EX17.15a

TORONTO **Decision Letter**

Budget Committee

Meeting No.	23	**Contact**	Jennifer Forkes, Committee Administrator
Meeting Date	Monday, September 19, 2016	**Phone**	416-392-4666
Start Time	2:00 PM	**E-mail**	buc@toronto.ca
Location	Committee Room 2, City Hall	**Chair**	Councillor Gary Crawford

BU23.1	ACTION	Amended		Ward:All

Operating Variance Report for the Six Month Period Ended June 30, 2016

Committee Decision

The Budget Committee recommends that:

1. City Council approve the budget adjustments detailed in Appendix F to the report (September 19, 2016) from the Deputy City Manager and Chief Financial Officer to amend the 2016 Approved Operating Budget between Programs that have no impact to the 2016 Approved Net Operating Budget.

2. City Council direct City Programs and Agencies continue to identify and undertake mitigation strategies to address projected year-end over-expenditures.

3. Executive Committee request the Deputy City Manager and Chief Financial Officer 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.

Origin

(September 19, 2016) Report from the Deputy City Manager and Chief Financial Officer

Summary

The purpose of this report is to provide City Council with the City of Toronto Operating Variance for the six month period ended June 30, 2016 and year-end projections. This report also requests City Council's approval for amendments to the 2016 Approved Operating Budget between Programs that have no impact to the 2016 Approved Net Operating Budget to ensure accuracy of the fiscal accountability and reporting.

As per the Table 1 indicated below, for the six month period ended June 30, 2016, Tax Supported Operations reported a favourable net variance of $70.164 million or 3.8 percent, and the year-end projected net variance is anticipated to be $35.256 million or 0.9 percent favourable.

Figure 1: Tax Supported Variance Summary ($ Millions)

Category	June 30, 2016		Projected Y/E 2016	
	Over/(Under)		Over/(Under)	
	$	%	**$**	**%**
Gross Expenditures	(120.3)	-2.6%	(106.7)	-1.1%
Revenues	(50.1)	-1.8%	(71.4)	-1.2%
Net Expenditures	(70.2)	-3.8%	(35.3)	-0.9%

The favourable year-to-date net variance consists of:

- Significant contribution from the overachieved revenue in Municipal Land Transfer Tax, due to the increasing market growth which resulted in the greater volume of sales ($41.549 million net).

- Transportation Services' under-expenditure on winter maintenance, which includes lower than expected number of weather related events requiring ploughing and salting, overall decrease in salt usage due to the mild winter, as well as lower than expected utility cut repair volumes ($16.039 million net).

- Toronto Building reported a favourable variance primarily due to over-achieved revenue driven by the increased building permit applications ($4.811 million net).

- City Planning's favourable variance is due to the higher development application review fees as well as robust application volumes in Committee of Adjustment ($4.426 million net).

Current trend is projecting a net favourable year-end variance of $35.256 million or 0.9%, which represents a decrease from the second fiscal quarter results. The key drivers for the expected net year-end position is largely due to the following:

- Over-achieved revenues from the Municipal Land Transfer Tax due to higher than estimated property sales ($54.400 million net).

- Stronger than anticipated Toronto Parking Authority Corporate Revenues ($4.500 million net).

- Over-achieved revenue from City Planning due to the increase volume of community planning development review fees ($4.365 million net).

The above mentioned savings are offset by projected over-expenditures in the following areas:

- A number of Corporate Accounts that are projecting an unfavourable year-end variance which include: Tax Deficiencies/Write offs, Supplementary Taxes, Toronto Hydro Dividend Income and Other Corporate Expenditures ($24.835 million net).

- Toronto Transit Commission: Conventional service is projecting an unfavourable year-end variance due to fare revenue shortfall as a result of a decline in the ridership volume ($15.007 million net).

- Fire Services projection of an unfavourable year-end variance is mainly attributed to the increase in WSIB claim payments in 2016 ($4.760 million net).

- Toronto Transit Commission: Wheel-Trans service is projecting an unfavourable year-end variance due to continuously increasing demand for service, resulting in increased operating costs ($4.616 million net).

- Transportation Services year-end projection resulted in the unfavourable variance due to the revenue volume shortfall within Utility Cut Repair program as well as permit parking ($3.197 million net).

- Municipal Licensing and Standards are projecting an unfavourable net variance by year-end. Over-expenditures and lower than planned revenue is primarily due to the partial year implementation of the newly approved Vehicle for Hire (VFH) Ground Transportation Review (GTR) By-Law ($2.934 million net).

