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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	April 20, 2023
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as at December 31, 2022 – Budget Control Policy Transfers (FCS22042(b)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kayla Petrovsky Fleming (905) 546-2424 Ext. 1310 Duncan Robertson (905) 546-2424 Ext. 4744
SUBMITTED BY: **SIGNATURE:**	Brian McMullen Director, Financial Planning, Administration and Policy Corporate Services Department

RECOMMENDATION(S)

(a) That the Tax and Rate Operating Budget Variance Report as at December 31, 2022 attached as Appendices "A" and "B", respectively, to Report FCS22042(b) be received;

(b) That, in accordance with the "Budgeted Complement Control Policy", the 2022 complement transfers from one department / division to another with no impact on the levy, as outlined in Appendix "C" to Report FCS22042(b), be approved;

(c) That, in accordance with the "Budget Complement Control Policy", the 2022 extensions of temporary positions with 24-month terms or greater, with no impact on the levy, as outlined in Appendix "D" to Report FCS22042(b), be approved;

(d) That, subject to finalization of the 2022 audited financial statements, the disposition of the 2022 year-end operating budget surplus be approved as detailed in Table 1.

Table 1

DISPOSITION / RECONCILIATION OF YEAR-END SURPLUS/ (DEFICIT)	$	$
Corporate Surplus from Tax Supported Operations		**$ 22,938,340**
Disposition to/from Self-Supporting Programs & Agencies		**$ (3,159,224)**
Less: Police (Transfer to Police Reserve)	$ (1,020,546)	
Less: Library (Transfer to Library Reserve)	$ (2,139,741)	
Add: Farmers Market (Transfer from COVID-19 Emergency Reserve)	$ 1,063	
Balance of Corporate Surplus		**$ 19,779,116**
Less: Transfer to Flamborough Capital Reserve		$ (262,944)
Less: Transfer to fund Mission Services one-time capital (Council Aug 2022; HSC20020(f))		$ (3,040,000)
Less: Transfer to Hamilton Entertainment Facilities (HEF) Capital Project Reserve		$ (544,658)
Less: Transfer to fund shortfall in Development Charge Exemptions		$ (7,708,933)
Less: Transfer to fund Cold Alert Response		$ (109,000)
Less: Transfer of Hamiltion Utilities Corporation (HUC) dividends surplus to the Housing Project ID #6732341301 (Council Aug 2019; HSC19048)		$ (2,792,304)
Less: Transfer remaining balance to Tax Stabilization Reserve		$ (5,321,277)
Balance of Tax Supported Operations		**$ (0)**
Corporate Surplus from Rate Supported Operations		**$ 1,173,485**
Less: Transfer Rate Supported Waster Surplus to fund Development Charge Exemptions		$ (770,107)
Less: Transfer Rate Supported Wastewater/Stormwater Surplus to fund Development Charge Exemptions		$ (403,378)
Balance of Rate Supported Operations		**$ 0**

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 2022 based on the operating results as of December 31, 2022 (unaudited). Appendix “A” to Report FCS22042(b) summarizes the Tax Supported Operating Budget year-end variances by department and division while Appendix “B” to Report FCS22042(b) summarizes the year-end variances of the Rate Supported Operating Budget by program.

Tax Supported operations ended the year with a surplus of $22.9 M, taking into consideration all confirmed funding from senior levels of government to address financial pressures from the COVID-19 pandemic response. The City of Hamilton has reported $72.4 M in pressures related to COVID-19 response and recovery efforts for 2022, with $55.1 M in confirmed transfers from senior levels of government, leaving an unfunded pressure of $17.3 M as outlined in Appendix “F” to Report FCS22042(b). Rate Supported operations ended the year with a surplus of $1.2 M driven by an increase in revenues in the residential sector.

In addressing the financial pressures related to pandemic response and recovery, the City leveraged the following confirmed funding sources:

- Social Services Relief Fund – Phase 4 carry-over of $481 K;
- Social Services Relief Fund – Phase 5 allocation of $6.1 M;
- Ministry of Health – one-time funding approvals of $18.7 M;
- Other Ministry Funding - $15.5 M;
- Safe Restart Agreement – Transit Phase 3 eligible funding of $8.1 M versus the carry-over of $10.1 M;
- COVID-19 Recovery Funding for Municipalities Program carry-over of $6.3 M.

The Tax Supported Operating Budget surplus of $22.9 M is broken down by surpluses of $3.2 M for Boards and Agencies, $10.7 M for Capital Financing and $9.0 M for City Departments and other Tax Supported Programs. For the Rate Supported Operating Budget, the surplus is related to favourable variances from revenue of $2.0 M, partially offset by an unfavourable variance in operating expenditures of $0.8 M.

Additional details are presented in the Analysis and Rationale for Recommendation(s) section beginning on page 7 of Report FCS22042(b).

The year-end consolidated operating budget surplus of $24.1 M is summarized in Table 2 and the disposition is detailed in Recommendation (d) (Table 1) of Report FCS22042(b).

