TORONTO

STAFF REPORT ACTION REQUIRED

Operating Variance Report for the Nine-month Period Ended September 30, 2006

Date:	January 12, 2007
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\bc07005FP-wo (AFS #2866)

SUMMARY

The purpose of this report is to provide the City of Toronto Operating Variance report for the nine-month period ended September 30, 2006, operating variance projections for the year ending December 31, 2006 and to 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 nine-month period ended September 30, 2006, net expenditures were $38.9 million or 1.7% lower than planned expenditures. However, projections to year-end indicate that the City will have a net surplus of approximately $15.9 million or 0.5% of the 2006 Council Approved Operating Budget. Primarily this favourable position is attributed to a combination of factors including: lower assessment appeals and service charges from the Municipal Property Assessment Corporation; higher than budgeted investment income and Toronto Parking Authority revenues; higher than planned passenger revenues at the Toronto Transit Commission (TTC); and, lower than expected salary & benefit costs (increased separations) at the Toronto Police Service (TPS).

CONTENTS

Topic	See page …
Issue background	**3**
Comments	**3**
Contact	**21**
Attachments	**22**

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. 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;
2. this Operating Variance Report be forwarded to the Executive Committee for its consideration; and,
3. the appropriate City Officials be authorized and directed to take the necessary action to give effect thereto.

FINANCIAL IMPACT

Table A		Net Variances ($ millions) September 2006 Over/(Under)	Net Variances ($ millions) Projected Y/E 2006 Over/(Under)
(1)	Citizen Centred Services "A"	(5.6)	15.7
(2)	Citizen Centred Services "B"	(5.9)	3.3
(3)	Internal Services	(2.2)	(1.5)
(4)	City Manager	(0.9)	(0.5)
(5)	Other City Programs	(5.1)	(3.1)
	Total - City Operations	(19.7)	13.9
(6)	Agencies, Boards and Commissions	(12.3)	(8.5)
(7)	Corporate Accounts	(6.9)	(21.4)
	Sub-Total	(19.3)	(29.9)
	Total Variance	(38.9)	(15.9)

Net expenditures for the nine-month period ended September 30, 2006 were $38.9 million or 1.7% less than planned expenditures. Projections to year-end indicate a net operating budget surplus of $15.9 million or 0.5% of the 2006 Council Approved Operating Budget. The 2006 projected surplus is attributed to a combination of lower than planned expenditures and higher than budgeted revenues in areas which are detailed in the 'Comments' section below. Staff will continue to exercise cost constraints during the last quarter and will, in accordance with the City's Surplus Policy, recommend options for disposition of any surplus as part of the 2006 Preliminary Year-end Operating Variance Report.

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, to provide information on how the approved operating funds are being spent, and on an exceptions basis, to identify issues that require direction and decisions from Council. In addition, Council is required to approve the technical adjustments made to amend the Council Approved Operating Budget between Programs to ensure accurate accountability and reporting with no increase to the overall 2006 Council Approved Operating Budget.

COMMENTS

<u>Overview</u>

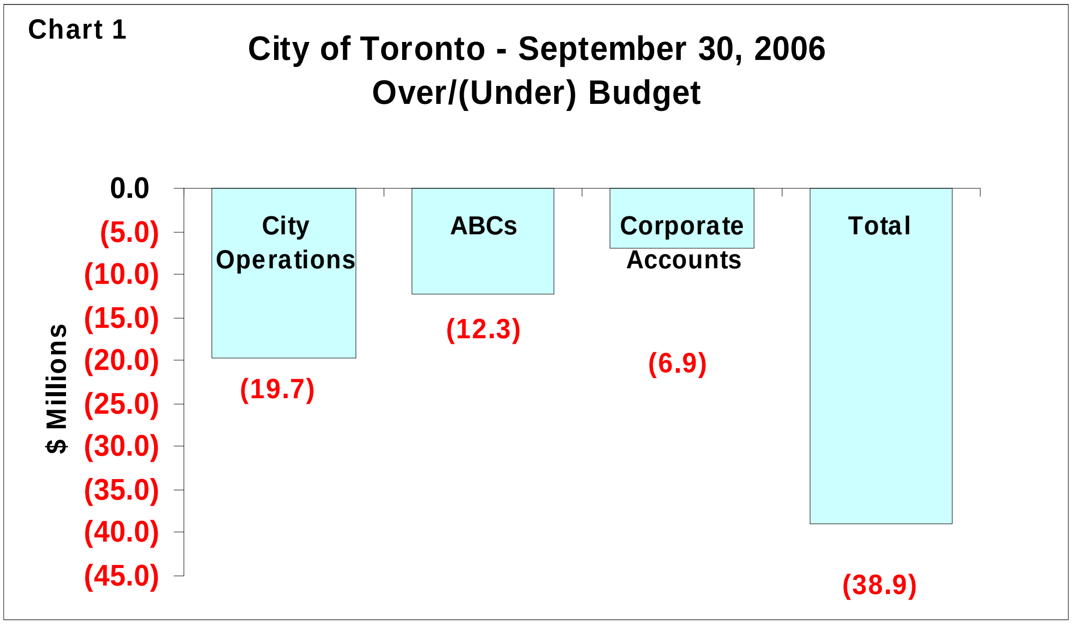
Operating results for the nine-month period ended September 30, 2006 reflect a net year-to-date favourable variance of $38.9 million or 1.7% of planned expenditures.

As shown in Chart 1, for the nine-month period ended September 30, 2006, ***City Operations*** reported a net under expenditure of $19.7 million or 1.4% of planned expenditures. This variance was primarily due to: lower than budgeted bed nights in Shelter, Support and Housing Administration (SSHA); lower than planned average monthly caseloads in Social Services; lower than planned contracted winter maintenance costs resulting from favourable weather conditions and utility cut repair position vacancies in Transportation Services; staff vacancies in the City Clerk's Office; and, staff vacancies, other non-payroll expenditure savings and higher than expected revenues (planning applications and business licences) in Legal Services.

