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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 23, 2018
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at December 31, 2017 – Budget Control Policy Transfers (FCS17060(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: **SIGNATURE:**	Mike Zegarac General Manager Finance and Corporate Services

RECOMMENDATION

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

(c) That the Social Housing Stabilization Reserve (110041), with a balance of approximately $2.1M, be repurposed from a stabilization reserve to providing development charge exemptions for affordable housing;

(d) That, subject to final audit, the Disposition of 2017 Year-End Operating Budget Surplus / Deficit be approved as follows:

Table 1

DISPOSITION / RECONCILIATION OF YEAR-END SURPLUS/ (DEFICIT)	$	$
Corporate Surplus from Tax Supported Operations		**$ 24,969,167**
Less: Disposition to Self-Supporting Programs & Agencies		**$ (778,531)**
Police (Transfer to Police Reserve)	$ (611,711)	
Library (Transfer to Library Reserve)	$ (166,820)	
Balance of Corporate Surplus		**$ 24,190,636**
Less: Transfer to Unallocated Capital Levy Reserve		$ (6,586,334)
Less: Transfer to Unallocated Capital for 2019 and 2020 Capital Financing Plan		$ (5,000,000)
Less: Transfer to the Non-Residential Roads Development Charge Reserve		$ (8,000,000)
Less: Transfer to Flamborough Capital Reserve		$ (272,000)
Less: Transfer to Tax Stabilization Reserve		$ (4,332,302)
Balance of Tax Supported Operations		**$ 0**
Corporate Surplus from Rate Supported Operations		**$ 18,101,234**
Less: Transfer to the Rate Supported Water Reserve		$ (8,698,579)
Less: Transfer to the Rate Supported Wastewater Reserve		$ (7,771,462)
Less: Transfer to the Rate Supported Stormwater Reserve		$ (1,631,193)
Balance of Rate Supported Operations		**$ 0**

EXECUTIVE SUMMARY

Staff has committed to provide Council with three variance reports for the Tax Supported and Rate Supported Operating Budgets during the fiscal year (Spring / Fall / Year-End). This is the final submission for 2017 based on the operating results as of December 31, 2017 (unaudited). Appendix “A” to Report FCS17060(b) summarizes the Tax Supported Operating Budget year-end variances by department and division while Appendix “B” to Report FCS17060(b) summarizes the year-end variances of the Rate Supported Operating Budget by program.

Both the Tax Supported and Rate Supported operations ended the year with positive variances of $25M and $18.1M, respectively. The Tax Supported Operating Budget Surplus of $25M is composed of City departments ($18.3M), Boards and Agencies ($63K) and Capital Financing ($6.6M). The surplus in Tax is spread across several departments and is related to gapping surpluses, operational efficiencies and increased revenues. In addition, certain one-time surpluses, such as the Hamilton Utilities Corporation (HUC) dividend received of $5.0M, also contributed to the favourable variance. On the Rate side, the surplus is related to favourable variances in operating expenditures from budget.

Additional details are presented in the Analysis and Rationale for Recommendations section of this Report.

Table 2

CONSOLIDATED CORPORATE SURPLUS/ (DEFICIT)	$
Tax Supported Programs	
Police	$ 611,711
Library	$ 166,820
Capital Financing	$ 6,586,334
Other Tax Supported Programs	$ 17,604,302
Total Tax Supported Surplus	**$ 24,969,167**
Rate Supported Programs	**$ 18,101,234**
Consolidated Corporate Surplus/ (Deficit)	**$ 43,070,401**

Staff submitted Report FCS17060(a) to the Audit, Finance and Administration Committee in October 2017 which forecasted a surplus for Tax Supported Operating Budget services of $6.2M. The difference is largely attributed to higher than forecasted year-end surpluses in Non-Program Revenue of $7.9M (including additional Hamilton Utilities Corporation (HUC) dividends received of $5.0M) and Public Works of $9.5M.