Table 2

CONSOLIDATED CORPORATE SURPLUS/ (DEFICIT)	**$**
Tax Supported Programs	
Police	$ 1,020,546
Library	$ 2,139,741
Capital Financing	$ 10,748,933
Other Tax Supported Programs	$ 9,029,119
Total Tax Supported Surplus	**$ 22,938,340**
Rate Supported Programs	**$ 1,173,485**
Consolidated Corporate Surplus/ (Deficit)	**$ 24,111,824**

The City of Hamilton has policies, obligations, future requirements and past practices that guide decisions around the disposition of the year-end operating budget surplus. The proposed disposition of the 2022 surplus is highlighted below.

Tax Supported Operating Budget Variance

- Year-end variances for Police and Library to be allocated to their own reserves as per their policies.

- Farmers' Market – Staff recommends the $1,063 in unfunded COVID-19 related costs be funded from the COVID-19 Emergency Reserve (Reserve #110053).

- Cold Alert Response – Per the motion at Emergency & Community Services Committee at its meeting on December 1, 2022, that up to a maximum of $125,000 for the Cold Alert response between December 2022 to March 2023 be funded from any available 2022 Housing Services Division or Healthy & Safe Communities Departmental surplus or through the Tax Stabilization Reserve should a surplus not be realized. Staff is recommending the anticipated costs of $109,000 be funded from the 2022 operating budget surplus.

- Mission Services – Per Report HSC20020(f), staff was directed to advocate for additional transitional COVID-19 funding resources to support ongoing housing and homelessness systems responses, address budgetary shortfalls and mitigate impacts on the City. A response from the Federal Minister of Housing and Diversity and Inclusion and the Provincial Minister of Municipal Affairs and Housing has not yet been received as requested in Adaptation and Transformation of Services for People Experiencing Homelessness Update 6 (Report HSC20020(f)). In the report, staff was authorized, in 2022, to implement a one-time grant to a maximum amount of $3.04 M to Mission Services for capital improvements to a new men's emergency shelter. Staff is recommending that funds be set aside in the tax stabilization reserve from the 2022 operating surplus to fund in 2023 as the grant was not provided in 2022.

- Hamilton Utilities Corporation (HUC) Dividends –Council, through Report HSC19048, approved that any future year-end Alectra / Hamilton Utilities Corporation Dividend surpluses be used to reduce the reliance on debt financing for Council approved Housing projects. While the HUC dividend surplus of $2.8 M would be earmarked to reduce future reliance on the tax levy to fund debt repayments related to the National Housing Co-Investment Funding received from the Canada Mortgage and Housing Corporation, staff is recommending it be used for City Housing Hamilton (CHH) Vacant Unit Repair Program. Council at its meeting March 29, 2023, approved CHH Shareholder Corporation Report 23-001, requesting funding of up to $5.7 M for a CHH Vacant Unit Repair Program of 476 units. Consequently, the HUC dividend surplus of $2.8 M will be transferred to Housing Project ID #6732341301 and used towards this program with the balance of the funding to be determined.

- Development Charge (DC) Exemptions – Staff recommends that $7.1 M be transferred to fund the 2022 shortfall in budgeted discretionary tax supported development charge exemptions. Total Development Charge Exemptions (Project ID #2052180510), including both Rate and Tax Supported statutory and discretionary exemptions, were $50.6 M in 2022 as outlined in Appendix "F" to Report FCS22042(b). The total budget for 2022 was $19.1 M, leaving a funding shortfall of $31.5 M. The recommended transfer of $7.7 M funds a portion of the 2022 shortfall in tax supported discretionary exemptions. The funding shortfall in discretionary exemptions was driven by development related exemptions in a variety of sectors. Staff will incorporate a funding strategy for the remaining DC exemption shortfall in the 2024 Tax Supported Capital Budget and Financing Plan.

- Slot Revenues – Slot revenue surplus of $263 K to be transferred to the Flamborough Capital Reserve Fund, per Council approval of Report FCS12031 on April 25, 2012.

- Hamilton Entertainment Facilities (HEF) – $545 K of the HEF surplus is recommended to be transferred to the Hamilton Entertainment Facilities Capital Projects Reserve (Reserve #100025). The amount of $545 K funds the existing deficit in the HEF Capital Reserve.

- Tax Stabilization Reserve #110046 – The remainder of the tax supported operating budget surplus of $5.3 M is proposed to be transferred to the Tax Stabilization Reserve.

Rate Supported Operating Budget Variance

- The Rate Supported Operating Budget surplus of $1.2 M is made up of a surplus in wastewater / stormwater of $0.4 M and a surplus of $0.8 M in water. Staff recommends the $1.2 M be transferred to partially fund the 2022 shortfall in discretionary rate supported DC exemptions (Project ID #2052180510). Total DC exemptions, including both Rate and Tax Supported statutory and discretionary exemptions, were $50.6 M in 2022 as outlined in Appendix “F” to Report FCS22042(b). The total budget for 2022 was $19.1 M, leaving a funding shortfall of $31.5 M. Combined with the recommended transfer of $7.7 M from the tax supported operating surplus, this additional $1.2 M transfer from rate supported operations will assist in funding a portion of the 2022 shortfall in rate discretionary exemptions. Staff will incorporate a funding strategy for the remaining DC exemption shortfall in the 2024 Rate Supported Budget and Financing Plan.

