Growth Management and Planning Divisions are projecting a combined positive variance of \$477 K which is driven by positive gapping and savings in various expenditures. Tourism and Culture is projecting a surplus of \$231 K as a result of positive gapping and increased federal grants and sponsorship revenue. Licensing and By-Law Services is expecting a favourable variance of \$181 K attributable to positive gapping (\$261 K), offset slightly by pressures relating to increased building and vehicle maintenance costs (\$48 K), unbudgeted AMANDA system annual maintenance fees (\$23 K) and other minor operational expenditures that are projected to be over budget.

The remaining divisions slightly offset the above projected favourable variances with a combined unfavourable projected variance of -\$56 K.

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Public Health Services Department

Overall, the Public Health Services Department is expecting a favourable variance of \$188 K. This is mainly the result of favourable gapping in timing of vacancies / hires in the Healthy Environments and Planning and Business Improvement Divisions. The Medical Officer of Health Division is projecting a favourable variance due to maximizing available subsidies. This was offset slightly by an unfavourable variance in Communicable Disease Control and Wellness which is largely driven by the Vaccine Preventable Disease program and increased employee related costs to meet program requirements.

Community and Emergency Services Department

Overall, the Community and Emergency Services Department is projecting a positive variance of \$3.1 M. The Housing Division is projecting a positive variance of \$1.4 M relating to Social Housing prior year end reconciliation adjustments for Rent Geared to Income subsidy and underspent Community Homelessness Prevention Initiative program costs. The Recreation division is projecting a favourable variance of \$1.1 M 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 (OW) Division also has a projected favourable variance of \$571 K. This is a result of maximization of additional available subsidies and favourable variances in various OW administrative operating costs. The remaining divisions are projecting a combined favourable variance of \$158 K due to gapping and underspent operating line and program costs.

Partially offsetting the surplus are unfavourable variances in Neighbourhood and Community Initiatives (-\$276 K) and Macassa Lodge (-\$134 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. The Macassa Lodge unfavourable variance is due to net employee related costs and decreased revenues and provincial subsidies, offset slightly by net favourable variances in various operating lines.

Public Works Department

Overall, the Department is forecasting a favourable variance of \$496 K. There are a number of contributors, both favourable and unfavourable, across the divisions that are leading to this projected surplus.

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Operations is forecasting an overall positive variance of \$4.3 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 second part of 2017 season due to lower levels of snow accumulation (\$1.6 M) . There is also summer gapping savings due to numerous vacancies caused by long-term disability and leave of absences (\$600 K) and pumping station utilities (\$100 K).

Transportation is forecasting a favourable of variance of \$145 K as a result of gapping savings projected.

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

- Transit is projecting an unfavourable variance of -\$2.3 M. The majority of this unfavourable variance is due to higher than anticipated employee related costs for overtime and sick pay, offset by savings in wages and salaries for a total of -\$600 K. It is projected that transit fare revenues will show an unfavourable variance of -\$1.8 M at year-end, which is slightly offset by a favourable variance projected in the Taxi Contract of \$245 K.
- Energy, Fleet, and Facilities is reflecting a deficit of -\$1.6 M for year-end. A substantial part of this variance is due to an unbudgeted capacity charge for the Central Utilities Plant (CUP) District Cooling System (-\$1.1 M) less interest revenue (\$288 K).

In addition, there is an unfavourable variance of -\$500 K which 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. Golf course revenue has seen a decline this year due to inclement weather conditions.

City Manager's Office

The City Manager's Office is in line with budget, projecting a slightly favourable variance of \$5 K in the Strategic Partnerships and Revenue Generation Division.

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Corporate Services Department

Corporate Services is forecasting an overall positive variance of \$690 K. This is driven by combined positive gapping of \$880 K in the Financial Services, Financial Planning, Admin & Policy, Information Technology, and Legal Services Divisions. Partially offsetting this was combined negative gapping of -\$374 K in the Customer Service and City Clerk's Office and Divisions. In the Financial Services Division, favourable projections for tax certificate and tax transfer revenues of \$200 K are expected.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -\$4.4 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 July 2017, departments have identified \$2.7 M in projected savings for the year. The following Table summarizes the projection by department.

