



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

TO:	Chair and Members General Issues Committee
COMMITTEE DATE:	September 23, 2020
SUBJECT/REPORT NO:	Tax and Rate Operating Budgets Variance Report as at June 30, 2020 – Budget Control Policy Transfers (FCS20069) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Duncan Robertson (905) 546-2424 Ext. 4744 Kirk Weaver (905) 546-2424 Ext. 2878
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the Tax and Rate Operating Budgets Variance Report as at June 30, 2020 attached as Appendices “A” and “B”, respectively, to Report FCS20069 be received;
- (b) That, in accordance with the “Budgeted Complement Control Policy”, the 2020 complement transfer transferring complement from one department / division to another with no impact on the levy, as outlined in Appendix “C” to Report FCS20069, be approved;
- (c) That, in accordance with the “Budget Complement Control Policy”, the 2020 extensions of temporary positions with 24-month terms or greater, with no impact on the levy, as outlined in Appendix “D” to Report FCS20069, be approved;
- (d) That the financing strategy outlined in Appendix “E” to Report FCS20069, which utilizes \$11.2 M of Federal Gas Tax Reserve funding in the place of previously approved Capital Levy funds with the intent to offset COVID-19 financial pressures, be received.

EXECUTIVE SUMMARY

In accordance with the Budget Control Policy (FCS12010(a)), staff has committed to provide Council with three variance reports for the Tax Supported and Rate Supported Operating Budgets during the fiscal year. This is the first submission for 2020 based on the operating results as of June 30, 2020. Appendix “A” to Report FCS20069 summarizes the Tax Supported Operating Budget projected year-end variances by department and division while Appendix “B” to Report FCS20069 summarizes the projected year-end variances of the Rate Supported Operating Budget by program.

Staff has previously provided the Committee of the Whole and the General Issues Committee with two updates on the financial implications of the COVID-19 pandemic response through Reports FCS20040 and FCS20040(a). The assumptions made in Report FCS20069 provide an update to those impacts, as well as, capture the cost containment measures that staff has taken to limit the financial impact on the City.

Both Tax and Rate Supported Operating Budgets are projecting deficits of \$21.3 M and \$1.8 M, respectively. The COVID-19 related forecast deficit of \$61.6 M outlined in Report FCS20040(a) has been largely offset from surplus in Capital Financing of \$8.3 M, as well as, other cost savings and avoidance measures implemented in response to the state of emergency.

These include: additional avoided costs in Recreation of \$7.8 M from facility and program closures and savings in discretionary spending; additional savings of \$7.4 M in Transportation Operations for winter control and gapping mostly related to student and seasonal positions; an additional savings of \$10.6 M in contracts for Transit operations; contribution from the Building Permit Fee Revolving Fund to cover eligible expenditures of \$3.7 M; and \$2.5 M of other various cost savings. The projected Rate Supported Operating Budget deficit of \$1.8 M is due to a decrease in Industrial and Commercial Customer revenue of \$4.0 M as the COVID-19 pandemic response has negatively impacted several large industrial water users, which is partly offset by a surplus in Capital Financing costs of \$2.2 M.

On August 12, 2020, the Ontario government announced details of the up to \$1.6 B of the first round of emergency funding for municipalities under the Federal - Provincial Safe Restart Agreement. Through the Safe Restart Agreement with the federal government, \$695 M will help municipalities address operating pressures related to the COVID-19 pandemic through the first round of emergency funding and over \$660 M will support transit systems. The Province is also providing an additional \$212 M through the Social Services Relief Fund (SSRF), bringing the total to \$510 M to help vulnerable people find shelter.

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The City of Hamilton’s share of the Phase 1 allocation is just over \$44.8 M with \$17.2 M for transit relief and \$27.6 M for municipal relief. Details of the municipal funding are not yet available. In addition, the City of Hamilton’s share of SSRF – Phase 2 is \$11.3 M to go along with the \$6.9 M received in Phase 1. Phase 2 would cover additional costs related to COVID-19 for Housing Services up to March 31, 2021. With these funding announcements, it is anticipated that the City’s allocation will be sufficient to successfully mitigate the 2020 deficit, originally forecasted at \$61.6 M, after taking into consideration other cost saving and avoidance measures.