Agencies, Boards and Commissions had a net favourable variance of $12.3 million or 1.4% of planned expenditures due mainly to higher than planned passenger revenues at the Toronto Transit Commission (TTC) and lower than expected salary & benefit costs at the Toronto Police Service (TPS).

Corporate Accounts reported a net under expenditure of $6.9 million or 27.2% of planned expenditures primarily due to lower than planned assessment appeals filed by property owners; fewer assessment appeal reductions awarded by the Assessment Review

Board; and, lower than anticipated service charges from the Municipal Property Assessment Corporation.



By year-end, a favourable variance of $15.9 million 0.5% of the 2006 Approved Operating Budget is projected.

City Operations project a net over expenditure at year-end of $13.9 million or 0.7% of the 2006 Approved Operating Budget primarily due to: a revenue shortfall in Court Services due to fewer Toronto Police Service Officers attending court and court closures arising from a shortage of Justices of the Peace; EMS' expected Provincial funding shortfall for Land Ambulance Services and loss of a Federal Medical Grant that was budgeted for 2006; revenue shortfalls and higher than planned salary & benefit costs (overtime and vacation pay) in Parks, Forestry & Recreation; revenue shortfall from delays in processing false alarm charges, unachieved gapping and potential for increased claims due to WSIB policy changes in Fire Services; and, lower than estimated revenue from the sale of recyclables and paid waste tonnes received at transfer stations in Solid Waste Management Services.

Agencies, Boards and Commissions project a net under expenditure at year-end of $8.5 million or 0.7% of the 2006 Approved Operating Budget primarily due to: increased ridership revenue at the Toronto Transit Commission (TTC); and, lower than planned salary expenditures given the timing and increased number of separations, lower than expected medical and dental costs, and higher than estimated grant funding (Safer Communities Grant Program) at the Toronto Police Service (TPS).

Corporate Accounts project to be under budget at year-end by $21.4 million or 23.1% as a result of: lower than expected assessment appeals and awards; higher than anticipated investment income due to an increase in the size of the City's investment portfolio;

higher Toronto Parking Authority revenues resulting from improved off-street parking facilities and the introduction of additional pay and display machines in 2005; and, savings resulting from lower than anticipated service charges from the Municipal Property Assessment Corporation.

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

(1) Citizen Centred Services "A"

Table 1	Net Variances ($ millions) September 2006 Over/(Under)	Net Variances ($ millions) Projected Y/E 2006 Over/(Under)
Affordable Housing Office	(0.1)	0.0
Children's Services	0.0	0.0
Court Services	5.8	8.0
Economic Development, Culture & Tourism	(0.2)	0.0
Emergency Medical Services	0.1	6.4
Homes for the Aged	(1.6)	(0.5)
Parks, Forestry & Recreation	2.0	4.9
Shelter, Support & Housing Administration	(5.6)	(2.6)
Social Development, Finance & Admin	(1.5)	(0.4)
Social Services	(4.3)	0.0
3-1-1 Project Management Office	(0.0)	0.0
Sub-Total	(5.6)	15.7

The ***Affordable Housing Office*** year-to-date favourable gross and net expenditure variances were $0.5 million and $0.1 million or 25.1% and 9.6% of planned expenditures, respectively. The year-to-date favourable variances were primarily due to savings in salaries & benefits (reflecting delays in hiring six positions) and services and rents (including legal expenses), resulting from savings in operating costs associated with the start-up of office operations and project delays. These variances were offset by lower revenue draws from SCPI, the Community Rental Housing Program, the Mayor's Homelessness Initiative Reserve Fund and the Capital Revolving Reserve Fund. The Program is projecting a zero net variance at year-end.

Children's Services' year-to-date favourable gross expenditure variance of $5.4 million or 2.3% of planned expenditures and $0 net expenditure variance were largely attributed to under spending in Municipal Child Care, Purchased Child Care and hiring delays for positions under the Best Start Initiative (100% Provincially funded). The Program is adjusting service levels to meet childcare needs of the City to the maximum service subsidy level allowed by the Province. On July 25, 2006, Council adopted a report on the Approval of the Toronto Child Care Plan Update to address the reduction in Provincial funding of the Best Start program and subsequent decrease to the Children's Services 2006 Approved Budget. The report recommended that the Children's Services 2006 Approved Operating Budget be reduced by $31.6 million gross and $0 net to reflect the projected Provincial Best Start funding for 2006. By year-end, Children's Services is projecting a gross under expenditure of $41.0 million or 10.8% of the 2006 Approved Operating Budget (but $0 net expenditure variance) primarily due to under expenditure of the Best Start 2005/2006 allocation (100% Provincially funded). Opening of child care centres under Best Start (Phase 1) was delayed thus impacting on the enrolment levels which are lower than anticipated.

Court Services had a year-to-date unfavourable net variance of $5.8 million or 77.3% of planned expenditures. 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. The Program is projecting a year-end revenue shortfall of $8.6 million, anticipated to be offset by a gross under expenditure of $0.6 million, resulting in a net unfavourable variance of $8.0 million or 84.3% of the 2006 Approved Operating Budget. 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 January 2007 due to finalizing the technical specifications necessary for the expanded program. No revenue shortfalls are anticipated in 2007.

