TORONTO

STAFF REPORT
ACTION REQUIRED

Preliminary Operating Variance Report for the Year Ended December 31, 2007

Date:	February 29, 2008
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\FP\bc08003FP-wo (AFS #6588)

SUMMARY

The purpose of this report is to provide the City of Toronto 2007 Preliminary Operating Variance report for the twelve-month period ended December 31, 2007 and to recommend approval of the allocation of the 2007 preliminary year-end operating surplus.

For the twelve-month period ended December 31, 2007, the preliminary year-end net operating surplus totalled $94.8 million or 1.2% lower than the 2007 Council Approved Gross Operating Expenditure Budget. City Operations contributed $34.5 million towards the preliminary year-end net operating surplus while ABCs contributed $19.1 million and Corporate Accounts $41.3 million. This report recommends that $78.0 million of the 2007 preliminary year-end net operating surplus be used as a revenue source in the 2008 Operating Budget. Further, it is recommended that $12.0 million be contributed to the Winter Control Stabilization Reserve and $4.8 million to an Extreme Weather Reserve to be established.

The 2007 preliminary year-end favourable net operating variance was attributed to several factors in City Operations and Agencies, Boards & Commissions (ABCs) including: 2007 cost containment measures; lower than budgeted bed night volumes in hostel services; lower costs for processing of recyclables, deferrals of recycling programs and lower waste tonnage; better than expected pricing and contract negotiations for hardware, servers and maintenance; lower than planned utility costs as a result of the energy efficiency measures implemented in various corporate facilities; higher than expected revenues from the Canadian National Exhibition (CNE) due to good weather; and, higher than planned one-time revenues as well as delays in the opening of new courtrooms which impacted Toronto Police Service (TPS).

The Corporate Accounts' favourable preliminary year-end net operating variance was attributed to: lower tax deficiency expenditures; delays in delivery of the third supplementary and omitted assessment roll which provided MPAC (Municipal Property Assessment Corporation) with an opportunity to include additional assessments onto the assessment roll; 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 2007; unclaimed property tax credits held in the Tax Repayment account; and, higher than budgeted Toronto Parking Authority revenues.

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RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

1. Council allocate the 2007 preliminary year-end net operating surplus of $94.8 million to 2008 Operating Budget – Prior Year Surplus Revenue ($78.0 million), Winter Control Stabilization Reserve ($12.0 million) and an Extreme Weather Reserve ($4.816 million).

2. The Deputy City Manager and Chief Financial Officer report to the Executive Committee on the creation of an Extreme Weather Reserve.

3. The Budget Committee forward this 2007 Preliminary Operating Year-end Variance Report to the Executive Committee for its consideration.

Financial Impact

Table 1 summarizes the net operating surplus by program cluster. The net operating surplus was attributed to several factors in City Operations and Agencies, Boards & Commissions (ABCs) and Corporate Accounts.

Table 1

2007 Preliminary Net Operating Variance
Over/(Under)
($ millions)

Citizen Centred Services "A"	(3.2)
Citizen Centred Services "B"	(16.8)
Internal Services	(9.3)
City Manager	(1.8)
Other City Programs	(3.2)
Council Appointed Programs	(0.1)
Total - City Operations	(34.5)
Agencies, Boards and Commissions	(19.1)
Corporate Accounts	(41.3)
Sub-Total	(60.4)
Total 2007 Preliminary Net Operating Variance	(94.8)

Table 2 outlines the recommended allocation of the 2007 year-end preliminary operating surplus (details are contained in the '2007 Preliminary Year-end Surplus Allocation' section of this report).

Table 2

2007 Preliminary Net Operating Surplus
($ millions)

Preliminary Operating Surplus	**94.816**
Recommended Allocation:	
2008 Operating Budget - Prior Year Surplus Revenue	78.000
Winter Control Stabilization Reserve	12.000
Extreme Weather Maintenance Reserve	4.816
	94.816

ISSUE BACKGROUND

This report is provided pursuant to good business practice and budgetary control. As part of the City's accountability framework, the preliminary year-end operating variance report is submitted to Committee and Council to provide information on how the approved operating funds were spent and to identify issues that require direction and / or decisions from Committee and Council. Specifically, Council approval is required to implement the recommended allocation of the 2007 preliminary operating surplus.