The year-end disposition of the $43.1M surplus identified above is outlined in Recommendation (d) (Table 1) of Report FCS17060(b) and is highlighted as follows:

- Year-end variances for Police and Library will be allocated to their own source reserves.
- Slot Revenues – Staff recommends the slot revenue surplus of $272K be transferred to the Flamborough Capital Reserve Fund.
- Unallocated Capital Reserve – Transfer of the Capital Financing savings of $6.6M to the Unallocated Capital Levy Reserve.
- Unallocated Capital Reserve – Transfer $5M for the 2019 and 2020 Capital Financing Plans.
- Non-Residential Roads Development Charge Reserve – Staff recommends $8M be transferred for non-residential development charge exemptions.
- Tax Stabilization Reserve – After the above allocations, staff recommends that the resulting Tax Supported Operating Budget Surplus of $4.3M be transferred to the Tax Stabilization Reserve.

- Rate Supported – The Rate Supported Operating Budget surplus of $18.1M is made up of three main components. There are separate Rate Supported Reserves for each of the water, wastewater and stormwater programs. Staff recommends that the surpluses of $8.7M from water, $7.8M from wastewater, and $1.6M from stormwater be transferred to their respective reserves.

2017 Budget Transfers

In accordance with the "Budget Control Policy" and "Budgeted Complement Control Policy", approved by Council in February 2012 and March 2017, staff is submitting 11 items recommended for transfer. The Tax Operating Budget amendments, identified in Appendix "C" to Report FCS17060(b), moves budget from one cost category to another between either the same or different departments / divisions. 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(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 the 2018 budget submission. However, these transfers will amend the 2018 operating Budget once approved with no impact on the levy.

Social Housing Stabilization Reserve

As per approved policy, staff transferred the Tax Operating Budget Surplus in Social Housing of $2.1M to the Social Housing Reserve (110041). Staff is recommending that the purpose of the reserve be changed and that the reserve be used to fund development charge exemptions for affordable housing.

Alternatives for Consideration – None

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the Analysis and Rationale for Recommendation section 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 final submission for 2017 based on the operating results as at December 31, 2017. Council approval is required to allocate year-end surplus / deficit to / from reserves.

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 RECOMMENDATIONS

The following provides an overview of the more significant issues affecting the 2017 Tax and Rate Operating Budget Surplus.

Tax Supported Operating Budget

Table 3 provides a summary of the departmental results as at December 31, 2017. The final Tax Supported Operating Budget Surplus amounted to $25M, or approximately 3.0% of the net levy.

Table 3

	2017 Approved Budget	2017 Year-End Actuals	Variance $	Variance %
TAX SUPPORTED				
Planning & Economic Development	28,408	27,763	645	**2.3%**
Public Health Services	12,090	11,670	420	**3.5%**
Community & Emergency Services	226,517	225,211	1,306	**0.6%**
Public Works	230,063	220,573	9,490	**4.1%**
Legislative	4,875	4,533	342	**7.0%**
City Manager	10,146	9,677	469	**4.6%**
Corporate Services	24,902	23,461	1,441	**5.8%**
Corporate Financials / Non Program Revenues	(16,353)	(20,423)	4,070	**24.9%**
Hamilton Entertainment Facilities	3,764	3,628	136	**3.6%**
TOTAL CITY EXPENDITURES	**524,412**	**506,093**	**18,319**	**3.5%**
Hamilton Police Services	**156,617**	**156,005**	**612**	**0.4%**
Library	**29,339**	**29,172**	**167**	**0.6%**
Other Boards & Agencies	**12,601**	**13,317**	**(716)**	**(5.7)%**
City Enrichment Fund	**6,040**	**6,040**	**0**	**0.0%**
TOTAL BOARDS & AGENCIES	**204,597**	**204,535**	**63**	**0.0%**
CAPITAL FINANCING	**116,383**	**109,796**	**6,587**	**5.7%**
TOTAL TAX SUPPORTED	**845,392**	**820,424**	**24,969**	**3.0%**

( ) - Denotes unfavourable variance

Departmental Budgets

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

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 $645K, which is mainly the result of favourable revenues in the Transportation, Planning and Parking divisions as a result of higher than anticipated revenue, gapping and divisional efficiencies. The Licensing and By-Law Services division also had favourable revenues throughout 2017. The savings in consulting, professional memberships, training and reduced requests for Natural Areas studies in the Planning division also contributed to the Department's surplus. Savings were reduced by negative gapping across as a result of departmental restructuring costs due to 2017 budget mitigation efforts. The gapping deficit in the Tourism and Culture division is a result of an increase in demand for public programming. This was offset by higher revenues / grants and savings in contractual and maintenance costs within the division.

