EX35.33

TORONTO **Decision Letter**

Budget Committee

Meeting No.	44	**Contact**	Josephine Archbold, Administrator
Meeting Date	Monday, May 28, 2018	**Phone**	416-392-4666
Start Time	9:30 AM	**E-mail**	buc@toronto.ca
Location	Committee Room 1, City Hall	**Chair**	Councillor Gary Crawford

BU44.3	ACTION	Adopted		Ward:All

Operating Variance Report for the Three Months Ended March 31, 2018

Committee Recommendations

The Budget Committee recommends that:

1. City Council direct that Heads of City Divisions and Agencies projecting year-end unfavourable variances implement mitigation strategies effective immediately in conjunction with the Interim Chief Financial Officer and that the Interim Chief Financial Officer report back to Executive Committee with the Five Month Operating Variance Report on actions being taken to offset these projected net over-expenditures or unrealized revenues.

2. City Council approve the budget adjustments and any associated complement changes detailed in Appendix F to the report (May 18, 2018) from the Interim Chief Financial Officer to amend the 2018 Approved Operating Budget that have no impact to the 2018 Approved Net Operating Budget of the City.

Origin

(May 18, 2018) Report from the Interim Chief Financial Officer

Summary

The purpose of this report is to provide City Council with the operating variance for the three months ended March 31, 2018 as well as projections to year-end. This report also requests City Council's approval for amendments to the 2018 Approved Operating Budget that have no impact on the City's 2018 Approved Net Operating Budget.

The following table summarizes the financial position of the City's Tax Supported Operations as of the first fiscal quarter and the projection at year-end:

Table 1: Tax Supported Operating Net Variance Summary

Variance	March 31, 2018 Over/(Under)		Projected Y/E 2018 Over/(Under)	
	$M	% of Budget	$M	% of Budget

Gross Expenditures	(78.9)	-3.2%	(88.5)	-0.8%
Revenues	(4.1)	-0.3%	(98.6)	-1.4%
Net Expenditures	(74.8)	-7.7%	10.1	0.2%
Less: Toronto Building	(5.1)	105.8%	(9.9)	93.0%
Net Expenditures (Excl. Toronto Building)	(69.6)	-7.1%	20.1	0.5%

In accordance with the Building Code Act, the surplus from Toronto Building must be contributed to the Building Code Act Service Improvement Reserve Fund to create and maintain systems and processes which enable service delivery timelines and reporting requirements of the Province's Bill 124, Building Code Statute Law Amendment Act, and 2002 Legislation to be met.

Year-to-Date Spending Results:

As noted in Table 1 above, Tax Supported Operations reported a favourable net variance of $74.793 million or 7.7 percent of planned expenditures for the three months ended March 31, 2018, and are projecting a year-end shortfall of $10.113 million or 0.2 percent of the 2018 Approved Operating Budget.

The year-to-date net underspending was primarily driven by:

- Over-achieved Municipal Land Transfer Tax revenue due to higher than anticipated non-residential market activity in the first quarter ($30.074 million net).

- Underspending by Transportation Services driven by lower contract costs, lower than planned salary and benefit spending due to vacant positions and higher than planned revenue from permit fees ($8.987 million net).

- Lower than planned Debt Charges in the first quarter as a result of the anticipated debt interest payment being posted a month later than planned ($8.612 million net).

- Favourable variance in Parks, Forestry & Recreation is primarily driven by underspending in salaries and benefits due to delays in the hiring process of hard-to-fill classifications including the timing of seasonal skilled labour requirements ($6.666 million net).

- Underspending by the Toronto Transit Commission of $9.335 million net primarily as a result of lower departmental material expenditures, labour, and utility costs of $6.419 million net within the Conventional Service, and lower net costs of $2.916 million associated with lower than planned ridership within Wheel Trans.

- Over-achieved revenue in Toronto Building primarily due to the increasing number of building permit applications ($5.143 million net).

Year-End Spending Projections:

Contrary to the first quarter trend, the City is projecting a net unfavourable year-end variance of $10.113 million or 0.2 percent of the 2018 Approved Operating Budget. The key drivers for the expected unfavourable year-end net position are largely due to the following:

- Over expenditure in Shelter, Support and Housing Administration of $22.351 million net due to increased occupancy pressures and demand for Hostel Services.

- Under-achieved revenue in Transportation Services of $9.974 million net as a result of lower than budgeted utility cut repair net revenue and utility cut fixed permit fee revenue due to lower than budgeted volumes.

- Over spending in Toronto Police Service of $3.800 million net due to higher than budgeted salary and benefits costs, driven by overtime spending for uniformed officers to meet service demands and an increase in the establishment for Communications Operators in order to meet the standard call centre response times.

