TORONTO

STAFF REPORT ACTION REQUIRED

2006 Final Year-End Operating Variance Report

Date:	June 6, 2007
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\bc07018Fp – wo (AFS #2993)

SUMMARY

The purpose of this report is to provide the City of Toronto Final Operating Variance report for the twelve months ended December 31, 2006 and to request approval for the disposition of the additional 2006 final operating surplus (in accordance with Council policy). This variance report has been prepared using audited accounting information for the year ended December 31, 2006.

Chart 1

City of Toronto
2006 Operating Surplus - Preliminary vs Final Audited
($ millions)

	Preliminary	**Final**	**Additional Surplus**
Total City Operations	13.016	19.593	6.577
Total Agencies, Boards and Commissions	21.312	21.997	0.684
Total Corporate Accounts	47.101	51.987	4.886
Final Year-end Surplus	81.429	93.577	12.147

For the twelve-month period ended December 31, 2006, the final operating surplus was $93.6 million or 1.2% lower than the 2006 Council Approved Gross Operating Expenditure Budget. The 2006 Preliminary Year-End Operating Variance report dated April 11, 2007 reflected a surplus of $81.4 million prior to completion of the 2006 year-end audit. The additional surplus of $12.2 million is primarily attributed to: audit adjustments in Shelter, Support and Housing Administration (SSHA) due to the year-end

reconciliation of City funding (based on 2006 estimates) vs. 2006 actual expenditures at the Toronto Community Housing Corporation (TCHC) (property taxes $4.6 million and “rent-geared-to-income” subsidies $2.0 million); a year-end accrual for TCHC mortgage loan interest in Capital & Corporate Financing ($2.3 million); and, various other year-end adjustments mostly in Non-Program accounts. The overall combination of lower than planned expenditures and revenues that resulted in the 2006 final year-end operating surplus are detailed in the ‘Comments’ section of this report.

The extraordinary revenue item of $49.0 million representing all property tax credits unclaimed for three or more years (i.e. 2002 and prior) the City reported as part of the 2006 Preliminary Year-End Operating Variance Report was in addition to the final net operating expenditure of $93.6 million. Details are contained in the ‘Extraordinary Items’ section of this report.

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RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council approve the transfer of the additional 2006 final net operating surplus of $12.147 million to City reserve funds in accordance with City approved policy as follows: Social Housing Stabilization Reserve Fund ($0.660 million); Emergency Planning Reserve Fund ($5.000 million) for a pandemic influenza preparedness account; and, Capital Financing Reserve Fund ($6.487 million);
2. the Budget Committee forward this Operating Variance Report to the Executive Committee for its consideration; and,
3. Council authorize and direct the appropriate City Officials to take the necessary action to give effect thereto.

Financial Impact

The final year-end surplus of $93.6 million is $12.2 million more than the surplus of $81.4 million reported in the 2006 Preliminary Year-End Operating Variance report dated April 11, 2007. The additional surplus was due to final 2006 year-end entries made after the Preliminary Operating Variance report was prepared.

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). However, given the recent concerns related to pandemic influenza preparedness expressed by the Board of Health and Medical Officer of Health, it is recommended that Council approve the transfer of $5.0 million to a pandemic influenza preparedness account within the Emergency Planning Reserve Fund. This funding will be used to establish a pandemic influenza preparedness inventory of necessary materials and supplies. Also, $6.6 million of additional surplus was generated from a year-end TCHC reconciliation to City accounts. As a result, it is recommended that approximately $0.7 million be returned to the Social Housing Stabilization Reserve Fund.

Chart 2

2006 Final Year-End Surplus
($ millions)

Final Adjusted Year-End Surplus	93.577
Council Approved Transfer of Preliminary Surplus:	
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)
Additional Year-end Surplus	12.148
Recommended Transfer per City Policy:	
Emergency Planning Reserve Fund (pandemic influenza preparedness account)	(5.000)
Social Housing Stabilization Reserve Fund	(0.660)
Capital Financing Reserve Fund	(6.488)
	0.000

Chart 2 outlines the Council approved transfer of the 2006 preliminary year-end operating surplus and the recommended transfer of the additional 2006 final year-end operating surplus (details are contained in the '2006 Final Year-End Surplus Transfer' section of this report). The requirement that a minimum 75% of the total 2006 final year-end surplus be transferred to the Capital Financing Reserve Fund has been met.