- Fleet Services is projecting an unfavourable year-end variance due to the increased repair costs of the aging vehicles ($0.925 million net).

As noted above, a number of City Programs and Agencies are projecting an unfavourable variance for the year-end, with Toronto Transit Commission - Conventional service representing the most significant unfavourable variance of $15.007 million. Consistent with City's financial management practices and policies, Programs and Agencies projecting an unfavourable year-end variance are required to identify and implement mitigation strategies where possible to address any projected shortfalls.

Figure 2: Rate Supported Net Variance Summary ($ Millions), which includes the six month and year-end projected results.

Rate Supported Programs	June 30, 2016	Projected Y/E 2016
	Over/(Under)	Over/(Under)
Solid Waste Management Services	(5.6)	(5.0)
Toronto Parking Authority	(4.2)	(6.0)
Toronto Water	(21.1)	(22.0)
Total Variance	(31.0)	(33.0)

The year-to-date favourable net variance of $31.015 million is driven by the following:

- Toronto Water net savings of $21.124 million, comprised of $20.361 million in lower expenditures due to under-spending on salaries and benefits as a result of vacancies, savings in chemicals from unused contingencies, and transfer of bio solids as a result of continued beneficial use of the materials. In addition revenues were above budgeted target by $0.763 million due to the increased demand for new and existing water as well as sewer services.

- Net savings of $5.643 million in Solid Waste Management Services, largely from salaries and benefits due to unfilled positions, savings from contracted services which include lower hauling costs as well as related delayed payments, and lower recyclable material processing costs due to decreasing volumes.

- Over-achieved revenue from Toronto Parking Authority resulting in a favourable net variance of $4.248 million due to increased off-street parking in downtown garages by $3.500 million as well as on street parking by $1.600 million, offset by marginal over-expenditures on property taxes.

Rate Supported Programs are forecasting a favourable year-end net variance of $33.020 million. The primary savings are projected from Toronto Water of $22.035 million, which include under-expenditures on salaries and benefits due to ongoing vacancies, increased revenue of $6.000 million generated from Toronto Parking Authority, and Solid Waste Management Services savings of $4.986 million on complement as well as contracted services.

Figure 3: Summary of 2016 Year-To-Date Approved Complement by Vacancy Rate

Program/Agency	2016 Year-to-Date			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating Vacancy After Gapping
City Operations	5.3%	21.2%	2.5%	2.8%
Agencies	4.2%	19.3%	2.5%	1.7%
Parking Tag Enforcement	3.0%	0.0%	0.0%	3.0%
Total Levy Operations	4.7%	19.9%	2.5%	2.3%
Rate Supported Programs	7.8%	14.5%	3.1%	4.7%
Grand Total	4.9%	19.8%	2.5%	2.4%

Note: Vacancy After Gapping % is based on Operating Budget positions only.

Figure 4: Summary of 2016 Year-End Approved Complement Projections by Vacancy Rate.

Program/Agency	2016 Year-to-Date			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating Vacancy After Gapping
City Operations	2.5%	11.5%	2.5%	0.0%
Agencies	3.1%	1.3%	2.5%	0.6%

Parking Tag Enforcement	5.6%	0.0%	0.0%	5.6%
Total Levy Operations	2.8%	4.7%	2.5%	0.4%
Rate Supported Programs	6.6%	5.6%	3.1%	3.6%
Grand Total	3.1%	4.8%	2.5%	0.6%

Note: Vacancy After Gapping % is based on Operating Budget positions only.

- As of June 30, 2016, the City recorded operating vacancy rate of 2.4 percent after gapping for an approved complement of 51,619.3 operating positions. Year-to-date vacancy rate for capital positions is 19.8 percent for an approved complement of 3,442.8 positions.

- The year-end forecast for operating vacancy rate after gapping is projected to be 0.6 percent for an approved complement of 51,252.3 operating positions. The forecast for capital positions is projected to be at 4.8 percent vacancy rate for an approved complement of 3,324.8 positions.

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

Background Information

(September 19, 2016) Report and Appendices A to G from the Deputy City Manager and Chief Financial Officer on Operating Variance Report for the Six-Month Period Ended June 30, 2016
(http://www.toronto.ca/legdocs/mmis/2016/bu/bgrd/backgroundfile-95905.pdf)

Speakers

Councillor Gord Perks
Councillor Janet Davis