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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 11, 2018
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at April 30, 2018 – Budget Control Policy Transfers (FCS18067) (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:**	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department

RECOMMENDATION

That, in accordance with the “Budgeted Complement Control Policy”, the 2018 complement transfers from one department / division to another with no impact on the levy, as outlined in Appendix “C” to Report FCS18067, be approved.

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 first submission for 2018 based on the operating results as of April 30, 2018. Appendix “A” to Report FCS18067 summarizes the Tax Supported Operating Budget projected year-end variances by department and division while Appendix “B” to Report FCS18067 summarizes the projected year-end variances of the Rate Supported Operating Budget by program.

Both Tax and Rate Supported Operating Budgets are projecting positive variances of $8.9M and $4.3M, respectively. The projected Tax Supported Operating Budget Surplus of $8.9M is composed of surpluses in City departments of $3.1M, Boards and Agencies of $216K and Capital Financing of $5.5M. The projected surplus in the Tax Operating Budget is mainly concentrated in the Planning and Economic Development and Healthy and Safe Communities departments and is related to gapping surpluses, operational efficiencies, maximization of subsidies and increased revenues. This is partially offset by a projected deficit in Public Works -$2.2M. Regarding the Rate Supported Operating Budget, the projected surplus of $4.3M is related to favourable variances for divisional operations of $1.3M and capital financing of $3.0M.

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

2018 Budget Transfers

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, staff is submitting seven items recommended for transfer. The complement transfers, identified in Appendix “C” to Report FCS18067, move budgeted complement from one department / division to another to accurately reflect where the staff complement is allocated for the purpose of delivering programs and services at desired levels. These budget complement transfers have materialized since the time of the 2018 budget submission and, if approved, will amend the 2018 Operating Budget with no impact on the levy.

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 first submission for 2018 based on the operating results as at April 30, 2018.

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 2018 projected Tax and Rate Operating Budget surplus.

Table 1 provides a summary of the projected corporate results as at April 30, 2018. The Tax and Rate Supported Operating Budget projected surplus is $13.2M, or approximately 1.5% of the net levy.

Table 1

CITY OF HAMILTON
2018 Projected Year-End Variance
($000's)

	2018 Approved Budget	2018 Year-End Forecast	Variance $	Variance %
TAX SUPPORTED				
Planning & Economic Development	28,954	28,460	494	**1.7%**
Healthy and Safe Communities	240,103	234,851	5,252	**2.2%**
Public Works	231,558	233,798	(2,240)	**(1.0)%**
Legislative	4,880	4,861	19	**0.4%**
City Manager	10,556	10,523	33	**0.3%**
Corporate Services	28,474	28,788	(314)	**(1.1)%**
Corporate Financials / Non Program Revenues	(25,031)	(24,899)	(132)	**(0.5)%**
Hamilton Entertainment Facilities	3,618	3,618	0	**0.0%**
TOTAL CITY EXPENDITURES	**523,112**	**520,000**	**3,112**	**0.6%**
Hamilton Police Services	**160,470**	**160,470**	**0**	**0.0%**
Library	**29,981**	**29,765**	**216**	**0.7%**
Other Boards & Agencies	**12,872**	**12,872**	**0**	**0.0%**
City Enrichment Fund	**6,023**	**6,023**	**0**	**0.0%**
TOTAL BOARDS & AGENCIES	**209,346**	**209,130**	**216**	**0.1%**
CAPITAL FINANCING	**125,523**	**119,987**	**5,536**	**4.4%**
TAX SUPPORTED	**857,981**	**849,117**	**8,864**	**1.0%**
RATE SUPPORTED	**0**	**(4,322)**	**4,322**	**N/A**
TOTAL	**857,981**	**844,795**	**13,186**	**1.5%**

( ) - Denotes unfavourable variance

Tax Supported Operating Budget

Departmental Budgets

Appendix "A" to Report FCS18067 summarizes the Tax Supported Operating Budget variances by department and division and Appendix "B" to Report FCS18067 summarizes the Rate Supported Operating Budget results by program.

