EX20.25a

TORONTO **Decision Letter**

# Budget Committee

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| **Meeting No.** | 26 | **Contact** | Jennifer Forkes, Committee Administrator |
| **Meeting Date** | Friday, November 18, 2016 | **Phone** | 416-392-4666 |
| **Start Time** | 9:30 AM | **E-mail** | buc@toronto.ca |
| **Location** | Committee Room 1, City Hall | **Chair** | Councillor Gary Crawford |

| BU26.4 | ACTION | Adopted | | Ward:All |
|---|---|---|---|---|

## Operating Variance Report for the Nine-Month Period Ended September 30, 2016

### Committee Decision

The Budget Committee recommends that:

1. City Council approve the budget adjustments detailed in Appendix F to the report (November 1, 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.

### Origin

(November 1, 2016) 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 nine-month period ended September 30, 2016 as well as 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 in the 2016 Approved Net Operating Budget.

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

| Category | Sep 30, 2016 Over/(Under) | | Projected Y/E 2016 Over/(Under) | |
|---|---|---|---|---|
| | $ | % | $ | % |
| Gross Expenditures | (187.6) | -2.7% | (167.8) | -1.7% |
| Revenues | (40.0) | -0.9% | (40.1) | -0.7% |
| Net Expenditures | (147.6) | -5.4% | (127.7) | -3.2% |

| | | | | |
|---|---|---|---|---|
| Less: City Planning | (5.9) | -56.8% | (6.0) | -38.0% |
| Less: Toronto Building | (6.1) | 73.7% | (6.8) | 63.6% |
| Net Expenditures (Excl. City Planning & Toronto Building) | (135.6) | -5.0% | (114.9) | -2.9% |

As noted in Figure 1 above, for the nine month period ended September 30, 2016, Tax Supported Operations reported a favourable net variance of $135.637 million or 5.0 percent and year-end projected net under-spending of $114.882 million or 2.9 percent.

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

- Over-achieved Municipal Land Transfer Tax revenue, primarily attributed to the increasing growth of sales ($78.964 million net).

- Under-expenditures by Transportation Services on salt usage in the winter maintenance program, and over-achieved permit / applications revenue ($17.391 million net).

- Toronto Police Service underspending in salaries and benefits due to unfilled positions and over-achieved revenues, primarily from one-time sources ($6.675 million net).

- Higher than planned Payments in Lieu of Taxes and lower than anticipated appeals ($6.006 million net).

As per the adopted recommendation by Executive Committee on September 22, 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 - a favourable year-to-date net variance of $5.918 million and the year-end projected favourable net variance of $5.970 million. In accordance with City Council's direction, the surplus will be transferred to Development Application Review Reserve Fund at year-end.

- Toronto Building - a favourable year-to-date net variance of $4.811 million, and the year-end projected favourable net variance of $6.809 million to be contributed to Building Code Act Service Improvement Reserve Fund, in accordance with the Building Code Act.

Underspending in other Programs and Agencies is primarily due to vacant positions. Majority 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.

Based on this current trend, the City is projecting a net favourable year-end variance of $127.693 million or 3.2 percent. The key drivers for the expected net year-end position is largely due to the following:

- Higher than budgeted Municipal Land Transfer Tax revenues due to an overall higher number of property sales ($105.036 million net).

- Underspending in salaries within Toronto Police Service due to reduced hiring, and higher than budgeted revenues from receipt of one-time sources ($8.900 million net).

- Stronger than anticipated Payments In Lieu of Tax revenue, as a result of stronger than anticipated revenues ($6.006 million net).

- Under-expenditures within Engineering and Construction Services due to underspending in salaries and benefits from vacant positions until year-end ($3.486 million net).

- Underspending within Toronto Employment and Social Services as a result of lower than budgeted monthly caseload along with less than budgeted hydro costs ($2.848 million net).

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

- Unfavourable year-end variance within several Corporate Accounts, Non-Program Expenditures and Revenues, which include: Tax Deficiencies/Write offs, Supplementary Taxes, Toronto Hydro Dividend Income and Other Corporate Revenues, Pandemic Influenza Stockpiling ($21.497 million net).

- Higher than budgeted Workers Safety and Insurance Board (WSIB) costs arising from work-related cancer claims is projected to result in an unfavourable year-end variance in Fire Services ($6.641 million net).

- A decline in ridership volume contributed to the fare revenue shortfall, within Toronto Transit Commission: Conventional service, which is expected to result in unfavourable year-end variance ($5.133 million net).

- Unfavourable year-end projected variance within Toronto Transit Commission: Wheel-Trans service due to ever-increasing demand for service, which is continuously outpacing the expectations ($1.984 million net).