Through the application of the \$17.2 M for Municipal Transit Funding – Phase 1 and \$4.5 M for the Social Services Relief Fund – Phase 2 against eligible expenditures and foregone revenues in 2020, the forecasted deficit in 2020 would be adjusted to a surplus of \$0.4 M.

Additional details are presented in the Analysis and Rationale for Recommendation(s) section of Report FCS20069.

2020 Budget Transfers and Extensions

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, staff is submitting two items recommended for transfer. The complement transfers, identified in Appendix “C” to Report FCS20069, 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 transfers identified were not realized at the time of the 2020 budget submission. However, these transfers will amend the 2020 operating budget once approved with no impact on the levy.

In addition, staff is recommending four items where temporary positions with 24-month terms or greater are being extended as identified in Appendix “D” to Report FCS20069 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(s) section of Report FCS20069.

Staffing: Staffing implications of Report FCS20069 are detailed in Appendix “C”, which outlines the 2020 staff complement transfers from one department / division to another with no impact on the levy and Appendix “D”, which outlines the extensions of temporary positions with 24-month terms or greater with no impact on the levy.

Legal: N/A

HISTORICAL BACKGROUND

The COVID-19 pandemic has resulted in many changes, affecting human behavior and impacting the world's economic condition. In response, the City's operations have changed considerably with facility closures, program cancellations and modification of services provided. More recently, attention has turned to the resumption of some services in modified ways that meet evolving restrictions on social gathering. Employees' work environments have also been modified, where employees have been redeployed to other services or are working from home. Finance staff is considering all measures taken by the City when monitoring and assessing the financial impact to the City.

On April 21, 2020, City staff shared projections with the Federation of Canadian Municipalities (FCM) for the purpose of advocacy for Federal financial support. The FCM report was released publicly on April 23, 2020 making several recommendations for Federal government support to mitigate financial impacts of COVID-19. Most notably, the FCM report communicated to the Federal Government of Canada that covering municipal losses related to the COVID-19 pandemic through one-time property tax levies was not a viable option given the significant impact it would have on households amid an economic downturn.

In late April 2020, at a meeting of the Mayors and Chairs of the Greater Toronto and Hamilton Area (GTHA), the Treasurers were asked to prepare a high-level forecast of financial implications resulting from the COVID-19 pandemic. The goal was to share consistent information on COVID-19 financial implications to aid in discussions with the Provincial and Federal governments, as well as, to share information on cost containment measures in mitigating the financial impact.

That analysis prepared for the GTHA Treasurers' group forecasted two scenarios. In Scenario 1, a full lockdown was assumed for three months, followed by a six-month recovery period allowing for resumption of services. In Scenario 2, a nine-month lockdown period is assumed, followed by a twelve-month recovery period. The scenarios analyzed cash flow implications, as well as, operating shortfalls with specificity to Transit.

Staff has previously provided the Committee of the Whole and the General Issues Committee with two updates on the financial implications of the COVID-19 pandemic response through Reports FCS20040 and FCS20040(a). In the latest update, staff forecasted the financial impact of the COVID-19 response based on the timelines introduced in the two GTHA scenarios resulting in a 2020 budget pressure of \$61.6 M under Scenario 1, while the impact of Scenario 2 would have financial implications of \$86.5 M in 2020 and \$35.5 M in 2021 for a combined pressure of \$122.0 M. These financial impacts will be in addition to operating budget variances that would typically be expected in any normal year.