Further to direction from Council for the 2018 budget, the City has changed the reporting methodology and the budgeted gapping savings of -$4.5M previously held in Corporate Financials has been distributed to the departments. It is projected that at year-end the corporate wide gapping actuals will be -$5.4M representing a surplus of $940K.

Each department's gapping variance (target vs. projection) is detailed in the following sections, along with other departmental highlights.

Planning and Economic Development

Planning and Economic Development is forecasting a favourable variance of $494K, which is mainly the result of projected gapping savings of $330K across several divisions. The Growth Management division is projecting a surplus of $413K, which is driven by a $265K gapping surplus and favourable contractual revenues projected of $150K. The Transportation, Planning and Parking division is forecasting a year-end surplus of $99K. This is driven by favourable Parking revenues and savings in external contractual staff of $104K, offset by increased building costs of $20K.

The remaining divisions have small favourable and unfavourable variances mainly due to gapping, totalling a combined negative variance of -$18K.

The Planning and Economic Development departmental gapping target is -$775K for the 2018 year. As at April 30, 2018, the projected year-end gapping amount is -$1.1M, resulting in a projected surplus of $330K.

Healthy and Safe Communities

Overall, the Healthy and Safe Communities Department is projecting a positive variance of $5.3M. The major driver is the favourable variance projected in Housing Services of $2.7M due to Social Housing prior year-end reconciliation and adjustments related to property taxes, offset by Rent Geared-to-Income pressures and unbudgeted staffing costs. The Ontario Works (OW) division is projecting a surplus of $743K as a result of maximization of additional available subsidies and gapping.

The Recreation division is projecting a favourable variance of $596K due to the temporary closure of five recreation centres during maintenance periods (Jimmy Thompson, Dundas Arena, Sir Allan MacNab, Norman Pinky Lewis and Huntington Rec Centre).

Public Health Services is projecting a favourable variance of $1.2M due to unbudgeted 2018 approved provincial subsidies increase and gapping.

All other divisions are forecasting minor variances.

The Healthy and Safe Communities departmental gapping target is -$866K for the 2018 year. As at April 30, 2018, the projected year-end gapping amount is -$1.4M, resulting in a projected surplus of $562K.

Public Works

Overall, the Department is forecasting an unfavourable variance of -$2.2M. There are a number of contributors, both favourable and unfavourable, across the divisions that are leading to this projected deficit.

Roads and Traffic is forecasting an overall positive variance of $1.3M, due to gapping in the timing of vacancies / hires.

The remaining divisions are forecasting deficits. The Transit division is projecting an unfavourable variance of -$2.5M which is primarily driven by a -$1.6M DARTS contract variance and lower than budgeted transit revenues of -$750K. The Environmental Services division is forecasting a negative variance of -$775K due primarily to decreasing recycling revenues due to market conditions as identified in the 2018 budget process and to a lesser degree increased contractual annual escalation factor for the waste collection contract, these are partially offset by gapping. Energy, Fleet and Facilities anticipates falling short of its gapping target, contributing to the division's projected deficit of -$282K.

The Public Works departmental gapping target is -$2.0M for the 2018 year. As at April 30, 2018, the projected year-end gapping amount is -$2.15M, resulting in a projected surplus of $150K.

Legislative

The Legislative departmental gapping target is -$76K the 2018 year. As at April 30, 2018, the projected year-end gapping amount is -$63K, resulting in a projected deficit of -$13K.

This deficit was offset by unspent communications and conference expenditures, resulting in an overall departmental surplus of $19K.

City Manager's Office

City Manager's Office projects a favourable variance of $33K primarily related to favourable revenues in the Strategic Partnership and Communications division, somewhat offset by negative departmental gapping.

The City Manager departmental gapping target is -$205K for the 2018 year. As at April 30, 2018, the projected year-end gapping amount is -$173K, resulting in a projected deficit of -$32K.

