



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

TO:	Mayor and Members Committee of the Whole
COMMITTEE DATE:	April 29, 2020
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at December 31, 2019 - Budget Control Policy Transfers (FCS19055(b)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Andreia Bevilacqua (905) 546-2424 Ext. 4190
SUBMITTED BY: SIGNATURE:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department

RECOMMENDATION(S)

- (a) That, in accordance with the “Budgeted Complement Control Policy”, the 2019 complement transfer transferring complement from one department / division to another with no impact on the levy, as outlined in Appendix “C” to Report FCS19055(b), be approved;
- (b) That, subject to final audit, the Disposition of 2019 Year-End Operating Budget Surplus / Deficit be approved as follows:

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 2 of 16**

Table 1

DISPOSITION / RECONCILIATION OF YEAR-END SURPLUS/ (DEFICIT)	\$	\$
Corporate Surplus from Tax Supported Operations		\$ 14,718,163
Disposition to/from Self-Supporting Boards & Agencies		\$ (2,077,958)
Less: Police (Transfer to Police Reserve)	\$(1,425,221)	
Less: Library (Transfer to Library Reserve)	\$ (706,285)	
Add: Farmers Market (Transfer from Hamilton Farmers Market Reserve)	\$ 53,548	
Balance of Corporate Surplus		\$ 12,640,205
Less: Transfer to Unallocated Capital Levy Reserve		\$ (3,527,594)
Add: Transfer from HEF Capital Project Reserve		\$ 203,999
Less: Transfer to Flamborough Capital Reserve		\$ (456,076)
Less: Transfer to Tax Stabilization Reserve		\$ (8,860,534)
Balance of Tax Supported Operations		\$ -
Corporate Surplus from Rate Supported Operations		\$ 10,242,775
Less: Transfer to the Rate Supported Water Reserve		\$ (5,280,315)
Less: Transfer to the Rate Supported Wastewater Reserve		\$ (4,962,460)
Balance of Rate Supported Operations		\$ -

* -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 2019 based on the operating results as of December 31, 2019 (unaudited). Appendix "A" to Report FCS19055(b) summarizes the Tax Supported Operating Budget year-end variances by department and division while Appendix "B" to Report FCS19055(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 \$14.7 M and \$10.2 M, respectively. The Tax Supported Operating Budget Surplus of \$14.7 M is composed of City Departments / Other (\$9.1 M favourable), Boards and Agencies (\$2.1 M favourable) and Capital Financing (\$3.5 M favourable). The surplus in Tax Supported Operating Budget is spread across several departments and is related to gapping surpluses, operational efficiencies and increased revenues. For the Rate Supported Operating Budget, the surplus is related to favourable variances from revenues of \$8.6 M, capital financing of \$1.8 M, partially offset by other items totalling about -\$0.2 M.

Additional details are presented in the Analysis and Rationale for Recommendations section of page 5 of Report FCS19055(b).

Table 2

CONSOLIDATED CORPORATE SURPLUS/ (DEFICIT)	\$
Tax Supported Programs	
Police	\$ 1,425,221
Library	\$ 706,285
Capital Financing	\$ 3,527,594
Other Tax Supported Programs	\$ 9,059,063
Total Tax Supported Surplus	\$14,718,163
Rate Supported Programs	\$10,242,775
Consolidated Corporate Surplus/ (Deficit)	\$24,960,938

The year-end disposition of the \$25 M surplus identified in Table 2 is outlined in Recommendation (b) (Table 1) of Report FCS19055(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 2019 surplus is highlighted below.

Tax Supported Operating Budget Variances:

- Year-end variances for Police, Library and Farmers' Market to be allocated to and from their own source reserves as per their policies.
- Future Capital Infrastructure Requirements – Capital Financing savings of \$3.5 M to be transferred to the Unallocated Capital Levy Reserve for future capital infrastructure requirements.
- Slot Revenues Past Practice – Slot revenue surplus of \$456 K to be transferred to the Flamborough Capital Reserve Fund.
- Hamilton Entertainment Facilities – HEF Program deficit of -\$204 K to be funded from the Hamilton Entertainment Facilities Capital Projects Reserve.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 4 of 16**

The remainder of the tax supported operating budget surplus is recommended to be transferred to the Tax Stabilization Reserve. During the 2020 Budget, Council approved two items to be funded from this reserve, funding year five of the 10-Year Transit Strategy in the amount of \$990 K and one-time funding in the amount of \$400 K for Hamilton Paramedic Services. The Tax Stabilization Reserve will also potentially be an essential component in financial plans to offset the impacts of the COVID-19 Pandemic reflected in Report FCS20040.