- The above over-spending will be partially offset by $27.027 million as a result of:

    - Higher than budgeted revenue in City Planning and Toronto Building from expected continuation of higher development activity;

    - Higher Dividend Income from Toronto Hydro final 2017 performance based on the receipt of the Corporation's financial statements;

    - Continued under-spending in Municipal Licensing and Standards on salaries and benefits from vacant positions; and

    - Sustained under-spending in Toronto Conventional Service - Wheel Trans programs.

Consistent with the City's financial management practices and policies, Programs and Agencies projecting an unfavourable year-end variance are required to identify and implement mitigation strategies to offset these projected overspending or unrealized revenues. The actions taken to address any projected shortfalls will be included as part of the Five Month Operating Variance report.

Rate Supported Programs:

As noted in Table 2 below, Rate Supported Operations reported a favourable net variance of $26.585 million and are projecting a year-end under-expenditure of $11.919 million for the three months ended March 31, 2018.

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

Rate Supported Programs	March 31, 2018	Projected Y/E 2018
	Over/(Under)	Over/(Under)
Solid Waste Management Services	(2.7)	2.9
Toronto Parking Authority	(0.3)	3.8

Toronto Water	(23.5)	(18.6)
Total Variance	(26.6)	(11.9)

The key year-to-date net underspending in Rate Supported Programs was driven by:

- Under-spending in Solid Waste Management Services of $2.736 million net or 11.5 percent in salaries and benefits due to vacancies in Collections and Litter Operations. However, due to anticipated decrease in revenue as a result of changing global market conditions for recyclable materials, an unfavourable year-end projection of $2.931 million net is anticipated.

- A favourable variance in Toronto Parking Authority of $0.347 million net or 2.6 percent is primarily due to lower than anticipated utility costs, parking equipment repair costs, municipal taxes, which partially offset by higher credit card processing fees and lower on-street and off-street parking revenues. Toronto Parking Authority is anticipating a further decrease in revenue for on and off-street parking as well as a delay in acquiring sponsorship for the Bike Share Program, resulting in an unfavourable year-end projection of $3.750 million net.

- Positive revenue in Toronto Water of $23.502 million net reflecting the sale of water being posted in advance of the first quarter plan, as well as an overall volume increase for new sewer service connections, private water agreements and one-time compensation from third party for damages related to a previously completed capital project. A favourable year-end variance of $18.600 million is forecasted on the basis of continued underspending in salary and benefits from vacant positions and the unanticipated one time revenue from a 3rd party.

Complement:

As of March 31, 2018, the City recorded an operating vacancy rate of 1.7 percent after gapping against an approved complement of 51,875.2 operating or service delivery positions. The year-to-date vacancy rate for capital positions was 26.0 percent of an approved complement of 3,658.2 positions for capital project delivery.

Table 3: 2018 Year-To-Date Vacancy Rate

Program/Agency	2018 Year-to-Date			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating* Vacancy Rate (After Gapping)
City Operations	5.0%	27.2%	2.4%	2.6%
Agencies	5.3%	25.1%	4.9%	0.4%
Corporate Accounts**	9.9%	0.0%	0.0%	9.9%

Total Levy Operations	5.2%	25.8%	3.7%	1.5%
Rate Supported Programs	7.5%	33.0%	3.3%	4.2%
Grand Total	5.3%	26.0%	3.7%	1.7%

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

The year-end operating vacancy rate, after gapping, is projected to be on budget for an approved complement of 51,753.2 operating positions. The forecasted vacancy rate for capital positions is projected to be 6.4 percent for an approved complement of 3,639.2 positions by year-end.

Table 4: 2018 Year-End Projected Vacancy Rate

Program/Agency	2018 Year-End Projection			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating* Vacancy Rate (After Gapping)
City Operations	2.1%	13.7%	2.4%	0.0%
Agencies	4.1%	2.0%	4.9%	0.0%
Corporate Accounts**	0.7%	0.0%	0.0%	0.7%
Total Levy Operations	3.1%	6.0%	3.7%	0.0%
Rate Supported Programs	6.1%	21.4%	3.3%	2.7%
Grand Total	3.3%	6.4%	3.7%	0.0%

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

A detailed overview of the first quarter complement is provided in the Approved Complement Section of this report.

Background Information

(May 18, 2018) Report and Appendices A to G from the Interim Chief Financial Officer on Operating Variance Report for the Three Months Ended March 31, 2018
(http://www.toronto.ca/legdocs/mmis/2018/bu/bgrd/backgroundfile-115427.pdf)
(May 10, 2018) Report from the Interim Chief Financial Officer on Operating Variance Report for the Three Months Ended March 31, 2018 - Notice of Pending Report
(http://www.toronto.ca/legdocs/mmis/2018/bu/bgrd/backgroundfile-115130.pdf)