EX25.13a

Decision Letter

Budget Committee

Meeting No.	32	**Contact**	Jennifer Forkes, Committee Administrator
Meeting Date	Thursday, May 11, 2017	**Phone**	416-392-4666
Start Time	9:30 AM	**E-mail**	buc@toronto.ca
Location	Committee Room 1, City Hall	**Chair**	Councillor Gary Crawford

BU32.2	ACTION	Adopted		Ward:All

Operating Variance Report for the Three-Month Period Ended March 31, 2017

Committee Decision

The Budget Committee recommends that:

1. City Council approve the budget adjustments detailed in Appendix F to the report (May 2, 2017) from the Deputy City Manager and Chief Financial Officer to amend the 2017 Approved Operating Budget between Programs that have no impact to the 2017 Approved Net Operating Budget.

2. City Council approve that all transit expansion positions be reviewed annually through the City's Budgeting process with position approval subject to ongoing third party funding or capital project funding.

Origin

(May 2, 2017) Report from the Deputy City Manager and Chief Financial Officer

Summary

The purpose of this report is to provide City Council with the operating variance for the three-month period ended March 31, 2017 as well as year-end projections. This report also requests City Council's approval for amendments to the 2017 Approved Operating Budget between Programs that have no impact on the City's 2017 Approved Net Operating Budget.

Figure 1: Tax Supported Operating Net Variance Summary ($ Millions)

Category	March 31, 2017		Projected Y/E 2017	
	Over/(Under)		Over/(Under)	
	$	%	$	%
Gross Expenditures	(73.7)	-3.7%	(92.8)	-0.9%

Revenues	(45.0)	-3.5%	(52.0)	-0.8%
Net Expenditures	(28.6)	-3.9%	(40.8)	-1.0%
Less: City Planning	(0.9)	-38.6%	(1.0)	-6.4%
Less: Toronto Building	(1.1)	23.2%	(2.9)	27.3%
Net Expenditures (Excl. City Planning & Toronto Building)	(26.6)	-3.6%	(36.9)	-0.9%

Year-to-Date Spending Results:

As noted in Figure 1 above, for the three month period ended March 31, 2017, Tax Supported Operations reported a favourable net variance or surplus of $26.567 million or 3.6% and year-end projected surplus of $36.926 million or 0.9%. It is important to note that the entire projected year-end City surplus is essentially the result of higher Municipal Land Transfer Tax revenues.

The year-to-date net under-spending was primarily driven by:

- Over-achieved Municipal Land Transfer Tax revenue primarily attributed to higher sales and home prices ($32.482 million net).

- Under-expenditures by the Toronto Transit Commission - Conventional Service ($11.374 million net) for diesel consumption, depreciation, PRESTO fees and other expenses which were partially off-set by lower ridership revenue.

- Over-achieved revenue from the Third Party Sign Tax as invoices were generated earlier than planned ($11.070 million net) for the first quarter. Third Party Sign Tax is anticipated to be on budget at year-end.

As per Council's direction at its meeting of October 5, 6, and 7, 2016, City Planning and Toronto Building were separated from the summary section, in order to report directly to City Council on the fee - based portions of City Planning and Toronto Building's operating variances, separate from the tax-based operations.

- City Planning - The Program has reported favourable year-to-date net variance of $0.945 million and a year-end projected favourable net variance of $0.978 million. In accordance with City Council's direction, the surplus will be transferred to the Development Application Review Reserve Fund at year-end.

- Toronto Building - The Program has experienced a favourable year-to-date net variance of $1.133 million, and is projecting a year-end favourable net variance of $2.932 million to be contributed to the Building Code Act Service Improvement Reserve Fund, in accordance with the Building Code Act.

Under-spending in other Programs and Agencies is primarily due to vacant positions. A large number of the vacant positions are expected to be filled by year-end. More detailed explanations at the Program level can be found in the complement section of this report.

Year-End Spending Projections:

Based on this current trend, the City is projecting a net favourable year-end variance or surplus of $36.926 million or 0.9 percent. It is important to note that the projected entire City surplus is almost entirely the result of higher Municipal Land Transfer Tax revenues. The key drivers for the expected year-end net position is largely due to the following:

- Higher than budgeted Municipal Land Transfer Tax revenues due to higher than expected sales revenue achieved in the first quarter of 2017 ($32.482 million net).

- Under-spending in Debt Charges as a result of not issuing $150 million in debt for December of 2016 ($3.678 million net).

- Under-expenditures within Court Services are attributed to hiring delays for the Toronto Local Appeal Body and the Administrative Penalty System as well as from processing a lower volume of tickets written and filed by enforcement agencies, predominantly by Toronto Police Service which is expected to issue 31,956 fewer charges than planned ($3.084 million net).

The above favourable variance will be partially offset by projected over-expenditures in the following areas:

- Shelter, Support and Housing Administration forecasts an unfavourable net year-end position resulting from over-spending in Hostel Services as occupancy pressures in the Shelter system are expected to persist throughout 2017. Pressures in Hostel Services will be closely monitored and are expected to be partially offset by under-spending in Social Housing provider subsidies as well as a draw of $3 million from the Social Housing Stabilization Reserve being a one-time contribution approved by City Council on April 26th, 2017 when it adopted item CD19.11 "Service Level Impact of the 2017 Service Adjustments to Shelter, Support and Housing Administration".