Rate Supported Operating Budget Variance:

- The Rate Supported Operating Budget surplus of \$10.2 M is made up of surpluses in both water (\$5.3 M) and wastewater (\$5.0 M). There are separate Rate Supported Reserves for each of the water, wastewater and stormwater programs.
- Surpluses of \$5.3 M from water operations to be transferred to water reserve.
- Surplus in wastewater / storm operations of \$5.0 M to be transferred to wastewater reserves.
- In preparation of the 2020 Rate Supported Budget, staff worked towards reducing the preliminary rate increase from 4.5% to 4%. Staff will monitor and report to Council any opportunities to leverage the surplus through any future Federal/Provincial stimulus programs, including those that may arise as a result of the COVID-19 pandemic, or alternatively reviewing the City's future rate supported debt forecast, as the City approaches the 2021 budget process.

2020 Budget Transfers:

In accordance with the "Budget Control Policy" and "Budgeted Complement Control Policy", staff is submitting one item recommended for transfer. The complement transfer, identified in Appendix "C" to Report FCS19055(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 complement transfer identified was not realized at the time of the 2020 budget submission. However, this transfer will amend the 2020 Operating Budget once approved with no impact on the levy.

Alternatives for Consideration – See Page 16

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the Analysis and Rationale for Recommendation section of Report FCS19055(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 2019 based on the operating results as at December 31, 2019. 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 FCS19055(b).

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following provides an overview of the more significant issues affecting the 2019 Tax and Rate Operating Budget Surpluses. Appendix “A” to Report FCS19055(b) summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix “B” to Report FCS19055(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, 2019. The final Tax Supported Operating Budget Surplus amounted to \$14.7 M or approximately 1.7% of the net levy.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 6 of 16**

**Table 3
CITY OF HAMILTON
2019 Year-End Variance (Unaudited)
(\$000's)**

	2019 Approved Budget	2019 Year-End Actuals	Variance	
			\$	%
<u>TAX SUPPORTED</u>				
Planning & Economic Development	29,672	29,153	519	1.7%
Healthy and Safe Communities	244,490	241,838	2,651	1.1%
Public Works	242,414	244,165	(1,751)	(0.7)%
Legislative	5,019	4,619	400	8.0%
City Manager	11,759	10,656	1,103	9.4%
Corporate Services	30,852	28,825	2,027	6.6%
Corporate Financials / Non Program Revenues	(25,500)	(32,396)	6,896	27.0%
Hamilton Entertainment Facilities	3,912	4,116	(204)	(5.2)%
TOTAL CITY EXPENDITURES	542,617	530,977	11,640	2.1%
Hamilton Police Services	164,290	162,865	1,425	0.9%
Library	30,700	29,994	706	2.3%
Other Boards & Agencies	13,095	15,676	(2,581)	(19.7)%
City Enrichment Fund	6,116	6,116	0	0.0%
TOTAL BOARDS & AGENCIES	214,201	214,651	(450)	(0.2)%
CAPITAL FINANCING	129,969	126,441	3,528	2.7%
TOTAL OTHER NON-DEPARTMENTAL	344,170	341,093	3,078	0.9%
TOTAL TAX SUPPORTED	886,787	872,069	14,718	1.7%

() - Denotes unfavourable variance

City Expenditures / Departmental Budgets:

The total surplus for Tax Supported City Expenditures is \$11.6 M.