On July 27, 2020, the Ontario Government announced an Historic Agreement to Support Municipalities and Transit. The Ontario government, in partnership with the federal government, is providing up to \$4.0 B in urgently needed one-time assistance to Ontario's 444 municipalities. This funding is intended to help municipalities continue to effectively deliver critical public services, such as public transit and shelters, as the Province continues down the path of renewal, growth and economic recovery.

On August 12, 2020, the Ontario government announced details of the up to \$1.6 B of the first round of emergency funding for municipalities under the Federal - Provincial Safe Restart Agreement.

Through the Safe Restart Agreement with the federal government, \$695 M will help municipalities address operating pressures related to the COVID-19 pandemic through the first round of emergency funding and over \$660 M will support transit systems. The Province is also providing an additional \$212 M through the Social Services Relief Fund (SSRF), bringing the total to \$510 M to help vulnerable people find shelter.

The City of Hamilton's share of the Phase 1 allocation is just over \$44.8 M, with \$17.2 M for transit relief and \$27.6 M for municipal relief. These announcements only address pressures to the end of the provincial fiscal year on March 31, 2021. To date, there has been no formal communication with respect to Federal and Provincial funding support beyond March 31, 2021 related to municipal COVID-19 financial pressures. While there will be Phase 2 allocations coming forward, the specific allocations remain unknown.

On September 9, 2020, the General Issues Committee received Report FCS20071, Federal and Provincial Government Municipal Funding Announcements Update, which provides information on the Safe Restart Funds and other government funding announcements.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

In accordance with the Budget Control Policy, staff has committed to provide Council with three variance reports for the Tax Supported and Rate Supported Operating Budgets during the fiscal year. This is the first submission for 2020 based on the operating results as of June 30, 2020.

RELEVANT CONSULTATION

Staff in all City of Hamilton departments provided the information in Report FCS20069. Detailed analysis was prepared by Finance and Administration staff in consultation with department leadership teams.

ANALYSIS AND RATIONALE FOR RECOMMENDATIONS

The following provides an overview of the more significant issues affecting the 2020 projected tax and rate operating budgets. Table 1 provides a summary of the departmental results as at June 30, 2020 prior to the recent funding announcements.

Table 1
City of Hamilton
2020 Projected Year-End Variance
(\$000's)

	2020	2020	2020 Variance	
	Approved Budget	Year-End Forecast	(Forecast vs Budget) \$	%
Tax Supported				
Planning and Economic Development	29,137	32,354	(3,217)	(11.0)
Health and Safe Communities	246,810	255,750	(8,940)	(3.6)
Public Works	256,381	258,570	(2,189)	(0.9)
Legislative	5,095	5,202	(107)	(2.1)
City Manager	12,285	12,284	1	0.0
Corporate Services	34,663	34,361	302	0.9
Corporate Financials / Non Program Revenues	(26,125)	(11,024)	(15,101)	(57.8)
Hamilton Entertainment Facilities	4,097	4,117	(20)	(0.5)
Total City Expenditures	562,343	591,614	(29,271)	(5.2)
Hamilton Police Services	170,817	171,304	(487)	(0.3)
Library	31,572	31,189	383	1.2
Other Boards and Agencies	15,921	16,097	(176)	(1.1)
City Enrichment Fund	6,088	6,088	0	0.0
Total Boards and Agencies	224,398	224,677	(280)	(0.1)
Capital Financing	137,423	129,141	8,282	6.0
Total Tax Supported	924,164	945,433	(21,270)	(2.3)
Rate Supported	0	1,755	(1,755)	N/A
Total	924,164	947,189	(23,025)	(2.5)

() Denotes unfavourable variance
 Anomalies due to rounding

On August 12, 2020, the City received confirmation of \$17.2 M of immediate funding through the Safe Restart Agreement: Municipal Transit Funding – Phase 1 to support COVID-19 pressures incurred from April 1, 2020 to September 30, 2020. These financial pressures include reduced revenues from farebox, advertising, parking and contracts, as well as, added expenses related to cleaning, new contracts, labour, driver protection, passenger protection and other capital costs. The total estimated amount for these categories at the City is \$18.5 M.

