SUBJECT: Tax and Rate Operating Budget Variance Report to August 31, 2009 (FCS09097) (City Wide)

RECOMMENDATION:

That the 2009 Tax and Rate Operating Budget Variance Report to August 31, 2009 be received.

EXECUTIVE SUMMARY:

Staff have committed to providing Council with three variance reports on current operations during the calendar year (Spring/Fall/Final). This submission, based on results to August 31, 2009, represents the second variance report to Council.
As of August 31, 2009, the City is projecting a deficit of $15 million (M) which is the combined result of a $7.3M deficit in the tax supported operations plus a $7.7M deficit in the rate supported operations.

The table below provides a summary of the forecasted 2009 year-end budget variance by department.

<table>
<thead>
<tr>
<th></th>
<th>2009 Final Budget</th>
<th>2009 Projected Year-End</th>
<th>Variance</th>
<th>$</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TAX SUPPORTED</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEGISLATIVE</td>
<td>4,171</td>
<td>4,171</td>
<td>-</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>CITY MANAGER</td>
<td>6,486</td>
<td>6,377</td>
<td>109</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td>CORPORATE SERVICES</td>
<td>25,199</td>
<td>26,465</td>
<td>(1,266)</td>
<td>(5.0)%</td>
<td></td>
</tr>
<tr>
<td>PLANNING &amp; ECONOMIC DEVELOPMENT</td>
<td>16,982</td>
<td>16,482</td>
<td>500</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td>PUBLIC HEALTH SERVICES</td>
<td>9,074</td>
<td>9,075</td>
<td>(1)</td>
<td>(0.0)%</td>
<td></td>
</tr>
<tr>
<td>COMMUNITY SERVICES</td>
<td>160,455</td>
<td>164,722</td>
<td>(4,268)</td>
<td>(2.7)%</td>
<td></td>
</tr>
<tr>
<td>PUBLIC WORKS</td>
<td>171,058</td>
<td>173,567</td>
<td>(2,510)</td>
<td>(1.5)%</td>
<td></td>
</tr>
<tr>
<td>HAMILTON EMERGENCY SERVICES</td>
<td>83,526</td>
<td>83,113</td>
<td>413</td>
<td>0.5%</td>
<td></td>
</tr>
<tr>
<td>BOARDS &amp; AGENCIES</td>
<td>43,472</td>
<td>43,472</td>
<td>-</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>COMMUNITY PARTNERSHIP PROGRAM</td>
<td>3,221</td>
<td>3,221</td>
<td>-</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td>CAPITAL FINANCING</td>
<td>76,296</td>
<td>74,296</td>
<td>2,000</td>
<td>2.6%</td>
<td></td>
</tr>
<tr>
<td>CORPORATE FINANCIALS</td>
<td>3,788</td>
<td>7,743</td>
<td>(3,954)</td>
<td>(104.4)%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CITY EXPENDITURES</strong></td>
<td><strong>603,728</strong></td>
<td><strong>612,704</strong></td>
<td><strong>(8,976)</strong></td>
<td><strong>(1.5)%</strong></td>
<td></td>
</tr>
<tr>
<td>POLICE SERVICES</td>
<td>120,069</td>
<td>120,069</td>
<td>-</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURES</strong></td>
<td><strong>723,797</strong></td>
<td><strong>732,773</strong></td>
<td><strong>(8,976)</strong></td>
<td><strong>(1.2)%</strong></td>
<td></td>
</tr>
<tr>
<td>TOTAL NON PROGRAM REVENUES</td>
<td>(32,223)</td>
<td>(33,848)</td>
<td>1,625</td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>PROVINCIAL FUNDING / OMPF</td>
<td>(42,514)</td>
<td>(42,514)</td>
<td>-</td>
<td>0.0%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL TAX SUPPORTED</strong></td>
<td><strong>649,061</strong></td>
<td><strong>656,412</strong></td>
<td><strong>(7,351)</strong></td>
<td><strong>(1.1)%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL RATE SUPPORTED</strong></td>
<td>-</td>
<td><strong>7,653</strong></td>
<td><strong>(7,653)</strong></td>
<td><strong>(100.0)%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL CITY</strong></td>
<td><strong>649,061</strong></td>
<td><strong>664,065</strong></td>
<td><strong>(15,004)</strong></td>
<td><strong>(2.3)%</strong></td>
<td></td>
</tr>
</tbody>
</table>

( ) - Denotes unfavourable variance

Continuing with the trend observed in the first variance report, the deficit in the Tax Supported Operations is primarily due to shortfalls in Community Services, Public Works and Corporate Financials. With respect to the Rate Supported Operations, the projected deficit is directly related to significant revenue shortfalls.

Further explanation is provided within the Analysis/Rationale section of the report.
Mitigation

Staff will be implementing a number of measures to reduce or eliminate the deficit by year end. These include:

- Hiring freeze for all non-essential staff vacancies. All requests to fill vacancies will have to be submitted to the departmental General Manager for approval. Service delivery will be protected.
- Increased controls on discretionary spending.
- Pursuit of cost sharing through provincial grants and Ontario Municipal Provincial Funding (OMPF) reconciliation.

