TORONTO

STAFF REPORT
ACTION REQUIRED

2006 Preliminary Year-end Operating Variance Report

Date:	April 11, 2007
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\bc07013Fp-tn (AFS #2868)

SUMMARY

The purpose of this report is to: provide the City of Toronto 2006 Preliminary Operating Variance report for the twelve-month period ended December 31, 2006; request approval of the allocation of the 2006 preliminary operating surplus and extraordinary item (in accordance with Council policy); and, obtain approval of the technical adjustments made to amend the Council Approved Operating Budget between Program budgets to ensure accurate accountability and reporting with no increase to the overall 2006 Council Approved Operating Budget as detailed in Appendix D.

For the twelve-month period ended December 31, 2006, net operating expenditures were $81.4 million or 1.1% lower than the 2006 Council Approved Gross Operating Expenditure Budget. In addition, the City reported an extraordinary revenue item of $49.0 million representing all property tax credits unclaimed for three or more years (i.e. 2002 and prior - details are contained in the 'Extraordinary Items' section of this report).

The net operating surplus was attributed to several factors in City Operations and Agencies, Boards & Commissions (ABCs) including: lower than planned winter maintenance costs (mild winter weather); lower than budgeted bed night volumes in hostel services; under spending in cost shared Provincially funded health programs (to reflect the Province's 5% funding growth cap not assumed in the 2006 Budget) and delayed spending/hiring pending the final Provincial approval of Toronto Public Health's 2006 base funding for mandatory programs (received in January 2007); proceeds from a bus order settlement, lower hydro/natural gas heating costs as a result of the milder winter weather and lower than anticipated commodity price increases at the Toronto Transit Commission (TTC); and, lower than expected salary & benefit costs and higher than planned revenues at the Toronto Police Service (TPS). However, most of the net operating surplus was attributed to Corporate Accounts, including: lower tax deficiency

expenditures (fewer assessment appeals filed and fewer assessment appeal reductions awarded by the Municipal Property Assessment Corporation); higher than planned Payment in Lieu of Taxes (PILs) revenue and lower provisions required for uncollectible PILs; higher than planned tax penalty revenues as outstanding receivable balances were higher throughout 2006; and, higher than budgeted investment income and Toronto Parking Authority revenues.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council approve the allocation of the 2006 preliminary net operating surplus of $81.429 million to City reserve funds in accordance with City approved policy as follows: Capital Financing Reserve Fund ($74.458 million), Capital Financing Reserve Fund ($2.971 million) for future TTC bus purchases, and TTC Stabilization Reserve Fund ($4.000 million) for an employee benefit liability provision;
2. Council approve the allocation of the 2006 extraordinary item (property tax credits unclaimed for three or more years) of $49.000 million to the City's Capital Financing Reserve Fund in accordance with City approved policy;
3. Council approve the technical adjustments made to amend the 2006 Council Approved Operating Budget between Programs to ensure accurate accountability and reporting (no increase to the overall 2006 Council Approved Operating Budget) as detailed in Appendix D;
4. the Budget Committee forward this Operating Variance Report to the Executive Committee for its consideration; and,
5. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

Financial Impact

Net operating expenditures for the twelve-month period ended December 31, 2006 were $81.4 million or 1.1% less than the 2006 Council Approved Gross Operating Expenditure Budget. The 2006 net operating surplus was attributed to a combination of lower than planned expenditures and higher than budgeted revenues in areas which are detailed in the 'Comments' section of this report.

In addition, the City reported an extraordinary revenue item of $49.0 million representing all property tax credits unclaimed for three or more years (i.e. 2002 and prior). In 2006, after consultation with the City's external auditors, a policy was implemented that required the transfer of unclaimed tax credits (held in the Tax Repayment account for a minimum of three years) to general revenues in the fourth year. Details of the extraordinary revenue item are contained in the 'Extraordinary Items' section of this report.

Chart 1

2006 Preliminary Net Operating Variances Over/(Under) ($ millions)		
(1)	Citizen Centred Services "A"	8.6
(2)	Citizen Centred Services "B"	(15.2)
(3)	Internal Services	(3.3)
(4)	City Manager	(1.9)
(5)	Other City Programs	(1.2)
	Total - City Operations	(13.0)
(6)	Agencies, Boards and Commissions	(21.3)
(7)	Corporate Accounts	(47.1)
	Sub-Total	(68.4)
	Total 2006 Preliminary Net Operating Variance	(81.4)

City Council's approved surplus management policy requires that any year-end surplus be applied, in priority order, to the Capital Financing Reserve Fund (75%) and the remainder to any under-funded liabilities (as detailed in the 'City Approved Surplus Management Policy' section of this report). Chart 2 outlines the recommended allocation of the 2006 year-end preliminary operating surplus in accordance with Council policy (details are contained in the '2006 Preliminary Year-end Surplus Allocation' section of this report).