Public Health Services Department

Overall, the Public Health Services Department experienced a favourable variance of $420K. This is mainly the result of favourable gapping due to timing of vacancies and hires across divisions. Additional unbudgeted subsidies received resulted in further levy savings as did maximizing all available subsidies. The Medical Officer of Health Division had an unfavourable variance of -$997K due to total departmental restructuring costs as a result of 2017 budget mitigation efforts.

Community and Emergency Services Department

Community and Emergency Services Department had an overall favourable variance of $1.3M for 2017. The major driver was the favourable variance in Housing Services of $3.6M due to Social Housing prior year end reconciliation adjustments related to property taxes and Rent Geared-to-Income subsidies less a $2.1M contribution to the Social Housing reserve, in addition to underspent Community Homelessness Prevention Initiative (CHPI) program costs. Recreation had a surplus of $964K 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) and net increased revenues. The Ontario Works (OW) division had a surplus of $529K as a result of maximization of additional available subsidies, gapping and additional discretionary funding based on revised increased caseloads. Hamilton Fire Department and Children's and Home Management Services divisions had minor favourable variances.

The remaining divisions had deficits that partially offset the departmental surplus. Macassa and Wentworth Lodges had a combined unfavourable variance of -$552K due to employee related costs and decreased revenues and provincial subsidies, offset slightly by net favourable variances in various operating lines. The Neighbourhood and Community Initiatives unfavourable variance of -$186K is due to unfunded and extended temporary positions needed for program requirements.

The Hamilton Paramedic Service experienced a deficit of -$115K for 2017 due to an unfavourable variance in employee related costs as a result of offload pressures / call volumes and approved budgeted reserve funding not applied, in addition to increased costs of medical supplies per Ministry of Health standards. This was offset partially by various reduced operating expenditures and unanticipated revenues. Lastly, the Administration division had a deficit of -$1M in 2017 as a result of one-time costs related to 2017 budget mitigation efforts.

Public Works Department

The Public Works department had an overall surplus of $9.5M for the 2017 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 $5.8M. This was due to gapping savings of $2.3M from the inability to recruit seasonal plow operators as backfills for numerous vacancies, savings in de-icing materials costs of $1.3M as a result of warmer weather conditions and hired equipment activation and snow disposal management savings in the first part of 2017 season due to lower levels of snow accumulation of $879K. The total Winter Season variance was a surplus of $2.5M.

Environmental Services had a favourable surplus of $5.5M. The majority of this variance was in Waste Collection of Recycling sections (combined surplus of $3.3M). This was a result of gapping savings and reduced vehicle maintenance costs from partial fleet replacement in Waste Collection as well as favourable tipping fees / commodity revenues and Resource Productivity and Recovery Authority (RPRA) funding. Parks had a $1.1M favourable variance due to gapping and deferred maintenance while shoreline design work is being completed to address damage from a flood event. The Horticulture section experienced a $657K favourable variance due to gapping and reduced operating expenses from a demolished tropical house that is currently being reconstructed.

Engineering Services had a $541K surplus as a result of the increase in revenues for permit fees collected for road closures, encroachments, overload / road occupancy charges and other various permits.

Energy, Fleet, and Facilities is reflecting a deficit of -$2.3M for year end. A substantial part of this variance is due to an unbudgeted capacity charge for the Central Utilities Plant (CUP) which provides heating and cooling to the City (-$1.1M), offset by unbudgeted loan interest of $362K. When the sale of the CUP was finalized to Hamilton Community Energy, the amount of the future direct charges (a blended expense of debt repayment, operationalizing capital and energy apportioned to a variety of facilities in the downtown core) was not budgeted. This is an annual charge that will be budgeted in 2018 in Public Works, with recoveries received from departments that utilize the facilities charged.

In addition, there is an unfavourable variance of -$624K 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 fell short of budget.

