

CITY OF HAMILTON

PUBLIC WORKS DEPARTMENT **Operations & Waste Management Division**

TO: Chair and Members Public Works Committee	WARD(S) AFFECTED: CITY WIDE
COMMITTEE DATE: February 16, 2011	
SUBJECT/REPORT NO: Winter Control Program - Stabilization Reserve (PW11014) - (City Wide)	
SUBMITTED BY: Gerry Davis, CMA General Manager Public Works Department	PREPARED BY: Bryan Shynal, BSc., BLA (905) 546-2424, extension 4622
SIGNATURE:	

RECOMMENDATION

- (a) That a target balance for the Winter Control Reserve (112205) be established as 25% of the five (5) year average actual expenditures for Winter Control;
- (b) That the transfer of the Winter Control operating expenditure surplus to the Winter Control Reserve (112205) be subject to the overall Tax Supported operations reporting a year-end positive variance and subject to recommendation (a) (target 25% of 5 year average);
- (c) That the transfer of the Winter Control operating expenditure surplus to the Winter Control Reserve (112205) be approved by Council through the Year-End Tax Operating Budget Variance Report and through the Disposition of the Year-end Surplus/Deficit Report, and be subject to final financial audit;
- (d) That the Winter Control Reserve Policy be incorporated into the Corporate Reserve Policies.

EXECUTIVE SUMMARY

The current Winter Control Program (WCP) service levels were approved by Council on July 10, 2001 (Report TOE01113) and are in part based on the Minimum Maintenance Standards (MMS) as set out under the Ontario Municipal Act (Revised 2010). The WCP budget is based on the application of the approved service level to the City's existing roadway infrastructure and is adjusted annually based on a five year rolling average of

costs. This approach is used as costs for winter control are weather dependant and vary from season to season.

While the average cost approach helps to smooth budget variations from one year to the next, it does not address years where demands are higher than average resulting in budget pressures. As a result a WCP reserve has been established to provide a source of funding to assist in managing negative budget variances resulting from above average program demands of the winter season. The Winter Control Reserve (112205) balance is \$2.7 million as of December 31, 2010; and is supported by an annual operating budget contribution of \$302,180, investment income and occasional budget surpluses as deemed appropriate. The annual contribution is insufficient to build the reserve to a sustainable level, which is estimated to be 25% of the annual budget. There currently is no approved Council policy that sets out how sustainability would be achieved resulting in ongoing budget surpluses and variances for the WCP as illustrated in Table 1, ranging from a positive variance of \$4.6 million in 2006 to a negative variance of \$8.2 million in 2008.

Staff are recommending that a reserve policy be established where by positive year end variances are used to contribute to the WCP Reserve and negative Program variances funded from the Reserve, to a maximum reserve balance of 25% of the average budget (five year rolling average). The 2010 winter season was a light one, resulting in an expected positive variance for the WCP Budget. This represents an opportunity to implement the policy and fund the reserve.

A deviation from the five year average budget methodology has been incorporated into the 2011 budget submission to reduce the average costs by \$500,000 to take into account the lower 2010 projected actual costs. The budget is based on a one year delay of the five year average, i.e. 2005-2009 for the 2011 budget, so that actual costs can be used.

Alternatives for Consideration - See Page 4

FINANCIAL / STAFFING / LEGAL IMPLICATIONS

Financial: Establishment of a policy for the Winter Control Reserve fund balance at 25% of the five (5) year average of annual actual expenditures for Winter Control will help to reduce budget risks and impacts due to severe winters.

Based on the recommended policy, the target WCP Reserve balance is \$6.16 million based 2005-2009 actual costs of \$24.62 million. The current balance (as of December 31, 2010) of the Winter Control Program Reserve (112205) is \$2.7 million.

Variances and contributions to the reserve would be reported as part of the Corporate budget exception process.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

The current Winter Control Program (WCP) service levels were approved by Council on July 10, 2001 (Report TOE01113) and are in part based on the Minimum Maintenance Standards (MMS) as set out under the Ontario Municipal Act (Revised 2010). The WCP budget is based on the application of the approved service level to the City's existing roadway infrastructure and it is comprised of fixed and variable cost components. The variable components (e.g. materials, overtime, contracted equipment activation, etc.) are subject to variations in program demands from winter season to season; as such, annual budget estimates are developed using a five year rolling average of actual costs. Historic fluctuations in winter season demands result in significant budget variances that create pressures in the budget process.