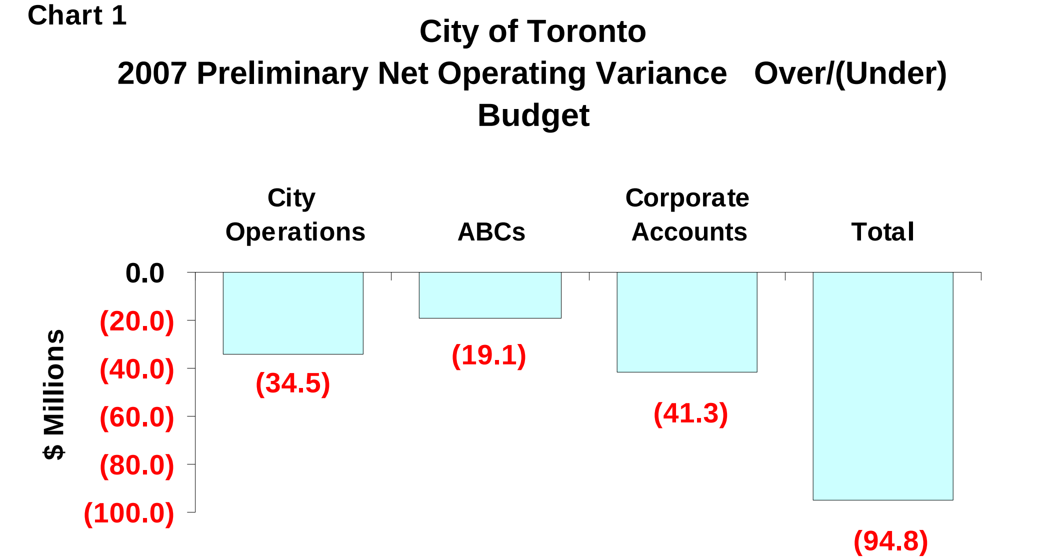
COMMENTS

<u>Overview</u>

This variance report was prepared based on preliminary accounting information for the year ended December 31, 2007. The annual audit of the City's accounts and financial statements will be completed in April 2008 and a final year-end operating variance report for 2007 will follow, accordingly, this variance report should be considered as preliminary.

As shown in Chart 1, operating results for the twelve-month period ended December 31, 2007 reflect a net preliminary operating surplus of $94.8 million or 1.2% of the Approved Gross Operating Budget.

Chart 1



The following comments address the significant preliminary Program variances found in Appendices A, B and C:

City Operations

Citizen Centred Services "A" reported a preliminary year-end net favourable variance of $3.2 million.

Affordable Housing Office reported a preliminary year-end favourable net variance of $0.1 million or 7.5% below the budget, primarily due to hiring delays and savings from the implementation of cost containment measures.

Children's Services had a preliminary year-end favourable net variance of $1.1 million primarily attributed to under expenditure in 100% City funded programs (School Rent and Before /After School) and savings resulting from the implementation of cost containment measures.

Court Services had a preliminary year-end unfavourable net variance of $4.6 million or 41.1% of the 2007 Approved Operating Budget. Most of this unfavourable variance, in the amount of $3.6 million, was due to under-achieved revenue arising from delayed expansion of the Red Light Camera Initiative. Overspending in the amount of $1.2 million was mostly attributable to higher than budgeted legal costs required to have off duty police officers attend court. This overage was offset by greater than budgeted revenues. Court Services realized cost containment savings in the amount of $0.2 million.

Emergency Medical Services reported a preliminary year-end unfavourable net variance of $4.1 million as a result of over expenditures in overtime ($3.8 million) due to hospital offloading delays and increased salary from job evaluation results for non-union positions ($2.7 million). This was partially offset by increased gapping and savings from the implementation of cost containment measures.