- Municipal Licensing and Standards is projecting an unfavourable net variance by year-end, primarily due to lower than budgeted revenues, as a result of the partial year implementation of the Ground Transportation Review (GTR) By-Law, and lower fee activity ($1.170 million net).

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

| Rate Supported Programs | September 30, 2016 | Projected Y/E 2016 |
|---|---|---|
| | Over/(Under) | Over/(Under) |
| Solid Waste Management Services | (0.6) | (9.1) |
| Toronto Parking Authority | (5.0) | (4.4) |
| Toronto Water | (41.5) | (32.9) |
| Total Variance | (47.2) | (46.4) |

The year-to-date favourable net variance of $47.166 million is driven by the following:

- Year-to-date favourable variance of $41.528 million, in Toronto Water, comprised of lower gross expenditures of $20.237 million due to under-spending on salaries and benefits ($4.848 million) as a result of vacancies, lower than anticipated demand for chemicals, and lower transfer costs of bio solids as a result of the beneficial use for sludge. In addition revenues were higher than planned by $21.291 million due to increased demand for new and existing water services, as well as sewer services.

- A favourable net variance of $5.010 million, in Toronto Parking Authority, attributed to higher on-street and off-street revenues for garages in downtown fringe areas, which is partially offset by higher than planned property tax payments.

- Favourable net variance within Solid Waste Management Services of $0.629 million, comprised of lower gross expenditures of $18.318 million, primarily from underspending in salaries and benefits ($2.934 million) due to vacant positions and contracted services which include lower hauling costs as a result of lower fuel prices.

Collectively, Rate Supported Programs are projecting a favourable year-end net variance of $46.367 million. It is primarily driven by Toronto Water ($32.909 million) due to ongoing vacancies ($8.200 million), over-achieved revenue within Toronto Parking Authority at year-end of $4.360 million, and underspending within Solid Waste Management Services of $9.098 million due to vacant positions as well as under-expenditures in contracted services.

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

| Program/Agency | 2016 Year-to-Date | | | |
|---|---|---|---|---|
| | Operating Vacancy % | Capital Vacancy % | Budgeted Gapping % | Operating Vacancy Rate (After Gapping) |
| City Operations | 5.2% | 19.6% | 2.6% | 2.6% |
| Agencies | 4.7% | 17.4% | 2.5% | 2.2% |
| Corporate Accounts | 4.6% | 0.0% | 0.0% | 4.6% |
| Total Levy Operations | 4.9% | 18.1% | 2.5% | 2.4% |
| Rate Supported Programs | 7.2% | 10.1% | 3.1% | 4.1% |
| Grand Total | 5.1% | 17.9% | 2.5% | 2.5% |

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

| Program/Agency | 2016 Year-End Projection | | | |
|---|---|---|---|---|
| | Operating Vacancy % | Capital Vacancy % | Budgeted Gapping % | Operating Vacancy Rate (After Gapping) |
| City Operations | 2.9% | 14.9% | 2.6% | 0.3% |
| Agencies | 2.2% | 2.4% | 2.5% | 0.0% |
| Corporate Accounts | 5.5% | 0.0% | 0.0% | 5.5% |
| Total Levy Operations | 2.5% | 6.7% | 2.5% | 0.1% |
| Rate Supported Programs | 7.1% | 10.1% | 3.1% | 4.0% |
| Grand Total | 2.8% | 6.8% | 2.5% | 0.3% |

Vacancy After Gapping percent is based on Operating Budget positions only.

- As of September 30, 2016, the City recorded an operating vacancy rate of 2.5 percent after gapping for an approved complement of 51,767.7 operating positions. The year-to-date vacancy rate for capital positions was 17.9 percent for an approved complement of 3,450.8 positions.

- The year-end operating vacancy rate after gapping is projected to be 0.3 percent for an approved complement of 51,272.6 operating positions. The forecasted vacancy rate for capital positions is projected to be 6.8 percent for an approved complement of 3,329.8 positions.

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

## Background Information

(November 1, 2016) Report and Appendices A to G from the Deputy City Manager and Chief Financial Officer on Operating Variance Report for the Nine-Month Period Ended September 30, 2016
(http://www.toronto.ca/legdocs/mmis/2016/bu/bgrd/backgroundfile-98517.pdf)
(November 1, 2016) Report from the Deputy City Manager and Chief Financial Officer on Operating Variance Report for the Nine-Month Period Ended September 30, 2016 - Notice of Pending Report
(http://www.toronto.ca/legdocs/mmis/2016/bu/bgrd/backgroundfile-97953.pdf)