2022 Budget Transfers and Extensions

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, staff is submitting seven recommended items. The complement transfers, identified in Appendix “C” to Report FCS22042(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, without impacting the tax levy or rate.

Staff is also recommending two items where temporary positions with 24-month terms or greater are being extended as identified in Appendix “D” to Report FCS22042(b) with no impact on the levy.

Alternatives for Consideration – See Page 20

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the Analysis and Rationale for Recommendation(s) section of Report FCS22042(b) beginning on page 7.

Staffing: Staffing implications of Report FCS22042(b) are detailed in Appendices "C" and "D", which outline the 2022 staff complement transfers from one department / division to another with no impact on the levy and extensions of temporary positions.

Legal: Not Applicable

HISTORICAL BACKGROUND

The Audit, Finance and Administration Committee received Report FCS22042(a), "Tax and Rate Operating Budget Variance Report as at August 31, 2022", on December 1, 2022 which provided information on the Safe Restart Agreement Funds and other government funding announcements to support COVID-19 pandemic response and recovery efforts.

In Report FCS22042(a), City staff projected an unfunded pressure of $36.2 M related to the pandemic and an anticipated overall deficit of $16.4 M for tax supported operations. At that time, rate supported operations were also forecasted to be in a deficit of $158 K.

There have been various other funding announcements, outside of the Social Services Relief Fund and Safe Restart Agreements, to assist municipalities in the delivery of critical programs and services throughout the pandemic. This includes funding from the Ministry of Health for the COVID-19 response and vaccination programs, mental health and addictions funding, enhancements to the Reaching Home Initiative, the CMHC Rapid Housing Initiative, the ICIP – COVID-19 Resilience Infrastructure Stream, as well as, funding for other emergency response and essential services such as paramedics, long-term care and children services. However, most of this funding was for fiscal years 2020 and 2021 with the ability to carryover unused amounts to 2022.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

Budget Control Policy (Appendix 1 to FCS12010, CBP – 2). The purpose of this Policy is to ensure that City staff have appropriate authority to manage budget resources to ensure programs and services are delivered in an effective and efficient manner. Council also requires assurance that budget resources are used for the purpose intended through the approval of the annual budget.

Budget Complement Control Policy (Appendix "A" to FCS16024, CBP – 1). The purpose of this Policy is to ensure that the City's staff complement is managed in an effective and efficient manner. The Policy provides guidance on transferring complement, increasing or decreasing complement and changing complement type.

RELEVANT CONSULTATION

Staff in all City of Hamilton departments and boards provided the information in Report FCS22042(b).

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The following provides an overview of the more significant issues affecting the 2022 Tax and Rate Operating Budget Surpluses. Appendix "A" to Report FCS22042(b) summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix "B" to Report FCS22042(b) summarizes the Rate Supported Operating Budget results by program.

Table 3 provides a summary of the departmental results as at December 31, 2022. The Tax Operating Budget surplus(unaudited) is at $22.9 M or approximately 2.3% of the net levy.

Table 3

	2022 Approved Budget	2022 Year-End Actuals	2022 Variance (Actuals vs Budget) $	2022 Variance (Actuals vs Budget) %
TAX SUPPORTED				
Planning & Economic Development	31,621	26,553	5,068	16.0%
Healthy and Safe Communities	268,137	272,746	(4,609)	(1.7)%
Public Works	278,499	283,312	(4,813)	(1.7)%
Legislative	5,283	4,891	393	7.4%
City Manager	13,649	12,892	757	5.5%
Corporate Services	39,667	35,655	4,012	10.1%
Corporate Financials / Non Program Revenues	(30,506)	(37,247)	6,741	22.1%
Hamilton Entertainment Facilities	2,338	960	1,377	58.9%
TOTAL CITY EXPENDITURES	608,689	599,762	8,927	1.5%
Hamilton Police Services	182,369	181,348	1,021	0.6%
Library	32,710	30,570	2,140	6.5%
Other Boards & Agencies	16,654	16,553	101	0.6%
City Enrichment Fund	6,088	6,088	0	0.0%
TOTAL BOARDS & AGENCIES	237,821	234,559	3,261	1.4%
CAPITAL FINANCING	147,028	136,278	10,750	7.3%
TOTAL OTHER NON-DEPARTMENTAL	384,849	370,838	14,011	3.6%
TOTAL TAX SUPPORTED	993,538	970,600	22,938	2.3%

Since the onset of the COVID-19 pandemic, there have been numerous announcements from the Federal and Provincial governments regarding funding opportunities to address financial pressures for individuals and organizations. Appendix “E” to Report FCS22042(b) provides a summary of all the net financial pressures from COVID-19 for 2022 and all funding from senior levels of government that were applied to offset the pressures. For 2022, $55.1 M in COVID-19 related funding was applied (see Appendix “E” for further details). This includes the remaining $6.3 M funding as part of the COVID-19 Recovery Funding for Municipalities Program (CRFMP) was fully utilized.