Homes for the Aged's preliminary year-end unfavourable net variance of $5.8 million was due to the 2007 wage harmonization award for part-time employees of $6.3 million offset by cost containment savings of $0.5 million.

Parks Forestry and Recreation showed a preliminary year-end net unfavourable variance of $0.7 million, or 0.3%, which was achieved in part through corporate cost constraints totalling $1.7 million and through the implementation of an internal financial accountability framework during the year, whereby Managers and Supervisors responsible for budget areas received training in financial management. Most of the savings from cost containment measures were one-time, and Parks, Forestry and Recreation still experiences unachievable revenue targets in concessions, rent and advertising, which was compensated for in 2007 by one-time revenues in other areas.

Shelter, Support & Housing Administration reported a preliminary year-end favourable net variance of $2.3 million or 0.9% below the budget, primarily attributed to lower than planned bed nights volume of 57,874, or 4.1% compared to the budget of 1.4 million and savings from the implementation of cost containment measures.

Social Development, Finance & Administration achieved a preliminary year-end favourable net variance of $0.5 million or 3.4% below the budget, primarily attributed to under spending in Community Safety Secretariat and Crisis Response activities, staff vacancies and savings from the implementation of cost containment measures.

Social Services' preliminary year-end favourable net variance of $14.360 million, after a budgeted reserve draw of $22.1 million, was mainly attributed to the lower Ontario Works (OW) costs of approximately $20.0 million (higher proportion of singles compared to families in caseload) and savings from implementing cost containment measures of $0.3 million, partially offset by over expenditures of $3.8 million in the Ontario Disability Support Program (ODSP) and Ontario Drug Benefits (ODB).

3-1-1 Customer Service Strategy showed a preliminary year-end favourable net variance of $0.5 million or 17.5% gross and $0.021 million or 5.4% net of the 2007 Approved Operating Budget. The favourable gross variance and the corresponding reduction in recovery from capital were mainly due to under-spending in salaries due to delays in some areas of the Capital Program which resulted in delayed staffing.

Citizen Centred Services "B" reported a preliminary year-end net favourable variance of $16.8 million.

Toronto Building reported a preliminary year-end favourable net expenditure variance of $0.8 million or 6.4% of planned expenditures for the year ended December 31, 2007. This favourable variance was mainly attributed to cost containment measures instituted in 2007.

City Planning reported a 2007 preliminary year-end favourable net operating variance $0.6 million attributed mainly to the delayed hiring for vacant positions. The Program also managed expenditures to ensure they were in line with projected revenues, which were lower than anticipated as a result of the mix in types of development applications received.

Fire Services had a $2.2 million preliminary year-end favourable net variance primarily due to the result of cost containment savings of $4.6 million offset by over spending of $1.8 million for WSIB cancer claims and lower year-end revenues of $0.3 million which resulted from a lower volume of false alarm calls.

Municipal Licensing & Standards had a $0.6 million preliminary year-end favourable net variance primarily as a result of the delayed hiring of vacant positions. Expenditure savings were somewhat offset by lower than anticipated revenues resulting from a decrease in permits and business licenses issued.

Policy, Planning, Finance & Administration (PPF&A) reported preliminary year-end net favourable variance of $3.4 million which was primarily due to savings from cost containment measures which put on hold the PPF&A Reorganization resulting in vacant positions, and lower salary & benefit expenditures as well as lower services/rents costs.

Solid Waste Management Services (SWMS) had a $11.1 million preliminary year-end favourable net variance primarily as a result of lower waste tonnage received at Transfer Stations, lower contracted disposal costs, lower costs for processing recyclable materials, savings from cost containment measures including the delay or deferral of new 70% diversion initiatives as well as other expenditure restraints.

Technical Services reported a preliminary year-end favourable net expenditure variance of $1.1 million as a result of 30 vacancies remaining unfilled.

Transportation Services reported a preliminary year-end unfavourable net variance of $3.4 million. This was primarily attributed to higher than expected winter maintenance costs resulting from a major storm in December that required intensive salting, plowing and snow removal and increased salary costs arising from final job evaluation pay adjustments.