In addition, as part of the 2006 Preliminary Year-End Operating Variance Report, Council approved the transfer of the extraordinary revenue item of $49.0 million representing all property tax credits unclaimed for three or more years (i.e. 2002 and prior) to the City's Capital Financing Reserve Fund.

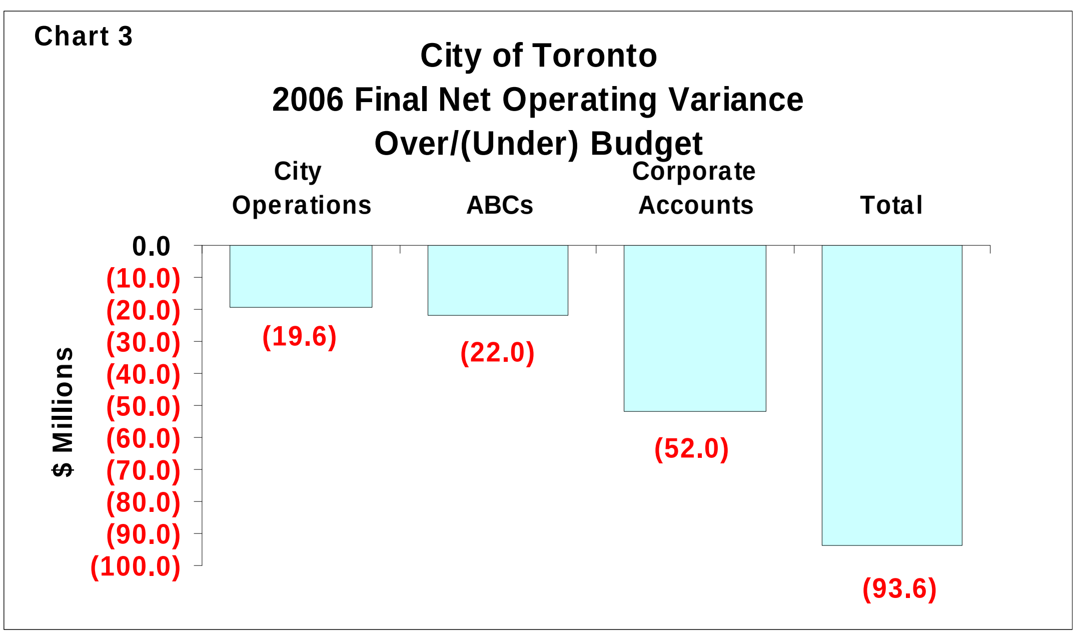
ISSUE BACKGROUND

This report is provided pursuant to good business practice and budgetary control. As part of the City's accountability framework, operating variance reports are submitted to Committees and Council quarterly (including preliminary and final reports at year-end), to provide information on how the approved operating funds are spent, and on an exceptions basis, to identify issues that require direction and decisions from Council.

COMMENTS

<u>Overview</u>

As shown in Chart 3, operating results for the twelve-month period ended December 31, 2006 reflect a final net operating surplus of $93.6 million or 1.2% of the 2006 Approved Gross Operating Expenditure Budget.



City Operations reported a net under expenditure of $19.6 million or 1.0% of the 2006 Approved Operating Budget. This variance was primarily due to: lower than planned expenditures as a result of spending constraints where Provincial subsidy and grant approvals were delayed or lower than anticipated in the budget for Homes for the Aged (HFA); lower than budgeted bed nights and the year-end reconciliation of City funding vs. 2006 actual expenditures at the Toronto Community Housing Corporation (TCHC) (property taxes, "rent-geared-to-income" subsidies) in Shelter, Support and Housing Administration (SSHA); lower payroll costs due to hiring delays, lower contracted disposal costs resulting from less waste tonnage received at Transfer Stations and savings from corporate cost containment measures in Solid Waste Management Services (SWMS); and, lower than planned winter maintenance costs (mild winter weather), reduced hydro energy costs, lower charges for technical services and savings from cost containment measures in Transportation Services.