Safe Restart Agreement – Transit

Safe Restart Agreement Transit Phase 3 funding was confirmed in a letter from the MTO on March 3, 2021 for the period between April 1, 2021 and December 31, 2021 for a total allocation to the City of $16.8 M. The City will be required to return any unused funding, including interest, at the end of the eligibility period. The Province may also, at its sole discretion and on a case-by-case basis, grant extensions to the Phase 3 eligibility period for costs incurred after December 31, 2021 to December 31, 2022 of which $10.1 M funding remained at the end of 2021.

As at December 31, 2022, $8.1 M was required from the Safe Restart – Transit funding to cover COVID-19 related costs incurred during the year, leaving $2.0 M in funding remaining at the end of 2022. These funds have not been authorized by the MTO to be carried forward into 2023 as of the writing of Report FCS22042(b) (see Appendix “E” for further details).

Safe Restart Agreement – Municipal and COVID-19 Recovery Funding for Municipalities Program

In addition to the Safe Restart Agreement, in March 2021, the Province of Ontario announced a $500 M funding commitment to municipalities under the COVID-19 Recovery Funding for the Municipalities Program (CRFMP). The City of Hamilton’s share under this program of $18.7 M is available to address general municipal COVID-19 costs and pressures in 2021 and 2022. At the end of 2021, the amount of CRFMP funding available for carry forward to 2022 was $6.3 M.

As at December 31, 2022, the remaining $6.3 M in CRFMP funding was utilized to reduce COVID-19 related pressures. As the SRA funding was fully utilized in 2021, $17.3 M in pressures remain unfunded in 2022 (see Appendix “E” for further details).

Social Services Relief Fund

On March 10, 2021, the City received a letter from the Ministry of Municipal Affairs and Housing announcing Phase 3 of the SSRF and the City’s allocation of $12.3 M for the period of March 1, 2021 up to December 31, 2021.

Another letter was received by the City on August 16, 2021 from the Ministry of Municipal Affairs and Housing (MMAH) detailing the fourth and final Phase of the province's SSRF and through Canada-Ontario Community Housing Initiative (COCHI). Under Phase 4 of the SSRF program, the City of Hamilton has received an allocation of $13.8 M for the 2021 – 2022 fiscal year.

Under the COCHI program, the government has also approved the release of up to an additional $21 M. This funding will support community housing providers across Ontario, including the state of repair of the legacy social housing stock. Under COCHI, the City of Hamilton has received an additional funding allocation in the amount of $1.0 M to the City of Hamilton for the 2021 - 2022 fiscal year.

Another letter was received by the City on April 7, 2022 from the Ministry of Municipal Affairs and Housing (MMAH) outlining a fifth and final Phase of the province's SSRF. Under this fifth phase, the City of Hamilton has received an allocation of $6.1 M for the 2022 – 2023 fiscal year.

Combining Phase 5 funding of $6.1 M with eligible carryover amounts from Phase 4 funding of $0.5 M, a total of $6.6 M was available for 2022. As at December 31, 2022, this amount has been fully leveraged (see Appendix "E" for further details).

Other funding from senior levels of government

Funding from the Ministry of Health and other provincial ministries of $34.2 M was utilized in 2022 for COVID-19 pressures and recovery efforts.

Tax Supported Operating Budget

Appendix "A" to Report FCS22042(b) summarizes the Tax Supported Operating Budget variances by department and division.

Corporate-wide gapping is detailed in Table 4 and totalled $14.2 M in 2022, in comparison to the Council approved target of $5.1 M, resulting in a surplus of $9.1 M.

Table 4

NET GAPPING BY DEPARTMENT	GAPPING TARGET ($000's)	2022 ACTUAL GAPPING ($000's)	VARIANCE ($000's)
Planning & Economic Development	$ 866	$ 5,591	$ 4,725
Healthy and Safe Communities	$ 1,050	$ 1,642	$ 592
Public Works	$ 2,247	$ 2,700	$ 453
Legislative	$ 85	$ (295)	$ (380)
City Manager	$ 229	$ 787	$ 558
Corporate Services	$ 643	$ 3,792	$ 3,149
Consolidated Corporate Savings	**$ 5,120**	**$ 14,217**	**$ 9,097**

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

Planning and Economic Development Department

Planning and Economic Development reported a favourable variance of $5.1 M.

The Transportation Planning and Parking Division had a surplus of $2.1 M. This was mainly attributable to favourable revenues of $1.1 M, gapping of $0.3 M, unspent grant funding of $0.3 M and a previous bike share operator settlement of $0.1 M. This was partially offset by increased financial costs of $0.2 M (processing fee costs, credit card charges, etc.).