The City also received confirmation of \$11.3 M for the Social Services Relief Fund – Phase 2 allocation, which complemented the Phase 1 allocation of \$6.9 M received earlier this year. The \$11.3 M will offset the projected deficit for Housing Services in 2020, as well as, fund the projected COVID-19 related costs to March 31, 2021.

After consideration of these two funding sources, the forecasted deficit in 2020 would be adjusted to a surplus of \$0.4 M as illustrated in Table 2. The impact of Phase 1 Safe Restart Funds for municipal purposes of \$27.6M are not reflected in Table 2 as guidelines on the use of these funds are not available.

Table 2
City of Hamilton
2020 Adjusted Projected Year-End Variance
(\$000's)

Forecasted Tax Supported Deficit	(21,270)
Municipal Transit Funding - Phase 1	17,212
Social Services Relief Fund - Phase 2 (2020 portion)	4,478
Adjusted Surplus (Deficit)	<u>420</u>

There is approximately \$11.2 M available in the Federal Gas Tax Reserve that is remaining from the unallocated one-time payment transfer from 2019. Staff had previously recommended to the General Issues Committee through Report FCS20040(a) that staff should report back with a revised 2020 tax supported capital financing strategy that would utilize the \$11.2 M in place of Capital Levy funds with the intent to free up additional funding to offset COVID-19 financial pressures. Given the recent announcements on emergency funding made available for municipalities, it is recommended that the financing strategy attached as Appendix “E” to Report FCS20069 be received as information with no further action at this time.

Tax Supported Operating Budget

Departmental Budgets

Appendix “A” to Report FCS20069 summarizes the Tax Supported Operating Budget variances by department and division.

In an effort to contain costs and associated budget deficits with the COVID-19 pandemic response, the Senior Leadership Team and Council adopted several measures including the suspension of scheduling for part-time casual labour in affected program areas, not hiring the full complement of student and seasonal positions and restrictions on hiring for non-essential positions. As a result, corporate-wide gapping is projected at \$9.6 M, in comparison to the Council approved target of \$4.9 M, resulting in a surplus of \$4.7 M.

Table 3

	Gapping Projected		Variance
	Target	Gapping	
Net Gapping by Department	(\$000's)	(\$000's)	(\$000's)
Planning and Economic Development	853	1,062	209
Healthy and Safe Communities	952	4,293	3,341
Public Works	2,202	3,910	1,708
Legislative	84	(135)	(219)
City Manager	225	(228)	(453)
Corporate Services	633	732	99
Consolidated Corporate Savings (Deficit)	4,950	9,635	4,685

Anomalies due to rounding

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

Planning and Economic Development

Planning and Economic Development is forecasting a deficit of \$3.2 M, which is primarily driven by Transportation Planning and Parking operations. Parking revenues are expected to be \$2.6 M below budget, along with a \$1.7 M shortfall in fines.

Building Services is forecasting a year-end deficit of \$0.2 M. An anticipated \$3.8 M loss in Building Permit revenues will be offset by a contribution from the Building Permit Fee Revolving Fund. The remaining deficit is comprised of a decline in miscellaneous revenues.

Growth Management and Planning are both expecting surpluses of \$0.9 M and \$0.5 M, respectively. The immediate financial impact of COVID-19 on the growth sector was not as severe as staff worked through pre-existing applications. Subdivision processing and development application fees are forecasted at \$1.5 M and \$0.3 M in excess of budget. Future development, particularly in the commercial and industrial sectors, is anticipated to be delayed as the economy reopens.

The remaining divisions have an anticipated combined deficit of \$0.3 M.

The Planning and Economic Development departmental gapping target is \$0.9 M for 2020. As at June 30, 2020, the projected year-end gapping amount is \$1.1 M, resulting in a projected surplus of \$0.2 M.