Agencies, Boards and Commissions had a net favourable variance of $22.0 million or 1.7% of the 2006 Approved Operating Budget. This variance was primarily due to: 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) in Toronto Public Health (TPH); 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 (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) at the Toronto Police Service (TPS).

Corporate Accounts reported a net under expenditure of $52.0 million or 62.8% of the 2006 Approved Operating Budget. This variance was primarily due to: lower tax deficiency expenditures (fewer assessment appeals filed and fewer assessment appeal reductions awarded by the Municipal Property Assessment Corporation); lower than anticipated service charges from 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; higher than budgeted investment income due to an increase in the size of the City's investment portfolio; and, higher Toronto Parking Authority revenues resulting from improved off-street parking facilities and the introduction of additional pay and display machines in 2005.

Discussion of Significant Program Variances (Appendices A, B and C)

(1) Citizen Centred Services "A"

Table 1	Net Variances ($ millions) 2006 Year-End Over/(Under)
Affordable Housing Office	0.0
Children's Services	(0.8)
Court Services	5.3
Economic Development, Culture & Tourism	0.0
Emergency Medical Services	7.0
Homes for the Aged	(2.1)
Parks, Forestry & Recreation	3.5
Shelter, Support & Housing Administration	(10.6)
Social Development, Finance & Administration	(0.3)
Social Services	0.0
3-1-1 Customer Service Strategy	(0.0)
Sub-Total	2.0

Children's Services' year-end favourable gross and net expenditure variances were $49.8 million and $0.8 million or 13.1% and 1.2% of the 2006 Approved Operating Budget, respectively. The gross under expenditure was primarily due to the cancellation of the Best Start Program by the Province (with a corresponding reduction in Provincial Revenues) and the delayed opening of child care centres under the Best Start Phase 1 Initiative (targeted for completion in March 2006, but revised to August 2006), resulting in lower than anticipated enrolment levels. The net under expenditure of $0.8 million was due to under spending in the Family Resource Centres and School Rent Subsidy Programs (100% City Funded) as a result of delays in the implementation of the Best Start integrated services and the Best Start Phase 1 Initiative.

Court Services had a year-end unfavourable net variance of $5.3 million or 56.0% of the 2006 Approved Operating Budget. This variance was the result of lower than planned revenue due primarily to Toronto Police Service Officers not attending court and court closures resulting from a shortage of Justices of the Peace. During the third quarter of 2006, two of four initiatives approved by Council (internet payment functionality and hiring dedicated legal staff to pursue fines in default) were implemented. The initiative to improve court attendance by off-duty officers to increase the attendance record of officers at court was fully implemented during the fourth quarter of 2006 and will be monitored during 2007. The expansion of the Red Light Camera Program was delayed until February 2007 due to finalizing the technical specifications necessary for the expanded program.

Emergency Medical Services (EMS) reported unfavourable year-end gross and net expenditure variances of $2.2 million and $7.0 million or 1.6% and 11.6% of the 2006 Approved Operating Budget, respectively. The gross over spending was largely due to unplanned expenditures at the Central Ambulance Communication Centre (CACC), which were 100% offset by an unbudgeted one-time Provincial grant. In addition, EMS continued to experience pressures in overtime ($3.9 million) and medical/dental supplies (due to a one-time purchase of pandemic supplies related to the City's Emergency Preparedness Initiative $0.4 million), however these pressures were offset by lower salary and benefit costs due to gapping. The unfavourable variance in revenues of $4.8 million was primarily due to the Provincial funding shortfall for Land Ambulance Services. Late in the 2006 Operating Budget process, the Province advised the City of Toronto that it would contribute $10.4 million towards the existing Land Ambulance Services cost-sharing funding shortfall. Based on this, EMS' revenue budget was increased by $10.4 million. Subsequently, the Province provided a breakdown of the $10.4 million with $6.1 million allocated in base funding for Land Ambulance Services and $4.3 million ($2.8 million in base funding and $1.5 million in one-time funding) for the CACC resulting in overstated budgeted revenue for Land Ambulance Services and understated revenues for CACC. Also, EMS reflected the loss of a budgeted $1.2 million one-time Federal Medical Grant that was not awarded for 2006. As a result, the two primary issues that faced EMS were the hospital offload situation (resulting in increased overtime) and the Provincial funding shortfall for Land Ambulance Services. EMS implemented scheduling changes (decreasing the number of vehicles on duty) which partially alleviated the overtime pressure created by hospital offloading. The one-time funding for CACC (including a pilot project to add 6 Duty Officers 24/7) also partially addressed staffing issues as a result of the hospital offload delays.

