EX27.19

TORONTO **Decision Letter**

Budget Committee

Meeting No.	34	**Contact**	Jennifer Forkes, Committee Administrator
Meeting Date	Tuesday, September 5, 2017	**Phone**	416-392-4666
Start Time	9:30 AM	**E-mail**	buc@toronto.ca
Location	Committee Room 1, City Hall	**Chair**	Councillor Gary Crawford

BU34.2	ACTION	Amended		Ward:All

Operating Variance Report for the Six Month Period Ended June 30, 2017

Committee Decision
The Budget Committee recommends that:

1. City Council approve the budget adjustments detailed in Appendix F to the report (August 21, 2017) from the Deputy City Manager and Chief Financial Officer, to amend the 2017 Approved Operating Budget between Programs that have no impact to the 2017 Approved Net Operating Budget.

2. City Council increase the 2017 Operating Budget for Social Development Finance and Administration by $0.050 million, funded from a one-time draw from the Tax Stabilization Reserve, to be used to fund a Youth Space Enhancement Program to target high-risk youth at the Don Montgomery Community Centre.

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

Origin
(August 21, 2017) 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 six month period ended June 30, 2017 as well as projections to year-end. This report also requests City Council's approval for amendments to the 2017 Approved Operating Budget between Programs that have no impact on the City's 2017 Approved Net Operating Budget.

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

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

Variance	June 30, 2017		Projected Y/E 2017	
	Over/(Under)		Over/(Under)	
	$	%	$	%
Gross Expenditures	(78.7)	-1.5%	(135.9)	-1.3%
Revenues	79.1	2.6%	(102.0)	-1.6%
Net Expenditures	(157.8)	-7.4%	(33.9)	-0.8%
Less: Toronto Building	(11.4)	279.6%	(17.9)	167.6%
Net Expenditures (Excl. Toronto Building)	(146.5)	-6.8%	(16.0)	-0.4%

Year-to-Date Spending Results:

As noted in Figure 1 above, for the six month period ended June 30, 2017, Tax Supported Operations reported a favourable net variance of $157.839 million or 7.4 percent and are projecting a year-end surplus of $33.905 million or 0.8 percent

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

- over-achieved Municipal Land Transfer Tax revenue as a result of higher sales and home prices ($61.522 million net);

- under-expenditures by the Toronto Transit Commission - Conventional Service as a result of lower departmental material expenditures, accident claims and labour costs ($44.240 million net); and

- a favourable variance in Toronto Building primarily due to the increasing number of building permit applications ($11.382 million net).

In addition, the following Corporate Accounts have experienced a timing shift in planned expenses and revenue over the fiscal year to the first half but are projected to be on budget by year-end:

- an increase in Supplementary Taxes as a result of the change in historical supplementary roll delivery date compared to plan ($16.499 million net);

- the full annual receipt of the dividend payment from Toronto Hydro ($12.500 million net).

- lower level of Solid Waste Management Rebate provided compared to the planned estimates based on the historical billings ($6.678 million net); and

- increased revenue from Interest / Investment Earnings due to an earlier realization of capital gains than planned ($4.530 million net).

Favourable variances in other Programs and Agencies are primarily due to under-spending in salaries and benefits as a result of vacant positions. The majority of the vacant positions are expected to be filled by year-end, other new vacant positions may occur throughout the system. More detailed explanations at the Program / Agency level can be found in the complement section of this report.

Year-End Spending Projections:

Based on this current trend, the City is projecting a net favourable year-end variance of $33.905 million or 0.8 percent The key drivers for the expected year-end net position are largely due to the following:

- higher than budgeted Municipal Land Transfer Tax revenues due to higher than expected sales revenue achieved in the first half of 2017 is expected to decline in the last half of the year, which reflects a slowdown in the marketplace ($30.000 million net);

- higher than budgeted revenue in Toronto Building due to higher than planned building permit applications ($17.901 million net);

- Toronto Transit Commission - Conventional Service favourable year-end net variance of $15.092 million or 2.8 percent The Commission attributed the net variance to under-spending in labour expenses ($12.3 million), employee benefits ($6.0 million), lower diesel fuel consumption ($5.0 million), depreciation ($2.0 million), utilities ($3.0 million), accident claims ($2.0 million), PRESTO fees ($2.0 million) partially offset by lower passenger revenue of $4.5 million, and not requiring the budgeted reserve draw of $14.0 million;

- an under-expenditure in Toronto Transit Commission - Wheel - Trans Service attributed to fewer customer journeys than budget, and lower average cost per passenger trip on contracted taxi services ($11.074 million net);

- under-spending in Toronto Police Service as a result of the hiring moratorium and higher than planned separations ($6.500 million net); and

- under-spending in Debt Charges as a result of not issuing $150 million in debt planned for December 2016 ($5.529 million net).

