

## Budget Committee

<b>Meeting No.</b>	19	<b>Contact</b>	Matthew Green, Committee Administrator
<b>Meeting Date</b>	Monday, November 23, 2020	<b>Phone</b>	416-392-4666
<b>Start Time</b>	9:30 AM	<b>E-mail</b>	buc@toronto.ca
<b>Location</b>	Video Conference	<b>Chair</b>	Councillor Gary Crawford

<b>BU19.7</b>	ACTION	Adopted		Ward: All
---------------	--------	---------	--	-----------

### Operating Variance Report for the Year Ended December 31, 2019

#### Committee Decision

The Budget Committee recommends to the Executive Committee that:

1. City Council approve a one-time amendment to the City's annual surplus allocation policy of contributing 75 percent of operating surplus to the Capital Financing Reserve to enable alternative surplus allocation requirements.
  
2. City Council approve the surplus allocation as detailed in Table 3 of this report including a \$213.751 million allocation to the Tax Rate Stabilization Reserve to be used to offset COVID financial impacts in the event adequate Federal/Provincial funding support is not forthcoming.
  
3. City Council approve the withdrawal from the Sony Centre Stabilization Reserve Fund (XQ2031) of \$0.167 million and Toronto Centre for the Arts Stabilization Reserve Fund (XQ1060) of \$0.167 million to partially mitigate the 2019 year-end deficit of TO Live.

#### Origin

(November 10, 2020) Report from the Chief Financial Officer and Treasurer

#### Summary

The purpose of this report is to provide Council with the City of Toronto's Operating Variance results for the year ended December 31, 2019 and the disposition of the 2019 year-end operating surplus.

As of December 31, 2019 the City experienced a favourable variance of \$431.1 million net with \$213.8 million in surplus ultimately available for allocation when accounting for the following:

- A significant one-time surplus of \$106.0 million resulting from the merger of City pensions to be dedicated to the underfunded Employee Benefits Reserve Fund;
  
- \$30.9 million in Toronto Building surplus that the city is obligated to contribute towards the Building Reserve;
  
- \$40.4 million in planned contributions to underfunded liabilities and reserve funds as detailed in Table 3; and

- \$40.0 million in Capital Financing Reserve commitments consistent with the capital financing strategy.

Table 1 summarizes the financial position of the City's Tax Supported Operations at year-end.

Table 1 - Tax Supported Operating Variance Summary (\$ Millions)

Variance (\$M) Favourable / (Unfavourable)	2019 Year-End Results		
	Budget	Actual	Variance
City Operations	2,289.0	2,237.7	51.3
Agencies	2,099.2	2,089.0	10.2
Corporate Accounts	(75.2)	(444.8)	369.6
Total Variance	4,313.0	3,881.9	431.1
Less: Toronto Building			30.9
Less: Pension Merger			106.0
Less: Planned Contributions to Underfunded Liabilities / Reserves			40.4
Less: Capital Financing Reserve Commitments			40.0
Adjusted Variance			213.8
Percent of Gross Budget			1.8 percent

As noted in Table 1 above, for the year ended December 31, 2019 Tax Supported Operations experienced a favourable net variance of \$431.1 million. The key factors contributing to the favourable year-end variance are:

- Favourable net expenditures in City Operations (\$51.3 million) is primarily due to lower than planned salary and benefits while sustaining current service levels, which was partially offset by higher demand in the shelter system and overspending in winter maintenance as a result of this year's winter storms;

- Favourable net expenditures in Agencies (\$10.2 million) driven by under expenditures in Toronto Public Health, Toronto Transit Commission, and Toronto Police Service primarily due to lower than planned salary and benefits while sustaining current service levels and lower than anticipated expenses on automotive parts; and

- Favourable net expenditures in Corporate accounts (\$369.6 million) from higher than budgeted revenues from the OMERS pension surplus, Interest/Investment Earnings and Municipal Land Transfer Tax, as well as lower than planned Debt Charges.

#### Rate Supported Programs:

Rate Supported Programs reported a favourable year-end variance of \$111.4 million. The favourable variance is attributed to gross under expenditures in salary and benefits while maintaining service levels, underspending in contracted services, and timing of maintenance expenses. Revenues also experienced a favourable variance due to receipt of Ontario Stewardship Funding, and one-time capital gain from the sale of property and overall increase in new water and sewer service connections due to higher construction activity, and private water agreements.

Rate Supported Programs are funded entirely by the user fees that are used to pay for the services provided and the infrastructure to deliver them. Solid Waste Management Services and

Toronto Water's respective year-end surpluses, if any, must be transferred to the Wastewater and Water Stabilization Reserves and Waste Management Reserve Fund, respectively, to finance capital investments and ongoing capital repairs and maintenance.

Table 2 - Rate Supported Net Variance Summary (\$ Millions)

Variance (\$M) Favourable / (Unfavourable)	2019 Year-End		
	Budget	Actual	Variance
Solid Waste Management Services	(0.0)	(56.8)	56.8
Toronto Parking Authority	(66.5)	(76.3)	9.8
Toronto Water	0.0	(44.7)	44.7
Total Variance	(66.5)	(177.9)	111.4

### Background Information

(November 10, 2020) Report and Appendices A to D from the Chief Financial Officer and Treasurer on Operating Variance Report for the Year Ended December 31, 2019

<http://www.toronto.ca/legdocs/mmis/2020/bu/bgrd/backgroundfile-158379.pdf>