Economic Development, Culture & Tourism (EDCT) reported year-to-date gross and net favourable expenditure variances of $0.4 million and $0.2 million or 1.6% and 1.2% of planned expenditures, respectively. These favourable variances resulted largely from under spending in Culture as large-scale projects (such as Nuit Blanche from Live With Culture) were implemented in the second half of 2006. The Program is projecting a balanced net operating budget at year-end. The projected year-end revenue shortfall, due to reductions/deferrals in such areas as the HRSDC program ($0.3 million), Blockbuster events ($2.0 million) and Film Office parking revenue ($0.1 million), will be offset by corresponding reductions in gross expenditures resulting in no net impact.

Emergency Medical Services (EMS) reported unfavourable year-to-date gross and net expenditure variances of $1.6 million and $0.1 million or 1.5% and 0.2% of planned expenditures, respectively. The gross over spending was primarily due to unplanned expenditures at the Central Ambulance Communication Centre (CACC), which were 100% offset by an unbudgeted one-time Provincial grant. EMS continued to experience pressures in overtime, gasoline costs and medical/dental supplies, however these pressures were offset by savings in other areas. 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 an allocation allotment of $6.2 million for Land Ambulance Services and $4.2 million for the CACC resulting in overstated budgeted revenue for Land Ambulance Services and understated revenues for CACC. Consequently, EMS is projecting a year-end net over expenditure of $6.4 million or 10.5% of the 2006 Approved Operating Budget primarily due to the revenue shortfall of

$5.2 million for Land Ambulance Services and loss of a budgeted $1.2 million one-time Federal Medical Grant that will now not be awarded for 2006. The two primary issues facing EMS continue to be the hospital offload situation and the Provincial funding shortfall for Land Ambulance Services. EMS has 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) is also expected to partially address staffing issues as a result of the hospital offload delays. The Province has advised EMS that funding increases are expected in 2007 and 2008 that will restore full 50% Provincial funding for Land Ambulance Services.

The ***Homes for the Aged (HFA)*** year-to-date favourable gross and net expenditure variances were $7.8 million and $1.6 million or 6.0% and 10.3% of planned expenditures, respectively. The favourable expenditure variance was attributed to delays of certain budgeted expenditures to the last three months of the year and expenditure controls initiated by the Program to restrict spending where Provincial subsidy and grant approvals have been delayed or are lower than anticipated in the budget. By year-end, HFA is projecting a favourable gross expenditure variance of $2.0 million or 1.1% of the 2006 Approved Operating Budget (net variance of $0.5 million or 1.5% of the 2006 Approved Operating Budget) primarily due to delays in ministry approvals for community program expansion. In addition, HFA has received one-time Provincial funding of $3.5 million related to the reconciliation of prior year subsidies, which will be transferred to the Homes for the Aged Stabilization Reserve Fund during the last three months of 2006.

Parks, Forestry and Recreation reported year-to-date gross and net unfavourable expenditure variances of $7.4 million and $2.0 million or 3.7% and 1.3% of planned expenditures, respectively. These variances were mainly due to higher than planned overtime/vacation pay (resulting in over spent salaries & benefits) and rental fees paid to the Toronto District School Board (budgeted to be paid at the end of the year but actually paid throughout the year). The over expenditures were mitigated somewhat by lower than expected utility costs and higher than planned revenues in the first nine months of 2006. The Program is projecting an unfavourable net variance at year-end of $4.9 million or 2.3% of the 2006 Approved Operating Budget. Parks, Forestry and Recreation expects salaries & benefits to be $2.0 million over budget by year-end (as a result of the overtime and vacation pay impact) however, the Program will continue to monitor these expenditures through the remainder of 2006. As well, the revenue budget is expected to be underachieved by $2.4 million since the Program has had chronic difficulty in meeting certain revenue targets, particularly with respect to concessions, as was reported in the "Parks, Forestry & Recreation Revenue Review -- Phase II" report which was considered by Council in July 2005.

The unfavourable year-to-date gross expenditure variance in ***Shelter, Support & Housing Administration*** of $5.2 million or 1.1% of planned expenditures was more than offset by a favourable revenue variance of $10.8 million which resulted in a favourable net variance of $5.6 million or 3.0% of planned expenditures. The unfavourable gross variance was attributable to an unbudgeted one-time payment of Statutory Entitlement funds ($14.0 million) to former Metropolitan Toronto Housing Authority employees, which was paid to the Toronto Community Housing Corporation and was 100% funded by the Province. Offsetting this unbudgeted expenditure were gross savings in purchased hostel services and other shelter-related expenses resulting from a decline in bed nights of 48,547 or 4.4% and the associated reduction in subsidy revenues. In addition, the nine month variance also reflects under spending in salaries and benefits of $2.0 million due to hiring delays. At year-end, the Program is projecting unfavourable gross and favourable net expenditure variances of $4.5 million and $2.6 million or 0.6% and 1.0% of the 2006 Approved Operating Budget, respectively. The decline in bed nights is expected to continue and the Program is projecting lower than budgeted bed night volumes of 67,571 or 4.6% for year-end (budgeted volume is 1,474,676 bed nights). The 2007 estimated bed nights will be reviewed in light of the declining volumes.

Social Development, Finance & Administration reported year-to-date favourable variances of $3.2 million gross and $1.5 million net or 13.6% and 9.8% of planned expenditures mainly due to staff vacancies and other general under spending. The gross expenditure variance also included a $1.1 million under expenditure for the Youth Employment and Local Leadership program (start delayed to mid-October) due to negotiations with Service Canada. The Program is projecting a year-end favourable net variance of $0.4 million or 1.6% of the 2006 Approved Operating Budget again primarily due to staff vacancies and general under spending across the division.

Year-to-date, ***Social Services*** reported better than planned gross expenditures for the Ontario Works (OW) program and Cost of Administration (COA), Ontario Disability Support Program (ODSP) and Ontario Drug Benefits (ODB) of $26.1 million (3.5%) primarily due to a lower average monthly caseload of 71,942 compared to the planned average monthly caseload of 74,072.