Corporate Services

Corporate Services is forecasting an overall negative variance of -$314K. This is driven by lower than budgeted Taxation revenues in the Financial Services division. The division is forecasting a deficit of -$211K, mainly resulting from a deficit in tax registration revenue of -$205K and tax certificate revenue of -$58K. This was offset by a gapping surplus and savings in software, contractual and advertising. The main reason for the departmental gapping deficit is in the Customer Service division. The divisional variance of -$80K is compounded by unfavourable software licensing and increased facilities costs. Information Technology division is expecting a negative variance of -$40K due to additional software licenses and support, offset by favourable gapping. A slight favourable combined variance of $17K across the other divisions helps offset the overall deficit.

The Corporate Services departmental gapping target is -$576K for the 2018 year. As at April 30, 2018, the projected year-end gapping amount is -$519K, resulting in a projected deficit of -$57K.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -$132K combined unfavourable variance. Contributing factors are identified as follows:

Corporate Financials

Corporate Pensions, Benefits and Contingency
The projected favourable variance in the Corporate Pensions, Benefits and Contingency of $65K is a result of a reduction in the pension benefit liability.

Corporate Initiatives
A projected deficit of -$321K in Corporate Initiatives is mainly due to insurance premiums in excess of budget.

Non Program Revenues

Non Program Revenues show a projected favourable variance of $124K. This is mainly the result of a favourable variance of $100K expected in Penalties and Interest as a result of realized revenues from the first half of 2018, expected to continue until year-end.

Boards and Agencies

In Boards and Agencies, there is a favourable variance of $216K attributable to Library Services. This is a result of favourable gapping.

Of note, the City has appealed the Conservation Authority levies. The City must remit based on the amount levied by the Conservation Authorities until such time that a judicial review is heard and the appeal process is complete. There is the potential for a -$2.4M unfavourable variance for 2018 pending the outcome of the review and appeals.

Capital Financing

Capital financing has projected a year-end surplus of $5.5M due to the delay in debt issuance with projected principal and interest savings. This includes a $5.0M transfer to the Unallocated Capital Levy Reserve at year-end as approved in the 2018 Tax Capital Budget (Report FCS17099). Without this transfer, the overall Capital Financing surplus would be $10.5 M.

Rate Supported Operating Budget

As at April 30, 2018, the Rate Supported Operating Budget is projecting a favourable variance of $4.3M due to savings in overall program expenditures of $4.3M and a favourable revenue projection of $25K.

Expenditures

Program spending for 2018 is projected to be a favourable variance of $4.3M or 2.0% of gross budget by year-end. The driving factors behind this favourable expenditure variance are shown in Table 2.

Table 2

Expenditure Type	Variance ($000's)
Agencies & Support Payments	817
Employee Related	614
Contractual	52
Materials & Supplies	(39)
Cost Allocations	(171)
Total Operating	**1,273**
Debt Charges	5,779
DC Debt Charges Recoveries	(2,755)
Capital Financing	**3,024**
Total Expenditures	**4,297**

A favourable expenditure variance of $1.3M is a result of surpluses in employee related costs and less uptake on the Protective Plumbing Program.

Appendix “B” to Report FCS18067 summarizes the Rate Budget results by program.

Debt charge savings of $5.8M 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 $2.8M resulting in a net surplus of $3.0M.

Revenues

Overall total revenues are aligned to budget realizing a $25K difference to budget due to favourable variances in non-rate revenue of $25K (0.8% to non-rate related budget).

Rate Related Revenue

Customer sectors, Residential, Multi-Residential, Industrial, Commercial and Institutional are projected to meet budget. However, it is too early to determine if rate revenues will continue to trend to be on budget throughout the summer months. Staff will continue to monitor precipitation and consumption trends through the summer months to provide a more accurate 2018 forecast with the next Variance Report.

Non Rate Revenue

Non Rate revenues are projecting a favourable amount of $25K due to 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" – City of Hamilton Tax Operating Budget Variance Report as at April 30, 2018

Appendix "B" – City of Hamilton Combined Water, Wastewater and Storm Systems Rate Operating Budget Variance Report as at April 30, 2018

Appendix "C" – City of Hamilton Budgeted Complement Transfer Schedule

KP/dt