




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

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 13, 2023
SUBJECT/REPORT NO:	Tax and Rate Operating Budgets Variance Report as at April 30, 2023 – Budget Control Policy Transfers (FCS23063) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Kayla Petrovsky Fleming (905) 546-2424 Ext. 1335
SUBMITTED BY:	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That the Tax and Rate Operating Budgets Variance Report, as at April 30, 2023, attached as Appendices “A”, to Report FCS23063, be received;
- (b) That the Tax and Rate Operating Budgets Variance Report, as at April 30, 2023, attached as Appendices “B”, to Report FCS23063, be received;
- (c) That, in accordance with the “Budgeted Complement Control Policy”, the 2023 complement transfer from one department / division to another or a change in complement type, with no impact on the levy, as outlined in Appendix “C” to Report FCS23063, be approved;
- (d) That, in accordance with the “Budget Control Policy”, the 2023 budget transfers from one department / division to another with no impact on the property tax levy, as outlined in Appendix “D” to Report FCS23063, be approved;
- (e) That, in accordance with the “Budgeted Complement Control Policy”, the extensions of temporary positions with 24-month terms or greater, with no impact on the levy, as outlined in Appendix “E” to Report FCS23063, be approved.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

EXECUTIVE SUMMARY

Staff has committed to provide Council with three variance reports for the Tax and Rate Supported Operating Budgets during the fiscal year. This is the first submission for 2023 based on the operating results as of April 30, 2023. Appendix “A” to Report FCS23063 summarizes the Tax Supported Operating Budget year-end variances by department and division while Appendix “B” to Report FCS23063 summarizes the year-end variances of the Rate Supported Operating Budget by program.

The forecasted Tax Supported Operating Budget surplus of \$10.8 M is broken down by surpluses of \$0.2 M for Boards and Agencies and \$16.1 M for Capital Financing offset by a \$5.5 M deficit for City Departments / Other. For the Rate Supported Operating Budget, the forecasted deficit of \$294 K is related to unfavourable revenues of \$1.0 M, partially offset by a favourable operating expenditure variance of \$0.7 M.

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

- Ministry of Health – one-time funding approvals of \$12.0 M;
- Safe Restart Agreement (SRA) – Transit Phase 3 eligible funding of \$2.1 M was budgeted for 2023 (\$2.1 M carryover from 2022);
- Other Ministry Funding – Long-term Care allocations of \$3.3 M;
- COVID-19 Emergency Reserve – approved funding of \$8.4 M.

The City’s allocation from the COVID-19 Recovery Funding for Municipalities Program was fully utilized in 2022. There have been no new announcements from senior levels of government to confirm that any additional funding to assist with COVID-19 related expenditures will be provided to the City. The City has previously set aside \$35.6 M of discretionary funds in the COVID-19 Emergency Reserve in order to offset future impacts of the pandemic on operations. In accordance with the *Municipal Act, 2001*, Section 289, the City must provide for any deficit in operations through reserves or the tax levy in the following year. City staff will recommend financing options in the Tax and Rate Operating Budgets Variance Report as at December 31, 2023, that generally is presented to Committee and Council in April, should a deficit occur for 2023 operations.

Additional details, including impacts from supply chain delays and inflation, are presented in the Analysis and Rationale for Recommendation(s) section beginning on page 4 of Report FCS23063.

2023 Budget Transfers, Extensions and Amendments

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, staff is submitting nine recommended items. The complement transfers, identified in Appendix “C” to Report FCS23063, 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.

Two of the nine complement changes staff is recommending are complement type changes from temporary unbudgeted positions to permanent positions, identified in Appendix “C” to Report FCS23063. The change to permanent positions has no impact to the 2023 operating levy as they will be funded from in-year operating program savings and incorporated into the 2024 Operating Budget. This is consistent in accordance with the Budget Control Policy.

The tax operating budget amendments, identified in Appendix “D” to Report FCS23063, moves budget from one division or department to another. Completing this transfer simplifies the budget review process for the following year by ensuring comparable budget data.

Staff is also recommending one item, where temporary positions with 24-month terms or greater, are being extended as identified in Appendix “E” to Report FCS23063 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 FCS23063 beginning on page 4.