The ***Homes for the Aged (HFA)*** year-end favourable gross and net expenditure variances were $8.8 million and $2.1 million or 4.7% and 6.5% of the 2006 Approved Operating Budget, respectively. The favourable expenditure variances were mainly attributed to: spending constraints (community-based services and homes programs) where Provincial subsidy and grant approvals were delayed or lower than anticipated in the budget; and, lower sick time and Workplace Safety and Insurance Board (WSIB) costs.

Parks, Forestry and Recreation reported year-end gross and net unfavourable expenditure variances of $3.0 million and $3.5 million or 1.0% and 1.6% of the 2006 Approved Operating Budget, respectively. These variances were mostly due to higher than planned salary & benefit expenditures (unmet gapping, overtime/vacation pay, WSIB costs) and underachieved revenue targets (Business Services for Concessions, Leases and Agreements).

Shelter, Support & Housing Administration (SSHA) reported an under expenditure of $44.0 million (gross) and $10.6 million (net) or 6.1% and 3.9% of the 2006 Approved Operating Budget, respectively. The favourable gross variance was primarily attributed to: delays in payments of loans for capital repairs to housing providers; delays in grants for SCPI community projects; and, delays in loans and grants for the housing program. These lower expenditures were offset by lower than budgeted revenues, as the loans are from the City's Reserve Funds and the grants are primarily from the Federal and Provincial governments. The favourable net variance is primarily attributed to: audit adjustments in Shelter, Support and Housing Administration (SSHA) due to the year-end reconciliation of City funding (based on 2006 estimates) vs. 2006 actual expenditures at the Toronto Community Housing Corporation (TCHC) (property taxes $4.6 million and "rent-geared-to-income" subsidies $2.0 million); lower than budgeted bed night volumes of 62,908 (budgeted volume was 1,474,676 bed nights); and, lower costs for salaries and benefits due to hiring delays.

(2) Citizen Centred Services "B"

Table 2	Net Variances ($ millions) 2006 Year-End Over/(Under)
Toronto Building	0.2
City Planning	(0.7)
Clean and Beautiful City Secretariat	(0.1)
Fire Services	3.5
Municipal Licensing & Standards	0.6
Policy, Planning, Finance and Administration	(1.6)
Solid Waste Management Services	(2.5)
Technical Services	0.7
Transportation Services	(15.2)
Waterfront Secretariat	(0.1)
Sub-Total	(15.2)

City Planning reported a year-end favourable net variance of $0.7 million or 5.3% of the 2006 Approved Operating Budget. The favourable variance was primarily attributed to higher than planned staff vacancies (specifically the Council directed staggered hiring of 9 positions and their required hardware/software) offset by lower than expected Planning Application Fee revenue (while application volumes remained constant, revenues were not as high as anticipated due to the mix in types of development applications received).

Fire Services had a year-end unfavourable net variance of $3.5 million or 1.1% of the 2006 Approved Operating Budget. This unfavourable variance was mainly the result of higher than budgeted salary & benefit expenditures due to unachieved gapping and increased WSIB claims. The increase in claims was due to changes in WSIB policy and the adjudication process which now allows the recognition of a wide range of cardiovascular diseases/cancers attributed to firefighting.