Golf course revenue has seen a decline this year due to inclement weather conditions (-$400K). Tim Hortons Field experienced an unfavourable variance of -$240K as a result of minor maintenance and repairs to minor deficiencies.

Transit had an overall negative variance of -$247K for 2017, attributable to DARTS. Although HSR fare revenue out-performed initial expectations, an unfavourable variance of $1.6M still resulted. This was offset by a favourable fuel variance of $1.0M and positive gapping of $580K.

Transportation had an overall surplus of $188K as a result of gapping savings.

City Manager’s Office

The City Manager’s Office had a favourable variance of $469K. The majority of this was in the Human Resources division ($403K). The main drivers of the favourable variance were gapping and savings in contractual, consulting and training expenditures.

Corporate Services Department

Corporate Services finished 2017 with a positive variance of $1.4M. This was mainly the result of favourable combined gapping in the Financial Services and Information Technology divisions ($1.2M). Partially offsetting this was combined negative gapping of -$332K in the Customer Service and City Clerk's Office divisions. In the Financial Services division, a combined surplus of $433K in tax transfer revenues, other tax revenues and other minor savings were realized.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a $4.1M combined favourable variance. Contributing factors are identified as follows:

Corporate Financials

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

Gapping
While gapping savings of $4.5M are budgeted in Corporate Financials, actual savings are reported in the operating departments resulting in an unfavourable balance in the corporate financials of -$4.5M. As shown in Table 4, a review of savings in the departments indicates the net savings from gapping in 2017 actually amounted to $7.0M or an approximate $2.5M gapping savings surplus.

Table 4

NET GAPPING BY DEPARTMENT		**($000's)**
Planning & Economic Development	$	524
Public Health Services	$	285
Community & Emergency Services	$	508
Public Works	$	4,023
Legislative	$	-
City Manager	$	659
Corporate Services	$	980
Consolidated Corporate Savings/ (Deficit)	**$**	**6,979**

Further to direction from Council for the 2018 budget, the City has changed the reporting methodology and the budgeted gapping savings of -$4.5M has been distributed to the departments within the City Manager / General Manager's budgets.

During the 2017 budget, a number of restructuring initiatives were approved that reduced the budget but also had one-time costs required. These costs were accommodated within each of the departments overall surplus and did not require reserve funding. The restructuring costs are not included in the gapping totals above.

Corporate Initiatives
A deficit of $1.6 M in Corporate Initiatives is mainly due to higher insurance costs of $951K, an unexpected HST liability payment of $784K (see below), offset by lower spending for Area Rated Levy Parkland Purchases ($166K).

HST Audit
On January 10, 2018, the City received the results of a Canada Revenue Agency (CRA) audit on Harmonized Sales Tax (HST). The audit covered the period from January 1, 2014 through June 30, 2016 and took 14 months to complete. The audit resulted in a reassessment of approximately $1.4M including interest charges. Of this amount, $89K pertained to Hamilton Police Services and $2K pertained to Hamilton Public Library and these amounts were charged back to Police and Library. The remainder of $1.3M is the responsibility of the City. However, $481K can be recovered from various vendors.

The vendors have been asked to provide revised invoices where their HST number was missing or incorrect and staff will be submitting revised HST claims. The reassessment also includes disallowable portion of an HST claim for overhead submitted by Deloitte on behalf of the City in 2016. The City's share of the claim was $1.3M and the City share of the disallowed portion was $154K. The City's share of the Deloitte claim was transferred to the Tax Stabilization Reserve as part of the 2016 year end surplus distribution. The majority of the remainder of the reassessment pertains to HST the City had not collected on City services, such as inspection fees that were provided prior to staff conducting a review of City user fees for HST applicability in 2015. The user fees were amended in 2015 to make them HST applicable where previously they had been deemed HST exempt. It was not viable to try to retroactively collect the HST for the user fees collected prior to the fees being amended in 2015. The remaining amount of the HST reassessment has been funded from the 2017 surplus through Corporate Financials.

Non Program Revenues

Non Program Revenues show a favourable variance of $7.9M.

