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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 18, 2019
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at December 31, 2018 – Budget Control Policy Transfers (FCS18067(b)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kayla Petrovsky (905) 546-2424 Ext. 1335 Lucia Chen (905) 546-2424 Ext. 4169 Tom Hewitson (905) 546-2424 Ext. 4159
SUBMITTED BY: **SIGNATURE:**	Brian McMullen Acting General Manager, Finance and Corporate Services Corporate Services Department

RECOMMENDATION(S)

(a) That, in accordance with the "Budgeted Complement Control Policy", the 2018 complement transfer transferring complement from one department / division to another with no impact on the levy, as outlined in Appendix "C" to Report FCS18067(b), be approved;

(b) That, subject to final audit, the Disposition of 2018 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		**$ 8,291,887**
Less: Disposition to Self-Supporting Programs & Agencies		**$ (1,132,176)**
Police (Transfer to Police Reserve)	$ (1,055,515)	
Library (Transfer to Library Reserve)	$ (37,144)	
Farmers Market (Transfer to Hamilton Farmers Market Reserve)	$ (39,517)	
Balance of Corporate Surplus		**$ 7,159,711**
Less: Transfer to Unallocated Capital Levy Reserve		$ (5,085,049)
Less: Transfer to Flamborough Capital Reserve		$ (346,362)
Less: Transfer to the Non-Residential Roads Development Charge Reserve		$ (538,630)
Less: Transfer to Hamilton Entertainment Facilities - Capital Projects Reserve		$ (464,325)
Less: Transfer to Vehicle Replacement Reserve - Fire		$ (725,345)
Balance of Tax Supported Operations		**$ 0**
Corporate Surplus from Rate Supported Operations		**$ 16,467,202**
Less: Transfer to the Rate Supported Water Reserve		$ (8,002,578)
Less: Transfer to the Rate Supported Wastewater Reserve		$ (5,764,624)
Less: Transfer to the Unfunded Rate Development Charge Reserve		$ (2,700,000)
Balance of Rate Supported Operations		**$ 0**

* -anomalies due to rounding

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 2018 based on the operating results as of December 31, 2018 (unaudited). Appendix "A" to Report FCS18067(b) summarizes the Tax Supported Operating Budget year-end variances by department and division while Appendix "B" to Report FCS18067(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 $8.3 M and $16.5 M, respectively. The Tax Supported Operating Budget Surplus of $8.3 M is composed of City departments / Other ($4.5 M favourable), Boards and Agencies (-$1.3 M unfavourable) and Capital Financing ($5.1 M favourable). The surplus in Tax is spread across several departments and is related to gapping surpluses, operational efficiencies and increased revenues. On the Rate side, the surplus is related to favourable variances from budget in operating expenditures, capital financing costs and revenues.

Additional details are presented in the Analysis and Rationale for Recommendations section, see page 5 of Report FCS18067(b).

Table 2

CONSOLIDATED CORPORATE SURPLUS / (DEFICIT)	$
Tax Supported Programs	
Police	$ 1,055,515
Library	$ 37,144
Farmers Market	$ 39,517
Other Boards & Agencies	$ (2,444,000)
Capital Financing	$ 5,085,049
Other Tax Supported Programs	$ 4,518,662
Total Tax Supported Surplus	**$ 8,291,887**
Rate Supported Programs	
Operations	$ 12,508,151
Capital Financing	$ 2,756,909
Revenues	$ 1,202,142
Total Rate Supported Surplus	**$ 16,467,202**
Consolidated Corporate Surplus / (Deficit)	**$ 24,759,089**

The year-end disposition of the $24.8 M surplus identified in Table 2 is outlined in Recommendation (b) (Table 1) of Report FCS18067(b).

The City of Hamilton has policies, obligations, future requirements and past practice that guide decisions around the disposition of the year-end operating budget surplus. This disposition of the 2018 surplus is highlighted below.

Tax Supported Operating Budget Variances:

- Year-end variances for Police, Library and Farmers' Market to be allocated to their own source reserves as per their policies.

- Future Capital Infrastructure Requirements – Capital Financing savings of $5.1 M to be transferred to the Unallocated Capital Levy Reserve for future capital infrastructure requirements.

- Slot Revenues Past Practice – Slot revenue surplus of $346 K to be transferred to the Flamborough Capital Reserve Fund.