Chart 2

2006 Preliminary Net Operating Surplus ($ millions)	
Preliminary Operating Surplus	81.429
Recommended Allocation per City Policy:	
Capital Financing Reserve Fund (minimum 75%)	74.458
Capital Financing Reserve Fund (TTC bus purchases)	2.971
TTC Stabilization Reserve Fund (employee benefit liability provision)	4.000
	81.429

ISSUE BACKGROUND

As part of the City's accountability framework, the preliminary year-end operating variance report is submitted to Committee and Council to provide information on how the approved operating funds were spent, and to identify issues that require direction and decisions from Council. Specifically, Council approval is required to implement the recommended allocation of the 2006 preliminary operating surplus and extraordinary item. In addition, Council is required to approve the technical adjustments made to amend the Council Approved Operating Budget between Program budgets to ensure accurate accountability and reporting with no increase to the overall 2006 Council Approved Operating Budget as detailed in Appendix D.

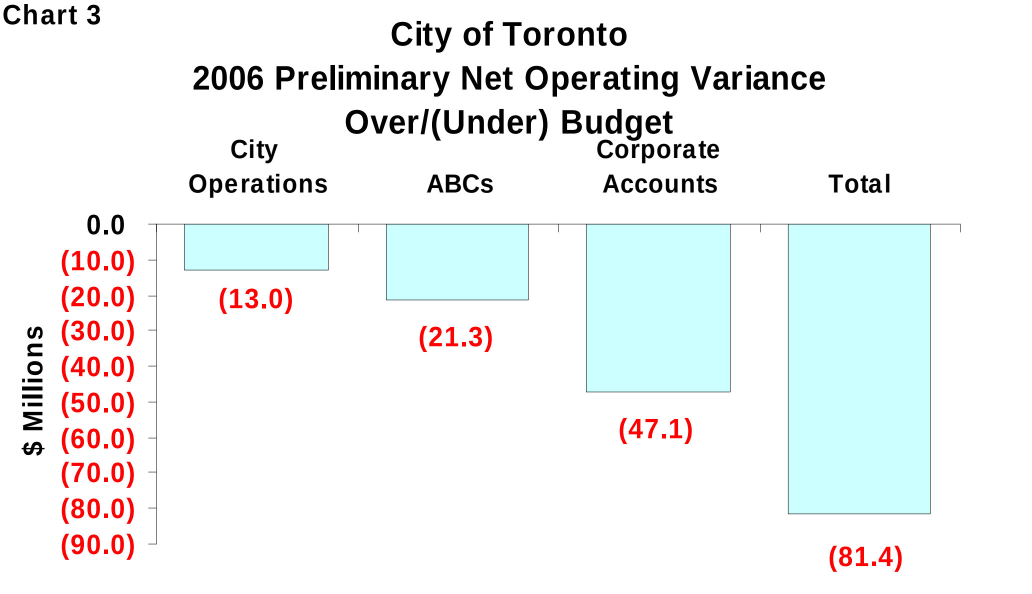
COMMENTS

Overview

This variance report was prepared based on preliminary accounting information for the year ended December 31, 2006. The annual audit of the City's accounts and financial statements will be completed in April 2007, accordingly, this variance report should be considered as preliminary.

As shown in Chart 3, operating results for the twelve-month period ended December 31, 2006 reflect a net preliminary operating surplus of $81.4 million or 1.1% of the 2006 Approved Gross Operating Expenditure Budget.

Chart 3



The following comments address the significant preliminary Program variances found in Appendices A, B and C:

City Operations

Citizen Centred Services "A" reported a budget over expenditure of $8.6 million.

Court Services had a $5.3 million unfavourable net variance primarily the result of a revenue shortfall due to fewer Toronto Police Service Officers attending court and court closures arising from a shortage of Justices of the Peace. ***Emergency Medical Services (EMS)*** reported an over expenditure of $7.0 million largely due to the Provincial funding shortfall for Land Ambulance Services, loss of a Federal Medical Grant that was budgeted for 2006 and increased overtime to address the hospital offloading situation. ***Homes for the Aged (HFA)*** had a surplus of $2.1 million attributed mostly to lower than budgeted expenditures as a result of spending constraints where Provincial subsidy and grant approvals were delayed or lower than anticipated in the budget. ***Parks, Forestry & Recreation*** revenue shortfalls (primarily concessions) and higher than planned salary & benefit costs (overtime and vacation pay) resulted in an unfavourable net variance of $3.5 million. ***Shelter, Support & Housing Administration (SSHA)*** reported an under expenditure of $4.1 million primarily due to lower than budgeted bed night volumes of 62,908 (budgeted volume was 1,474,676 bed nights).