Municipal Licensing & Standards (MLS) showed a year-end unfavourable net variance of $0.6 million or 6.0% of the 2006 Approved Operating Budget. This unfavourable variance was mostly due to lower than planned revenue from: new and renewal licensing applications; electrical contractors (licensing assumed by Province in 2006); and, body rub parlours. The revenue shortfall was partially offset by savings due to vacant positions and cost containment measures implemented by the Program.

Policy, Planning, Finance & Administration (PPF&A) reported a year-end net under expenditure of $1.6 million or 12.9% of the 2006 Approved Operating Budget. This under expenditure was largely attributed to: lower payroll costs (vacant positions due to restructuring within the division); and, lower expenditures due to delays in the Capital Program during 2006.

Solid Waste Management Services (SWMS) had a favourable year-end net variance of $2.5 million or 1.5% of the 2006 Approved Operating Budget. This favourable variance was mainly the 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; savings due to corporate cost containment measures; and, higher revenues from Waste Diversion Ontario supporting blue & grey box recycling and for material received at the SWMS facilities (e.g. recyclables, Asian Long-Horned Beetle yard waste, clean fill and additional materials from the Region of Peel). These favourable variances were somewhat offset by: higher than budgeted costs for processing of recyclables, collection contract costs, and fleet charges; and, lower revenues from the sale of recyclable materials and the Yellow Bag Program.

Technical Services reported year-end gross favourable and net unfavourable expenditure variances of $5.2 million and $0.7 million or 8.8% and 30.3% of the 2006 Approved Operating Budget, respectively. The favourable gross variance was primarily attributed to vacant positions (lower salaries & benefits costs) and lower services/rents and equipment expenditures (non-salary costs). The bulk of the favourable gross under expenditure was distributed to client program accounts through reduced inter-divisional operating and capital recoveries. In addition, Technical Services experienced lower external revenue recoveries primarily related to development engineering and TTC district engineering recoveries.

Transportation Services showed year-end gross and net favourable expenditure variances of $32.5 million and $15.2 million or 11.8% and 8.5% of the 2006 Approved Operating Budget, respectively. The gross favourable variance was largely attributed to: lower expenditures due to mild winter conditions ($12.8 million); reduced costs resulting from lower utility cut repair activity (e.g. hiring of ten new utility cut repair inspectors, provided for in the 2006 Council Approved Operating Budget for $0.5 million, was deferred); reduced hydro energy costs (LED traffic signal conversion program $0.2 million); lower charges for technical services ($1.2 million); and, savings from cost containment measures (e.g. deferring the replacement of equipment and computer hardware $0.3 million). The favourable variances were somewhat offset by: lower utility cut repair revenue and red light camera processing fees from other municipalities.

(3) Internal Services

Table 3	Net Variances ($ millions) 2006 Year-End Over/(Under)
Office of the Chief Financial Officer	(0.4)
Office of the Treasurer	(1.1)
Public Information & Creative Services	(0.3)
Facilities & Real Estate	(0.6)
Fleet Services	0.6
Information & Technology	(1.4)
Sub-Total	(3.3)

The ***Office of the Chief Financial Officer*** (inclusive of Financial Planning, Corporate Finance, Special Projects and Finance & Administration Divisions) reported a year-end favourable net variance of $0.4 million or 4.4% of the 2006 Approved Operating Budget. This favourable net variance was primarily due to lower costs resulting from vacant positions and reduction of discretionary expenditures. These under expenditures are not expected to recur in future years as the extraordinary gapping realized in Financial Planning and Finance & Administration was due to staff secondments to other divisions for special projects/backfills (majority of these assignments have ended and the staff have returned to their base positions) and delayed hiring pending the recommendations of the Internal Services Finance & Administration Review (for example 45 positions were transferred to other City Programs as a result of the review).

The ***Office of the Treasurer*** (inclusive of Revenue Services, Accounting Services, Pensions, Payroll & Employee Benefits and Purchasing & Materials Management Divisions) had a year-end under expenditure of $1.1 million or 3.6% of the 2006 Approved Operating Budget. This favourable net variance was mainly attributed to delays in hiring, lower costs for casual staff and overtime, and one time discretionary savings.