At year-end, the Program is projecting a net over expenditure for the Ontario Works (OW) program and Cost of Administration (COA), Ontario Disability Support Program (ODSP) and Ontario Drug Benefits (ODB) of $14.4 million. The year-end net over expenditure will be funded by budgeted draws from Toronto Social Services (TSS) reserve funds consistent with the funding mechanism adopted by Council since 2002.

<u>Ontario Works (OW) Program</u>

The year-end average monthly caseload is projected to be at 72,500 cases or 2,500 cases lower than planned. Ontario Works program benefits for cases over 57,000 will be funded from the Social Assistance Stabilization (SAS) Reserve Fund, consistent with the funding mechanism adopted by Council since 2002. Given the lower projected caseload, combined with prior year GTA pooling revenue, the SAS Reserve Fund draw will be $9.1 million less than budget.

The SAS Reserve Fund, with an opening balance of $57.3 million, is now projected to be $18.9 million at year-end after budgeted withdrawals for the OW, ODSP & ODP programs, an encumbrance of $3.0 million for child care spaces in the Children's Services Division (adopted by City Council at its July 25, 26 and 27, 2006 meeting – "Approval of the Toronto Child Care Service Plan Update") and $25.4 million to balance the City's 2006 Approved Operating Budget. While this is an improvement, considering that the SAS Reserve Fund balance was expected to be zero at year-end, the balance will still not be adequate in 2007 to continue to fund the OW cases over 57,000.

<u>Ontario Works (OW) Cost of Administration (COA)</u>

The legislated cost-sharing ratio for the OW COA subsidy is 50/50. However, as in previous years, the Province has established a cap on the provincial subsidy and the Toronto Regional Office estimates that the City will receive only $50.2 million for COA in 2006. This results in a budgeted subsidy shortfall of $23.2 million. The recent KPMG review of TSS COA, commissioned by the Province, confirmed the legitimacy of the COA costs, but the Provincial cap remains. Due to one-time funding from the Province and efficiencies/cost constraint measures, the year-end actual shortfall is now projected to be $21.8 million with the $1.4 million savings used to reduce the draw on TSS reserves.

The COA shortfall affects three divisions: Toronto Social Services for the core program delivery, Social Development, Finance and Administration (SDFA) for support services and Shelter, Support and Housing Administration for Head Office Hostel administration.

<u>Ontario Disability Support Program (ODSP) and the Ontario Drug Benefit (ODB) Program</u>

Under the OW Act, municipalities must cost-share the ODSP and ODB programs delivered by the Province. In both program areas, there has been significant cost growth, which has increased well beyond both municipal and provincial forecasts and historical trends. These are uncontrollable costs downloaded by the Province.

The combined 2006 budget for these programs is $168.0 million compared to the 2005 budget of $152.8 million. Year-end actual costs are projected to be $168.8 million, $0.8 million higher than budget (the funding of which will be determined at year-end).

<u>Developments in 2006</u>

- OW/ODSP Rate Increase: The 2006 Ontario Provincial Budget provided for a rate increase of 2% for OW and ODSP clients effective December 1, 2006. The increase does not impact 2006 as the Province will fund 100% of the rate increase for the month of December only. As the Province will not continue to 100% fund the increase, a pressure will result in 2007 in the amount of $21.0 million gross, $6.0 million net.

- ODSP: The regulatory changes effective April 1, 2006 require non-disabled spouses of ODSP clients that do not have care-giving responsibilities to be transferred to the OW program to engage in employment services. At this time, the operational and financial impacts of the announced changes are not yet clear. TSS is thus awaiting further information from the Province to determine the full impact of these changes. The Program will continue to monitor the impacts of the changes for subsequent variance reports.

- Ontario Municipal Partnership Fund (OMPF): The Ontario Provincial Budget delivered on March 23, 2006 announced that the City of Toronto will receive $35 million in 2006 to assist with its share of social program costs. The financial implications of this funding on Toronto Social Services will be addressed during the 2007 Operating Budget Process.

- GTA Pooling: The Province has completed the reconciliation of GTA Pooling for 2005. This resulted in the City receiving an additional $3.4 million in pooling revenue which will be used to reduce the budgeted draw from the SAS Reserve Fund in 2006.

(2) Citizen Centred Services "B"

	Net Variances ($ millions)	
Table 2	September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
Building Services	5.3	(1.5)
City Planning	(1.8)	(0.8)
Clean and Beautiful City Secretariat	(0.0)	(0.0)
Fire Services	0.3	5.0
Municipal Licensing & Standards	0.6	1.1
Policy, Planning, Finance and Administratic	(1.4)	(0.4)
Solid Waste Management Services	(1.9)	1.8
Technical Services	(0.8)	(0.8)
Transportation Services	(6.1)	(1.1)
Waterfront Secretariat	(0.0)	0.0
Sub-Total	(5.9)	3.3

Building Services reported a year-to-date net over expenditure of $5.3 million or 44.3% of planned expenditures mainly attributed to building permit revenues not matching budget assumptions (a number of large projects have experienced development process delays) offset by savings due to staff vacancies. By year-end, the Program is projecting a year-end favourable net variance of $1.5 million or 12.5% of the 2006 Approved Operating Budget. Building permit activity is expected to increase in the last three months of 2006 (facility programs are planned for late fall completion) and while efforts are underway to fill some vacant positions by year-end, the Program anticipates continued savings due to hiring deferrals (payroll and other operational costs).