If, despite these efforts, the City’s Tax and/or Rate programs are left with a deficit at year end, a number of options with respect to reserves will be considered:

- Council has authorized the use of the Ontario Works Stabilization reserve to offset the program shortfall in Community Services as a result of the increased caseload and associated staffing increases(CS09021(a)). The $4.3 million projected deficit included in the above table does not include this use of the reserve. Should the reserve be utilized, this would eliminate the reserve fund.
- Council could authorize additional use of funds from the Waste Management Commodity Price reserve. Currently, $600,000 has been budgeted to reduce the impact of decreased prices. An additional $2.0 million is available in the reserve.
- The Risk Management budget is supported by $1.5 million in reserve contributions. An additional $1.3 million could be transferred to offset the shortfall in this program.
- Currently, there is $4 million in tax debt charge savings forecast for 2009. Half of this surplus is recognized in operating savings and the remainder is transferred to a tax capital reserve. Council could authorize that the $2.0 million being transferred to the capital reserve be retained to offset the operating deficit.
- Finally, any remaining deficit in the tax or rate programs could be funded from reserve.

Additional use of the reserves should be seen as a last resort. This would result in the depletion of stabilization reserves leaving the City unable to respond to similar future financial situations, putting programs and services at risk.

**BACKGROUND:**

Staff have committed to providing Council with three variance reports on current operations during the calendar year (Spring/Fall/Final). This submission, based on results to August 31, 2009, represents the second variance report to Council.
ANALYSIS/RATIONALE:

The following provides a brief overview of the significant variance issues:

TAX SUPPORTED BUDGET

As mentioned, the 2009 projected unfavourable variance for the tax supported programs is $7.3 million, or approximately 1.1% of the net levy.

The following provides brief highlights of the significant budget variances:

Community Services
Community Services is anticipating an overall negative variance of $4.3 million mainly as a result of increased Ontario Works client costs, including basic needs, shelter, child benefits and special diet, accounting for $2.1M (net) of the projected deficit.

ODSP download costs are forecasted to be $1.6M over budget. In addition, staffing costs for the implementation of Phase Two of the OW Contingency Plan add another $400,000 to the shortfall.

Staff have been diligent in maintaining costs within or below their budget lines in order to mitigate the departmental projected deficit due to the uncontrollable caseload costs.

Additional staffing and Ontario Works client benefit costs would first be offset from possible year-end surplus from other divisions and the remainder would be funded from the Ontario Works Stabilization Reserve Fund.

Corporate Financials:
Gapping savings are budgeted in the corporate financials, but realized in the program budgets. Therefore, about $4.1 million in budgeted savings will not be realized within this corporate account. The aforementioned program budgets have included some gapping savings within their explanations (about $3M), however, it is not projected to match the budgeted savings requirement at this time.

Public Works
The total forecasted deficit for the Public Works department is $2.5 million, down from the previous submission of $3.7 million. The major factor contributing to this deficit continues to be the Waste Management division which is anticipating a shortfall of $3.2 million in recycling commodities revenues, due to the continued decline in commodity prices. Other significant factors include unfavourable variances for flood damage, work accommodation costs and other employee related costs.

Favourable variances in internal recoveries of tipping fees, transfer station/community recycling centre revenues from increased usage, WDO and MHSW funding and savings in contractual services due to lower than anticipated escalation factors partially offset shortfalls above, resulting in an overall shortfall for the Waste Management division of about $2.0 million.
Operations and Maintenance is also projecting a shortfall of $500K attributable to summer storm event related activities.

**Corporate Services**
Risk Management is forecasting a negative variance of $1.7 million due to higher claims cost. Settlement of some longstanding, prior year claims has contributed to this impact. Savings from gapping in other divisions partially offset this deficit resulting in an overall shortfall of $1.3 million in the department.

**Capital Financing:**
Debt financing savings of $4.0 million are projected due to the delay in the issuance of debt. Under the City’s current policy/practice, half of these savings is used to fund the capital program. The remainder, $2.0 million, contributes to the operating levy.

**Public Health Services**
On September 28, 2009 the Board of Health approved the implementation of pH1N1 immunization clinics at an upset limit cost of $4.4 million (BOH09028). These costs have not been factored in the forecasted year-end budget variance. As information regarding the vaccinations becomes available, Public Health will monitor the expenditures and every attempt will be made to mitigate these costs including confirmation of potential provincial subsidies.

**Other Programs**
The overall position of the City has been benefited from savings in other areas, such as HES ($413K) and Planning and Economic Development ($500K). In addition, the non-program areas are forecasting a positive variance of $1.6 million.

**RATE SUPPORTED BUDGET**
The 2009 rate supported budget is projecting an unfavourable variance of $7.65 million, representing 4.8% of the gross operating budget.