- Non-Residential Development Charge Exemptions – Portion of overall surplus of $539 K to be transferred for Non-Residential Roads DC Reserve for non-residential development charge exemptions.

- Hamilton Entertainment Facilities Future Capital Requirements – HEF Program surplus of $464 K to be transferred to the Hamilton Entertainment Facilities Capital Projects Reserve for future investments in enhancing facility capacity.

- Vehicle Replacement Reserve (Fire) – Portion of the surplus of $725 K to be transferred to the Vehicle Replacement Reserve (Fire) to address future capital asset requirements negatively impacting the reserve forecast.

Rate Supported Operating Budget Variance:

- The Rate Supported Operating Budget surplus of $16.5 M is made up of surpluses in both water ($8 M) and wastewater ($8.5 M). There are separate Rate Supported Reserves for each of the water, wastewater and stormwater programs.

- Surpluses of $8.0 M from water operations to be transferred to water reserve.

- Surplus in wastewater / storm operations of $8.5 M to be transferred as follows:

  - $5.8 M to wastewater reserves;
  - $2.7 M to the rate development charge reserves for DC exemptions.

- Given that the Rate Budget has had a number of years of significant surpluses, staff is committing to reviewing the surplus against the current budget in 2019 and consider the planned 2020 budget increase of 4.5% (as approved in principle in the 2019 Budget).

2018 Budget Transfers

In accordance with the "Budget Control Policy" and "Budgeted Complement Control Policy", staff is submitting eight items recommended for transfer. The complement transfers, identified in Appendix "C" to Report FCS18067(b), 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 budget complement transfers identified were not realized at the time of the 2019 budget submission. However, these transfers will amend the 2019 operating Budget once approved with no impact on the levy.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the Analysis and Rationale for Recommendation section of Report FCS18067(b).

Staffing: Not Applicable

Legal: Not Applicable

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 2018 based on the operating results as at December 31, 2018. Council approval is required to allocate year-end surplus / deficit to / from reserves.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Not Applicable

RELEVANT CONSULTATION

Staff in all City of Hamilton departments and boards provided the information in Report FCS18067(b).

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The following provides an overview of the more significant issues affecting the 2018 Tax and Rate Operating Budget Surpluses. Appendix “A” to Report FCS18067(b) summarizes the Tax Supported Operating Budget year-end variances by department and division, and Appendix “B” to Report FCS18067(b) summarizes the Rate Supported Operating Budget results by program.

Tax Supported Operating Budget

Table 3 provides a summary of the departmental results as at December 31, 2018. The final Tax Supported Operating Budget Surplus amounted to $8.3 M, or approximately 1.0% of the net levy.

Table 3
CITY OF HAMILTON
2018 Year-End Variance (Unaudited)
($000's)

	2018 Approved Budget	2018 Year-End Actuals	Variance $	Variance %
TAX SUPPORTED				
Planning & Economic Development	28,954	27,625	1,329	**4.6%**
Healthy and Safe Communities	240,103	236,929	3,174	**1.3%**
Public Works	231,558	233,244	(1,686)	**(0.7)%**
Legislative	4,880	4,449	431	**8.8%**
City Manager	10,556	10,387	169	**1.6%**
Corporate Services	28,474	27,205	1,269	**4.5%**
Corporate Financials / Non Program Revenues	(25,031)	(24,400)	(631)	**(2.5)%**
Hamilton Entertainment Facilities	3,618	3,154	464	**12.8%**
TOTAL CITY EXPENDITURES	**523,112**	**518,593**	**4,519**	**0.9%**
Hamilton Police Services	**160,470**	**159,414**	**1,056**	**0.7%**
Library	**29,981**	**29,944**	**37**	**0.1%**
Other Boards & Agencies	**12,872**	**15,277**	**(2,405)**	**(18.7)%**
City Enrichment Fund	**6,023**	**6,023**	**0**	**0.0%**
TOTAL BOARDS & AGENCIES	**209,346**	**210,658**	**(1,312)**	**(0.6)%**
CAPITAL FINANCING	**125,523**	**120,438**	**5,085**	**4.1%**
TOTAL TAX SUPPORTED	**857,981**	**849,689**	**8,292**	**1.0%**

( ) - Denotes unfavourable variance

City Expenditures / Departmental Budgets

The total surplus for Tax Supported City Expenditures is $4.5 M.