City Planning reported year-to-date and year-end net favourable variances of $1.8 million or 19.1% of planned expenditures and $0.8 million or 6.4% of the 2006 Approved Operating Budget, respectively. The year-to-date favourable variance was primarily due to higher than planned staff vacancies (specifically the Council directed staggered hiring of 9 positions and their required hardware/software) and expenditures not matching the pattern assumed in the budget. At year-end, the favourable variance projected is due to delays in hiring (as noted above) offset by lower than expected Planning Application Fee revenue resulting from a reduced number of applications.

Fire Services was over spent by $0.3 million net or 0.1% of planned expenditures as of September 30, 2006 primarily the result of lower than budgeted net expenditures for salaries and benefits ($0.5 million) offset by higher than planned net expenditures in non-salary accounts ($0.8 million). The year–to-date gross under spending on salaries ($1.9 million) was partially offset by over spending on benefits ($1.4 million) due to WSIB cancer claims. Non-salary over expenditures in supplies and services were partially offset by under spending in other areas such as telephone, uniforms and general equipment. The year-to-date false alarm revenue shortfall ($0.6 million) was offset by HUSAR funding surpluses and miscellaneous revenue sources totalling $0.6 million.

Three factors are currently expected to impact the year-end unfavourable net variance projection of $5.0 million or 1.5% of the 2006 Approved Operating Budget: unachieved gapping; higher WSIB claims; and, lower false alarm revenue. Fire Services is projecting an unfavourable variance of $1.0 million due to unachieved gapping. In addition, the change in the adjudication process at WSIB, which recognizes a wider range of cardiovascular diseases and cancers attributable to the occupation of firefighting, will probably result in more claims charged to Fire Services by the end of the year which may impact the final year-end projections unfavourably by approximately $3.5 million. Finally, as of September 30, 2006, a false alarm fee invoicing backlog was developing and, while the staffing resource problem is being addressed, there may be a year-end revenue shortfall of up to $1.5 million.

Municipal Licensing & Standards (MLS) showed an unfavourable net variance year-to-date of $0.6 million or 12.4% of planned expenditures and projects an unfavourable net variance at year-end of $1.1 million or 12.0% of the 2006 Approved Operating Budget. These unfavourable variances are primarily due to lower than planned revenue from new and renewal licensing applications (body rub parlours, electrical contractors, etc.). In addition, delays in filling vacant positions for renewal application processing have compounded the already lower than budgeted revenue. The revenue shortfall is partially offset by savings due to vacant positions and cost containment measures implemented by the Program.

Policy, Planning, Finance and Administration (PPFA) reported a favourable net variance year-to-date of $1.4 million or 19.3% of planned expenditures and projects a favourable net variance of $0.4 million or 3.7% of the 2006 Approved Operating Budget at year-end. This net under spending was mainly due to delays in filling vacant positions in order to meet 2006 gapping targets and delays in the Capital Program. PPFA expects to fill some of these vacant positions by year-end as under spending in the Capital Program is somewhat rectified during the fourth quarter and the restructuring of PPFA's financial and administrative functions is completed.

Solid Waste Management Services (SWMS) reported a favourable variance of $1.9 million or 1.6% of planned expenditures for the nine-month period ended September 30, 2006. The favourable variance was largely attributed to revenues not matching the distribution pattern assumed in the budget for paid waste and recycling tonnage received at Transfer Stations. In addition, the Program received unbudgeted proceeds of $0.4 million from a settlement with a former contracted hauler to Michigan. At year-end, the Program is projecting an unfavourable net expenditure variance of $1.8 million or 1.1% of the 2006 Approved Operating Budget. This is attributed to lower than anticipated revenue from the sale of recyclables (fibre) and lower than estimated paid waste tonnes at transfer stations.

Technical Services reported a favourable net expenditure variance of $0.8 million for the nine-month period ended September 30, 2006 and is projecting that this variance will continue to year-end. The Program reported a total surplus of $5.2 million (the distribution of which is reflected in year-to-date and year-end client program accounts for the purposes of this report) which was primarily the result of expenditure savings due to additional gapping ($3.0 million), delays in non-salary spending for the Chemical, Biological, Radiological & Nuclear (CBRN) Program ($1.1 million) and other non-salary under expenditures ($1.1 million). These favourable variances will result in reduced inter-divisional recoveries (tax supported programs $1.3 million and rate supported programs $1.1 million) and capital recoveries (tax supported programs $1.1 million and rate supported programs $1.0 million) in Technical Services with corresponding expenditure reductions in client program accounts at year-end.

Transportation Services was under spent by $6.1 million net or 4.3% of planned expenditures as of September 30, 2006. This favourable variance was primarily due to under spending on: contracted services; inter-divisional charges; material & supplies; and, salaries & benefits. In addition, reduced utility cut repair activity and associated invoicing delays resulted in lower than planned revenue. The year-to-date gross under expenditures are due mainly to position vacancies for utility cut repair activity and lower than planned contracted winter maintenance in the first 3 months of the year as a result of favourable weather conditions. The hiring of ten new utility cut repair inspectors, provided for in the 2006 Council Approved Operating Budget, has now been deferred resulting in lower salary & benefit expenditures. The materials & supplies under spending was driven mainly by lower salt expenditures and office / signage materials.

Transportation Services is projecting a year-end gross under expenditure of $19.2 million driven mainly by reduced contracted services for utility cut repairs ($15.0 million), lower inter-divisional charges ($1.1 million) and winter maintenance savings of approximately $3.1 million). The latter will depend on actual weather conditions in the final quarter of 2006. Transportation Services is also projecting a year-end revenue variance of $18.1 million driven mainly by reduced contracted services for utility cut repairs ($17.7 million) and an estimated revenue shortfall of $0.4 million related to red light camera processing fees from other municipalities. In summary, it is expected that the projected savings in contracted winter maintenance will be largely offset by reduced net utility cut repair revenue and red light camera processing fees resulting in a net surplus of $1.1

million or 0.6% of the 2006 Approved Operating Budget due to lower inter-divisional charges by year-end.