The Growth Management Division had a surplus of $0.7 M as a result of additional revenues (airport and grading and peer review). A $1.3 M surplus mainly attributable to favourable gapping was transferred to Development fees stabilization reserve.

The Licensing and By-Law Services Division had a surplus of $0.7 M. The favourable variance is due to gapping ($0.9 M), savings related to office relocation ($0.3 M), partially offset by unrealized revenues ($0.5 M) and higher than expected vehicle expenses ($99 K).

A favourable variance of $0.7 M in the Planning Division is driven by gapping savings of $1.5 M. These savings were partly offset by a $0.8 M surplus transfer to Development Fees Stabilization Reserve.

Tourism and Culture had a surplus of $1.0 M as a result of gapping savings and savings in contractual costs and repairs and maintenance, as well as, some additional revenues realized in the film sector compared to budget.

The remaining divisions had a combined deficit of $22 K. This was the result of gapping savings offset by decreased zoning revenues in the Building Division.

CRFMP funding of $2.3 M was applied to the Planning and Economic Development Department to offset COVID-19 related pressures. $1.6 M of the funding applied was in the Transportation, Planning and Parking Division. $544 K in unfunded pressures remain in the department at the end of 2022, predominately in the Licensing and By-Law Services Division ($532 K).

The Planning and Economic Development departmental gapping target, included in the explanations above, is $0.9 M for the year of 2022. As at December 31, 2022, the actual year-end net gapping amount is $5.6 M, resulting in favourable gapping of $4.7 M.

Healthy and Safe Communities Department

Overall, the Healthy and Safe Communities Department experienced a deficit of $4.6 M. This is primarily driven by unfunded COVID-19 related expenditures in Housing Services of $14.5 M. Appendix “E” to Report FCS22042(b) reflects all funding from senior levels of government of $41.9 M that was applied to offset COVID-19 related pressures occurred in the Department in 2022.

The Children’s Services and Neighbourhood Development Division had a surplus of $2.9 M mostly due to gapping savings of $477 K and maximization of funding available allowed by the Ministry of Education of $2.3 M.

The Ontario Works Division had a surplus of $2.0 M. The surplus is due to gapping, lower than budgeted building operational costs and contractual services.

Housing Services had a deficit of $11.8 M. There was a surplus resulting from the Social Housing prior year reconciliations for revenue rents and provincial funding received for portable housing benefits in addition to maximizing other available provincial subsidies totalling $2.7 M. This was offset by COVID-19 related pressures that were incurred throughout 2022. Funding from senior levels government, as reported in Appendix “E” to Report FCS22042(b) of $6.6 M was required to offset the COVID-19 pandemic response required by the Division. However, given the cost of running these emergency services, these allocations are insufficient to cover the demands of the program leaving an unfunded balance of $14.5 M for 2022.

The Long Term Care Division had a favourable variance of $375 K mostly due to staffing shortages across the industry ($447 K), increased level of care funding ($46 K) and cost savings in various operating costs ($113 K). This is offset partially by staffing costs of unbudgeted positions, work accommodation, overtime, sick pay, employee ancillary costs and revenue adjustments for a combined total of $231 K.
Recreation had a surplus of $3.1 M. The operational and maintenance cost savings due to closures ($2.1 M net of foregone revenues) and savings in employee related costs, as well as, higher than budgeted revenues for the year.

The Hamilton Fire Department had a deficit of $997 K due to overtime and vehicle fuel costs of $1.3 M. This was partially offset by a favourable variance due to user fees.

Hamilton Paramedic Service experienced a deficit of $411 K due to higher than expected costs for ancillary employee related costs. This was partially offset by higher than expected revenues for user fees and other operating savings.

Public Health Services had a surplus of $0.2 M as a result of savings in gapping as a result of staff being deployed to other areas due to COVID-19.

The Healthy and Safe Communities departmental gapping target is $1.0 M for the 2022 year. The actual year-end gapping amount is $1.6 M, resulting in a surplus of $0.6 M.

Public Works Department

Overall, the Public Works (PW) Department had a deficit of $4.8 M, attributable to unfavourable variances across several divisions.

The PW - General Administration Division had $1.5 M deficit. This was mainly due to unfunded positions in Corporate Asset Management that is to be covered by overall gapping dollars. This was partially offset by recoveries from capital for Enterprise Asset Management (EAM) employee related costs.

Engineering Services had a surplus of $0.4 M due to Road Cut Administrative Program fees and Permit Revenues along with other user fee revenues collected for various Corridor Management activities administered by this Division.

Energy, Fleet and Facilities (EFF) Division had a deficit of $1.1 M for the year. The deficit is due to $0.8 M in snow removal charges for winter events and winterizing costs at Tim Hortons Field, unbudgeted security expenditures of $0.3 M, in addition to unfavourable gapping.

Environmental Services ended the year with a surplus of $0.2 M mainly due to gapping savings as a result of difficulties in hiring seasonal employees, as well as, periodic vacancies throughout the year. This was partially offset by increased cost for contractual services (repairs) that were paused during COVID-19. The division experienced $119 K in COVID-19 related pressures that remain unfunded for 2022.