The ***Waterfront Secretariat*** reported a preliminary year-end favourable net expenditure variance of $0.2 million or 17.7% of planned expenditures for the year ended December 31, 2007. This favourable variance was due to cost containment measures instituted in 2007 that resulted in savings from deferral and/or cancellation in the retention of external expertise. A portion of the funding for consulting will not be reinstated in 2008 as a strategy to enable the Secretariat to meet its 2008 budgetary target.

Internal Services reported a 2007 preliminary year-end net favourable variance of $9.3 million.

The ***Office of the Chief Financial Officer*** (inclusive of Financial Planning, Corporate Finance and Finance & Administration Divisions) reported a preliminary year-end favourable net variance of $0.9 million mainly as a result of savings from cost containment measures, including freezing recruitment for vacant positions, and discretionary spending.

The ***Office of the Treasurer*** (inclusive of Revenue Services, Accounting Services, Pensions, Payroll & Employee Benefits and Purchasing and Materials Management Divisions) reported a preliminary year-end favourable net variance of $3.2 million as a result of cost containment measures and extraordinary gapping in 2007.

Information and Technology reported a preliminary year-end favourable net variance of $3.4 million, comprised of savings from vacancies of $2.2 million and better than expected pricing and contract negotiations for hardware, servers and maintenance of $3.9 million. These savings were somewhat offset by lower than expected capital recoveries of $2.7 million.

Facilities & Real Estate reported a preliminary year-end favourable net variance of $1.5 million or 2.8% of the 2007 Approved Operating Budget. This favourable variance was mainly due to lower than planned utility costs as a result of energy efficiency measures implemented in various corporate facilities and the variation in weather patterns over the course of 2007 ($1.0 million), as well as cost containment measures which included hiring freeze and further utility savings due to the reduced hours of operation in Civic Centres ($0.5 million).

Public Information and Creative Services reported a preliminary year-end favourable year-end net variance of $0.4 million largely due to cost containment savings.

City Manager's Office reported a preliminary year-end net favourable variance of $1.8 million.

The ***City Manager's Office***, including ***Human Resources,*** had a preliminary year-end net favourable variance of $1.8 million as a result of realized cost containment savings in the amount of $0.5 million and savings due to delays in filling vacancies in the amount of $1.3 million.

Other City Programs reported a preliminary year-end net favourable variance of $3.2 million

The ***City Clerk's Office*** experienced a preliminary year-end net favourable variance of $0.4 million. This was a result of savings due to cost containment measures which included other discretionary spending reductions.

Legal Services reported a preliminary year-end net favourable variance of $1.3 million primarily due to vacant positions, cost containment savings from deferred spending on training, equipment and office supplies and higher than expected revenues due to increased volume of planning fee recoveries.

The ***Mayor's Office*** reported a preliminary year-end favourable net variance of $0.5 million as a result of cost containment savings.

Council reported a preliminary year-end favourable net variance of $1.3 million as a result of under spending for Councillors' Office Budgets and salaries & benefits for Councillors' staff.

The Accountability Offices reported a preliminary year-end net favourable variance of $0.1 million.

The ***Auditor General's Office*** had a preliminary year-end net variance of $0.1 million mainly due to cost containment savings.

<u>Agencies, Boards and Commissions</u>

Agencies, Boards and Commissions reported a preliminary year-end net favourable variance of $22.6 million.

Toronto Public Health reported a preliminary year-end net favourable variance of $2.7 million mainly due to savings resulting from the implementation of cost containment measures including the impact of the hiring freeze.

The ***Toronto Public Library's*** preliminary year-end favourable net variance of $0.6 million was mainly attributed to the realized savings from cost containment measures implemented in 2007 including the deferral of the web testing environment and IT security audits ($0.1 million), service level adjustments/reductions of $0.4 million, and cancellation of training of $0.06 million.

The *Association of Community Centres* showed a preliminary year-end unfavourable net variance of $0.1 million or 1.7% of the 2007 Approved Operating Budget driven by ongoing cost pressures of non union position reclassifications and wage harmonization.