Staffing: Staffing implications of Report FCS23063 are detailed in Appendices “C”, “D”, and “E”, which outline the 2023 staff complement transfers from one department / division to another or a change in complement type with no impact on the levy. Also outlined are extensions of temporary positions and budget amendments with no impact on the levy.

Legal: N/A

HISTORICAL BACKGROUND

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 2023 based on the operating results as of April 30, 2023.

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 has 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 FCS23063.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

The following provides an overview of the more significant issues affecting the 2023 Tax and Rate Supported Operating Budget forecasted variances. Appendix “A” to Report FCS23063 summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix “B” to Report FCS23063 summarizes the Rate Supported Operating Budget variances by program.

Table 1 provides a summary of the projected operating results as at April 30, 2023. The projected Tax Supported Operating Budget surplus after applying all available COVID-19 recovery funding from senior levels of government is \$10.8 M or approximately 1.0% of the 2023 net levy.

Table 1 - Tax Supported Operating Budget Variance Forecast

	2023 Approved Budget	2023 Year-End Forecast	2023 Variance (Forecast vs Budget)	
			\$	%
TAX SUPPORTED				
Planning & Economic Development	33,471	33,223	249	0.7%
Healthy and Safe Communities	300,020	304,227	(4,207)	(1.4)%
Public Works	293,579	297,251	(3,672)	(1.3)%
Legislative	5,499	5,547	(48)	(0.9)%
City Manager	14,827	15,207	(380)	(2.6)%
Corporate Services	44,207	41,822	2,385	5.4%
Corporate Financials / Non Program Revenues	(28,256)	(28,256)	(0)	(0.0)%
Hamilton Entertainment Facilities	150	0	150	100.0%
TOTAL CITY EXPENDITURES	663,497	669,020	(5,524)	(0.8)%
Hamilton Police Services	192,361	192,361	0	0.0%
Library	33,956	33,753	203	0.6%
Other Boards & Agencies	16,809	16,809	(0)	(0.0)%
City Enrichment Fund	6,575	6,575	(0)	(0.0)%
TOTAL BOARDS & AGENCIES	249,702	249,498	203	0.1%
CAPITAL FINANCING	156,410	140,287	16,123	10.3%
TOTAL OTHER NON-DEPARTMENTAL	406,112	389,785	16,326	4.0%
TOTAL TAX SUPPORTED	1,069,608	1,058,805	10,803	1.0%

COVID-19 Funding

During the COVID-19 pandemic, there were numerous announcements from the Federal and Provincial governments regarding funding opportunities to address financial pressures for individuals and organizations. Appendix “F” to Report FCS23063 provides a summary of all the net financial pressures from COVID-19 for 2023 and all funding from senior levels of government that were applied to offset the pressures. All of the City’s allocation of COVID-19 Recovery Funding for Municipalities Program (CRFMP) was utilized in 2022. For 2023, COVID-19 related pressures of \$27.3 M have been identified. Of this amount, \$17.4 M has dedicated funding sources and \$8.5 M has been approved by Council to be funded from the COVID-19 Emergency Reserve. The remaining pressure of \$1.4 M remains unfunded.

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Some recovery pressures related to COVID-19 are expected to continue into 2023, though there are no commitments from senior governments to provide additional funding. The City has set aside \$35.6 M of discretionary funds in the COVID-19 Emergency Reserve in order to offset future impacts of the pandemic on operations. Council has previously committed \$8.5 M of this funding through the 2023 budget leaving an uncommitted balance of \$27.3 M. City staff will recommend financing options in the Tax and Rate Operating Budgets Variance Report as at December 31, 2023, that generally is presented to Committee and Council in April, should a deficit related to COVID-19 pressures occur for 2023 operations.

Tax Supported Operating Budget

Appendix “A” to Report FCS23063 summarizes the Tax Supported Operating Budget variances by department and division.

Through the 2023 Tax Supported Operating Budget process, Council approved a one-time gapping adjustment to be made in Corporate Financials to fund 50% of the Hamilton Paramedic Service Business Cases in the amount of \$2,155,200 from gapping savings. This increased the 2023 gapping target from the previous \$5.1 M target for the year to \$7.3 M as detailed in Table 2.

It is projected that, at year-end, the corporate wide gapping actuals will be \$9.3 M, compared to the corporate wide gapping target of \$7.3 M, resulting in a surplus of \$2.0 M.