(3) Internal Services

Table 3	Net Variances ($ millions)	
	September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
Office of the Deputy City Manager & CFO	(0.4)	(0.4)
Office of the Treasurer	(0.5)	(0.5)
Public Information & Creative Services	(0.3)	(0.3)
Facilities & Real Estate	(0.2)	(0.2)
Fleet Services	(0.2)	0.0
Information & Technology	(0.7)	(0.1)
Sub-Total	(2.2)	(1.5)

The ***Office of the Deputy City Manager & CFO*** (inclusive of Financial Planning, Corporate Finance and Finance & Administration Divisions) showed a favourable net variance both year-to-date and year-end of $0.4 million or 5.2% of planned expenditures for the nine month timeframe and 4.0% of the 2006 Approved Operating Budget, respectively. The savings are primarily the result of extraordinary gapping due to staff secondments to other Divisions for special projects and backfills. These savings are not expected to recur in future years as the majority of these assignments have ended and the staff have returned to their base positions. In addition, there were 45 positions transferred to other City Programs in the last quarter as per the Corporate Administrative Review reported in the 2006 Operating Budget.

The ***Office of the Treasurer*** (inclusive of Revenue Services, Accounting Services, Pensions, Payroll & Employee Benefits and Purchasing & Materials Management Divisions) reported a favourable year-to-date net variance of $0.5 million or 2.3% of planned expenditures and is projecting a favourable year-end net variance of $0.5 million or 1.7% of the 2006 Approved Operating Budget. These favourable variances are primarily due to delays in filling vacant positions. Also, gross expenditures are over spent and revenues are over achieved by $2.2 million due to unbudgeted commodity tax contributions and recoveries to Non-Program that are administered through the Accounting Services Division. These result in a zero net impact.

Public Information and Creative Services showed a year-to-date favourable variance of $0.3 million or 9.2% of planned expenditures and is projecting a year-end favourable variance of $0.3 million or 6.2% of the 2006 Approved Operating Budget. These favourable variances are mainly due to cost containment savings (lower discretionary spending for training & development, telephone and printing) and salary savings from a vacant position.

Facilities & Real Estate reported a favourable net variance both year-to-date and year-end of $0.2 million or 0.4% of planned expenditures for the nine month timeframe and 0.4% of the 2006 Approved Operating Budget, respectively**.** These favourable variances are primarily due to savings in non-salary expenditures.

Fleet Services' favourable year-to-date net variance of $0.2 million was mainly attributed to the accounting of the rental rate charge-back of internal departmental charges, which will be adjusted for cost recovery over the course of the year resulting in a balanced budget by year-end.

Information & Technology reported a favourable year-to-date net variance of $0.7 million or 2.0% of planned expenditures and is projecting a favourable year-end net variance of $0.1 million or 0.1% of the 2006 Approved Operating Budget. The year-to-date favourable variance was primarily due to lower than expected expenditures in salaries & benefits, services and rents. In addition, delays in project completion have deferred some spending on staffing costs and maintenance contracts to the fourth quarter. Deferred training costs have also contributed to the savings.

(4) City Manager

Table 4	Net Variances ($ millions)	
	September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
City Manager's Office	(0.2)	(0.1)
Human Resources	(0.7)	(0.4)
Sub-Total	(0.9)	(0.5)

The ***City Manager's Office*** reported year-to-date and year-end favourable variances of $0.2 million or 3.7% of planned expenditures and $0.1 million or 1.1% of the 2006 Approved Operating Budget, respectively. These favourable variances are primarily due to delays in hiring for vacant positions (filled by the end of the third quarter) offset by resultant lower than planned inter-divisional recoveries for Internal Audit.

Human Resources experienced a favourable year-to-date variance of $0.7 million or 3.3% of planned expenditures mainly due to: vacant positions that have not been filled pending completion of a divisional review currently underway; and, lower spending for services/rents and materials/supplies. In addition, the Program received an unexpected grant from the Federal government for the Labour Management Partnership Program. The Program is anticipating a year-end net favourable variance of $0.4 million or 1.4% of the 2006 Approved Operating Budget.

(5) Other City Programs

Table 5	Net Variances ($ millions) September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
City Clerk's Office	(2.2)	(0.6)
Legal Services	(2.1)	(1.5)
Auditor General's Office	(0.2)	(0.2)
Office of the Mayor	(0.0)	(0.0)
Council	(0.6)	(0.8)
Sub-Total	(5.1)	(3.1)

The ***City Clerk's Office*** reported a year-to-date favourable variance of $2.2 million or 9.4% of planned expenditures. This favourable variance was primarily due to staff vacancies which are expected to be filled by year-end. Other contributing factors included lower than planned demand for printing services, and lower than expected spending on materials, computer equipment and professional services in Elections and Registry Services. The Program is projecting a favourable variance of $0.6 million or 2.0% of the 2006 Approved Operating Budget by year-end.

Legal Services experienced a favourable year-to-date variance of $2.1 million or 13.7% of planned expenditures mainly due to not filling vacant positions, and savings in: external legal services; books & magazines; computer equipment; office materials; and, training & development. This favourable variance also included under spending of $0.6 million for Court Services non-salary expenditures. In addition, the Program received higher than expected revenues due to the increased volume of planning applications and business licenses. Projections to year-end indicate a net favourable variance of $1.5 million or 7.9% of the 2006 Approved Operating Budget.

The ***Auditor General's Office*** reported a favourable net variance both year-to-date and year-end of $0.2 million or 6.8% of planned expenditures for the nine month timeframe and 4.5% of the 2006 Approved Operating Budget, respectively**.** These favourable variances are primarily due to salary and benefit cost savings arising from vacant positions.