Further to the direction from Council for the 2018 budget, the City has changed the reporting methodology and the budgeted gapping savings of -$4.5 M previously held in Corporate Financials has been distributed to the departments. The 2018 year-end corporate-wide gapping actuals are -$9.3 M representing a surplus of $4.8 M.

Each department’s gapping variance (target versus actual) is detailed in the following sections and included in their total departmental surplus / deficit. Other departmental highlights are also included as explanation to their variance.

Planning and Economic Development Department

Planning and Economic Development reported a favourable variance of $1.3 M, which is mainly the result of a favourable variance of $843 K in the Transportation, Planning and Parking Division due to higher than anticipated revenue, gapping and divisional efficiencies. The favourable variance of $310 K in the Growth Management Division is due to positive gapping, savings in computer software and the increased airport revenues. The Licensing and By-Law Services Division also had favourable revenues throughout 2018 in the Animal Services and Licensing sections. The savings in gapping and increase in Committee of Adjustment Revenue within the Planning Division also contributed to the Department's surplus.

The unfavourable variance of -$129 K in the Tourism and Culture Division is due to gapping pressures and increased facilities allocations partially offset by higher revenues and federal grants, savings in contractual, grounds and building repairs and maintenance.

The Planning and Economic Development departmental gapping target was -$776 K for the year of 2018. As at December 31, 2018 the actual year-end gapping amount is -$1.5 M, resulting an annual surplus of $713 K.

Healthy and Safe Communities Department

Overall, the Healthy and Safe Communities Department experienced a favourable variance of $3.2 M. The major driver is the favourable result of $1.6 M in the Long Term Care Division due to an approved provincial subsidy increase of $285 K, gapping of $850 K and hydro savings of $325 K. The Ontario Works (OW) Division had a surplus of $1.3 M due to maximizing additional available subsidies of $476 K and gapping of $455 K.

Housing Services Division had a favourable variance of $1.1 M due to available subsidies of $212 K, Social Housing prior year reconciliation (AIR) for revenue rents, Rent Geared-to-Income (RGI), property taxes and mortgage savings of $3 M, partially offset by a reserve transfer for housing allowances of $2 M and unbudgeted staffing costs of $227 K. The reserve transfer for the housing allowances was approved through Health and Safe Communities Committee Report 19-001 Item 3 Report HSC19002. The approval indicated that, prior to closing the 2018 financial year-end, $2 M from the Rent Geared to Income Subsidy program surplus be transferred to the Tax Stabilization Reserve to be used for delivering and administering five-year housing benefits beginning in January 2019.

Public Health Services is reporting a combined favourable variance of $808 K mainly due to an unbudgeted 2018 Ministry approved subsidies increase ($680 K) and gapping of $148 K.

The Hamilton Fire Department had a positive variance of $725 K due to employee related costs of $755K which includes significant unfavourable Line of Duty Death (LODD) pressures and savings in utilities cost of $125 K. These are partially offset by the increased facility recoveries of $220 K.

Hamilton Paramedic Service had an unfavourable variance of -$1.9 M due to increased employee related costs of $1.3 M including legislated personal emergency leave (PEL), budgeted ministry funding not received of $402 K and increased medical supplies costs of $352 K due to shortages and price increases.

All other divisions are reporting minor variances.

The Healthy and Safe Communities departmental gapping target was -$866 K for the 2018 year. The actual year-end gapping amount is -$2.4 M, resulting in an annual surplus of $1.5 M.

Public Works Department

Overall, the Public Works department had a deficit of -$1.7 M for the 2018 year-end. There were a number of contributors, both favourable and unfavourable, across the divisions that lead to the overall deficit.

Transit Division had a total of -$1.8 M unfavourable variance due to gapping pressures (employee related costs as a result of over-time, sick, vacation pay pay-outs and legislated personal emergency leave (PEL)) ($1.6 M). DARTS contract pressure of $3.2 M over budget was partially offset by a Council approved draw from the ATS reserve of approximately $2.9 M to mitigate the contractual pressures forecasted in September resulting in a $300 K unfavourable variance. An additional unfavourable variance of $385 K is comprised of various other smaller variances including unfavourable direct facility charges, vehicle expenses, repairs and maintenance and increased hydro expenses. Overall variance partially offset by favourable fare revenues of $670 K.