- Under-achieved utility cut repair net revenue due to lower than expected volumes for Transportation Services. This over-expenditure will be mitigated partially by lower contract costs and decreased salt usage in the winter maintenance program due to mild winter conditions in the first quarter of 2017.

- Unfavourable year-end variance for Tax Deficiencies/Write-offs primarily due to a change in the timing for properties being eligible for TIEG grants ($1.526 million net).

Rate Supported Programs:

Figure 2: Rate Supported Net Variance Summary ($ Millions)

Rate Supported Programs	March 31, 2017	Projected Y/E 2017
	Over/(Under)	Over/(Under)
Solid Waste Management Services	3.5	(3.6)

Toronto Parking Authority	0.1	0.0
Toronto Water	(9.4)	(14.1)
Total Variance	(5.8)	(17.7)

For rate supported services, the year-to-date favourable net variance of $5.809 million was driven by the following:

- A year-to-date favourable variance of $9.436 million net, in Toronto Water, comprised of lower expenditures of $4.0 million mainly due to under-spending in salaries and benefits as a result of vacancies, lower than anticipated demand for electricity, professional and technical services and lower than anticipated payments in-lieu of taxes. In addition, higher revenues of $5.4 million primarily from stronger than anticipated volume of water sold and fees for new service connections add to this variance.

- An unfavourable variance of $0.145 million net, in the Toronto Parking Authority, largely attributed to lower off-street revenues from downtown garages and surface carparks and higher rent expense for managed carparks. This was partially offset by lower utility costs, depreciation and pay and display network communication combined with stronger on-street revenues.

- An unfavourable variance within Solid Waste Management Services of $3.482 million net due primarily to under-achieved revenues attributed to lower collections from a delay in collecting 2016 accrued billings and lower realized sale of recyclable revenues due to lower volumes at the Arrow Road Mixed Recycle Facility.

Collectively, Rate Supported Programs are projecting a favourable year-end net variance of $17.733 million. It is primarily driven by Toronto Water ($14.150 million net) due to ongoing vacancies, lower than anticipated hydro rates and usage and under-spending for parts, materials, professional and technical services. Toronto Water revenues are also forecasted to be higher than budgeted from an increase in new water and sewer service connections. Solid Waste Management Services is anticipating net under-spending ($3.583 million) by year-end largely from lower salaries and benefits due to vacancies, offset by higher contracted processing service costs as a result of less than expected tonnages combined with higher inter-divisional charges for fleet maintenance. The Toronto Parking Authority is anticipated to be on budget at year-end.

Complement:

Figure 3: 2017 Year-To-Date Approved Complement by Vacancy Rate

Program/Agency	2017 Year-to-Date			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating Vacancy Rate (After Gapping)
City Operations	5.4%	20.5%	2.4%	2.9%

Agencies	3.9%	18.4%	3.4%	0.5%
Corporate Accounts*	8.3%	0.0%	0.0%	8.3%
Total Levy Operations	4.6%	19.1%	2.9%	1.7%
Rate Supported Programs	6.1%	46.2%	3.0%	3.2%
Grand Total	4.7%	20.2%	2.9%	1.8%

*Corporate Accounts are largely driven by Parking Enforcement Unit vacancies.
Vacancy after Gapping % is based on operating positions only.

Figure 4: 2017 Year-End Approved Complement Projections by Vacancy Rate.

Program/Agency	2017 Year-End Projection			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating Vacancy Rate (After Gapping)
City Operations	1.8%	11.0%	2.4%	0.0%
Agencies	3.7%	0.8%	3.4%	0.3%
Corporate Accounts*	10.1%	0.0%	0.0%	10.1%
Total Levy Operations	2.9%	4.2%	2.9%	0.0%
Rate Supported Programs	5.5%	46.2%	3.0%	2.5%
Grand Total	3.0%	5.9%	2.9%	0.1%

*Corporate Accounts are largely driven by Parking Enforcement Unit vacancies.
Vacancy after Gapping % is based on operating positions only.

- As of March 31, 2017, the City recorded an operating vacancy rate of 1.8 percent after gapping for an approved complement of 50,938.0 operating positions. The year-to-date vacancy rate for capital positions was 20.2 percent for an approved complement of 3,480.6 positions.

- The year-end operating vacancy rate after gapping is projected to be 0.1 percent for an approved complement of 50,801.0 operating positions. The forecasted vacancy rate for capital positions is projected to be 5.9 percent for an approved complement of 3,490.6 positions.

The detailed overview of the third fiscal quarter complement is provided in the Approved Complement Section of this report.

Background Information

(May 2, 2017) Report and Appendices A to G from the Deputy City Manager and Chief Financial Officer on Operating Variance Report for the Three Month Period Ended March 31, 2017
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-103637.pdf)
Public Notice - Parks, Forestry and Recreation User Fee Adjustments
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-103643.pdf)
(April 26, 2017) Report from the Deputy City Manager and Chief Financial Officer on Operating Variance Report for the Three-Month Period Ended March 31, 2017 - Notice of Pending Report
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-103369.pdf)

Communications

(May 10, 2017) E-mail from CUPE Local 79, submitted by Chris Samuel (BU.Supp.BU32.2.1)
(http://www.toronto.ca/legdocs/mmis/2017/bu/comm/communicationfile-69340.pdf)

Speakers

Tim Maguire, President, CUPE Local 79
Councillor Gord Perks