Public Information and Creative Services showed a favourable year-end net variance of $0.3 million or 7.3% of the 2006 Approved Operating Budget largely due to cost containment savings and lower salary & benefits costs resulting from the finalization of harmonized wage levels.

Facilities & Real Estate reported a favourable year-end net variance of $0.6 million or 1.1% of the 2006 Approved Operating Budget mostly due to lower utility costs resulting from mild weather.

Fleet Services' year-end net over expenditure of $0.6 million was primarily due to the delay in awarding a contract for parts (which would result in bulk savings for the City). Fleet and PMMD are working to expedite the process and a contract should be finalized early in 2007.

Information & Technology reported a year-end surplus of $1.4 million or 3.1% of the 2006 Approved Operating Budget. This favourable net variance was mainly attributed to lower payroll costs (vacant positions) and reduced services & rents expenditures. Many key positions remained vacant due to recruitment challenges (shortage of qualified IT professionals) resulting in reduced salaries & benefits, as well as training and other staff-related costs. In addition, proactive contract negotiations contributed to lower maintenance expenditures.

(4) City Manager

Table 4	Net Variances ($ millions) 2006 Year-End Over/(Under)
City Manager's Office	(0.4)
Human Resources	(1.6)
Sub-Total	(1.9)

The ***City Manager's Office*** had a year-end favourable net variance of $0.4 million or 4.2% of the 2006 Approved Operating Budget mostly due to lower payroll costs (hiring delays).

Human Resources reported a year-end net under expenditure of $1.6 million or 5.6% of the 2006 Approved Operating Budget primarily attributed to vacant positions pending the divisional reorganization. The divisional review was completed in the fourth quarter of 2006 and staffing of vacant positions began after the division transitioned to its new model in February 2007.

(5) Other City Programs

Table 5	Net Variances ($ millions) 2006 Year-End Over/(Under)
City Clerk's Office	(0.2)
Legal Services	(0.6)
Auditor General's Office	(0.0)
Mayor's Office	(0.1)
City Council	(0.3)
Sub-Total	(1.2)

Legal Services had a year-end net under expenditure of $0.6 million or 2.9% of the 2006 Approved Operating Budget primarily due to vacant positions (maternity & education leaves and leaves of absence) and higher than expected revenues due to the increased volume of planning applications and business licenses.

Mayor's Office showed a year-end favourable variance of $0.1 million or 4.3% of the 2006 Approved Operating Budget mainly due to lower than planned salary costs.

City Council reported a year-end favourable net variance of $0.3 million or 1.7% of the 2006 Approved Operating Budget as a result of the under spending in some Councillor's staff salaries & benefits and office budgets.

(6) Agencies, Boards and Commissions

Collectively, ***Agencies, Boards and Commissions (ABCs)*** reported a favourable year-end net variance of $22.0 million or 1.7% of the 2006 Approved Operating Budget.

Table 6	Net Variances ($ millions) 2006 Year-End Over/(Under)
Toronto Public Health	(4.7)
Toronto Public Library	(0.0)
Association of Community Centres	(0.0)
Exhibition Place	2.4
Heritage Toronto	0.0
Theatres	(0.3)
Toronto Zoo	(0.1)
Arena Boards of Management	0.1
Yonge Dundas Square	(0.0)
Toronto & Region Conservation Authority	0.0
Toronto Transit Commission - Conventional	(13.1)
Toronto Transit Commission - Wheel Trans	(0.4)
Toronto Police Service	(6.1)
Toronto Police Services Board	0.4
Sub-Total	(22.0)

Toronto Public Health (TPH) reported a year-end surplus of $4.7 million or 7.3% of the 2006 Approved Operating Budget as a result of: new & enhanced services that were not implemented in 2006 due to the 5% Provincial funding growth cap on mandatory cost-shared programs; and, lower than planned expenditures for other cost-shared programs and some new services to mitigate a potential Provincial funding shortfall in 2006 (i.e. uncertainty surrounding Provincial funding for COLA and harmonization costs) pending the final Provincial approval of its 2006 base funding for mandatory programs (not received until January 2007). These under expenditures were somewhat offset by the City's funding of the Provincial portion of the Integrated Public Health Information System (IPHIS) Capital project that the Province has now determined is not eligible for Provincial cost-sharing.

