



CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning and Policy Division

TO:	Chair and Members Audit, Finance and Administration Committee
COMMITTEE DATE:	July 6, 2016
SUBJECT/REPORT NO:	Tax and Rate Operating Budget Variance Report as of April 30, 2016 - Budget Control Policy Transfers (FCS16058) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Ashley Bono (905) 546-2424 Ext. 4169 Gloria Rojas (905) 546-2424 Ext. 6247
SUBMITTED BY:	Mike Zegarac General Manager Finance and Corporate Services
SIGNATURE:	

RECOMMENDATION

That, in accordance with the “Budgeted Complement Control Policy”, the 2016 complement transfers, transferring complement from one department / division to another with no impact on the levy, as outlined in Appendix “C” to Report FCS16058, be approved.

EXECUTIVE SUMMARY

Staff has committed to provide Council with three variance reports for the Tax and Rate Operating Budget during the fiscal year (Spring/Fall/Year-End). This is the first submission for 2016 based on the operating results as of April 30, 2016.

Tax supported operations are projecting an unfavourable variance of -\$1.5 M (-0.2% of net levy). Primary contributors to this negative variance are the projected deficits in Corporate Financials/Non Program Revenues -\$2.3 M, Public Works -\$2.4 M, City Manager -\$244 K, Farmer’s Market -\$137 K, and Public Health Services -\$118 K. Partially offsetting the deficit are savings in Capital Financing \$3.1 M, Corporate Services \$388 K, Planning and Economic Development \$181 K and Community and Emergency Services \$98 K. Staff will continue to monitor variances and review mitigation measures.

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Rate supported operations are projecting an unfavourable variance of -\$529 K for the 2016 fiscal year, primarily due to a revenue shortfall of -\$1.7 M based on current 2016 water consumption trends. Partially offsetting the unfavourable variance are savings in overall program expenditures of \$1.2 M.

The following table summarizes the projected corporate results:

CITY OF HAMILTON				
2016 Projected Year-End Variance				
(\$000's)				
	2016 Final Budget	2016 Year-End Forecast	Variance	
			\$	%
<u>TAX SUPPORTED</u>				
Planning & Economic Development	29,904	29,723	181	0.6%
Public Health Services	12,385	12,503	(118)	(1.0)%
Community & Emergency Services	237,751	237,652	98	0.0%
Public Works	224,717	227,153	(2,436)	(1.1)%
Legislative	4,709	4,709	0	0.0%
City Manager	13,814	14,059	(245)	(1.8)%
Corporate Services	19,741	19,352	388	2.0%
Corporate Financials/ Non Program Revenues	(31,371)	(29,065)	(2,306)	7.4%
Hamilton Entertainment Facilities	4,170	4,170	0	0.0%
TOTAL CITY EXPENDITURES	515,820	520,258	(4,437)	(0.9)%
Hamilton Police Services	153,250	153,250	0	0.0%
Library	28,816	28,816	0	0.0%
Other Boards & Agencies	12,318	12,455	(137)	(1.1)%
City Enrichment Fund	5,798	5,798	0	0.0%
TOTAL BOARDS & AGENCIES	200,182	200,319	(137)	(0.1)%
CAPITAL FINANCING	111,666	108,566	3,100	2.8%
TOTAL TAX SUPPORTED	827,668	829,143	(1,474)	(0.2)%
TOTAL RATE SUPPORTED	0	529	(529)	0.0%
TOTAL CITY	827,668	829,672	(2,003)	(0.2)%

() - Denotes unfavourable variance

Appendix "A" to Report FCS16058 summarizes the Tax Supported Operating Budget year-end variances by department and division and Appendix "B" to Report FCS16058 summarizes the Rate Supported Operating Budget results by program.

2016 Budget Transfers

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, approved by Council in February 2012, staff is recommending three items. The complement transfers identified in Appendix “C” to Report FCS16058 transfer 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 recommended transfers will not have an impact on the levy.

Alternatives for Consideration – Not Applicable

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The financial information is provided in the analysis sections of this report.