Exhibition Place reported a preliminary year-end favourable net variance of $3.1 million due to higher than expected revenues from the CNE (due to good weather), the National Soccer Stadium, and new business at the Direct Energy Centre.

The ***Theatres*** reported a preliminary year-end net favourable variance of $0.1 million attributed to energy savings projects and greater than projected revenues arising from certain events being more profitable then expected at the Toronto Centre for the Arts ($0.08 million net), as well as cost savings from discretionary expenditures and cost containment initiatives at St. Lawrence Centre for the Arts ($0.08 million net). Sony Centre for the Arts reported over spending of $0.01 million net as a show was not as profitable as expected.

The ***Toronto Zoo*** reported a preliminary year-end favourable net variance of $1.5 million as a result of increased revenue from better than planned attendance due to exceptional weather conditions and the Dinosaurs Alive exhibit.

The ***Toronto Transit Commission (TTC)*** had a preliminary year-end favourable net variance of $4.2 million or 1.2% lower than the 2007 Approved Operating Budget (Conventional and Wheel-Trans combined). This favourable variance was primarily a result of the achievement on cost containment savings through the deferral of both planned service improvements and the opening of the Mount Dennis Bus Garage to 2008, along with unbudgeted revenue from the November 2007 fare increase. As well, Wheel-Trans expenditures were $1.3 million less than budgeted.

The ***Toronto Police Service*** had a preliminary favourable net variance of $6.8 million primarily as the result of higher than planned one-time revenues as well as expenditure savings from some delays in the opening of new Provincial courtrooms, delays in the hiring process and attrition of current court officers.

<u>Corporate Accounts</u>

Corporate Accounts reported a preliminary year-end net favourable variance of $41.3 million.

Community Partnership & Investment Program realized a preliminary year-end net under expenditure of $0.1 million primarily because the Crescent Town Community Association decided not to participate in the approved service development project ($0.05 million), cancellation of 2007 funding to Canadian Tamil's Chamber of Commerce as the project failed to comply with program conditions ($0.01 million), and an under-expenditure of maintenance costs associated with the Corporate Grants Information System ($0.02 million).

Corporate and Capital Financing realized a $3.6 million preliminary year-end net favourable variance due to interest received as part of debenture proceeds during the year.

A preliminary year-end favourable net variance of $41.3 million was realized in ***Non Program Accounts.***

A $1.9 million preliminary year-end unfavourable net variance was realized for ***Tax Deficiencies*** due to the number of appeals and other adjustments that were received and processed. ***Heritage Property Tax Rebates*** realized a favourable net variance of $2.8 million because the expansion of the Heritage Property Tax Rebate Program's eligibility criteria was cancelled as a cost containment measure for 2007. An $8.5 million favourable budget net variance was realized for ***Payment in Lieu of Taxes*** primarily due to: $0.9 million in additional assessment based levies; $1.0 million in additional heads and beds levies; $1.1 million as a result of payment received from University of Toronto during 2007; and $1.7 million is the result of lower than expected assessment conversions from PIL to exempt TTC properties. A $13.3 million favourable budget variance was realized for ***Supplementary Taxes*** primarily due to delays in the delivery of the 3rd supplementary and omitted assessment roll. This provided MPAC with an opportunity to add additional assessments onto the roll resulting in additional revenues. For 2007, ***Tax Penalty*** revenue was below budget by $0.5 million due to lower than expected outstanding receivables. A $0.3 million unfavourable budget variance was realized for ***Vacancy Rebates*** in 2007 as a result of the processing of vacancy rebates in 2007 for tax years 2001 to 2003.

Non Levy Operations

Non Levy Operations reported a preliminary year-end net favourable variance of $23.0 million.

The Toronto Parking Authority reported a preliminary year-end favourable net variance of $1.4 million or 3.2% of the 2007 Council Approved Operating Budget of $44.4 million. The favourable variance was mainly due to higher than planned revenues from off-street parking along Bloor Street from Yonge to Avenue Road and at major facilities near the Lakeshore from Bay to Jarvis Streets and Council approved on-street user fee increases in May 2007.