General revenues had a positive variance of $4.4M resulting from surplus Hamilton Utilities Corporation (HUC) dividends of $5.0M, in addition to higher realization of slot revenues. This was offset by a POA revenue deficit of -$873K. POA introduced an "Early Resolution" process with fines being reduced for earlier payment, which contributed to the lower revenues.

The tax revenues show a surplus of $3.5M, mainly attributable to the favourable variance in Supplementary Taxes of $2.1M. This reflects four supplementary billings processed in 2017. Also adding to the surplus was the favourable variance in Penalties and Interest from interest collected on several large industrial properties currently under appeal and a favourable variance in Payments in Lieu due to a reduction in realized write-offs.

Boards and Agencies

In Boards and Agencies, there is a favourable variance of $167K attributable to Library Services. This is due to new grants received in the year as well as favourable gapping.

There is an unfavourable variance of -$786K relating to the Niagara Peninsula Conservation Authority (NPCA) appeal. The NPCA changed the Municipal Levy Allocation agreement and applied the default formula provided under the applicable regulations to the detriment of the City. The City was unsuccessful with the appeal at the Mining and Lands Commission. However, the City is pursuing a judicial review of the appeal decision. While this process continues, the City is legislatively required to pay the amount levied by the NPCA (under protest).

Capital Financing

Capital financing had an overall positive variance or $6.6M due to budgeted debt that has not been issued to date, resulting in actual debt charges being less than budgeted.

Disposition of Tax Supported Operating Budget Surplus

Staff recommends that the Tax Supported Operating Budget Surplus of $25.0M be distributed to various reserves as per the following paragraphs.

Year-end variances for Police of $611k and Library of $167k will be transferred to their own source reserves.

Slot Revenues surplus of $272K will be transferred to the Flamborough Capital Reserve Fund.

Capital Financing surplus of $6.6M will be transferred to the Unallocated Capital Levy Reserve for 2019 Capital Financing Plan for tax supported capital investments in infrastructure. An additional surplus of $5M will be transferred to the Unallocated Capital Levy Reserve for the 2019 and 2020 Capital Financing Plans for tax supported capital investments in infrastructure as the City's Strategic Asset Management Policy and Asset Management Plans are initiated under the Infrastructure for Jobs for Prosperity Act (Bill 6).

Surplus of $8M will be transferred to Non-Residential Roads Development Charge Reserve to assist in funding Non-Residential Development Charge exemptions.

The remaining surplus, after the transfers above, of $4.3M will be transferred to the Tax Stabilization Reserve towards the Reserve target balance of $32.3M.

The Tax Stabilization Reserve was established to prevent significant fluctuations in the operating budget general tax levy and to help the City manage its cash flow by providing a source of funding to offset extraordinary and unforeseen expenditures, to fund one time expenditures, to offset revenue shortfalls and to provide for various contingent and potential future liabilities. After transferring $4.3M, the balance in the Tax Stabilization Reserve will be approximately $15.8M and short of the target balance by $16.5M.

Rate Supported Operating Budget

For 2017, the Rate supported operating budget finished the year with a favourable variance of $18.1M due to savings in overall program expenditures of $18.1M in addition to a favourable revenue variance of $6K. In 2016, the year-end surplus was $21.8M due to expenditure savings of $9.5M as well as revenue surpluses of $12.3M.

Expenditures

Overall Rate budget expenditure savings of $18.1M or 9.0% of budget were earned at year end. The driving factors behind this favourable expenditure variance are shown in Table 5:

Table 5

Expenditure Type	**Variance ($000's)**
Contractual	3,825
Employee Related	3,087
Materials & Supplies	3,037
Buildings & Grounds	2,158
Agencies & Support Payments	1,760
Recoveries	-
Cost Allocations	32
Vehicle Expenses	(90)
Reserve & Capital Recoveries	(110)
Financial Charges	(220)
Total Operating	**13,478**
Debt Charges	7,864
Contributions for DC Exemptions	-
DC Debt Charges Recoveries	(3,247)
Capital Financing	**4,617**
Total Expenditures	**18,095**

Contractual expenditures had a favourable variance of $3.8 M which is due to the Water Distribution System contracts of $2.3 M and the BioSolids Contract of $1.2 M. 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 outcome.