Energy, Fleet and Facilities (EFF) Division had an unfavourable variance of -$1.8 M due to retroactive pay adjustments, sick day pay and over-time, slightly offset by gapping ($330 K). Central Fleet's unfavourable variance is attributable to mechanics on short-term disability and WSIB resulting in a reduction in billable hours. Shortage of staff results in less billable hours and as a result, the recoveries fell short of budget ($335 K). There was an unbudgeted cost of holding a number of vacant facilities (operating expenses not fully recoverable due to vacancy) that is amounting to unfavourable variance of $300 K.

Within EFF, the Golf course section had a loss of $302 K in 2018 due to unrealized green fee revenues, revenue loss for food and beverage due to outsourcing and a transfer to reserve.

Environmental Services Division had an unfavourable variance of -$268 K due to increased contractual costs for landfill operations as well as transfer station / Community Recycling Centres (CRC) operations due to Central Composting Facility (CCF) closure and the annual escalation adjustment for the recycling processing contract ($790 K). The City contractually pays an incentive for higher compaction of the waste at the Glanbrook Landfill Facility. The payment is an incentive to extend the life of the landfill ($648 K). Recycling Mixed Fibre revenues and Organic processing revenues were below budget due to low world fibre markets and the closure of the CCF, however, fully mitigated by increased revenues at the transfer stations / CRCs and increased commodity revenues (primarily plastic and aluminium).

Parks and Cemeteries Section, experienced higher than budgeted fleet costs, water and hydro for the City's Parks and Cemeteries (-$500 K) due to a drier summer. Overall unfavourable variance partially offset by favourable divisional net gapping resulting from retirements, resignations and hard to fill vacancies ($1.5 M) and a waste collection surplus due to the Q3 transfer of enforcement of Waste bylaw program to its own section ($170 K).

The remaining divisions had favourable results. Engineering Services had a positive variance of $1.4 M of which $850 K was driven by the savings in the Streetlighting program primarily due to the LED conversions. The energy savings component accounts for $630 K while the remaining surplus is due to the reduced maintenance costs of approximately $220 K. The main residual surplus is attributable to revenue realized in the Corridor Management program from user fees related to permit fees collected for road closures, encroachments, overload / road occupancy charges and other various permits.

Transportation Operations and Maintenance Division had a $763 K favourable variance due to net gapping savings of $1.9 M, offset by a $1.2 M deficit in the Traffic Operations and Engineering section due to reduced capital recoveries compared to previous years and higher costs for fleet, contracts and materials.

The Public Works departmental gapping target was -$2.0 M for the 2018 year. The actual year-end gapping amount is -$3.5 M, resulting in an annual surplus of $1.5 M.

Legislative

Savings from consulting and contractual services resulted in an overall departmental surplus of $431 K.

The Legislative departmental gapping target was -$76 K for the year of 2018. The actual year-end gapping amount is -$23 K, resulting an annual deficit of -$53 K.

City Manager’s Office

The City Manager’s Office had a favourable variance of $169 K. The majority of this was in the Human Resources Division ($307 K). The main drivers of the favourable variance were gapping and savings in consulting and training expenditures.

The City Manager’s Office departmental gapping target was -$205 K for the 2018 year. The actual year-end gapping amount is -$404 K, resulting in an annual surplus of $199 K.

Corporate Services Department

Corporate Services finished 2018 with a positive variance of $1.3 M. This was mainly the result of favourable gapping and higher than budgeted revenues in Financial Services ($794 K) and Financial Planning, Administration and Policy Divisions ($273 M).

The Information Technology Division had a favourable variance of $198 K due to gapping, savings in computer software and hardware, partially offset by overspend in contractual services.

All other divisions experienced minor variances.

The Corporate Services departmental gapping target was -$576 K for the 2018 year. The actual year-end gapping amount is -$1.5 M, resulting in an annual surplus of $919 K.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -$630 K combined unfavourable variance. Contributing factors are identified as follows:

Corporate Financials

Corporate Pensions, Benefits and Contingency

The unfavourable variance in the Corporate Pensions, Benefits and Contingency of -$2.6 M was a result of higher than budgeted pay-outs for WSIB claims.

Corporate Initiatives

A surplus of $2.4 M in Corporate Initiatives is mainly due to lower insurance claims in 2018 ($1.7 M) and unbudgeted revenue from interest, HST adjustments and cheques written off.

Non Program Revenues

Non Program Revenues show a unfavourable variance of -$476 K.