Table 2 – Net Gapping Variance

NET GAPPING BY DEPARTMENT	GAPPING TARGET (\$000's)	2023 PROJECTED GAPPING (\$000's)	VARIANCE (\$000's)
Planning & Economic Development	\$ 866	\$ 2,526	\$ 1,660
Healthy and Safe Communities	\$ 1,050	\$ 900	\$ (150)
Public Works	\$ 2,247	\$ 3,011	\$ 764
Legislative	\$ 85	\$ (35)	\$ (120)
City Manager	\$ 229	\$ (151)	\$ (380)
Corporate Services	\$ 643	\$ 3,062	\$ 2,419
Corporate Financials (One-Time)	\$ 2,155	\$ -	\$ (2,155)
Consolidated Corporate Savings	\$ 7,275	\$ 9,313	\$ 2,038

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

Planning and Economic Development Department

The Planning and Economic Development Department is forecasting a surplus of \$249 K.

The General Manager division is projecting a surplus of \$48 K for the 2023 year-end as a result of administrative expenditure savings and gapping.

The Transportation Planning and Parking Division is projecting a surplus of \$135 K. This is mainly attributable to increased fees of \$659 K (on-street parking revenues, processing fees and other revenues) in addition to gapping savings of \$273 K. This was partially offset by higher than budgeted contractual parking fees and material and supply expenditures. The division is also receiving less COVID-19 funding from reserve than what was budgeted in 2023 as a result of less COVID related revenue loss than anticipated.

Growth Management Division is projecting a \$6 K surplus. This is a result of \$3.9 M in projected revenues above forecast and a \$0.8 M projected gapping surplus. This total surplus will be transferred to the Development Fees Stabilization Reserve. The Planning Division's surplus of \$3.3 M relating to the revenue and gapping surplus will also be transferred to the Development Fees Stabilization Reserve.

The Building Division is projecting a deficit of \$25 K as a result of gapping pressures.

Tourism & Culture and Licensing & By-Law Services are projecting a combined surplus of \$83 K as a result of gapping savings, partially offset by other increases in expenditures (material and supply) and lost revenues (site rentals).

The Planning and Economic Development departmental gapping target is \$0.9 M for 2023. As at April 30, 2023, the projected year-end gapping amount is \$2.5 M, resulting in a projected surplus of \$1.6 M.

Healthy and Safe Communities Department

Overall, the Healthy and Safe Communities (HSC) Department is projecting a deficit of \$4.2 M for the 2023 year end.

The HSC Administration Division is projecting a deficit of \$48 K for year end as a result of gapping due to additional temporary positions. \$85 K in COVID-19 related housing pressures were previously approved by Council to be funded from the COVID-19 Emergency Reserve.

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The Children's and Community Services Division is forecasting a surplus of \$281 K as a result of gapping savings.

The Ontario Works division is projecting a deficit of \$232 K. The projected deficit is mainly attributable to an increase in client benefit referrals of \$371 K offset by \$61 K in gapping savings and contractual service savings of \$65 K.

Housing Services is projecting a deficit of \$1.9 M relating to a \$4.1 M in family hotel cost expenditures slightly offset by Social Housing provider reconciliation recoveries of \$2.2 M. \$6.7 M in COVID-19 related housing pressures were previously approved by Council to be funded from the COVID-19 Emergency Reserve.

Long-Term Care Division is projecting an unfavourable variance of \$0.5 M driven by unfavourable staffing costs partially offset by higher than anticipated revenues (including increased level of care funding). \$0.6 M in COVID-19 related pressures were previously approved by Council to be funded from the COVID-19 Emergency Reserve.

Recreation is forecasting a deficit of \$1.2 M. There are projected revenue losses of \$1.2 M for arenas. As a consequence of COVID-19, it has taken longer than anticipated to return to normal operations. In addition, changing market conditions due to COVID-19 resulted in higher than expected employee related costs as a result of challenges in recruitment of required staff.

Hamilton Fire Department is projecting a deficit of \$381 K. This is a consequence of overtime costs for COVID-19 related absences in addition to vehicle costs for fuel and tires.

Hamilton Paramedic Service is projecting a deficit of \$385 K. The unfavourable variance is due to overtime costs in addition to COVID-19 response and recovery efforts (enhanced cleaning) that are not funded. This was partially offset by higher than expected user fee revenue and lower than expected vehicle fuel costs.