Further to the direction from Council for the 2019 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 2019 year-end, corporate-wide gapping actuals are -\$7.3 M representing a surplus of \$2.8 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.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 7 of 16**

Planning and Economic Development Department

Planning and Economic Development reported a favourable variance of \$519 K. This is the result of a favourable variance of \$652 K in the Transportation, Planning and Parking Division due to \$800 K higher than anticipated parking enforcement revenue and zoning application fees and \$200 K savings in contractual from lower contracted complement in Parking lots. This was partially offset by pressures in computer software, vehicles expenses, snow removal, traffic signs and contractual payments to the province. A favourable variance of \$280 K in the Planning Division is due to positive gapping and increase in Committee of Adjustment Revenue. The General Manager and Economic Development Divisions are both reporting favourable variances due to gapping.

The unfavourable variance of -\$544 K in the Licensing and By-Law Services Division is due to an overall net increase of \$126 K in revenues offset by -\$328 K gapping pressures, -\$39 K pressures for Amanda consultant costs, -\$35 K vehicles upfitting, -\$25 K unrecovered property work maintenance, -\$22 K contractual, -\$20 K financial charges and -\$113 K unrealized budgeted draws from reserves.

A deficit of -\$106 K in Building Division is due to -\$139 K lower than expected zoning revenues, -\$11 K higher facilities costs and -\$9 K unbudgeted temporary staffing agency costs partially offset by a small savings of \$12 K in gapping.

The Planning and Economic Development departmental gapping target, included in the explanations above, was -\$776 K for the year of 2019. As at December 31, 2019, the actual year-end gapping amount is -\$149 K, resulting in a deficit of \$627 K.

Healthy and Safe Communities Department

Overall, the Healthy and Safe Communities Department experienced a favourable variance of \$2.7 M. The major driver is the favourable result of \$1.6 M in the Housing Services Division due to available subsidies of \$226 K, Social Housing prior year reconciliations (AIR) for revenue rents, Rent Geared to Income (RGI), property taxes and mortgages of \$3.5 M. This is offset by the in-year approval of the Home for Holidays -\$2.0 M program and unbudgeted payment to Wesley Urban Ministries -\$150 K.

Recreation Division's favourable variance of \$1.2 M was due to closures at Dundas Arena, Norman Pinky Lewis, Valley Park, Hill Park and Parkdale Outdoor Pool totalling \$362 K, employee related costs due to gapping \$157 K, hydro related savings of \$572 K and user fee revenues partially offset by an increase in bad debt expense.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 8 of 16**

Long Term Care Division had a favourable variance of \$1.2 M due to employee related expenses driven by gapping of \$841 K, additional Ministry funding related to the Global Level of Care (LOC) per diem of \$208 K and favourable variance in building operating costs of \$177 K.

The Ontario Works (OW) Division had a surplus of \$485 K due maximizing available subsidy of \$243 K, employee expense gapping of \$400 K, partially offset by higher than expected operating costs.

Public Health Services is reporting a combined favourable variance of \$416 K mainly due to holding of positions to offset potential impacts due to Public Health Modernization and loss of staff due to uncertainty totalling \$851 K, offset by subsidy loss of -\$348 K and -\$97 K in lost program contracts.

The Hamilton Fire Department had a positive variance of \$104 K due to overall employee related costs including settled contracts and staff retirements, offset partially by various maintenance and operating costs.

Hamilton Paramedic Service had an unfavourable variance of -\$2.2 M due to a shortfall in Ministry funding (Base and Enhancement funding) of -\$1.0 M, overall employee related costs of -\$930 K and -\$230 K in various maintenance and vehicle costs.

The Health and Safe Communities Administration Division reported an unfavourable variance of -\$200 K due to staffing costs and internal audit expense recoveries.

The Children's Services and Neighbourhood Development Division had a small unfavourable variance of -\$45 K due to facilities recoveries, less than expected Child Care Subsidy offset by favourable variance in employee expenses driven by gapping.

The Healthy and Safe Communities departmental gapping target, included in the explanations above, was -\$866 K for the 2019 year. The actual year-end gapping amount is -\$2.4 M, resulting in a surplus of \$1.5 M.