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Staff has committed to provide Council with three variance reports on the Tax and Rate Operating Budget during the fiscal year (Spring / Fall / Final). This is the first submission for 2016 based on the operating results as of April 30.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

This Report is based on information provided from all the City of Hamilton Departments.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The following provides an overview of the more significant issues affecting the 2016 projected operating deficit:

TAX SUPPORTED OPERATING BUDGET

The tax supported operating budget is forecasting a deficit of -\$1.5 M for year-end. The major drivers are the projected deficits in Corporate Financials/Non Program Revenues, Public Works, City Manager, Farmer’s Market, and Public Health Services, which are partially offset by savings in Capital Financing, Corporate Services, Planning and Economic Development, and Community and Emergency Services.

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Departmental details are as follows:

Planning and Economic Development Department

Overall the Department is forecasting a favourable variance of \$181 K.

The Growth Management Division is expecting a favourable variance of \$288 K driven by positive gapping due to vacancies (\$413 K) and higher than budgeted Lot Grading revenue (\$133 K) which is partially offset by renovation expenses and forecasted Planning Reserve contribution (-\$212 K).

The Economic Development Division is anticipating positive gapping of \$97 K attributed to employee related costs and vacancies.

The Planning Division is forecasting a favourable variance of \$65 K, mainly due to positive gapping (\$297 K) attributed to vacancies and greater than budgeted revenues from fees (\$120 K). The positive variance is reduced by contribution to Development Fee Stabilization Reserve (-\$315 K) and renovation expenses.

The overall favourable variance is reduced by the anticipated negative variance in the Parking and By-Law Services Division of -\$240 K. This is largely attributed to a shortfall in revenues related to Business Licensing (-\$170 K) and Animal Tags (-\$90 K).

Adding to the negative variance is the lower than budgeted revenues for Zoning Compliance (-\$29 K) in the Building Division.

Public Health Services Department

Overall, the Department is expecting an unfavourable variance of -\$118 K. Please note, Public Health Services (PHS) Department has assumed approval of Ministry one-time requests and if not approved there is a risk that PHS will need to mitigate unfunded requests toward year-end.

The Office of the Medical Officer of Health, Clinical and Preventative Services Division, and Healthy Protection Division are forecasting a combined deficit of -\$196 K. This is largely attributable to overstaffing pressures from Vaccine Preventable Disease to meet program demands and employee related costs partially offset by vacancies and gapping in Dental programs.

Family Health Division, Healthy Living Division, and Planning and Business Improvement Division are projecting a combined positive variance of \$78 K. This is mainly due to gapping and salary differentials and the Sexual Health Network project review.

Community and Emergency Services Department

Overall, the Department is projecting a positive variance of \$98 K.

Hamilton Paramedic Service is projecting a favourable variance of \$307 K due to the unexpected extension of Community Paramedicine funding and lower than expected vehicle fuel costs.

Benefit Eligibility Division is forecasting a positive variance of \$236 K mainly due to gapping and unbudgeted subsidies available. Partially offsetting the positive variance is Ontario Works (OW) Business Transformation team costs and staffing reserve funding, which has not been utilized.

Administration – Community and Emergency Services and Children’s and Home Management Services Divisions are expecting a combined favourable variance totalling \$281 K mainly due to gapping as a result of vacancies and timing of hires, and maximizing subsidies that are available.

Macassa Lodge is projecting a favourable variance of \$174 K due to unanticipated provincial subsidy increases, preferred accommodation increases, surplus in supplies, and gapping. The favourable variance is partially offset by unbudgeted long-term disability costs.

Hamilton Fire Department is forecasting a positive variance of \$61 K due to gapping, which is partially offset by unbudgeted Operating expenses related to the implementation of the EpiPen Program.

Housing Services Division is reflecting an unfavourable variance of -\$377 K in payments to housing providers for property taxes and prior year Rent Geared to Income (RGI). Partially offsetting the unfavourable variance are savings in payments for mortgages due to renewals, savings in Community Homelessness Prevention Initiative (CHPI), related to the Housing Stability Benefit, and a delay in the implementation of the Housing Allowance Program.

Wentworth Lodge is projecting an unfavourable variance of -\$170 K due to unbudgeted long-term disability costs, required building maintenance and repairs, and hydro costs which are partially offset by unanticipated provincial subsidy increases, preferred accommodation increases, and savings in food costs.

The Neighbourhood and Community Initiatives Division is anticipating a negative variance of -\$151 K mainly in employee related costs due to an unfunded Neighbourhood Action Strategy Manager and temporary Senior Project Manager for Syrian newcomer resettlement work.