Program expenditures amounting to $150 million are forecasted, translating into a favourable budget variance of $10.3 million for the year. The key drivers of this favourable variance are as follows: debt charges $7.9 million; contractual expenses $1.4 million; materials and supplies $471K; employee related costs $409K; financial expenses $159K; buildings and grounds $113K; and miscellaneous expenses ($127)K.

Savings in capital financing costs are based on the assumption that no debt will be issued in 2009.

The projected favourable budget variance in contractual expenses is mainly the result of contract savings in the Water Distribution and Wastewater Collection (WD & WWC) program of $1.5 million. The WD & WWC program is responsible for maintaining the water and sewer infrastructure, that would include activities such as sewer lateral and water service replacements, watermain repairs and preventative maintenance.
programs, all of which are designed to ensure the residents have a continuous water supply of a high standard and to minimize flooding and spills to the environment. Savings generated from multi-year contracts and the utilization of capital funds for large watermain repairs were the primary reason for the favourable variance. This favourable projected variance assumes no major emergency repairs will be required in the last quarter of 2009 that would be similar in nature to the Burlington St. / Hillyard St. sink hole that occurred earlier this year.

Materials and supply costs are down as a result of fewer watermain breaks being repaired by City crews, resulting in less spending on granular materials, asphalt and repair parts. In 2009, private contractors have repaired 31% of watermain breaks compared to the historical average of 20-25%. Reduced expenditures on fluids and chemicals at the Woodward water / wastewater treatment plant has contributed $193K to the projected savings in this material and supply category. A repeat of the wet summer of 2008 has reduced water consumption, resulting in a 9% decrease in production levels from a normal year. This reduced water production is the reason for the anticipated lower fluid and chemical costs.

Employee related expenditures are also expected to be in a favourable budget position for the 2009 fiscal year due to realized gapping savings generated from staff vacancies and less spending on conferences and training. Property taxes associated with the Woodward treatment plant and the various outstations are projected to be under budget by $137K, thus providing the explanation for the favourable variance in financial expenses. The building and grounds forecasted favourable variance is attributable to hydro and security savings at the Woodward treatment facility totalling a combined $294K, which has helped to offset the $170K over expenditure in heating fuel costs at the Plant.

Operating revenues are forecasted to be $18 million or 11.2% below budget on account of significant shortfalls in metered water and sewer billing revenue, and fewer water / sewer permits being issued. The economic climate and high precipitation levels in 2009 to-date were the underlying factors for the lower revenues.

As of August 31, staff has identified declining water consumption in both the residential and the Industrial / Commercial / Institutional (ICI) sectors. The 2009 forecasted total shortfall for residential and ICI rate revenue is $17.9 million. In the ICI sector, the year-to-date shortfall in consumption is 3.1 million cubic meters. This trend is expected to continue for the balance of the year and potentially result in an annual $12.1 million or 14.9% unfavourable variance in budgeted rate revenues.

Year-to-date residential consumption has declined relative to budget by 2.9 million cubic meters. A drop in new housing starts and continued conservation efforts on the part of property owners have contributed to the reduced consumption. The 2009 rate budget assumed normal levels of precipitation during the summer months. According to Environment Canada, the actual rain conditions experienced this summer were the second wettest on record (previous was 1981) and negatively impacts the rate revenues in the residential sector. The year-end forecast for residential rate revenues is expected to be unfavourable by $6.2 million, comprising 8.9% of the residential sector budget.
ALTERNATIVES FOR CONSIDERATION:

This report is provided for information.

FINANCIAL/STAFFING/LEGAL IMPLICATIONS:

The financial information has been provided in the analysis section of this report.

POLICIES AFFECTING PROPOSAL:

As per policy, mitigation measures have been discussed within this report (executive summary).

RELEVANT CONSULTATION:

This information is based on submissions from all departments.

CITY STRATEGIC COMMITMENT:

By evaluating the “Triple Bottom Line”, (community, environment, economic implications) we can make choices that create value across all three bottom lines, moving us closer to our vision for a sustainable community, and Provincial interests.

Evaluate the implications of your recommendations by indicating and completing the sections below. Consider both short-term and long-term implications.

Community Well-Being is enhanced. ☑ Yes □ No

Timely, accurate financial reporting ensures informed decisions are made at Council, enhancing the community well-being.

Environmental Well-Being is enhanced. ☑ Yes □ No

Timely, accurate financial reporting ensures informed decisions are made at Council, enhancing the environmental well-being.

Economic Well-Being is enhanced. ☑ Yes □ No

Timely, accurate financial reporting ensures informed decisions are made at Council, enhancing the economic well-being.

Does the option you are recommending create value across all three bottom lines? ☑ Yes □ No

Do the options you are recommending make Hamilton a City of choice for high performance public servants? ☑ Yes □ No

Timely, accurate financial reporting ensures credibility amongst staff and Council, enhancing Hamilton as a choice for high performance public servants.