General revenues had a negative variance of -$3.2 M resulting from a deficit in Hamilton Utilities Corporation (HUC) dividends of -$2.7 M due to timing of payments received, in addition to an unfavourable variance in Provincial Offences Administration (POA) revenues of -$778 K. This is a result of a reduction in fines collected. This was partially offset by a higher realization of slot revenues of $346 K.

The tax revenues show a surplus of $2.7 M, mainly attributable to the favourable variance in Supplementary Taxes of $1.2 M. This reflects four supplementary billings processed in 2018. Also adding to the surplus was the favourable variance in Penalties and Interest from higher interest collected due to higher than average arrears and a favourable variance in Payments in Lieu due to a reduction in realized write-offs.

Hamilton Entertainment Facilities (HEF)

HEF had a positive variance of $464 K primarily due to higher contract revenues with Global Spectrum as per the revenue sharing formula in the Management Agreement with Global Spectrum. For 2018, the City recognized $665 K in profit sharing largely as a result of several sold-out performances at the arena and the concert hall including the Canadian Country Music Awards, Shania Twain and Canadian and international artists. This surplus was partially offset by additional facilities costs. Staff is recommending that the overall surplus of $464 K be transferred to the HEF Capital Projects Reserve to fund future investments in enhancing facility capacity.

Capital Financing

Capital financing had an overall positive variance of $5.1 M due to budgeted debt that has not been issued to date, resulting in actual debt charges being less than budgeted. Prior to 2018 year-end, a $5.0 M surplus was transferred to the Unallocated Capital Levy Reserve (Capital Budget Report FCS18067 – Appendix “A”). Without this transfer, the overall Capital Financing surplus would be $10.1 M.

Boards and Agencies

In Boards and Agencies, there is an unfavourable variance of -$2.4 M mainly attributable to Conservation Authorities and a small surplus in Farmers’ Market.

There is an unfavourable variance of -$2.4 M 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 and this resulted in all Conservation Authorities using the default formula, increasing the City’s payment by $2.4 M. The City has filed for judicial review with Superior Court. While this process continues, the City is legislatively required to pay the amounts as levied by Conservation Authorities (under protest). The Farmers’ Market had a favourable variance of $39 K due to increased rent and sponsorships.

Library had a favourable variance of $37 K mainly as a result of gapping. Police Services had a favourable variance of $1.1 M.

The Library, Police, and Farmers’ Market surpluses will be transferred to their own source reserves. These surpluses slightly reduced the unfavourable variance relating to the Conservation Authorities.

Disposition of Tax Supported Operating Budget Surplus

The City of Hamilton has policies, obligations, future requirements and past practice that guide decisions around the disposition of the year-end operating budget surplus. Staff recommends that the Tax Supported Operating Budget Surplus of $8.3 M be distributed to various reserves as per the following paragraphs.

Year-end variances for Police of $1.1 M, Library of $37 K, and Farmers' Market of $39 K will be transferred to their own source reserves.

Slot Revenues' surplus of $346 K will be transferred to the Flamborough Capital Reserve Fund.

Capital Financing surplus of $5.1 M will be transferred to the Unallocated Capital Levy Reserve for future capital financing tax supported capital investments in infrastructure. An additional surplus of $5 M was transferred to the Unallocated Capital Levy Reserve, prior to year-end, for the 2019 Capital Financing Plan 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 and Prosperity Act* (Bill 6).

Surplus of $725 K for Hamilton Fire Department will be transferred to the Vehicle Replacement Reserve – Fire to address future capital asset requirements negatively impacting the reserve forecast.

Surplus of $464 K in Hamilton Entertainment Facilities (HEF) will be transferred to the Hamilton Entertainment Facilities Capital Projects Reserve for future capital infrastructure requirements.

Surplus of $539 K will be transferred to Non-Residential Roads Development Charge Reserve to assist in funding Non-Residential Development Charge exemptions.

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. There will be no transfer done to the tax stabilization reserve from the 2018 surpluses. The balance in the Tax Stabilization Reserve will be approximately $12.3 M and short of the target balance by $22.5 M.

Rate Supported Operating Budget

For 2018, the Rate supported operating budget finished the year with a favourable variance of $16.5 M due to savings operating expenditures of $12.5 M, favourable Capital Financing of $2.8 M and a favourable revenue variance of $1.2 M.

Expenditures

Overall Rate budget expenditure savings of $15.3 M or 7.2% of budget were reported at year-end. The driving factors behind this favourable expenditure variance are shown in Table 5.