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The Recreation Division is forecasting a negative variance of -\$138 K mainly due to increases in hydro and water and sewer costs which is partially offset by savings due to gapping as a result of temporary vacancies.

The Employment and Income Support Division is projecting an unfavourable variance of -\$124 K as a result of client cost pressures due to increases in caseload and cost per case, and staffing reserve funding not utilized which is offset by positive gapping and maximizing subsidies available.

Public Works Department

Overall, the Department is forecasting an unfavourable variance of -\$2.4 M.

The Transit Division is anticipating an unfavourable variance of -\$1.6 M. This is mainly due to projected revenue shortfalls in Transit fare revenues (-\$1.1 M) coupled with employee related costs, including sick and overtime (-\$582 K) and vehicle parts (-\$496 K). Positive gapping (\$367 K) and favourable variances (\$171 K) in fuel, the Taxi Contract and Taxi Scrip Program helped to offset the above-noted and other unfavourable variances.

The Corporate Assets and Strategic Planning Division is reflecting a deficit of -\$1.2 M mainly due to higher than anticipated operational costs for Tim Hortons Field, attributable to a number of factors including part-time staff costs (\$329 K), hydro and heating fuel (\$521 K), general maintenance repairs (\$150 K) and contracted services (\$278 K) such as security, snow removal, waste pickup. Other budget overages are offset by positive gapping.

Partially offsetting the above pressures is the overall projected favourable variance of \$400 K in the Operating Division. The main driver is the potential Roads Winter Control surplus (\$500 K) contingent upon 2016 winter weather conditions. Adding to the favourable variance are anticipated savings (\$100 K) related to waste collection contracts. Reducing the favourable variances are forecasted unfavourable variances for Roads Summer Program material usage (-\$100 K) and driver safety and compliance training (-\$100 K).

City Manager's Office

The City Manager's Office projects an unfavourable variance of -\$245 K mainly driven by pressures arising from legal fees (Human Resources), mediation and arbitration costs, which are partially offset by net positive gapping due to vacancies and timing of hires.

Corporate Services Department

The Corporate Services Department is forecasting an overall positive variance of \$388 K. This is driven by increased revenues realized through Tax Certificate Revenues and Tax Transfer Fees. Partially offsetting the positive variance is net negative gapping mainly due to higher than budgeted employee related costs.

Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues are projecting a -\$2.3 M unfavourable variance. Contributing factors are identified as follows:

Corporate Financials

Risk Management

The anticipated negative variance of -\$64 K is attributable to higher cost estimated for the administration of the Insurance Program.

Gapping

For 2016, the City has budgeted \$4.5 M in gapping savings corporately. As of April 2016, departments have identified \$2.9 M in projected savings for the year. The following table summarizes the projection by department.

NET GAPPING BY DEPARTMENT	(\$000's)
Planning & Ec. Development	\$ 801
Public Health Services	\$ 11
Community & Emergency Services	\$ 881
Public Works	\$ 1,251
Legislative	\$ -
City Manager	\$ (25)
Corporate Services	\$ (11)
Consolidated Corporate Savings/ (Deficit)	\$ 2,908

Council will note that the budget savings of \$4.5 M resides in the Corporate Financials and the \$2.9 M actual savings projection is identified within the Department projections. The remaining amount required to achieve the target is \$1.6 M and is identified in the Corporate Financials. If this does not materialize, a variance could result. Staff expects the gapping savings target should be met by year-end.

Non Program Revenues

Non Program Revenues are projecting a positive variance of \$666 K. This is mainly attributable to penalties and interest expected to be received from large industrial properties currently under appeal, partially offset by the 2016 LEED Grant Program.

Capital Financing

Due to delay in debt issuance, principal and interest savings of \$3.9 M are projected. However, an \$841 K transfer to the unallocated capital reserve during the yearend process has been assumed (aligning with the 2017 Capital Forecast), resulting in net savings of \$3.1 M.

Boards and Agencies

There is an unfavourable variance forecasted for the Farmer's Market of -\$137 K mainly due to building repairs. There are no further variances to report for the remaining

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Boards and Agencies, however, there is an ongoing appeal from the Niagara Peninsula Conservation Authority levy. If the appeal is unsuccessful, the impact to the levy would result in an unfavourable variance of about -\$780 K.