POLICY IMPLICATIONS

The report recommendations align with the Public Works Innovate Now Business Plan by Sound Financial Management wherein "work is undertake at approved service levels with budgets that match".

RELEVANT CONSULTATION

Staff in Finance & Corporate Services have been involved in the development of this report.

ANALYSIS / RATIONALE FOR RECOMMENDATION

A summary of WCP costs is provided in Table 1, which outlines the variances in actual costs compared to budget.

Table 1. Winter Control Program Operating Budget History

Year	Budget (without reserve contributions)	Actuals (without reserve contributions)	Variance
2004	\$16,962,500	\$23,831,709	-\$6,869,209
2005	\$17,764,290	\$25,474,707	-\$7,710,417
2006	\$20,183,250	\$15,560,770	\$4,622,480
2007	\$20,415,090	\$27,311,897	-\$6,896,807
2008	\$24,416,832	\$32,599,816	-\$8,182,984
2009	\$24,596,077	\$22,172,386	\$2,423,691
2010	\$23,795,705	TBD	TBD
2011	\$23,966,038	TBD	TBD

It is worth noting that negative program variances are not only driven by severe winter seasons, but also through any circumstances wherein large scale snow removal activation (extensive labour and equipment operation) is required, either by the timing of

storm sequences or the magnitude of individual storm events, which could occur even within the context of what would be considered to be a “normal winter season”. Establishing and maintaining a sustainable WCP Stabilization Reserve balance would ensure resource availability for the achievement of program objectives considering the proven variable nature of the weather and its demand for program response.

Staff recommends a WCP Stabilization Reserve sustainability balance of 25% of the five (5) year average actual annual expenditures. This balance would have the capacity to buffer negative budget variances within the term of the 5 year rolling average and minimize impacts on the operating budget. The target recommendation is intended to increase the funding sustainability of the program and minimize reliance on contributions from other sources (e.g. Departmental or Corporate surpluses). The target does not guarantee sustainability but does minimize risks to annual budget process.

The recommended Reserve target could be achieved over time through the assignment of available operating budget surpluses from the WCP and other areas as available. Approval of the report recommendations would result in the transfer of any year end WCP operating budget surplus to the Winter Control Reserve. For example, a positive year end variance is expected for 2010 and presents an opportunity to make a contribution to the Winter Control Reserve as a step towards sustainability.

There is the potential to reduce the Winter Control Budget over time with the establishment of the reserve as budgeting stabilizes and as the sustainability target is achieved. For example, the annual reserve contribution of \$302,180 per year could be reduced or eliminated. Variances have also been affected by the increase in activity as a result of the addition of the Red Hill Valley Parkway in 2008 and adjustments made to the requested budget as part of the annual budget process due to fiscal pressures. Staff are also reviewing options to increase the efficiency of current operations to reduce costs. Service level changes can also be considered.

ALTERNATIVES FOR CONSIDERATION

The alternative would be to continue with the current approach or set a lower percentage for the reserve balance. The current approach continues to create the potential for budget variances on an annual basis. A lower percentage would still be a benefit to the WCP, but would not be at a sustainable level.

CORPORATE STRATEGIC PLAN

Focus Areas: 1. Skilled, Innovative and Respectful Organization, 2. Financial Sustainability, 3. Intergovernmental Relationships, 4. Growing Our Economy, 5. Social Development, 6. Environmental Stewardship, 7. Healthy Community

Skilled, Innovative & Respectful Organization

- ♦ A culture of excellence - implementing a best practice for winter control program financing

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- ♦ Council and SMT are recognized for their leadership and integrity - through the establishment of the WCP Reserve funding policy

Financial Sustainability

- ♦ Financially Sustainable City by 2020 - better control of the annual budget process and management of fluctuations in winter control costs due to seasonal demands.
- ♦ Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

Healthy Community

- ♦ Plan and manage the built environment

APPENDICES / SCHEDULES

None