The ***Mayor's Office*** reported no budget variances as of September 30, 2006, and is projecting a balanced budget at year-end.

The ***Council*** Budget experienced a year-to-date favourable variance of $0.6 million or 4.5% of planned expenditures and is projected to be under spent by $0.8 million or 4.4% of its 2006 Approved Operating Budget by year-end. This is primarily due to the traditional 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-to-date net variance of $12.3 million or 1.4% of planned expenditures and are projecting a year-end under expenditure of $8.5 million or 0.7% of the 2006 Approved Operating Budget.

Table 6	Net Variances ($ millions)	
	September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
Toronto Public Health	(0.5)	(0.3)
Toronto Public Library	(0.2)	(0.0)
Association of Community Centres	0.3	0.1
Exhibition Place	0.6	1.0
Heritage Toronto	(0.0)	0.0
Theatres	0.2	0.3
Toronto Zoo	(0.3)	(0.3)
Arena Boards of Management	(0.0)	0.1
Yonge Dundas Square	(0.1)	(0.0)
Toronto & Region Conservation Authority	0.0	(0.0)
TTC - Conventional (Aug 26/06)	(10.5)	(7.9)
TTC - Wheel Trans (Aug 26/06)	(0.5)	0.0
Toronto Police Service	(1.1)	(1.5)
Toronto Police Services Board	0.0	0.0
Sub-Total	(12.3)	(8.5)

Toronto Public Health (TPH) showed favourable year-to-date gross and net expenditure variances of $4.5 million and $0.5 million or 3.1% and 1.3% of planned expenditures, respectively. The favourable gross and net expenditure variances were the result of under spending in cost shared Provincially funded programs. TPH is limiting its spending to reflect the 5% funding growth cap communicated by the Province in March 2006. By year-end, TPH is projecting favourable gross and net expenditure variances of $9.8 million and $0.3 million or 4.6% and 0.5% of the 2006 Approved Operating Budget, respectively, due to the reduction of new/enhanced expenditures as a result of the 5% cap. TPH, public health associations and agencies have been encouraging the Province to reconsider its 5% funding growth limitation and to continue plans for public health renewal as outlined in the Operation Health Protection Act. In January 2007, TPH received Provincial approval of its 2006 funding/expenditure request (resulting in an additional year-end surplus of over $2 million), which will be reflected in the 2006 Preliminary Year-end Operating Variance Report.

The ***Toronto Public Library's (TPL)*** year-to-date unfavourable gross variance of $1.0 million or 0.9% of planned expenditures was mainly attributed to the under achievement of its gapping budget. However, the year-to-date net variance was favourable ($0.2 million or 0.2% of planned expenditures) and was largely the result of cost containment measures implemented by TPL (including maintenance project deferrals) and additional rental revenues. The Program also received unbudgeted funding from external grants and donations for various library programs. By year-end, the unplanned revenues will be offset by unbudgeted expenditures associated with the same library programs for which these external grants and donations were received. Also, a projected under expenditure in utilities, increased rental revenues and savings from internal cost control measures will offset the lower than planned gapping resulting in a balanced budget by year-end.

The ***Association of Community Centres (AOCC)*** showed an unfavourable net variance year-to-date of $0.3 million or 6.2% of planned expenditures primarily due to monthly transfer payments and receipt of miscellaneous revenue not matching the pattern assumed in the budget. At year-end, the Association of Community Centres is projecting an unfavourable net variance of $0.1 million or 1.3% of the 2006 Approved Operating Budget. The additional salary & benefit costs due to re-classification of the Executive Director positions (adopted by Council at its July 25-27, 2006 meeting) were funded from the City's Employee and Retiree Benefits Reserve Fund up to June 30, 2006. However, the remaining portion for 2006 (July 1- December 31) was to be absorbed within the approved budgets. The Community Centres are unable to comply and the resulting deficit will need to be reconciled during the 2006 year-end settlement of the AOCC Core Administration.

Exhibition Place reported year-to-date and year-end unfavourable net variances of $0.6 million or 45.7% of planned expenditures and $1.0 million (a $1.1 million actual net deficit compared to $0.1 million planned deficit in the 2006 Approved Operating Budget), respectively. Despite slightly lower than anticipated utility costs, the significant shortfall in CNE revenue left Exhibition Place in an unfavourable position year-to-date and the year-end projection reflects the full impact of the 2006 CNE revenue shortfall.

Theatres reported a year-to-date unfavourable net variance of $0.2 million or 6.6% of planned expenditures largely due to higher than planned consulting costs and crew maintenance costs at the St. Lawrence Centre for the Arts. The Theatres are projecting a year-end unfavourable net variance of $0.3 million or 10.8% of the 2006 Approved Operating Budget primarily due to lower than expected rental revenue at the St. Lawrence Centre for the Arts.

The ***Toronto Zoo*** reported year-to-date gross and net favourable expenditure variances of $1.1 million and $0.3 million or 3.9% and 5.1% of planned expenditures, respectively. These variances were largely the result of lower than planned utility costs and delayed expenditures, including staff hires, which more than offset revenue shortfalls. The Zoo is projecting that by year's end, expenditure savings will compensate for revenue under-performance, resulting in a slight net favourable variance of $0.3 million or 2.8% of the 2006 Approved Operating Budget.

The ***Arena Boards of Management*** Program is projecting an unfavourable net variance of $0.1 million or 86.9% of the 2006 Approved Operating Budget by year-end. This unfavourable variance is primarily due to emergency repairs and immediate remediation of health & safety and building systems issues (including an unforeseen human resources cost) at George Bell Arena.

