



HAMILTON POLICE SERVICE

RECOMMENDATION REPORT

TO:	Chair and Members Hamilton Police Services Board
BOARD MEETING DATE:	June 27, 2024
SUBJECT:	2023 Year-End Surplus Disposition & Reserve Forecasting Financing Strategy
REPORT NUMBER:	24-055
SUBMITTED BY:	Frank Bergen, Chief of Police
SIGNATURE:	

RECOMMENDATION

That the Hamilton Police Service Board (Board) approve the following recommendations:

- The entire 2023 year-end surplus of \$2.84M be maintained in the Police Tax Stabilization Reserve to smooth future volatility in operating and/or employee related costs to alleviate financial pressures and tax levy increases in the future.
- Approve the HPS Reserve Forecasting Financing Strategy to utilize \$1.50M and \$2.00M in the 2025 and 2026 budget years, respectively.

EXECUTIVE SUMMARY

- In accordance with the HPS *Operating Budget Surplus/Deficit Retention Policy*, the City of Hamilton (City) allocated the 2023 Hamilton Police Service (HPS) year-end surplus to the Police Tax Stabilization Reserve, a standard operating procedure at year-end
- Any use of funds from Police reserves requires the Board approval
- HPS plans to utilize \$1.50M in 2025 and \$2.00M in 2026 budget years to reduce tax levy and financial burden on the taxpayers

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: See the details below.

Staffing: Not applicable.

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Legal Implications: Not applicable.

INFORMATION

As part of the finalization of 2023 operations, Board approval is required for the disposition of any surplus or funding of any deficit, as outlined and in accordance with the HPS *Operating Budget Surplus/Deficit Retention Policy*.

This report provides the Board with a recommendation regarding the disposition of the HPS 2023 year-end surplus and the HPS Reserve Forecasting Financing Strategy.

The HPS ended 2023 with a \$2.84M surplus or 1.47% of the approved net budget. Detailed analysis and explanations for the surplus can be found in the 2023 Year-End Financial Report – Preliminary Board Report (PSB 24-054).

In accordance with the HPS *Operating Budget Surplus/Deficit Retention Policy*, the City allocated the 2023 HPS year-end surplus to the Police Tax Stabilization Reserve, a standard procedure at year-end.

The Police Tax Stabilization Reserve was established to prevent significant fluctuations in the operating budget tax levy. It acts as a source of funding to offset extraordinary and unforeseen expenditures, revenue shortfalls, provides funding for various contingent and future liabilities, and offers a buffer against operating deficits. For instance, a shortfall of \$2.02M in 2021 year was covered using various Police Reserves, with majority coming from the Police Tax Stabilization Reserve.

The HPS maintains reserves and reserve funds to provide a source of funding to support and sustain asset growth, meet unexpected future expenses, and mitigate risk. Reserve funds are established for a specific purpose of easing the significant fluctuations and burden of the levy on the taxpayer. They provide a form of protection against extraordinary and unforeseen situations, such as catastrophic events, emergencies, etc. Reserve funds are also leveraged to contribute to the HPS' long-term financial stability and flexibility. They help ensure Police service levels are maintained and not immediately impacted by any potential unexpected events.

All HPS reserves are managed and analyzed continuously to ensure future annual obligations are met. Any use or transfer of funds from Police reserves requires approval by the Board, either through a separate Board report, motion or through the annual budget process.

The HPS year-end operating surplus is the only source of funding contributions to HPS reserves. As the Service's actual financial results vary from year-to-year, the year-end operating surplus represents a funding source that cannot be relied upon to occur each year.

Historically, the Board approves an allocation plan that further directs the disposition of surplus towards specific reserves or initiatives. However, due to the uncertainty around short-term inflationary impacts, cost pressures related to the new CSPA legislation and other budgetary pressures, HPS believes that the most fiscally responsible course of action is to propose no operational allocations from the 2023 surplus for the Board's consideration.

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Instead, the Service recommends that the entire 2023 surplus remain in the Police Tax Stabilization Reserve to be strategically utilized in future operating budget as outlined below. This approach will help mitigate HPS's impact on future annual tax levies by offsetting future operational and employee related costs, unanticipated expenses, and/or decreases in revenue projections.

The HPS recommends a plan to utilize \$1.50M and \$2.00M from the Police Tax Stabilization Reserve in the 2025 and 2026 budget years, respectively, to offset budgetary pressures and ease the burden on the taxpayers. This reserve financing strategy is contingent upon available balance in the Police Tax Stabilization Reserve.

This recommendation will enhance the Board's ability to present financially responsible HPS operating budgets in the coming years and is in alignment with the City's Reserve Financing Strategy (*FSC24002 - Appendix E*). It represents a balanced and fiscally responsible approach to addressing current and future needs and ensuring sustainability of the HPS reserves for future budgetary pressures.

ALTERNATIVES FOR CONSIDERATION – Not applicable.

APPENDICES AND SCHEDULES ATTACHED:

Appendix A – HPS Summary of Reserve Balances as at December 31, 2023

Appendix B – HPS Operating Budget Surplus/Deficit Retention Policy

FB/S.Dzaferi

c: Ryan Diodati, Deputy Chief – Operations
Paul Hamilton, Deputy Chief – Support
Sanela Dzaferi, Director – Finance

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