Exhibition Place had a year-end net over expenditure of $2.4 million attributed largely to lower CNE admissions and associated revenue shortfalls (due to poor weather on Labour

Day weekend) and lower than planned shows revenue. These unfavourable variances were somewhat offset by lower utility costs (mild winter, energy efficiency measures) and reduction of discretionary expenditures.

Theatres reported a year-end favourable net variance of $0.3 million or 11.4% of the 2006 Approved Operating Budget mainly due to higher than planned revenues at the Hummingbird Centre for the Performing Arts (presentations and enhanced ancillary revenues).

The ***Toronto Zoo*** showed a year-end net favourable variance of $0.1 million or 1.2% of the 2006 Approved Operating Budget. This net under expenditure was predominantly due to: lower than planned utility costs (moderate summer weather and warm winter weather); reduction of discretionary expenditures; and, lower costs as a result of the lower retail sales in 2006. These favourable variances were almost entirely offset by revenue shortfalls related to both admissions (while overall attendance was up, the mix between regular admissions and member/special passes/children under 4 resulted in lower revenue) and retail sales.

The ***Arena Boards of Management*** Program had a year-end net unfavourable variance of $0.1 million or 67.0% of the 2006 Approved Operating Budget. This net over expenditure was largely the result of: emergency repairs and immediate remediation of health & safety and building systems issues (including an unforeseen human resources cost) at George Bell Arena; and, the unplanned closure at McCormick Arena to accommodate the completion of a capital project involving major renovations. These over expenditures were somewhat offset by higher than planned revenues at several other arenas.

The ***Toronto Transit Commission (TTC)*** reported a year-end surplus of $13.5 million or 4.4% of the 2006 Approved Operating Budget (Conventional and Wheel-Trans) mostly due to proceeds from a bus order settlement ($3.0 million) and lower than anticipated commodity price increases combined with lower hydro/natural gas heating costs as a result of the milder winter weather ($9.5 million).

The ***Toronto Police Service (TPS)*** reported a year-end net favourable variance of $6.1 million or 0.8% of the 2006 Approved Operating Budget. This net favourable variance was primarily attributed to: lower than expected salary & benefit costs (increased separations and their timing throughout 2006 combined with hiring delays $3.4 million); lower IT maintenance costs ($2.3 million), lower legal indemnification of officers costs ($1.2 million), and higher than planned revenues (Safer Communities Grant Program $1.2 million, prisoner transportation recoveries and paid duty administrative fees $0.6 million). The favourable variances were somewhat offset by: higher than budgeted salary costs for Court security staff due to an increase in the trial hours per day and longer pre-trial hearings ($1.4 million); and, higher than planned non-salary costs (fuel, officer name tag requirement, etc. $1.0 million). In addition, the ***Toronto Police Services Board*** had a year-end net over expenditure of $0.4 million or 20.9% of the 2006 Approved Operating

Budget due to higher than planned internal legal costs and external legal fees (i.e. arbitrations).

(7) Corporate Accounts

Table 7	Net Variances ($ millions) 2006 Year-End Over/(Under)
Community Partnership and Investment Program	(0.0)
Capital & Corporate Financing	6.3
Non-Program Expenditures	(18.8)
Non-Program Revenues	(39.5)
Sub-Total	(52.0)

The favourable year-end net variance reported in ***Corporate Accounts*** was $52.0 million or 62.8% of the 2006 Approved Operating Budget. This favourable net variance was primarily attributed to: higher than anticipated investment income ($14.2 million) due to higher than estimated investment returns and 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 ($4.9 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 TTC payable related to Eglinton/Duplex property ($7.0 million); prior years stores inventory adjustments ($3.5 million); higher Toronto Parking Authority revenues resulting from improved off-street parking facilities and the introduction of additional pay and display machines in 2005 ($2.7 million); prior years TELS funding in excess of costs ($4.5 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). These favourable variances were somewhat offset by: higher than budgeted Capital & Corporate Financing costs ($8.0 million for outstanding debt charges); and, lower than planned interest income from the Toronto Hydro note receivable due to the reduction in the interest rate as of May 1, 2006 ($4.5 million).