Waste Management had a deficit of $0.2 M. There is a deficit of $960 K in contracted services for waste collection due to the difference between the budgeted and actual escalation factor ($0.9 M). The main driver for the increase in escalation factor is higher than expected natural gas prices. There is also negative gapping ($0.7 M), fleet maintenance expenditures ($0.7 M) and increased fuel commodity rates ($0.3 M) contributing to the divisional deficit. The deficit was partially offset by increased Transfer Station and Commodity Recycling Revenues (TS / CRC) from increased tonnage and visits ($1.5 M) in addition to savings in the Materials Recycling Facility (MRF) contract ($0.5 M).

Transit had a deficit of $1.7 M for the year. COVID-19 impacts that are fully funded from Safe Restart Funds include unfavourable variances in fare revenue of $13.5 M and fleet maintenance of $1.7 M, as well as, favourable variances in the DARTS contract of $6.8 M and PRESTO contract of $540 K. In addition, the negative impact of rising fuel prices of $2.7 M, less fuel consumption of $230 K, is offset by other net favourable variances.

Transportation Operations and Maintenance had a deficit of $858 K. The deficit is driven by $3.3 M in costs associated with the Winter Season Roads Program due to heavier than typical winter season requiring additional in-house and contracted equipment / labour. This was partially offset by favourable gapping of $2.3 M and a positive variance in the Summer Season Roads Program.

The Public Works departmental gapping target, included in the explanations above, was $2.2 M for the 2022 year. The actual year-end gapping amount is $2.7 M, resulting in an annual surplus of $0.5 M.

Legislative

The overall departmental surplus for 2022 was $393 K. This was the result of savings in conference, membership fees, communication and employee contractual costs across several divisions. In addition, unspent ward office and volunteer committee budgets further drove a favourable variance.

The Legislative departmental gapping target was $84 K for the year of 2022. The actual year-end gapping amount is -$295 K, resulting in a deficit of $380 K.

City Manager's Office

The City Manager's Office had a favourable variance of $0.8 M. Most of this surplus was in the Human Resources Division of $960 K. The main drivers of the favourable variance were gapping and savings in corporate leadership training due to COVID-19 restrictions, offset by higher than budgeted legal fees.

The Digital Innovation Office had a deficit of $206 K due to lower than expected revenues realized.

The remaining divisions had a combined surplus of $34 K as a result of favourable gapping in addition to savings in contractual costs in the Government and Community Relations division.

The City Manager's Office departmental gapping target, included in the explanations above, was $0.2 M for the 2022 year. The actual year-end gapping amount is $0.8 M, resulting in a surplus of $0.6 M.

Corporate Services Department

Corporate Services finished 2022 with a positive variance of $4.0 M. This was mainly the result of favourable variances of $1.1 M in Financial Services, Taxation and Corporate Controller Division, $1.7 M in the Information Technology Division and $0.9 M in Customer Service, POA and Financial Integration Division.

The variance in Financial Services, Taxation and Corporate Controller Division was due to gapping ($754 K) and favourable fees collections of $195 K (tax certificates and tax transfer fees).

The variance in Information Technology division is mainly a result of gapping ($1.1 M), savings in computer software and hardware ($928 K), partially offset by a $511 K deficit in contract recoveries from Motorola Trunk Radio. The variance in Customer Service, POA and Financial Integration Division is primarily due to employee related savings from gapping ($0.9 M).

The remaining divisions had a combined surplus of $404 K attributable to gapping savings.

CRFMP funding of $144 K was applied to the Department, however, $3.1 K remains as an unfunded pressure in the Corporate Services – Administration Division.

The Corporate Services departmental gapping target, included in the explanations above, was $0.6 M for the 2022 year. The actual year-end gapping amount is $3.8 M, resulting in a surplus of $3.2 M.

Corporate Financials / Non-Program Revenues

Corporate Financials / Non-Program Revenues show a $6.7 M combined favourable variance for the 2022 year. Contributing factors are identified as follows:

- Non-Program Revenues: Shared revenues from the Ontario Lottery and Gaming Corporation were higher than anticipated after reopening of casinos and racetrack slots after COVID-19 closure, resulting in a surplus of $263 K.

- Non-Program Revenues: Dividends from Hamilton Utilities Corporation and Alectra Dividends net of administration costs were higher than anticipated resulting in a surplus of $2.8 M.

- Non-Program Revenues: Tax remissions and write-offs resulted in a $5.3 M surplus based on appeals processed.

- Non-Program Revenues: Supplementary taxes exceeded budget by $3.9 M based on Assessment Roll update by MPAC.

- Corporate Pensions, Benefits and Contingency: $3.5 M deficit due to higher costs relating to insurance ($3.0 M) and severance ($378 K).

- Corporate Initiatives: $1.4 M deficit from excess Workers Safety and Insurance Benefits of ($1.2 M) and favourable variance in other programs of $200 K.

