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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	September 24, 2018
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at June 30, 2018 – Budget Control Policy Transfers (FCS18067(a)) (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 Acting General Manager Finance and Corporate Services

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(a), 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 second submission for 2018 based on the operating results as of June 30, 2018. Appendix "A" to Report FCS18067(a) summarizes the Tax Supported Operating Budget projected year-end variances by department and division while Appendix "B" to Report FCS18067(a) 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 $9.4M and $1.0M, respectively. The projected Tax Supported Operating Budget Surplus of $9.4M is composed of surpluses in City departments of $3.7M, 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 of -$1.8M. Regarding the Rate Supported Operating Budget, the projected surplus of $1.0M is related to unfavourable revenue variances of -$2.9M, offset by a favourable expenditure variance of $0.9M and capital financing of $3.0M.

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

2018 Budget Transfers

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, staff is submitting six items recommended for transfer. The complement transfers, identified in Appendix “C” to Report FCS18067(a), 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 / year-end). This is the second submission for 2018 based on the operating results as at June 30, 2018.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

Staff in all of the City of Hamilton departments and boards and agencies 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 June 30, 2018. The Tax and Rate Supported Operating Budget projected surplus is $10.4M or approximately 1.2% of the net levy.

Table 1

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

	2018 Approved Budget	2018 Year-End Forecast	2018 Variance (Forecast vs Budget) $	%
TAX SUPPORTED				
Planning & Economic Development	28,954	28,343	611	**2.1%**
Healthy and Safe Communities	240,103	234,812	5,291	**2.2%**
Public Works	231,558	233,382	(1,824)	**(0.8)%**
Legislative	4,880	4,875	5	**0.1%**
City Manager	10,556	10,551	5	**0.0%**
Corporate Services	28,474	28,439	35	**0.1%**
Corporate Financials / Non Program Revenues	(25,031)	(24,585)	(446)	**(1.8)%**
Hamilton Entertainment Facilities	3,618	3,618	0	**0.0%**
TOTAL CITY EXPENDITURES	**523,112**	**519,435**	**3,677**	**0.7%**
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**	**848,552**	**9,429**	**1.1%**
RATE SUPPORTED	**0**	**(1,020)**	**1,020**	**N/A**
TOTAL	**857,981**	**847,532**	**10,449**	**1.2%**

( ) - Denotes unfavourable variance

Tax Supported Operating Budget

Departmental Budgets

Appendix “A” to Report FCS18067(a) summarizes the Tax Supported Operating Budget variances by department and division and Appendix “B” to Report FCS18067(a) summarizes the Rate Supported Operating Budget results by program.

Further to the 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 -$8.1M representing a surplus of $3.6M.

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 $611K, which is mainly the result of projected gapping savings of $279K across several divisions. The Growth Management division is projecting a surplus of $282K, which is driven by a gapping surplus and savings in office equipment, slightly offset by office construction and furniture for office accommodations. The Licensing and By-Law Services division is projecting a favourable variance of $201K due to gapping and increased revenues in Licensing and Animal Services, partially offset by pressures in materials and supplies and financial charges. The Transportation, Planning and Parking division is forecasting a year-end surplus of $91K. This is driven by favourable parking revenues and savings in external contractual staff, offset by pressures in gapping, vehicles costs, printing and postage and unanticipated building repairs. The remaining favourable variances in Planning, General Manager and Building divisions (combined $134K variance) are mainly a result of gapping.

Tourism and Culture is projecting an unfavourable variance of -$94K due to building repairs and maintenance, gapping pressures, lost sponsorships and consulting services.

The Planning and Economic Development departmental gapping target is -$775K for the 2018 year. As at June 30, 2018, the projected year-end gapping amount is -$1.1M, resulting in a projected surplus of $0.3M.

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 (RGI) pressures and unbudgeted staffing costs. The Ontario Works (OW) division is projecting a surplus of $792K as a result of maximization of additional available subsidies and gapping.

The Recreation division is projecting a favourable variance of $457K 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).

The Hamilton Fire Department is projecting a favourable variance of $271K due to employee related cost savings, offset by unfavourable variances in line of duty death benefits, legislative training, facilities repairs and lower than anticipated shop recoveries.

Wentworth and Macassa Lodges are forecasting a combined favourable variance of $193K due to an unbudgeted 2018 approved provincial subsidies increase and preferred accommodation revenues and anticipated hydro savings, offset by increased employee related costs.

Public Health Services is projecting a combined favourable variance of $921K due to an unbudgeted 2018 Ministry 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 June 30, 2018, the projected year-end gapping amount is -$2.7M, resulting in a projected surplus of $1.8M.

Public Works

Overall, the Department is forecasting an unfavourable variance of -$1.8M. 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 $1.4M, due to gapping in the timing of vacancies / retirements and extended vacancies relating to the recruitment process and timing. Engineering Services is also forecasting a positive variance of $600K due to process improvements implemented internally and externally by Ontario One Call ($100K) in addition to savings realized from the Lighting Asset Modernization Program (LAMP) ($500K).