NET GAPPING BY DEPARTMENT	(\$000'S)
Planning and Economic Development	875
Public Health Services	(76)
Community and Emergency Services	1,268
Public Works	94
Legislative	0
City Manager	0
Corporate Services	<u>505</u>
Consolidated Corporate Savings / (Deficit)	2,666

Council will note that the budget savings of \$4.5 M resides in the Corporate Financials and the \$2.7 M actual savings projection is identified within the department projections. The remaining amount required to achieve the target of \$1.8 M 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.

Corporate Initiatives

A projected unfavourable variance of -\$241 K in Corporate Initiatives is caused by unfavourable gapping and insurance premiums. Insurance premiums increased due to the addition of cyber security coverage.

Non Program Revenues

Non Program Revenues show an unfavourable variance of -\$1.6 M mainly as a result of an unfavourable variance of -\$2.8 M in Tax Remissions and Write-Offs. A substantial allowance has been set-up for potential write-offs for the reassessment year. The unfavourable variance was compounded by a net shortfall in Provincial Offences Administration (POA) revenue. Somewhat offsetting the negative variance is a projected favourable variance in Penalties and Interest from several large industrial properties in arrears and also Payment in Lieu billings which is also projecting a favourable variance.

Boards and Agencies

In Boards and Agencies, there is a favourable variance projected of \$230 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 July 31, 2017, the Rate supported operating budget is projecting a favourable variance of \$2.9 M primarily due to lower than projected debt charges of \$4.3 M and a favourable revenue variance projection of \$120 K, which is partially offset by a deficit in overall program expenditures of \$1.5 M.

Expenditures

Program spending for 2017 is projected to be a favourable variance of \$2.8 M or 1.4% of gross budget by year-end. The driving factors behind this favourable expenditure variance are shown in the following table:

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City of Hamilton
2017 Projected Year-End Variance
(\$000's)

Rate Supported Expenditure Type	Variance
Contractual	(882)
Reserve and Capital Recoveries	(490)
Materials and Supplies	(197)
Cost Allocations	(148)
Agencies and Support Payments	155
Employee Related	<u>79</u>
Total Operating	(1,483)
Debt Charges	7,779
DC Debt Charges Recoveries	<u>(3,484)</u>
Capital Financing	4,295
Total Expenditures	<u>2,812</u>

The Contractual cost category has a negative variance of -\$882 K, mainly due to unfavourable service contract variances.

Cost Allocations and Reserves & Capital Recoveries were under budgeted. The projections have been aligned with the expected year-end actuals.

Materials and Supplies have a projected unfavourable variance of -\$197 K due to higher than budgeted repairs and equipment charges.

Agencies and Support Payments savings of \$155 K are projected for year-end, mainly as a result of a favourable variance in Community Service and Community Outreach (CSCO) Environmental Incentives (\$100 K).

Debt charge savings of \$4.3 M projected for year-end are mainly attributed to a delay in debt issuance.

Revenues

Overall revenues are projecting a small surplus of approximately \$123 K (0.1% to budget). This is mainly due to a favourable variance in rate related revenue of \$93 K and non-rate revenue of \$30 K.

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Rate Related Revenue

Rate related revenues are projecting a slightly favourable variance of \$93 K (0.05% to rate related revenue budget) mainly due to sewer surcharge agreements and 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. The Residential customer sector is trending to have a small unfavourable variance of -\$300 K. Due to the record levels of precipitation that has occurred during the spring of 2017 and mild weather during the summer months, a reoccurrence of last year's seasonal usage and revenue surplus will not materialize in 2017.

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

Non Rate Revenue

Non Rate revenues are projecting a favourable amount of \$30 K (1.1% to non-rate revenue budget) mainly due to general fees and recoveries.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

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APPENDICES AND SCHEDULES ATTACHED

Appendix "A" – Tax Operating Budget Variance Report as at July 31, 2017

Appendix "B" – Rate Operating Budget Variance Report as at July 31, 2017

Appendix "C" – Budget Restatement Schedule

KP/TH/dt