- Non-Program Revenues: POA revenues were lower than expected ($1.5 M) due to 2022 court closures as a result of COVID-19.

Hamilton Entertainment Facilities (HEF)

HEF had a favourable variance of $1.4 M for 2022 mainly due to net revenues received from HUPEG for April to December 2022 after deducting facilities recovery costs and net loss guarantee.

Capital Financing

Capital financing had an overall positive variance of $10.7 M as a result of timing differences in cash flow assumptions for completion of capital projects and related delays in the issuance of debt.

Boards and Agencies

Boards and Agencies had a surplus of $3.3 M.

The main surplus is attributable to Library. Library had a favourable variance of $2.1 M as a result of staffing secondments to assist with vaccine rollout / pandemic response, in addition to vacancies going unfilled (gapping) due to COVID-19 closures and service restrictions at the beginning of 2022.

Hamilton Police Service had a surplus of $1.0 M. The Hamilton Police Board will be presenting its year-end 2022 operating budget variance report in May or June 2023.
The Hamilton Farmers' Market had an unfavourable variance of $1 K due to COVID-19 related expenditures. The deficit is recommended to be funded from the COVID-19 Emergency Reserve.

The Library and Police surplus is recommended to be transferred to their own reserves.

MPAC had a surplus of $135 K based on actual levy confirmed.

Hamilton Conservation Authority had a deficit of $33 K as a result of an excess payment made in error that will be corrected in 2023 via a reduction in 2023 levy payments.

CRFMP funding of $222 K was applied to Boards and Agencies, however, $54 K remains an unfunded pressure.

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. As outlined in Recommendation (b) of Report FCS22042(b), staff recommends that the Tax Supported Operating Budget Surplus of $22.9 M be distributed to various reserves as per the following paragraphs.

This proposed disposition of the 2022 surplus is highlighted below:

- Year-end variances for Police and Library to be allocated to their own reserves as per their policies.

- Farmers' Market – Staff recommends the $1,063 in unfunded COVID-19 related costs be funded from the COVID-19 Emergency Reserve (Reserve #110053).

- Cold Alert Response – Per the motion at Emergency and Community Services Committee at its meeting on December 1, 2022 that up to a maximum of $125,000 for the Cold Alert response between December 2022 to March 2023 be funded from any available 2022 Housing Services Division or Healthy and Safe Communities Departmental Surplus or through the Tax Stabilization Reserve should a surplus not be realized. Staff is recommending $109,000 be funded from the 2022 operating budget surplus.

- Mission Services – Per Report HSC20020(f) – A response from the Federal Minister of Housing and Diversity and Inclusion and the Provincial Minister of Municipal Affairs and Housing to advocate for additional transitional COVID-19 funding resources to support ongoing housing and homelessness systems responses, address budgetary shortfalls and mitigate impacts on the City has not yet been received as requested in Adaptation and Transformation of Services for People Experiencing Homelessness Update 6 (Report HSC20020(f)). In the Report, staff was authorized in 2022 to implement a one-time grant to a maximum amount of $3.04 M to Mission Services for capital improvements to a new men's emergency shelter. Staff is recommending that funds are set aside in the tax stabilization reserve from the 2022 operating surplus to fund in 2023 as the grant was not provided in 2022.

- Hamilton Utilities Corporation (HUC) Dividends –Council, through Report HSC19048, approved that any future year-end Alectra / Hamilton Utilities Corporation Dividend surpluses be used to reduce the reliance on debt financing for Council approved Housing projects. While the HUC dividend surplus of $2.8 M would be earmarked to reduce future reliance on the tax levy to fund debt repayments related to the National Housing Co-Investment Funding received from the Canada Mortgage and Housing Corporation, staff is recommending it be used for City Housing Hamilton (CHH) Vacant Unit Repair Program. Council at its meeting March 29, 2023, approved CHH Shareholder Corporation Report 23-001, requesting funding of up to $5.7 M for a CHH Vacant Unit Repair Program of 476 units. Consequently, the HUC dividend surplus of $2.8 M will be transferred to Housing Project ID #6732341301 and used towards this program with the balance of the funding to be determined.

- Development Charge Exemptions – Staff recommends $7.1 M be transferred to fund the 2022 shortfall in discretionary tax supported development charge exemptions. Total Development Charge Exemptions (Project ID #2052180510), including both Rate and Tax Supported statutory and discretionary exemptions, were $50.6 M in 2022 as outlined in Appendix “F” to Report FCS22042(b). The total budget for 2022 was $19.1 M, leaving a funding shortfall of $31.5 M. The recommended transfer of $7.7 M funds a portion of the 2022 shortfall in tax supported discretionary exemptions. The funding shortfall in discretionary exemptions was primarily driven by non-residential development including industrial rate reductions and agricultural use.

- Slot Revenues – Slot revenue surplus of $263 K to be transferred to the Flamborough Capital Reserve Fund, per Council approval of Report FCS12031 on April 25, 2012.