Public Works Department

Overall, the Public Works department had a deficit of -\$1.8 M for 2019. There were a number of factors, both favourable and unfavourable, across the divisions that lead to the overall deficit.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 9 of 16**

Energy, Fleet and Facilities (EFF) Division had an overall unfavourable variance of -\$2.4 M mainly due to a -1.0 M deficit in Tim Horton's Field operations. Also contributing to the unfavourable variance was -\$0.4 M in Fleet, -\$0.2 M attributable to the unbudgeted cost of holding vacant facilities (King George, Eastmount, Mountain Secondary), -\$0.3 M gapping target shortfall and -\$0.2 M in expenses related to unallocated vacant space in various City Buildings.

Tim Hortons Field's unfavourable variance of -\$1.0 M is mainly due to -\$675 K in security costs for TiCats and Forge FC games. An additional 18 Forge FC home games were played during the 2019 inaugural season that were not part of the 2019 Budget. Public Works staff are reviewing the Tim Horton's Field operational plan and will report back to Council.

Environmental Services (ES) Division had an unfavourable variance of -\$453 K largely due to an unfavourable variance of -\$522 K in utilities costs. In addition, a deficit of -\$400 K is driven by the wet growing season and increased contractual costs at the City's Transfer Stations, Community Recycling Centres and Landfill due to increased handling of leaf and yard waste from the Central Composting Facility (CCF). The diversion from the CCF is due to limitations on processing organics. Other unfavourable variances within the ES Division include direct facilities costs of -\$211 K and -\$165 K in increased central fleet maintenance costs mainly in the Parks section contributed to the deficit.

Partially offsetting the deficit in the ES Division are favourable variances of \$676 K in employee related costs attributable to gapping and about \$1.0 M in favourable Recycling and Waste Disposal revenue (about \$0.7 M in tipping fee revenue and \$0.3 M in recycling commodities revenue).

Transit Division had a -\$342 K unfavourable variance largely due to -\$1.9 M in gapping and -\$0.8 M related to DARTS which were largely offset by favourable Transit Revenues (\$1.6 M) and fuel savings (-\$1.0 M).

Transit gapping of -\$1.9M unfavourable is largely as a result of -\$3.6 M in over-time, -\$2.6 M in sick pay and -\$0.6 M in vacation payouts partially offset by \$4.9 M in favourable in regular salaries and wages. Although overtime is still exceeding targeted levels, progress was made in 2019 with \$300 K in reduction over 2018.

DARTS contract was unfavourable by -\$0.8 M due to about 57,000 additional trips relative to budget.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 10 of 16**

Partially offsetting these variances is \$1.6 M attributed to favourable Transit fare revenues primarily due to continuing ridership uptake (about 3% greater than budgeted) representing \$1.2 M and fare increase contributing approximately \$0.4 M.

Fuel savings of about \$1.0 M is attributed to diesel price savings of \$545 K and \$408 K due to the continued conversion of fleet from diesel to natural gas.

The remaining divisions had favourable results. Engineering Services had a positive variance of \$805 K 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 \$615 K favourable variance due to net gapping savings of \$2.5 M attributed to temporary vacancies created by retirements, terminations and restructuring. Summer Season roads maintenance program is \$1.4 M favourable. Streetlighting program savings are \$623 K as a result of the LED Streetlight conversion project. Partially offsetting these are unfavourable variances of -\$2.4 M attributed to Winter Season roads maintenance program, vehicle costs -\$152 K and contractual services for hired equipment -\$1.3 M.

The Public Works departmental gapping target, included in the explanations above, was -\$2.0 M for the 2019 year. The actual year-end gapping amount is -\$2.5 M, resulting in an annual surplus of \$470 K.

Legislative

Savings from consulting and contractual services and unspent ward office budgets offset by facility costs resulted in an overall departmental surplus of \$400 K.

The Legislative departmental gapping target was -\$76 K for the year of 2019. The actual year-end gapping amount is \$185 K, resulting a deficit of -\$261 K.

City Manager's Office

The City Manager's Office had a favourable variance of \$1.1 M. The majority of this was in the Human Resources Division (\$998 K). The main drivers of the favourable variance were gapping, savings in consulting, training, legal and arbitration expenditures.