The remaining divisions are forecasting deficits. The Transit division is projecting an unfavourable variance of -$2.3M which is primarily driven by a -$1.6M DARTS contract variance and lower than budgeted transit revenues of -$754K (despite trending favourably to 2017 June YTD revenues). Overtime, while still unfavourable, has been trending downward each month from March through the end of June. Favourable variances, mainly in licence fees and materials and supplies help to slightly mitigate the total effect of the unfavourable variances.

The Environmental Services division is forecasting a negative variance of -$656K. Among the major factors is the closure near the end of June of the Central Composting Facility which resulted in increased contractual costs of $305K at the landfill and transfer stations due to increased tonnages handled at those facilities. It is also estimated that the cost to send a portion of the City's organic material to another composting plant will cost approximately $750K. Materials Recycling Facility (MRF) – Mixed Fibre revenues is also estimated to be -$1.2M below budget due to the world-wide collapse of fibre commodities. MRF commodity revenue shortfall can be mitigated through departmental surplus or through the Waste Recycling Reserve. The negative variances were slightly offset by net favourable gapping projected of $1.2M.

The Energy, Fleet and Facilities division anticipates a gapping deficit in addition to an expected deficit in fleet recoveries, contributing to the division's projected unfavourable variance of -$852K.

The Public Works departmental gapping target is -$2.0M for the 2018 year. As at June 30, 2018, the projected year-end gapping amount is -$3.3M, resulting in a projected surplus of $1.3M.

Legislative

Negative departmental gapping was offset by a favourable variance due to savings in communications resulting in an overall departmental surplus of $5K.

The Legislative departmental gapping target is -$76K for the 2018 year. As at June 30, 2018, the projected year-end gapping amount is -$64K, resulting in a projected deficit of -$12K.

City Manager's Office

City Manager's Office projects a favourable variance of $5K primarily related to savings in training and increased revenues in the Strategic Partnerships and Communications division.

The City Manager's Office departmental gapping target is -$205K for the 2018 year. As at June 30, 2018, the projected year-end gapping amount is -$110K, resulting in a projected deficit of -$95K.

Corporate Services

Corporate Services is forecasting an overall positive variance of $35K. This is driven by positive gapping. Financial services and City Clerk's Office are forecasting a combined favourable variance of $286K due to favourable gapping and an anticipated increase in fees and savings in postage and service contracts in the City Clerk's Office division. This was greatly offset by a combined unfavourable projected variance in the Customer Service, Financial Planning, Administration and Policy and Information Technology divisions of -$252K. The unfavourable variance in Customer Service is a result of gapping pressures. This was slightly offset by savings in contracts and leases, training and consulting fees. Financial Planning, Administration and Policy also has unfavourable gapping pressures. The Information Technology division has an unfavourable variance of -$124K due to contractual fees, training and consulting costs slightly offset by favourable gapping due to vacancies.

The Corporate Services departmental gapping target is -$576K for the 2018 year. As at June 30, 2018, the projected year-end gapping amount is -$789K, resulting in a projected surplus of $213K.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -$446K 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 -$322K in Corporate Initiatives is mainly due to increased insurance premium cost.

Non Program Revenues

Non Program Revenues show a projected unfavourable variance of -$189K. This is mainly the result of an unfavourable variance of -$859K expected in POA Revenues based on the average change over last four years and the declining trend in fines. This was slightly offset by a favourable projected variance of $600K in Penalties and Interest as a result of revenues forecasted to exceed budget based on actuals to August.

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 2018 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 June 30, 2018, the Rate Supported Operating Budget is projecting a favourable variance of $1.0M due to savings in overall program expenditures of $0.9M and a net surplus in Debt Financing costs of $3.0M, slightly offset by a revenue shortfall -$2.9M.

Expenditures

Program spending, including debt financing, for 2018 is projected to be a favourable variance of $3.9M or 1.9% of gross budget by year-end. The driving factors behind this favourable expenditure variance are shown in Table 2.

Table 2
2018 Projected Year-End Expenditure Variance

Expenditure Type	Variance ($000's)
Agencies & Support Payments	815
Employee Related	617
Contractual	8
Recoveries	5
Vehicle Expenses	1
Materials & Supplies	(45)
Cost Allocations	(171)
Building & Grounds	(334)
Total Operating	**896**
Debt Charges	5,779
DC Debt Charges Recoveries	(2,755)
Capital Financing	**3,024**
Total Expenditures	**3,920**

A favourable operating expenditure variance of $0.9M is primarily a result of surpluses in employee related costs and less uptake on the Protective Plumbing Program (Agencies & Support Payments) partially offset by an unfavourable variance in Buildings & Grounds due to expenses due to additional security requirements and building repairs.

Appendix "B" to Report FCS18067(a) 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

Rate related revenues are projecting an unfavourable variance of approximately -$2.9M (1.4% to budget). With respect to Non Rate revenue, a favourable variance of $25K is forecasted.

Rate Related Revenue

Rate related revenues are projecting an unfavourable variance of -$2.9M (1.4% to budget) mainly due to seasonal consumption trends experienced through the summer months across customer sectors, Multi-Residential, Industrial, Commercial and Institutional $1M and Residential $2M. The unfavourable variance is partially offset by a positive variance of $125K due to an increase in Private Fire Lines customers.

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 $25K 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" – City of Hamilton Tax Operating Budget Variance Report as at June 30, 2018

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

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

KP/dt