- Hamilton Entertainment Facilities – HEF Program surplus of $545 K to be funded from the Hamilton Entertainment Facilities Capital Projects Reserve (Reserve #100025). The amount of $545 K funds the existing deficit in the HEF Capital Reserve.

- Tax Stabilization Reserve #110046 – The remainder of the tax supported operating budget surplus of $5.3 M is to be transferred to the Tax Stabilization Reserve.

Rate Supported Operating Budget

For 2022, the Rate supported operating budget had a favourable variance of $1.2 M due to unfavourable operating expenditures of $3.9 M, offset by favourable Capital Financing of $3.1 M and a favourable revenue variance of $2 M.

Revenues

As of December 31, 2022, total rate revenues are $2.0 M (0.8 %) favourable to budget. An overall favourable variance of $2.0 M is mainly due to a surplus in the residential sector of $3.1 M offset by a shortfall of $2.3 M in the Industrial, Commercial and Institutional (ICI) sector. Staff continues to monitor consumption patterns and post-pandemic related impacts, as well as, changes in water consumption trends as some customers' consumption has not returned to pre-pandemic levels as anticipated, particularly in the ICI sector.

In 2022, to better understand recent declined consumption of large industrial and institutional customers, staff conducted a survey of the top water users. There was a response rate of 24%. A common theme among the response was that steps have been taken to reduce the use of excess water, whether that be through process audits, regular reviews of water usage, leak detection programs, plumbing repairs, retro-fitting, etc. Forecasted over the next five years, five companies surveyed expect their consumption to decrease. Again, the reductions are attributed to the review of processes, new initiative and water conservation projects. The forecasted deficit has been addressed in the 2023 Rate Budget.

As of December 31, 2022, there is a surplus $0.4 M in Sewer Surcharge Agreements, $0.4 M from hauled water and sewage, as well as, $1.0 M from Halton and Haldimand, whose residential customer base continues to increase resulting in a continued trend of favourable revenues. Partially offsetting the surplus is a deficit of $0.4 M in Overstrength Agreements.

Non-rate related revenues ended the year with an unfavourable variance of $0.3 M mainly due decreased demand for new construction permits.

Expenditures

Overall program spending for 2022 is projected to have an unfavourable variance of $874 K. The driving factors behind this are shown in Table 5.

Table 5

City of Hamilton - Rate Budget Operating Expenditures Variance Drivers	
Expenditure Types	**Variance ($000's)**
Materials and Supplies	(3,683)
Capital Financing	3,119
Buildings and Grounds	(1,022)
Employee Related Costs	291
Contractual and Consulting	243
Agencies & Support Payments	178
Total Operating Expenditures	**(874)**

Note: () Denotes unfavourable variance

Material and Supplies ended 2022 with an unfavourable variance of ($3.7 M). This is largely attributed to the significant price increases realized within the chemical supply market, mainly due to liquid chlorine. The increased costs in fluid and chemicals and new contracts have been adjusted in the 2023 Rate Budget process.

Capital Financing had a favourable variance of $3.1 M mainly due to timing in the issuance of debt. This positive variance is partially offset by the higher than anticipated reserve transfers of $275 K.

Building and Ground had an unfavourable variance of ($1 M) mainly due to increased hydro costs due to the temporary closure of the Kenilworth Reservoir.

Employee related costs had a favourable variance of $291 K mainly due to net gapping savings realized from staff vacancies.

Contractual and Consulting expenditures had a favourable variance of $243 K due to savings in Outreach and Education Program due to decreased spending resulting from COVID-19.

Agencies and Support Payments had a favourable variance of $178 K mainly due to the Protective Plumbing Program (3P). Less adverse weather in early 2022 has resulted in lower than expected uptake in the 3P program.

Appendix "B" to Report FCS22042(b) summarizes the Rate Budget results by program.

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 Net Surplus of $1.2 M be transferred as follows:

- Surplus of $0.8 M from water operations to be transferred to fund development charge exemptions (Project ID #2052180510)

- Surplus in wastewater / storm operations of $0.4 M to be transferred to fund development charge exemptions (Project ID #2052180510)

ALTERNATIVES FOR CONSIDERATION

Table 1 in the Recommendation(s) section of Report FCS22042(b) 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 FCS22042(b) – City of Hamilton Tax Operating Budget Variance Report as at December 31, 2022

Appendix “B” to Report FCS22042(b) – City of Hamilton 2022 Combined Water, Wastewater and Storm Operating Budget Macro as at December 31, 2022

Appendix “C” to Report FCS22042(b) – City of Hamilton Budget Amendment Staff Complement Change

Appendix “D” to Report FCS22042(b) – City of Hamilton Budgeted Complement Temporary Extension Schedule

Appendix “E” to Report FCS22042(b) – City of Hamilton COVID-19 Pressures and Funding Sources– December 31, 2022

Appendix “F” to Report FCS22042(b) – City of Hamilton 2022 Development Charges Exemption Summary

KP/DR/dt