Healthy and Safe Communities

The Healthy and Safe Communities Department is projecting an overall deficit of \$8.9 M driven by Housing Services (\$4.5 M), Hamilton Paramedic Service (\$3.4 M) and Public Health Services (\$3.9 M). Staff and resourcing costs to meet the demands required for the COVID-19 pandemic response, as well as, additional expense for combatting homelessness and protecting the community's most vulnerable, are the primary drivers of the deficits. These forecasted deficits do not take into consideration the announcements made regarding the Safe Restart Agreement and the Social Services Relief Fund, which are expected to mitigate these deficits.

Recreation is forecasting a deficit of \$0.8 M. The anticipated revenue loss of \$9.2 M as a result of facility closures and cancellation of programs is expected to be mostly mitigated through the suspension of scheduling part-time and seasonal staff between May and September and redeployment of staff to other areas in the City requiring resources. In addition, another \$1.8 M in discretionary operating costs is expected to be avoided through facility closures.

The remaining divisions are forecasting a combined surplus of \$3.7 M, primarily driven by gapping.

The Healthy and Safe Communities departmental gapping target is \$1.0 M for the 2020 year. As at June 30, 2020, the projected year-end gapping amount is \$4.3 M, resulting in a projected surplus of \$3.3 M.

Public Works

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

Lost revenues for Transit are estimated at \$27.0 M in 2020 as a result of the COVID-19 emergency, which include lost revenues under the University / College Transit Pass (UCTP) agreements totaling \$4.8 M. In addition, cleaning and disinfectant of buses and installation of operator bio-shields to allow for front door boarding have contributed to increased costs of \$0.8 M. Fuel savings of \$1.8 M, commission savings of \$1.2 M and DARTS contract agreement savings of \$10.6 M are expected to help offset the COVID-19 related impacts, which would result in an overall deficit of \$13.9 M for Transit. This deficit does not take into account the most recent funding announcement of \$17.2 M of the Phase 1 allocation for Transit in the Safe Restart Agreement.

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Transportation Operations and Maintenance is forecasting a surplus of \$7.3 M. The surplus is driven by gapping (\$3.1 M) and the Winter Season Roads Maintenance Program (\$4.5 M). The number of severe winter storm events in January through April was below the seasonal average resulting in salt and sand savings of \$2.0 M, contractor activation costs of \$1.7 M and general vehicle maintenance of \$0.8 M.

Environmental Services anticipates a surplus of \$3.8 M due to gapping resulting from a temporary freeze on hiring of student and seasonal positions. Additionally, there is an expected \$1.0 M in operating savings due to the shutdown of parks during the state of emergency.

Energy, Fleet and Facilities anticipates a \$0.6 M surplus related to avoided costs from the closure of facilities.

The Public Works departmental gapping target is \$2.2 M for the 2020 year. As at June 30, 2020, the projected year-end gapping amount is \$3.9 M, resulting in a projected surplus of \$1.7 M.

Legislative

The Legislative budget is projected to be at a slight deficit of \$0.1 M for 2020 resulting from unfavourable gapping.

The Legislative departmental gapping target is \$84 K for 2020. As at June 30, 2020, the projected year-end gapping amount is -\$135 K, resulting in a projected deficit of \$219 K.

City Manager's Office

City Manager's Office is projected to be at budget in 2020 with avoided costs and savings on discretionary spending offsetting the unfavourable gapping amount.

The City Manager's Office departmental gapping target is \$0.2 M for the 2020 year. As at June 30, 2020, the projected year-end gapping amount is -\$0.2 M, resulting in a deficit of \$0.2 M.

Corporate Services

Corporate Services is forecasting an overall surplus of \$0.3 M due to gapping and savings in discretionary spending which is partially offset by revenues lower than budget.

The Corporate Services departmental gapping target is \$0.6 M for the 2020 year. As at June 30, 2020, the projected year-end gapping amount is \$0.7 M, resulting in a projected surplus of \$0.1 M.