The ***Yonge Dundas Square*** Program showed a favourable year-to-date net expenditure variance of $0.1 million or 25.9% of planned expenditures, primarily due to increased revenue from the sightseeing kiosk and higher than expected event permit revenue during the peak spring/summer season. The Program is projecting a balanced budget by year-end.

The ***Toronto Transit Commission (TTC)*** had a year-to-date favourable variance with a net under expenditure of $11.0 million or 5.0% of planned expenditures for the eight months ended August 26, 2006 (Conventional and Wheel-Trans). This favourable variance was primarily a result of lower than anticipated expenditures and higher than planned passenger revenues in the first eight months of 2006. TTC staff are projecting a year-end net favourable variance of $7.9 million or 2.6% of the 2006 Approved Operating Budget due primarily to increased ridership revenue. Of the $7.9 million projected surplus, $2.9 million is the result of liquidated damages related to the purchase of buses. The TTC is recommending that this $2.9 million be contributed to a capital reserve fund, for use in 2007, leaving the remaining $5.0 million as the actual net surplus for 2006. It should also be noted that the TTC has addressed the unspecified budget reduction included in the 2006 Approved Operating Budget.

The ***Toronto Police Service (TPS)*** reported a favourable year-to-date net variance of $1.1 million or 0.2% of planned expenditures and is projecting a year-end favourable net variance of $1.5 million or 0.2% of the 2006 Approved Operating Budget. These favourable variances are the result of lower than planned salary expenditures due to the timing / increased number of separations, lower than expected medical / dental costs, and higher than estimated grant funding (Safer Communities Grant Program).

(7) Corporate Accounts

Table 7	Net Variances ($ millions)	
	September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
Community Partnership and Investment	3.1	0.0
Capital & Corporate Financing	(1.1)	(0.3)
Non-Program Expenditures	(9.1)	(13.1)
Non-Program Revenues	0.2	(8.0)
Sub-Total	(6.9)	(21.4)

Year-to-date, ***Corporate Accounts*** were under spent by $6.9 million or 27.2% of planned expenditures on a net basis. The favourable variance was primarily due to lower than planned assessment appeals filed by property owners and fewer assessment appeal reductions awarded by the Assessment Review Board ($6.3 million), and lower than anticipated service charges from the Municipal Property Assessment Corporation ($1.4

million). These favourable variances were partially offset by net over expenditures in the ***Community Partnership and Investment Program (CPIP)*** as the payments for 2006 grants are made only after Council approves the 2006 allocation reports, which were approved in June 2006, and yet the CPIP 2006 Budget was evenly distributed throughout the year.

The projected year-end favourable net variance of $21.4 million or 23.1% of the 2006 Approved Operating Budget is mainly attributed to: lower than expected assessment appeals and awards ($12.0 million); higher than anticipated investment income ($5.0 million) due to an increase in the size of investment portfolio; higher Toronto Parking Authority revenues resulting from improved off-street parking facilities and the introduction of additional pay and display machines in 2005 ($2.4 million); and, savings resulting from lower than anticipated service charges from the Municipal Property Assessment Corporation ($2.0 million).

<u>Non Levy Operations</u>

Table B	Net Variances ($ millions)	
	September 2006 Over/(Under)	Projected Y/E 2006 Over/(Under)
Toronto Parking Authority	(2.5)	(3.3)
Toronto Water	2.4	5.2
Sub-Total	(0.1)	1.9

The ***Toronto Parking Authority (TPA)*** reported a year-to-date favourable net variance of $2.5 million or 8.5% of planned expenditures. This variance was 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. By year-end, the TPA is anticipating a favourable net variance $3.3 million or 8.1% compared to the 2006 Council Approved Operating Budget. As noted above, the favourable net variance is attributable to improved off-street parking along the Yonge St. corridor and the introduction of additional pay and display machines in 2005.

Toronto Water (TW) reported an unfavourable year-to-date net variance of $2.4 million or 4.5% of planned expenditures primarily due to lower revenues from reduced water usage during the summer months partially offset by lower expenditures from vacant positions and lower than planned direct salary charges for Support Services. At year-end, TW is projecting a net over expenditure of $5.2 million. This unfavourable variance is again mainly attributable to lower revenues from reduced water usage during the summer months partially offset by lower expenditures from vacant positions and lower than planned direct salary charges for Support Services. TW is planning to offset the under achieved revenue by reducing the budgeted contributions to Capital Reserves resulting in a balanced net expenditure budget by year-end.

Consulting Costs

The total 2006 budgeted consulting costs are $5.4 million and the City's actual consulting costs were $1.3 million as at September 30, 2006. The Deputy City Manager & Chief Financial Officer will continue to monitor consulting expenditures and report through future operating variance reports.

Approved Positions

The City budgets and monitors its staff complement based on Approved Positions. As at September 30, 2006, the City reported 44,310.1 full-time approved positions (42,107.6 permanent and 2,202.5 casual/seasonal) and 4,543.0 part-time approved positions (1,547.6 permanent and 2,995.4 casual/seasonal). This reflected a decrease of 0.7% 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-to-date under expenditure for City utility costs was primarily the result of: one-time rebates; retrofit project savings; lower than planned consumption; and actual expenditures not matching the distribution pattern assumed in the budget. These under expenditures mostly occurred in: Parks, Forestry & Recreation; Fire Services; Exhibition Place; Toronto Zoo and the TTC. As at September 30, 2006, levy and rate operations reported utility costs of $103.6 million (compared to the planned expenditures of $108.1 million). By year-end, the City is projecting total utility cost to be $156.7 million (compared to a budget of $158.3 million) mainly due to lower consumption.

Technical Adjustments

Appendix D lists technical adjustments made between July 1 and September 30, 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.

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