The City Manager's Office departmental gapping target, included in the explanations above, was -\$205 K for the 2019 year. The actual year-end gapping amount is -\$811 K, resulting in a surplus of \$606 K.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 11 of 16**

Corporate Services Department

Corporate Services finished 2019 with a positive variance of \$2 M. This was mainly the result of favourable variances of \$1.4 M in Financial Services and Taxation Division and \$291 K in Financial Planning, Administration and Policy Division. The variance in Financial Services and Taxation Division was due to gapping and higher than budgeted revenues including tax transfer fees. The variance in Financial Planning, Administration and Policy Division was primarily due to employee related savings from gapping net of contracted services for temporary replacements which are partially offset by recoveries from operating departments.

City Clerk's Office and Customer Service divisions experienced minor favourable variances attributed to gapping.

The Corporate Services departmental gapping target, included in the explanations above, was -\$576 K for the 2019 year. The actual year-end gapping amount is -\$1.6 M, resulting in a surplus of \$1.1 M.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a \$6.9 M combined favourable 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 -\$3.0 M was a result of higher than budgeted pay-outs for WSIB claims. Staff are still reviewing the final 2019 WSIB costs but estimate that approximately \$2.0 M of the variance is a result of increased Police Services claims. A full review of WSIB costs and recoveries will be provided to Council during 2020.

Corporate Initiatives

A surplus of \$629 K in Corporate Initiatives is mainly due to an unbudgeted recovery (GST / HST Adjustments related to 2016 and 2017) and exchange rate funds.

Non Program Revenues

Non Program Revenues reported a favourable variance of \$9.3 M.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 12 of 16**

General revenues had a favourable variance of \$663 K resulting from a surplus in Provincial Offences Administration (POA) revenues of \$691 K and a higher realization of slot revenues of \$456 K. This was partially offset by an unfavourable variance in Hamilton Utilities Corporation (HUC) dividends of -\$484 K due to unbudgeted administrative expenses of -\$353 K and dividend shortfall of -\$131 K.

The tax revenues show a surplus of \$8.6 M, mainly attributable to the favourable variance in Tax Remissions and Write Offs of \$4.8 M due to favourable prior year allowances on settlements and lower Tax Write Offs. A favourable variance of \$1.5 M in Penalties and Interest is due to higher than average arrears and a favourable variance in Payments in Lieu is due to a reduction in realized write-offs. Also adding to the surplus is a favourable variance in Supplementary Taxes of \$1.4 M.

Hamilton Entertainment Facilities (HEF)

HEF had an unfavourable variance of -\$204 K primarily driven by facility charges and lower expected contract revenue due to the timing of the new management agreement which ended July 1, 2019.

Staff is recommending that the overall deficit of -\$204 K be offset by a transfer from HEF Capital Projects Reserve.

Capital Financing

Capital financing had an overall positive variance of \$3.5 M as a result of timing differences in cash flow assumptions in the Capital Budget. The City did not issue debt in 2019, resulting in principal and interest savings versus budget. As approved in the 2020 Tax Supported Capital Budget (Report FCS19091), \$4.8 M from the 2019 Capital Financing surplus was transferred to the Unallocated Capital Levy Reserve, prior to year-end, to fund initiatives in the 2020 Capital Budget. Without this transfer, the overall Capital Financing surplus would be \$8.3 M.

Boards and Agencies

In Boards and Agencies, there is an unfavourable variance of -\$450 K mainly attributable to Conservation Authorities and partially offset by a surplus in Library and Police Services.

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 13 of 16**

There is an unfavourable variance of -\$2.5 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 \$2.5 M.

The Hamilton Farmers' Market had a minor unfavourable variance of -\$53 K due to building repairs for overhauling and setting up new stalls as well as facility charges and lower than budgeted stall rental revenue.

Library had a favourable variance of \$706 K mainly as a result of lower purchases of collection materials, an actual cost of living increase of 1.6% instead of 2% as budgeted and gapping. Police Services had a favourable variance of \$1.4 M.

The Library and Police surpluses will be transferred to their own source reserves. The Farmers' Market unfavourable variance will be funded from the Farmers' Market Reserve.