Public Health Services is projecting an overall surplus of \$71 K. The favourable variance is attributable to Registered Nurse FTE vacancy in the Health Hazards and Vector Borne Disease Program.

The Healthy and Safe Communities departmental gapping target is \$1.1 M for the 2023 year. As at April 30, 2023, the projected year-end gapping amount is (\$0.9 M), resulting in a projected deficit of \$0.2 M.

Public Works Department

Overall, the Public Works department is forecasting a deficit of \$3.7 M. There are several contributors, both favourable and unfavourable, across the divisions that are leading to the projected position.

The General Administration, Corporate Asset Management and Corporate Facilities & Energy Management Divisions are forecasting a combined gapping deficit of \$918 K for the 2023 year end. This is a result of unbudgeted temporary staffing and inability to meet gapping target.

Engineering Services is projecting a surplus of \$0.3 M due to higher than expected Road Cut Administrative Program fees and Permit Revenues along with other user fee revenues collected for various Corridor Management activities administered by this section.

Environmental Services anticipates a surplus of \$0.3 M. This is a result of gapping savings from known difficulties in hiring students and seasonal workers and periodic vacancies throughout the year.

Waste Management is forecasting a deficit of \$2.9 M. Contributing to the deficit is a forecasted unfavourable variance of \$1.3 M in contracted services for waste collection. The annual escalation factor was higher than what was budgeted. The main driver for the increase in escalation factor is higher than expected natural gas prices. There is also a \$1.2 M deficit expected in commodities based on tonnages, year-to-date activities and actual versus budgeted commodity prices. There are also higher than forecasted costs for site security at the transfer stations, resulting in a \$250 K deficit.

Transit is forecasting a deficit of \$1.7 M. This is a result of several favourable and unfavourable variances across the division. Favourable variances include in the DARTS contract of \$1.5 M, \$0.4 M in Taxi contract and PRESTO contract of \$0.4 M. This was offset by unfavourable fare revenues of \$3.0 M, overtime costs and vehicle parts impacts due to rising inflation prices of \$0.6 M. Transit has budgeted \$2.1 M in COVID-19 related revenue pressures that are being covered by the \$2.1 M in carryover Safe Restart Agreement – Transit funding from 2022.

Transportation Operations and Maintenance is forecasting a surplus of \$1.3 M. The surplus is driven by gapping of \$1.8 M. This is due to seasonal staff hiring due to hiring delays and staff vacancies. This was partially offset by an unfavourable variance of \$527 K due to increased fuel costs.

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The Public Works departmental gapping target, included in the explanations above, is \$2.2 M for the 2023 year. As at April 30, 2023, the projected year-end gapping amount is \$3.0 M, resulting in a projected surplus of \$0.8 M.

Legislative

The Legislative budget is projected to be at a slight deficit of \$48 K for 2023 resulting from savings in contingency and contractual budgets, offset by gapping target, legal and membership fees.

The Legislative departmental gapping target is \$85 K for 2023. As at April 30, 2023, the projected year-end gapping amount is (\$35 K), resulting in a projected deficit of \$120 K.

City Manager's Office

City Manager's Office (CMO) is projecting a deficit of \$380 K in 2023.

The Human Resources Division is projecting a deficit of \$161 K. The main drivers of the projected deficit are related to additional costs for recruitment and retention efforts to be funded from corporate surplus, offset by savings in training costs.

The CMO – Admin office is also projecting deficit of \$161 K as a result of higher than budgeted staffing costs to support the new Council transition and City Manager's Office government relations function.

Communications and Strategic Initiatives is projecting a year-end deficit of \$18 K as a result of additional recruitment and retention costs and staffing backfill costs.

The remaining divisions are forecasting a combined deficit of \$61 K. This is driven by unfavourable gapping.

The City Manager's Office departmental gapping target is \$229 K for the 2023 year. As at April 30, 2023, the projected year-end gapping amount is (\$151 K), resulting in a projected deficit of \$380 K.

Corporate Services Department

Corporate Services is forecasting an overall surplus of \$2.4 M. The overall surplus is mainly the result of favourable gapping across several divisions in addition to savings of \$225 K in software / hardware savings in the Information Technology and Customer Service, POA and Financial Integration divisions.