Toronto Water reported a preliminary year-end favourable net variance of $21.6 million. The favourable variance was due to salary savings and unfilled vacancies in District Operations. Higher than budgeted revenues from water sales to York Region and from other sources, such as water service fees. The favourable revenue variance was partially off-set by lower revenues from reduced water usage during the spring and summer months. Contribution of $21.6 million which represents the 2007 Net Operating Budget favourable variance for Toronto Water was made to the Water and Waste Water Stabilization Reserves.

Extreme Weather Reserve

The City has experienced a number of severe weather events since amalgamation, including extreme heat, extreme cold, snowstorms, high winds, rainstorms, flooding and drought. Several of these have had significant unbudgeted financial impacts on the City.

In 1999, the City experienced a record snowfall of 118 cm, the worst in 50 years, which created significant traffic havoc and caused the City to declare three snow emergencies in two weeks. This resulted in Transportation Services withdrawing $16.5 million from the Winter Control Stabilization Reserve to offset its $37.9 million over-expenditure in the 1999 winter maintenance budget.

In August of 2005 a torrential rainstorm coupled with lightning, thunder, golf-ball sized hail and high winds caused chaos across the city. Property and liability insurance claims arising from flooded houses and cars totalled an estimated $400 million in damages across the Greater Toronto Area. The worst hit location in the City was Finch Avenue West near Keele Street where a bridge was destroyed. At that time the City established a Flood Grant which provided financial assistance to those residents who sustained uninsured property damages due to basement flooding and related incidents. The City estimated that it required over $40 million in multi-year operating and capital expenditures to repair storm damages.

The winter of 2007/2008 has thus far been a record year with respect to snowfall. Transportation Services incurred an estimated $20 million to remove accumulated snow on city sidewalks particularly in the City's core. The severe freeze-thaw cycles have escalated the demand for pothole repairs which has put pressure on Transportations Services budget as well.

These events and the resulting significant cost suggest the need for the City to create and fund extreme weather maintenance. As a result, it is recommended in this report that $4.816 million of the 2007 Preliminary Year-end Operating Surplus be set aside to address the financial impact of extreme weather events. A separate report on the creation and funding of an Extreme Weather Reserve will be submitted to the Executive Committee.

2007 Cost Containment Measures

Cost containment measures were implemented in July 2007 with the goal of reducing operating costs for the remainder of 2007. As indicated in Table 3, most City Programs and ABCs achieved their cost containment target resulting in savings of $40.3 million. This was $1.2 million less than the corporate target of $41.5 million. Programs and ABCs such as Fleet Services ($0.3 million), Toronto Public Health ($0.3 million) and Toronto Zoo ($0.1 million) exceeded their targets; while Solid Waste Management under-achieved by $1.7 million and Transportation Services by $0.7 million. Although Solid Waste Management's preliminary year-end net variance reflect a favourable net variance of $11.1 million due to lower costs in processing recyclable materials, the program under-achieved its cost containment target by $1.7 million.

Table 3 **2007 Operating Cost Containment Savings** **($000s)**			
	Cost Containment Projected	**Cost Containment Achieved**	**Variance from Projected**
Citizen Centred Services "A"	6,239.0	6,317.1	78.1
Citizen Centred Services "B"	16,184.8	14,211.9	(1,972.9)
Internal Services	6,287.3	6,583.2	295.9
City Manager	460.6	460.6	0.0
Other City Programs	860.6	860.6	0.0
Accountability Offices	16.0	41.9	25.9
Total City Operations	30,048.3	28,475.3	(1,573.0)
Agencies, Boards and Commissions	11,417.4	11,810.1	392.7
Total Levy Operations	**41,465.7**	**40,285.4**	**(1,180.3)**

2007 Preliminary Year-end Surplus Allocation

Allocation of the 2007 preliminary year-end net operating surplus of $94.8 million is recommended as follows: $78.0 million to 2008 Operating Budget – Prior Year Surplus Revenue; $12.0 million to Winter Control Stabilization Reserve; and $4.8 million to an Extreme Weather Reserve.

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SIGNATURE

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ATTACHMENTS

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