RATE SUPPORTED OPERATING BUDGET

As at April 30 2016, the Rate supported operating budget is projecting an unfavourable variance of -\$529 K due to a revenue shortfall of -\$1.7 M which is partially offset by savings in overall program expenditures of \$1.2 M.

Expenditures

Program spending for 2016 is projected to be a favourable variance of \$1.2 M or 0.6% of gross budget by year-end. The driving factors behind this favourable expenditure variance are as follows:

Expenditure Type	(000's)
Employee Related	\$ 795
Contractual	\$ 420
Debt Charges	\$ 241
Buildings & Grounds	\$ 226
Vehicle Expenses	\$ 85
Materials & Supplies	\$ (291)
Cost Allocations	\$ (229)
Agencies & Support Payments	\$ (85)
Total	\$ 1,162

The Rate Operating Program budgets annually for servicing costs on new and existing debt based on debenture financing needs for approved capital projects. The favourable variance in Debt Charges of \$241 K is due to delays in issuing debt of \$3.9 M as the existing capital projects are adequately funded. Partially offsetting this is a planned transfer from reserve of -\$3.7 M which will not be done, resulting in a net savings of \$241 K.

Savings in Employee Related Costs of \$795 K are mainly on account of gapping realized from staff vacancies.

Contractual cost category has a positive variance of \$420 K which is due to various contractual services.

Buildings and Grounds savings of \$226 K are mainly attributed to less hydro consumption.

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Vehicle Expenses are forecasting savings of \$85 K mainly due to Central Fleet charges of \$50 K and fuel savings of \$27 K.

Materials and Supplies have a projected negative variance of -\$291 K mainly due to Operating Supplies.

Agencies and Support Payments the Protective Plumbing Program (3P) is projected to be over budget by -\$85 K due to increased and organized activities as indicated by current trends.

Appendix "B" to Report FCS16058 summarizes the Rate Budget results by program.

Revenues

Rate related revenues are forecast to reach a total shortfall of approximately -\$1.7 M or 0.9% of the total rate revenue budget.

The Residential Sector is currently projected to have a revenue shortfall of -\$416 K (0.5% shortfall to budget) and the Multi-Residential, Industrial, Commercial and Institutional (ICI) sector has a forecasted shortfall of -\$474 K (0.5% shortfall to budget). The expected shortfalls are attributed to continued conservation and updating to new, more water efficient fixtures / appliances.

Sewer Surcharge Agreements and Overstrength Agreements are projecting unfavourable variances of -\$510 K (12.1% shortfall to budget) and -\$156 K (7.1% shortfall to budget), respectively. Partially offsetting these shortfalls is an expected surplus in revenue related to Private Fire Lines of \$25 K (2.6% surplus to budget).

Non Rate revenues are projected at a favourable amount of \$132 K (5.1% surplus to budget) mainly due to new construction permits of \$172 K and general fees and recoveries of \$52 K offset by Local Improvements at -\$92 K.

ALTERNATIVES FOR CONSIDERATION

N/A

ALIGNMENT TO THE 2012 – 2015 STRATEGIC PLAN

Strategic Priority #1

A Prosperous & Healthy Community

WE enhance our image, economy and well-being by demonstrating that Hamilton is a great place to live, work, play and learn.

Strategic Objective

1.6 Enhance Overall Sustainability (financial, economic, social and environmental).

Strategic Priority #2

Valued & Sustainable Services

WE deliver high quality services that meet citizen needs and expectations, in a cost effective and responsible manner.

Strategic Objective

- 2.1 Implement processes to improve services, leverage technology and validate cost effectiveness and efficiencies across the Corporation.
- 2.2 Improve the City's approach to engaging and informing citizens and stakeholders.

Strategic Priority #3

Leadership & Governance

WE work together to ensure we are a government that is respectful towards each other and that the community has confidence and trust in.

Strategic Objective

3.4 Enhance opportunities for administrative and operational efficiencies.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report FCS16058 - Tax Operating Budget Variance Report to April 30, 2016

Appendix "B" to Report FCS16058 - Rate Operating Budget Variance Report to April 30, 2016

Appendix "C" to Report FCS16058 - Budgeted Complement Transfer Schedule