Table 5

Expenditure Type	Variance ($000's)
Contractual	4,677
Employee Related	3,337
Materials & Supplies	2,418
Buildings & Grounds	3,543
Agencies & Support Payments	1,254
Cost Allocations	(9)
Vehicle Expenses	6
Reserve & Capital Recoveries	(2,994)
Financial Charges	276
Total Operating	**12,508**
Debt Charges	5,512
Contributions for DC Exemptions	-
DC Debt Charges Recoveries	(2,755)
Capital Financing	**2,757**
Total Expenditures	**15,265**

Contractual expenditures had a favourable variance of $4.7 M largely due to Water Distribution System contracts of $1.6 M not completed, Utility Locates Contract of $1.4 M not awarded until November 2018, BioSolids Contract of $500 K due to lower than expected volumes produced in 2018 and savings of $400 K related to computer maintenance contract.

Savings in employee related costs of $3.3 M are mainly due to gapping realized from staff vacancies (i.e. retirements, internal transfers, etc.).

Materials and Supplies were also favourable at $2.4 M mainly due to lower than expected repairs at the Woodward Water Treatment Plant and various outstations of $1.1 M coupled with favourable fluid and chemical usage costs of $778 K.

Buildings and grounds had a favourable variance of $3.5 M which is largely attributable to savings in Hydro of $2.4 M and Heating Fuel (NG) of $305 K and other Utilities costs of $240 K mainly related to the relatively mild temperatures in October, November and December 2018.

Agencies and Support Payments category had favourable variance of $1.3 M due to Protective Plumbing Program (3P) of $1.1 M and $115 K related to a small decrease in uptake for the Sewer Lateral Management Program grants.

Reserve and Capital Recoveries had an unfavourable variance of -$2.9 M due to less recoveries from capital to align the nature of work to the appropriate budget. The Budget for 2019 has been adjusted to reflect the accounting change.

Appendix "B" to Report FCS18067(b) summarizes the Rate Budget results by program.

Capital financing costs has a net overall positive variance of $2.8 M. The surplus in debt charges of $5.5 M is offset by the DC debt charge recoveries of $2.7 M. The debt charge surplus is due to the difference in budgeted and actual interest rates and the increased timeframe for issuing debt.

Revenues

Overall total revenues are realizing a $1.2 M or 0.6% difference to budget. This is mainly due to favourable variances in rate revenue of $1.4 M or 0.7% to rate related budget partially offset by unfavourable non-rate related revenue of -$242 K.

Rate Related Revenue

Overall 2018 rate revenues are close to budget realizing a small surplus of $1.2 M or 0.6% to budget. This is mainly due to favourable variances in rate revenue of $1.4 M or 0.7% to rate related budget partially offset by unfavourable non-rate related revenue of -$242 K.

In total, metered customer sectors ended with a small unfavourable variance of about -$1.0 M representing only 1.0% of the overall Rate Revenue Budget. The Residential sector was essentially flat to budget with a slight negative variance of -$20 K and the Industrial, Commercial and Institutional and Multi-Residential (ICI / Multi-Res) sector realized the remaining variance of -$1.0 M. Other unfavourable variances totalled approximately -$50 K across several areas in water sales contracts with Halton and Haldimand and overstrength fees.

Fully offsetting the unfavourable variances were favourable variances totalling $2.5 M mainly due to sewer surcharges which realized a variance of $1.2 M. Further contributing to this positive outcome were surpluses in private fire lines program, non-metered revenue and hauler / third party sales totalling $1.3 M.

Non-Rate Revenue

Non-Rate Revenues were unfavourable by -$242 K to budget mainly due to a decrease in local improvement recoveries and construction permit fees.

Disposition of Rate Supported Operating Budget Surplus

The City of Hamilton has policies, obligations, future requirements and past practice that guide decisions around the disposition of the year-end operating budget surplus.

Staff recommends that the Rate Supported Operating Budget Surplus of $16.5 M be transferred as follows:

- Surplus of $8.0 M from water operations will be transferred to water reserve.

- Surpluses of $8.5 M from wastewater / storm operations will be transferred:

  - to wastewater reserves ($5.8 M); and,
  - to the rate development charge reserves ($2.7 M) for DC exemptions.

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 and Prosperity Act* (Bill 6).

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, 2018

Appendix "B" – City of Hamilton Combined Water, Wastewater and Storm Systems by Program Report as at December 31, 2018

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

KP/LC/dt/dkm