Citizen Centred Services "B" reported a budget surplus of $15.2 million.

Fire Services had a $3.5 million unfavourable net variance largely due to unachieved gapping and increased claims due to WSIB policy changes (recognition of wide range of cardiovascular diseases/cancers attributable to firefighting). ***Policy, Planning, Finance & Administration (PPF&A)*** reported an under expenditure of $1.6 million attributed mostly to restructuring within the division resulting in vacant positions and lower payroll costs. ***Solid Waste Management Services*** had a favourable net variance of $2.5 million mainly as a result of lower payroll costs due to delays in hiring staff, loss in waste tonnage received at Transfer Stations resulting in lower contracted disposal costs and savings due to corporate cost containment measures. ***Transportation Services*** reported a surplus of $15.2 million primarily due to mild winter conditions, reduced hydro energy costs (LED traffic signal conversion program), lower charges for technical services and savings from cost containment measures (deferring the replacement of equipment and computer hardware).

Internal Services reported a budget surplus of $3.3 million.

The ***Office of the Chief Financial Officer*** (inclusive of Financial Planning, Corporate Finance and Finance & Administration Divisions) reported a favourable net variance of $0.4 million attributed mostly to extraordinary gapping realized in Financial Planning and Finance & Administration (staff secondments to other divisions for special projects and backfills) that is not expected to recur in future years as the majority of these assignments have ended and the staff have returned to their base positions. The ***Office of the***

Treasurer (inclusive of Revenue Services, Accounting Services, Pensions, Payroll & Employee Benefits and Purchasing & Materials Management Divisions) had an under expenditure of $1.1 million primarily due to delays in hiring, lower costs for casual staff and overtime, and one time discretionary savings. ***Information & Technology*** reported a surplus of $1.4 million as a result of lower payroll costs (vacant positions) and reduced maintenance expenditures (project completion delays and efficient contract negotiations).

City Manager and Other City Programs reported a budget surplus of $3.1 million.

The ***City Manager's Office*** had a favourable net variance of $0.4 million largely due to hiring delays. ***Human Resources*** reported a surplus of $1.6 million attributed mostly to vacant positions pending the divisional reorganization. ***Legal Services*** had a net under expenditure of $0.6 million primarily due to vacant positions and higher than expected revenues due to the increased volume of planning applications and business licenses. ***Council*** reported a favourable net variance of $0.3 million as a result of the traditional under spending in some Councillor's staff salaries & benefits and office budgets. The ***Mayor's Office*** had a surplus of $0.1 million mainly due to vacant positions.

<u>Agencies, Boards and Commissions</u>

Agencies, Boards and Commissions reported a budget surplus of $21.3 million.

Toronto Public Health (TPH) reported a surplus of $4.7 million as a result of under spending in cost shared Provincially funded programs (to reflect the Province's 5% funding growth cap not assumed in the 2006 Budget) and delayed spending/hiring pending the final Provincial approval of its 2006 base funding for mandatory programs (received in January 2007). ***Exhibition Place*** had a net over expenditure of $2.2 million attributed largely to revenue shortfalls (due to poor weather on Labour Day weekend) which were somewhat mitigated by lower utility costs and reduction of discretionary expenditures. The ***Toronto Zoo*** reported a net unfavourable variance of $0.7 million predominantly the result of revenue shortfalls that more than offset lower than planned utility costs and delayed expenditures (including staff hires). The ***Toronto Transit Commission (TTC)*** reported a surplus of $13.4 million (Conventional and Wheel-Trans) primarily due to proceeds from a bus order settlement, lower hydro/natural gas heating costs as a result of the milder winter weather and lower than anticipated commodity price increases. The ***Toronto Police Service (TPS)*** had a net favourable variance of $5.8 million resulting from lower than expected salary & benefit costs (increased separations, hiring delays), lower IT maintenance costs, lower legal indemnification of officers costs, and higher than planned revenues (grants, prisoner transportation recoveries, fees for service).

<u>Corporate Accounts</u>

The favourable net variance in ***Corporate Accounts*** of $47.1 million was primarily due to: higher than anticipated investment income ($14.2 million) due to an increase in the size of the investment portfolio; lower than planned assessment appeals filed by property owners and fewer assessment appeal reductions awarded by the Assessment Review Board ($11.4 million); higher than expected Payments in Lieu of Taxes (PILs) due to a settlement with U of T and fewer appeals resulted in a lower provision adjustment for uncollectible PILs ($4.3 million); higher than anticipated tax penalties as outstanding receivables were larger in 2006 after the transfer of outstanding water receivables to the tax roll for collection purposes ($4.1 million); write-off of outstanding stale dated cheques ($4.0 million); higher Toronto Parking Authority revenues resulting from improved off-street parking facilities and the introduction of additional pay and display machines in 2005 ($2.6 million); lower than planned interest costs on tax refunds ($2.0 million); and, savings resulting from lower than anticipated service charges from the Municipal Property Assessment Corporation ($1.8 million).