Non Levy Operations

Table 8	Net Variances ($ millions) 2006 Year-End Over/(Under)
Toronto Parking Authority	(3.4)
Toronto Water	(6.4)
Sub-Total	(9.8)

The ***Toronto Parking Authority (TPA)*** reported a year-end budget surplus of $3.4 million or 8.5% of the 2006 Approved Operating Budget 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) had a year-end budget surplus of $6.4 million primarily due to lower expenditures from vacant positions, lower than planned direct salary charges for Support Services and higher than planned user fees for new services. These favourable variances were somewhat offset by lower revenues from reduced water usage during the summer months and lower sales of water to York Region.

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

2006 Final Year-End Surplus Transfer

The final year-end surplus of $93.6 million is $12.2 million more than the surplus of $81.4 million reported in the 2006 Preliminary Year-End Operating Variance Report.

Given the recent concerns related to pandemic influenza preparedness expressed by the Board of Health and Medical Officer of Health, it is recommended that Council approve the transfer of $5.0 million to a pandemic influenza preparedness account within the Emergency Planning Reserve Fund. This funding will be used to establish a pandemic influenza preparedness inventory of necessary materials and supplies. Also, $6.6 million of additional surplus was generated from a year-end TCHC reconciliation to City accounts. As a result, it is recommended that approximately $0.7 million be returned to the Social Housing Stabilization Reserve Fund. The remaining additional 2006 final operating surplus of $6.5 million should be transferred to the City's Capital Financing Reserve Fund in accordance with City approved policy. The requirement that a minimum 75% of the total 2006 final year-end surplus be transferred to the Capital Financing Reserve Fund has been met.

As part of the 2006 Preliminary Year-End Operating Variance Report, Council approved the transfer of the 2006 preliminary operating surplus of $81.4 million to the following City reserve funds: 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 was utilized in the 2007 Operating Budget as a potential source of revenue to offset debt charge expenditure pressures and included 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 was 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, as part of the 2006 Preliminary Year-End Operating Variance Report, Council approved the transfer of the extraordinary revenue item of $49.0 million representing all property tax credits unclaimed for three or more years (i.e. 2002 and prior) to the City's Capital Financing Reserve Fund.

Consulting Costs

As at December 31, 2006, City Programs and ABCs reported consulting costs of $3.4 million compared to a budget of $4.8 million. This under expenditure was primarily the result of delays / deferrals of consulting costs due to cost containment measures.

Approved Positions

The City budgets and monitors its staff complement based on Approved Positions. As at December 31, 2006, the City reported 44,006.7 full-time approved positions (42,164.4 permanent and 1,842.3 casual/seasonal) and 4,647.1 part-time approved positions (1,549.9 permanent and 3,097.2 casual/seasonal). This reflected a decrease of 1.1% from the 2006 Council Approved Positions and occurred mainly due to delays in filling vacant positions and seasonal fluctuations within City Programs/ABCs.

Utility Costs

The year-end utility under expenditure for City utility costs was primarily the result of: lower than planned consumption of hydro/natural gas (due to mild winter weather, moderate summer weather, etc.); higher than planned one-time rebates; retrofit project savings; and, other energy efficiency measures. These under expenditures mostly occurred in: Parks, Forestry & Recreation; Fire Services; Facilities & Real Estate; Toronto Zoo; TTC; and, Toronto Water. As at December 31, 2006, levy and rate operations reported utility costs of $131.1 million compared to a budget of $148.7 million.

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SIGNATURE

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ATTACHMENTS

Appendix A – Net Expenditures
Appendix B – Gross Expenditures
Appendix C – Revenues