Corporate Financials / Non-Program Revenues

Corporate Financials / Non-Program Revenues are projected as a combined deficit of \$15.1 M. Contributing factors are identified as follows:

- Corporate Initiatives: Emergency Operation Centre expenditures including centralized purchases of personal protective equipment of \$3.3 M;
- Corporate Initiatives: Increase in insurance premiums of \$3.7 M;
- Non-Program Revenues: Dividends from Hamilton Utilities Corporation and Alectra are estimated to be \$2.4 M lower than anticipated;
- Non-Program Revenues: Shared revenues from the Ontario Lottery and Gaming Commission are expected to be \$3.0 M lower than budget; and,
- Non-Program Revenues: POA revenues are expected to be at a deficit of \$4.2 M in 2020 due to court closures.

Boards and Agencies

In Boards and Agencies, there is a projected deficit of \$0.3 M. Hamilton Police Services reported a projected deficit of \$0.5 M to their Board on September 3, 2020. In addition, the Hamilton Farmers' Market is projecting a deficit of \$0.2 M related to cleaning and disinfectant costs. The deficit is partially offset by a \$0.4 M surplus for Hamilton Public Library operations, as reported to their Board on May 20, 2020.

Capital Financing

Capital financing is projecting a year-end surplus of \$8.3 M in principal and interest savings due to the delay in debt issuance.

Rate Supported Operating Budget

As at June 30, 2020, the Rate Supported Operating Budget is projecting a deficit of \$1.8 M due to a decrease in Industrial and Commercial Customer revenue of \$4.0 M. Total Industrial and Commercial Customers' consumption is tracking 4.9% below forecast as the COVID-19 economic impacts have negatively impacted the expected consumption of several large industrial water users. The decrease in revenue is partially offset by a Capital Financing surplus of \$2.2 M.

Overall program spending for 2020 is projected to align to the budget of \$86.7 M. Within the overall operating expenditures balanced position there are favourable and unfavourable variances that offset each other. The driving factors behind this are shown in the Table:

Table 4
City of Hamilton
Rate Budget Operating Expenditures Variance Drivers

Expenditure Type	Variance (\$000's)
Contractual	(2,425)
Employee Related Costs	1,405
Agencies and Support Payments	917
Materials and Supplies	105
Total Operating Expenditures	2

Contractual expenditures are projecting an unfavourable variance of \$2.4 M largely due to increased operating and maintenance expenditures to support the Storm program to meet compliance standards. Partially offsetting the contractual pressures related to the storm program are savings in the Outreach and Education program due to decreased spending in response to COVID-19.

Employee related costs are estimated at a favourable variance of \$1.4 M. The main drivers are attributable to net gapping savings of \$1.1 M from staff vacancies and decreased spending in training and conferences of \$260 K resulting from restrictions around discretionary spending in response to COVID-19 financial pressures.

Agencies and support payments category are forecasted at a favourable variance of \$917 K mainly due to the Protective Plumbing Program (3P). As a result of the COVID-19 shut-down, the Protective Plumbing Program (3P) service providers were unable to perform the required services. In addition, less adverse weather in early 2020 resulted in lower than expected uptake in the 3P program. Lastly, materials and supplies are projected at a surplus of \$105 K due to less spending in the Outreach and Education program.

Appendix “B” to Report FCS20069 summarizes the Rate Supported Operating Budget results by program.

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 FCS20069 – City of Hamilton Tax Operating Budget Variance Report as at June 30, 2020

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Appendix “B” to Report FCS20069 – City of Hamilton Combined Water, Wastewater and Storm Systems Rate Operating Budget Variance Report as at June 30, 2020

Appendix “C” to Report FCS20069 – City of Hamilton Budgeted Complement Transfer Schedule

Appendix “D” to Report FCS20069 – City of Hamilton Budgeted Complement Temporary Extension Schedule

Appendix “E” to Report FCS20069 – 2020 Federal Gas Tax Capital Financing Strategy – COVID-19 Financial Implications

DR/dt