The Corporate Services departmental gapping target is \$0.6 M for the 2023 year. As at April 30, 2023, the projected year-end gapping amount is \$3.0 M, resulting in a projected surplus of \$2.4 M.

Corporate Financials / Non-Program Revenues

As of April 30, 2023, Corporate Financials / Non-Program Revenues are projected to be in line with budget as of year-end. Further details will be available for the second variance report.

Hamilton Entertainment Facilities (HEF)

HEF is projected to be at a year-end surplus of \$150 K. This is a result of budgeted insurance recoveries that are projected to be recovered from Hamilton Urban Precinct Entertainment Group (HUPEG).

Capital Financing

Capital financing is projected to be at a year-end surplus of \$16.1 M, in principal and interest savings due to timing in the issuance of debt.

Boards and Agencies

In Boards and Agencies, there is a projected surplus of \$0.2 M attributable to favourable gapping with Hamilton Public Library operations.

Hamilton Police Services will be providing a forecast update to the Hamilton Police Services Board on June 22, 2023. The forecast is currently presented as in line with budget.

Rate Supported Operating Budget

As at April 30, 2023, the Rate Supported Operating Budget is projecting a deficit of \$294 K mainly due to unfavourable revenues of \$1.0 M, offset by favourable operating expenses of \$706 K.

Revenues

As of April 30, 2023, total rate revenues had a deficit of \$3.5 M with a year-end forecast projected to be \$1.0 M unfavourable (0.4% under budget). The projected unfavourable variance is mainly due to a forecasted deficit in Industrial, Commercial and Institutional (ICI) customers of \$1.0 M. The 2023 budget accounted for a decrease in ICI due to a decline in the sector's consumption over the past several years.

In 2022, to better understand recent declined consumption of large industrial and institutional customers, staff conducted a survey of the top water users. A common theme among the responses 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, retrofitting, etc.

Five of the companies surveyed expect their consumption to decrease over the next five years. Again, the reductions are attributed to the review of processes, new initiatives and water conservation projects. Analysis of the top water users' consumption in Hamilton has revealed several large users have declined steadily over the past two years. Staff will continue to monitor the top users' usage and patterns throughout 2023 and possibly revise the 2024 consumption budget, if required. The Residential sector and all other rate revenues are anticipated to be on budget for 2023.

Expenditures

Overall program spending for 2023 is projected to have a favourable variance of \$706 K. The driving factors behind this are shown in Table 3.

Table 3 - Rate Budget Operating Budget Expenditures Variance Drivers

Expenditure Type	Variance (\$000s)
Capital Financing	3,034
Contractual	(1,750)
Building & Ground	(892)
Employee Related Cost	869
Material & Supply	(555)
Total Operating Expenditure	706

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Capital Financing is projecting a favourable variance of \$3.0 M due to timing in the issuance of debt.

Contractual Services is forecasting an unfavourable variance of \$1.8 M, mainly due to the utility locates contractual obligations associated with the Bill 93. The increased cost of the new locates contract will be adjusted in the 2024 Rate Budget process.

Building & Ground is forecasting an unfavourable variance of \$892 K mainly due to increased natural gas consumption at the Biosolids Facility due to the temporary closure and repair of a digester used in wastewater treatment at the Woodward Treatment Plant.

Employee related costs are estimating a favourable variance of \$869 K mainly due to net gapping savings realized from staff vacancies.

Material and Supplies is forecasting an unfavourable variance of \$555 K, mainly due to the inflationary increases in water distribution and wastewater collection operating supplies.

Appendix “B” to Report FCS23063 summarizes the Rate Budget results by program.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” to Report FCS23063 – City of Hamilton Tax Operating Budget Variance Report as at April 30, 2023

Appendix “B” to Report FCS23063 – City of Hamilton 2023 Combined Water, Wastewater and Storm Operating Budget, Budget Variance Report as at April 30, 2023

Appendix “C” to Report FCS23063 – City of Hamilton Budget Amendment Schedule, Staff Complement Change

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Appendix “D” to Report FCS23063 – City of Hamilton Budget Amendment Schedule,
Budget Restatement

Appendix “E” to Report FCS23063 – City of Hamilton Budgeted Complement
Temporary Extension Schedule, Temporary Position Extensions

Appendix “F” to Report FCS23063 – City of Hamilton COVID-19 Pressures and Funding
Sources, April 30, 2023

KP/dt