The above under-spending will be partially offset by projected over-expenditures in the following areas:

- unrealized revenue from Parking Tag Enforcement & Operations as a result of better compliance through the pay by cell program, decrease in average fine amounts, the delayed implementation of Administrative Penalty System (APS), and the removal of fixed fines and prosecutor intervention at counters ($15.042 million net);

- higher than budgeted Tax Deficiencies / Write-off expenses due to posted appeals and expected appeals ($12.468 million net);

- Shelter, Support and Housing Administration unfavourable year-end forecast resulting from over-spending in Hostel Services due to the increased demand to accommodate the influx of refugees ($10.338 million net). The pressure will be partially offset by the draw of $3 million from the Social Housing Stabilization Reserve being a one-time contribution approved by City Council on April 26th, 2017 when it adopted item CD19.11 "Service Level Impact of the 2017 Service Adjustments to Shelter, Support and Housing Administration";

- higher than budgeted Tax Increment Equivalent Grants (TIEG) issued due to the change in timing of 2 properties being eligible for TIEG grants ($9.882 million net);

- higher than budgeted WSIB claim payments for 14 work-related cancers and work-related Post Traumatic Stress Disorders in Fire Services ($6.153 million net);

- Parks, Forestry and Recreation's unfavourable year-end forecast due to revenue shortfall in ferry, parks and recreation permit and user fees primarily as a result of spring flooding of Toronto Island ($3.983 million net); and

- Toronto Zoo unfavourable year-end forecast driven by the labour disruptions which resulted in a revenue loss ($3.999 million).

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 where possible to address any projected shortfalls.

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.

It is important to note that the projected City surplus at year-end of $33.905 million is primarily equivalent to the projected higher Municipal Land Transfer Tax revenues of $30.000 million. After isolating Toronto Building surplus and Municipal Land Transfer Tax over-achieved revenue, the forecasted year-end position for Tax Supported Operations results in a $13.996 million unfavourable variance.

Rate Supported Programs:

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

Rate Supported Programs	June 30, 2017	Projected Y/E 2017
	Over/(Under)	Over/(Under)
Solid Waste Management Services	(7.2)	(3.6)
Toronto Parking Authority	(0.8)	0.7
Toronto Water	(31.3)	(16.3)
Total Variance	(39.3)	(19.2)

For Rate Supported Programs, the year-to-date favourable net variance of $39.301 million was driven by the following:

- a favourable year-to-date variance in Toronto Water due to advance postings of sale of water and industrial waste agreement revenues of $23.658 million net, as well as overall increase in the volume demand for new service connections ($31.278 million net);

- Toronto Parking Authority's favourable year-to-date variance was largely attributed to the sale of Carpark 664 and under-spending in utility costs, depreciation and parking equipment repair costs. This was partially offset by the loss of sponsorship revenue in the Bike Share Program and other cost increases ($0.841 million net); and

- a year-to-date favourable variance within Solid Waste Management Services was primarily due to under-spending in salaries and benefits in Collections and Litter Operations, as well as higher than planned revenue in multiple service areas as the actuals have been incurred earlier than the plan ($7.182 million net).

Collectively, Rate Supported Programs are projecting a favourable year-end variance of $19.203 million net. It is primarily driven by Toronto Water as a result of under-spending in salaries and benefits due to vacancies, lower than anticipated hydro rates and usage efficiencies from process changes at wastewater treatment plants, and higher than planned revenue increase of $2.600 million mostly from the new service connections and water sold to the Region of York.

Complement:

Figure 3: 2017 Year-To-Date Approved Complement by Vacancy Rate

Program/Agency	2017 Year-to-Date			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating Vacancy Rate (After Gapping)
City Operations	4.2%	21.5%	2.4%	1.8%
Agencies	2.6%	16.0%	3.4%	0.0%
Corporate Accounts*	8.3%	0.0%	0.0%	8.3%
Total Levy Operations	3.4%	17.8%	2.9%	0.5%
Rate Supported Programs	7.5%	9.4%	3.0%	4.5%
Grand Total	3.7%	17.6%	2.9%	0.7%

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

- as of June 30, 2017, the City recorded an operating vacancy rate of 0.7 percent after gapping for an approved complement of 50,909.2 operating positions. The year-to-date vacancy rate for capital positions was 17.6 percent for an approved complement of 3,440.2 positions.

Figure 4: 2017 Year-End Approved Complement Projections by Vacancy Rate.

	2017 Year-End Projection			

Program/Agency	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating Vacancy Rate (After Gapping)
City Operations	2.4%	12.3%	2.4%	0.0%
Agencies	2.6%	1.2%	3.4%	0.0%
Corporate Accounts*	10.1%	0.0%	0.0%	10.1%
Total Levy Operations	2.6%	4.9%	2.9%	0.0%
Rate Supported Programs	7.8%	9.4%	3.0%	4.8%
Grand Total	2.9%	5.0%	2.9%	0.0%

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

- the year-end operating vacancy rate after gapping is projected to be 0.0 percent for an approved complement of 50,900.2 operating positions. The forecasted vacancy rate for capital positions is projected to be 5.0 percent for an approved complement of 3,439.2 positions.

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

Background Information

(August 21, 2017) 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, 2017
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-106481.pdf)
(August 21, 2017) Report from the Deputy City Manager and Chief Financial Officer on Operating Variance Report for the Six Month Period Ended June 30, 2017 - Notice of Pending Report
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-106271.pdf)