




# HAMILTON POLICE SERVICE

## INFORMATION REPORT

<b>TO:</b>	Chair and Members Hamilton Police Services Board
<b>BOARD MEETING DATE:</b>	June 22, 2022
<b>SUBJECT:</b>	Capital Financing – Investigative Service Division (ISD) Debt
<b>REPORT NUMBER:</b>	23-057
<b>SUBMITTED BY:</b>	Frank Bergen, Chief of Police
<b>SIGNATURE:</b>	

### EXECUTIVE SUMMARY

- The Hamilton Police Service (HPS) began budgeting for the annual debt repayment (principal and interest) requirements of the Investigative Service Division (ISD) facility in its 2020 fiscal year
- To date, the debt for the ISD facility has not yet been issued
- On March 31, 2022, through PSB 22-023, HPS communicated to the Hamilton Police Service Board (Board) that HPS contacted the City of Hamilton (City) to request a transfer of the 2021 HPS capital financing surplus to an HPS reserve and restrict its use towards the future annual debt repayments
- In 2023, HPS learned that no such transfer was completed

### INFORMATION

The HPS began budgeting for the annual debt repayment requirements of the ISD facility in its 2020 fiscal year. The annual principal and interest repayments are forecasted at approximately \$1.15M a year, net of development charges revenue, over a 15-year term. No debt was issued in fiscal 2021, therefore no payments were required during the year, resulting in a positive budget variance of \$1.15M. Despite the fact that HPS ended its 2021 fiscal year with an unfavourable year-end variance (deficit) of \$(2.02)M, HPS requested the City's Corporate Finance Department transfer the 2021 capital financing surplus to an HPS reserve and restrict its use to future annual debt repayments once the debt is issued. This resulted in a zero budget variance for fiscal 2021 in HPS capital financing section. The HPS could have utilized the capital financing surplus to offset some of its 2021 deficit but believed

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that setting it aside for future debt repayment, its intended budget purpose, was most appropriate. Instead, HPS used its own reserves to fund the 2021 fiscal year deficit. This was communicated to the Board through PSB 22-023 on March 31, 2022.

No debt issuance occurred in the 2022 fiscal year either, resulting in another capital financing surplus of \$1.15M. As a result, in early 2023 but prior to the 2022 year-end close, HPS requested that the same transfer of the capital financing surplus be applied to the 2022 capital financing surplus (i.e. the capital financing surplus be retained in an HPS reserve and utilized towards future debt repayments). This is when HPS was notified by the City that no such transfer was completed for the 2021 capital financing surplus and that the request to transfer the 2022 capital financing surplus would not be granted either.

After further inquiry to the City, HPS learned that the fiscal 2021 HPS capital financing surplus was transferred to the City's Unallocated Capital Levy Reserve which is used towards funding of capital expenditures in subsequent capital budgets or in-year capital funding requests. That year, the City realized an overall positive variance of \$8.9M in capital financing.

In 2022, the City realized another overall positive variance of \$10.7M in capital financing City wide, due to timing differences in cash flow assumptions for the completion of capital projects and related delays in the issuance of debt. The fiscal 2022 HPS capital financing surplus was part of \$10.7M and retained by the City as reported to Council in the City's 2022 year-end report, FCS22042(b). The disposition of the City's surplus was also detailed in this report. HPS not only depleted its reserve balances to fund its 2021 deficit, but also lost two years' worth of ISD annual debt repayments of approximately \$2.3M. If the debt had been issued in 2020 when budgeting for it began, HPS would have paid 2.5 years of its ISD debt obligation by the end of 2022.

By retaining and allocating the HPS capital financing surplus for a purpose other than repayment of the ISD future debt, HPS is set to realize a negative budget impact on future net levy requirements. The financial impact of this issue may be compounded in fiscal 2023 if the ISD debt is not issued by the end of this year.

## **APPENDICES AND SCHEDULES ATTACHED – Not applicable.**

FB/S.Dzaferi

cc: Frank Bergen, Chief of Police  
Ryan Diodati, Deputy Chief of Operations  
Paul Hamilton Deputy Chief of Support  
Sanela Dzaferi, Director of Finance

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