Non Levy Operations

The ***Toronto Parking Authority (TPA)*** reported a budget surplus of $3.3 million mainly due to higher than planned revenues from off-street parking facilities (Bloor St. between Yonge St. and Avenue Rd., and major facilities near the Lakeshore between Bay St. and Jarvis St.). In addition, on-street revenue grew significantly as a result of converting more meters during 2005 to pay and display machines.

Toronto Water (TW) reported a budget surplus of $7.3 million primarily due to lower expenditures from vacant positions and lower than planned direct salary charges for Support Services. These under expenditures were somewhat offset by lower revenues from reduced water usage during the summer months and lower sales of water to York Region.

Technical Adjustments

Appendix D lists technical adjustments made between October 1 and December 31, 2006. These adjustments amend the 2006 Council Approved Operating Budget between Programs to ensure accurate accountability and reporting, and do not increase the overall 2006 Council Approved Operating Budget.

Extraordinary Items

In 2006, the City reported an extraordinary revenue of $49.0 million representing all property tax credits unclaimed for three or more years (i.e. 2002 and prior). Since amalgamation, the Revenue Services Division had not transferred unclaimed property tax credits into general revenues. In 2006, after consultation with the City’s external auditors, the following policy was implemented:

1. unclaimed tax credits held in the Tax Repayment account for a minimum of three years will be transferred to general revenues in the fourth year; and,
2. any debits posted to the Tax Repayment account in a given year are netted against the credits in the year originally posted to the Tax Repayment account.

City Approved Surplus Management Policy

The City's policy for disposition of operating surpluses was approved by Council at its meeting of September 28, 29, 30 and October 1, 2004, when it adopted the report "Policy on Management of Operating Budget Surplus" (Consolidated Clause in Report No. 7 of the Policy and Finance Committee), which recommended that "starting with fiscal 2005, for any surplus, the Chief Financial Officer and Treasurer be authorized to apply any additional (unbudgeted) surplus, in priority order to:

(a) Capital Financing Reserve Fund (at least 75 percent of the additional surplus); and

(b) the remainder to fund any under-funded liabilities, and/or reserves/reserve funds, as determined by the Chief Financial Officer and Treasurer".

As in 2006, the City has an unprecedented budget shortfall for 2007 and significant reserve fund draws will be required for the 2007 Operating Budget (pending new revenues from the Province) to mitigate 2007 tax increases and/or significant service cuts. Therefore, other than legislated (Federal/Provincial) transfers of 2006 surpluses to reserve funds (eg. National Child Benefit Support), previously adopted Municipal directions regarding surpluses are superseded by the City's new policy for disposition of operating surpluses.

2006 Preliminary Year-end Surplus Allocation

The 2006 preliminary operating surplus of $81.4 million should be allocated to City reserve funds in accordance with City approved policy as follows: Capital Financing Reserve Fund ($74.4 million), Capital Financing Reserve Fund ($3.0 million) for future TTC bus purchases, and TTC Stabilization Reserve Fund ($4.0 million) for an employee benefit liability provision.

The total Capital Financing Reserve Fund contribution of $77.4 million is to be utilized in the 2007 Operating Budget as a potential source of revenue to offset debt charge expenditure pressures and includes proceeds from the bus order settlement ($3.0 million) to be used for 2007 TTC bus purchases. The TTC Stabilization Reserve Fund contribution of $4.0 million is for the employee benefit liability provision first created by Council at its meeting of March 29/30, 2006 to offset future TTC costs related to the Ontario Health Premium (OHP).

In addition, the 2006 extraordinary item (property tax credits unclaimed for three or more years) of $49.0 million should be allocated to the City's Capital Financing Reserve Fund in accordance with City approved policy.

CONTACT

Josie La Vita
Director, Financial Planning
Phone: 416-397-4229
Fax: 416-397-4465
Email: jlavita@toronto.ca

Bert Riviere
Manager, Financial Planning
Phone: 416-397-4227
Fax: 416-392-3649
Email: briviere@toronto.ca

SIGNATURE

Joseph P. Pennachetti
Deputy City Manager and Chief Financial Officer

ATTACHMENTS

Appendix A – Net Expenditures
Appendix B – Gross Expenditures
Appendix C – Revenues
Appendix D – Technical Adjustments