Savings in employee related costs of $3.1 M are mainly due to gapping realized from staff vacancies (i.e. retirements, internal transfers, etc.).

Materials and Supplies were also favourable at $3.0 M. Renewed contracts contributed to lower chemical usage costs of $788 K and operating supplies of $896K. Better inventory control procedures resulted in a $896 K favourable inventory adjustment.

Buildings and grounds had a favourable variance of $2.1 M which is largely attributable to savings in Hydro of $1.9 M. Hydro savings were attributable to a reduction in the electrical load and consumption during peak hours at the Woodward treatment plant.

The Protective Plumbing Program (3P) showed a surplus of $1.4 M which resulted in a surplus in the Agencies and Support Payments category.

Appendix "B" to Report FCS17060(b) 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 Development Charge (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 showed a surplus of $7.9M due to the difference in budgeted and actual interest rates (5% vs 3%) as well as the increased timeframe for issuing debt (can be up to six years from the time of the project being approved). This positive variance is offset by a -$3.3M negative variance for DC debt charge recoveries for a delay in debt issuance. Net positive variance is $4.6M.

Revenues

Overall total revenues are aligned to budget realizing a $6K difference to budget. This is mainly due to favourable variances in non-rate revenue of $23K (0.8% to non-rate related budget) partially offset by unfavourable rate related revenue of -$17K (0.01% to rate related budget).

Rate Related Revenue

Overall, 2017 rate revenues were slightly off from budget with a minor unfavourable variance of approximately $17K (0.01% to rate related revenue budget).

In total, customer sectors ended with an unfavourable variance of about -$1.5M representing 0.8% of the overall Rate Revenue Budget. The Residential sector contributed -$1.2M and the Industrial, Commercial and Institutional and Multi-Residential, (ICI / Multi-Res) sector -$300K. Other unfavourable variances totalled approximately -$650K across several areas in water sales contracts (Halton and Haldimand) and overstrength fees.

Almost fully offsetting the unfavourable variances were favourable variances totalling $2.1M mainly due to sewer surcharges which realized a variance of $1.3M. Further contributing to this positive outcome were surpluses in private fire lines program, non-metered revenue and hauler / third party sales.

Non-Rate Revenue
Non-Rate Revenues were favourable by $23K or 0.8% to budget mainly due to new construction permits and local improvement recoveries.

Disposition of Rate Supported Operating Budget Surplus

Staff recommends that the Rate Supported Operating Budget Surplus of $18.1M be transferred to Rate Supported reserve program that generated the surplus. Therefore, surpluses of $8.7M from water, $7.8M from wastewater, and $1.6M from stormwater will be transferred to their respective reserves. Similar to the Tax Supported Budget, Rate Supported capital investments in infrastructure will be assessed as the City’s Strategic Asset Management Policy and Asset Management Plans are initiated under the Infrastructure for Jobs for Prosperity Act (Bill 6).

2017 Budget Transfers

In addition to the Tax Supported and Rate Supported Operating Budget Variances, recommendations in this Report approve changes to the 2017 Budget under the Budget Control Policy and the Budget Complement Control Policy and amend the purpose of the Social Housing Stabilization Reserve (110041).

Changes to the 2017 Budget under the Budget Control Policy are shown in Appendix “A” to Report FCS17006(b) and changes under the Budget Complement Control Policy are shown in Appendix “B” to Report FCS17006(b)

Social Housing Stabilization Reserve

As per approved policy, staff transferred the Tax Operating Budget Surplus in Social Housing of $2.1M to the Social Housing Reserve (110041). Staff is recommending that the purpose of the reserve be changed and that the reserve be used to fund development charge exemptions for affordable housing.

ALTERNATIVES FOR CONSIDERATION

Table 1 in the Analysis section identifies the recommended disposition of the surplus / deficit. Council may 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” – City of Hamilton Tax Operating Budget Variance Report as at December 31, 2017

Appendix “B” – City of Hamilton Combined Water, Wastewater and Storm Systems Rate Operating Budget Variance Report as at December 31, 2017

Appendix “C” – City of Hamilton Budget Amendment Schedule

Appendix “D” – City of Hamilton Budgeted Complement Transfer Schedule

KP/dt