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 \$14.7 M be distributed to various reserves as per the following paragraphs.

Year-end variances for Police of \$1.4 M and Library of \$706 K will be transferred to their own source reserves and Farmers' Market unfavourable variance of -\$53 K will be funded from the Farmers' Market reserve.

Slot Revenues' surplus of \$456 K will be transferred to the Flamborough Capital Reserve Fund.

Capital Financing surplus of \$3.5 M will be transferred to the Unallocated Capital Levy Reserve for future capital financing tax supported capital investments in infrastructure. An additional surplus of \$4.8 M was transferred to the Unallocated Capital Levy Reserve, prior to year end, for the 2020 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).

**SUBJECT: Tax and Rate Operating Budget Variance Report as at
December 31, 2019 – Budget Control Policy Transfers (FCS19055(b))
(City Wide) – Page 14 of 16**

Deficit of -\$204 K in Hamilton Entertainment Facilities (HEF) will be funded from the Hamilton Entertainment Facilities Capital Projects Reserve.

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. A transfer will be done to the tax stabilization reserve from the 2019 surpluses. The balance in the Tax Stabilization Reserve will be approximately \$23.0 M and short of the target balance of \$43.0 M.

During the 2020 Budget, Council approved two items to be funded from this reserve, funding year five of the 10-Year Transit Strategy in the amount of \$990 K and one-time funding in the amount of \$400 K for Hamilton Paramedic Services. The Tax Stabilization Reserve will also potentially be an essential component in financial plans to offset the impacts of the COVID-19 Pandemic reflected in Report FCS20040.

Rate Supported Operating Budget:

For 2019, the Rate supported operating budget finished the year with a favourable variance of \$10.2 M mainly due to favourable revenue variance of \$8.6 M and capital financing of \$1.8 M. Operating expenditures had a small surplus of \$185 K.

Expenditures

Overall Rate budget expenditure savings of \$1.6 M or 0.7% of budget were reported at year end.

Operating expenditures had a small surplus of \$185K or 0.2% to budget mainly due to gapping realized from staff vacancies (i.e. retirements, internal transfers, etc.).

Capital financing costs have a net overall positive variance of \$1.8 M. The surplus in debt charges of \$5.5 M is offset by the Development Charge (DC) debt charge recoveries of -\$3.7 M. The debt charge surplus is due to the difference in budgeted and forecasted interest rates and the increased timeframe for issuing debt.

Appendix “B” to Report FCS19055(b) summarizes the Rate Budget results by program.

Revenues

Overall total revenues are realizing a favourable variance of \$8.6 M or 3.9% mainly due to favourable variances in rate revenues. Non-rate revenue had a minor favourable variance of \$33 K.

Rate Related Revenue

Overall, 2019 rate related revenues are realizing a surplus of \$8.6 M or 3.9% to budget. In total, metered customer sectors ended with a favourable variance of about \$5.4 M, representing 2.5% of the overall rate revenue budget mainly due to growth. Industrial, Commercial Institutional and Multi-Residential (ICI / Multi-Res) sector had a surplus of \$2.8 M while the Residential sector had a favourable variance of \$2.6 M. Non-metered revenues produced a surplus of \$1.2 M for 2019 while other rate related revenue variances totalled approximately \$2.0 M across several areas in water sales contracts (Halton and Haldimand) as well as overstrength and sewer surcharge fees.

Non-Rate Revenue

Non-rate revenue had a minor favourable variance of \$33 K.

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 \$10.2 M be transferred as follows:

- Surplus of \$5.3 M from water operations will be transferred to water reserve.
- Surplus of \$5.0 M from wastewater / storm operations will be transferred to wastewater reserve.

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 Recommendation 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” to Report FCS19055(b) – City of Hamilton Tax Operating Budget Variance Report as at December 31, 2019

Appendix “B” to Report FCS19055(b) – City of Hamilton Combined Water, Wastewater and Storm Systems Rate Operating Budget Variance Report as at December 31, 2019

Appendix “C” to Report FCS19055(b) – City of Hamilton Budgeted Complement Transfer Schedule

AB/dt