TORONTO Decision Letter **EX29.25a**

Budget Committee

Meeting No.	37	**Contact**	Josephine Archbold, Administrator
Meeting Date	Monday, November 27, 2017	**Phone**	416-392-4666
Start Time	9:30 AM	**E-mail**	buc@toronto.ca
Location	Committee Room 2, City Hall	**Chair**	Councillor Gary Crawford

BU37.2	ACTION	Adopted		Ward:All

Operating Variance Report for the Nine Month Period Ended September 30, 2017

Committee Decision

The Budget Committee recommends to the Executive Committee that:

1. City Council approve the budget adjustments detailed in Appendix F to the report (November 20, 2017) from the Acting Chief Financial Officer to amend the 2017 Approved Operating Budget between Programs that have no impact to the 2017 Approved Net Operating Budget of the City.

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

Origin

(November 20, 2017) Report from the Acting 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, 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 the financial position of Tax Supported Operations as of the third fiscal quarter and projection at year-end:

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

Variance	September 30, 2017 Over/(Under)		Projected Y/E 2017 Over/(Under)	
	$	%	$	%
Gross Expenditures	(181.4)	-2.4%	(193.4)	-1.8%

Revenues	66.7	1.4%	(51.6)	-0.8%
Net Expenditures	(248.1)	-8.3%	(141.8)	-3.5%
Less: Toronto Building	(16.8)	201.3%	(12.5)	117.0%
Less: Children's Services	(8.6)	12.9	(12.0)	14.9%
Net Expenditures (Excl. Toronto Building and Children's Services)	(222.8)	-7.6%	(117.3)	-3.0%

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, Children's Services year-end under-expenditure of $12.000 million net is related to Provincial / Federal growth funding to provide 825 new child care subsidies to support growth as directed by City Council on July 4, 2017 (EX26.30). A corresponding in-year adjustment is included in the Appendix F of the report for a one-time contribution to the Child Care Expansion Reserve Fund.

Year-to-Date Spending Results:

As noted in Figure 1 above, for the nine month period ended September 30, 2017, Tax Supported Operations reported a favourable net variance of $248.103 million or 8.3 percent and are projecting a year-end surplus of $141.822 million or 3.5 percent.

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

- Over-achieved Municipal Land Transfer Tax revenue due to higher than anticipated real estate market activity ($93.809 million net).

- Under-expenditure by the Toronto Transit Commission of $80.356 million net primarily as a result of lower departmental material expenditures, labour costs, and accident claims of $67.755 million net within Conventional Service, and fewer customer journeys than planned within Wheel Trans of $12.601 million net.

- Under-spending by Transportation Services driven by lower contract costs and decreased salt usage in the winter maintenance program ($18.103 million net).

- Over-achieved revenue in Toronto Building primarily due to the increasing number of building permit applications ($16.792 million net).

- Increased revenue from Supplementary Taxes due to a change in the historical supplementary roll delivery date compared to plan ($15.936 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, while 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 $141.822 million or 3.5 percent. The key drivers for the expected year-end net position are largely due to the following:

- Higher than budgeted Municipal Land Transfer Tax revenue as a result of higher than expected sales revenue ($85.000 million net).

- Toronto Transit Commission - Conventional Service's under-spending of $35.076 million net is mainly related to labour expenses, employee benefits, PRESTO fees, lower diesel fuel consumption, utilities, depreciation, which are partially offset by passenger revenue increase due to the current trend of customers switching from pass-based fare media to single-ride fare media, and not requiring the budgeted reserve draw of $14.000 million. While, Wheel - Trans Service favourable variance of $14.259 million net is attributed to fewer customer journeys than budgeted. As a whole, Toronto Transit Commission is projecting a favourable year-end variance of $49.335 million net.

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.

It is important to note that the City's projected year-end under-spending of $141.822 million is primarily attributed to the projected higher Municipal Land Transfer Tax revenues of $85.000 million. After isolating Toronto Building projected net revenue, Municipal Land Transfer Tax over-achieved revenue accounts for 66 percent of the total City's favourable variance for year-end.

Rate Supported Programs:

As noted in Figure 2 below, for the nine month period ended September 30, 2017, Rate Supported Operations reported a favourable net variance of $14.431 million or 34.3 percent and are projecting a year-end surplus of $2.886 million.

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

Rate Supported Programs	September 30, 2017	Projected Y/E 2017
	Over/(Under)	Over/(Under)
Solid Waste Management Services	2.6	(1.3)
Toronto Parking Authority	0.3	0.7
Toronto Water	(17.4)	(2.2)
Total Variance	(14.4)	(2.9)

The key year-to-date net under-spending in Rate Supported Program was driven by:

The negative variance in Solid Waste Management Services of $2.628 million net or 30.4 percent is primarily due to over-spending on contracted services, inter-divisional charges for fleet maintenance, debt service charges as well as earlier than planned reserve contributions.

The negative revenue in Toronto Parking Authority of $0.306 million net or 0.7 percent is primarily due to lower than planned off-street parking revenues and loss of sponsorship revenue in the Bike Share Program.

The positive revenue in Toronto Water of $17.365 million net is primarily due to advance postings of sale of water and industrial waste agreement revenues, as well as an overall increase in the volume demand for new sewer service connections and private water agreements.

Complement:

Figure 3: 2017 Year-To-Date Vacancy Rate

Program/Agency	2017 Year-to-Date			
	Operating Vacancy %	Capital Vacancy %	Budgeted Gapping %	Operating* Vacancy Rate (After Gapping)
City Operations	3.8%	23.6%	2.4%	1.3%
Agencies	3.5%	19.3%	3.4%	0.1%
Corporate Accounts**	9.0%	0.0%	0.0%	9.0%
Total Levy Operations	3.7%	20.7%	2.9%	0.8%
Rate Supported Programs	7.7%	17.7%	3.0%	4.8%
Grand Total	3.9%	20.6%	2.9%	1.0%

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

As of September 30, 2017, the City recorded an operating vacancy rate of 1.0 percent after gapping for an approved complement of 50,910.6 operating positions. The year-to-date vacancy rate for capital positions was 20.6 percent for an approved complement of 3,599.5 positions.

Figure 4: 2017 Year-End Projected Vacancy Rate

Program/Agency	2017 Year-End Projection			
	Operating	Capital	Budgeted	Operating* Vacancy

	Vacancy %	Vacancy %	Gapping %	Rate (After Gapping)
City Operations	2.7%	17.1%	2.4%	0.3%
Agencies	2.8%	7.8%	3.4%	0.0%
Corporate Accounts**	9.0%	0.0%	0.0%	9.0%
Total Levy Operations	2.8%	10.9%	2.9%	0.0%
Rate Supported Programs	7.2%	7.7%	3.0%	4.3%
Grand Total	3.1%	10.9%	2.9%	0.2%

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

The year-end operating vacancy rate after gapping is projected to be 0.2 percent for an approved complement of 50,912.6 operating positions. The forecasted vacancy rate for capital positions is projected to be 10.9 percent for an approved complement of 3,461.5 positions.

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

Background Information

(November 20, 2017) Report and Appendices A to G from the Acting Chief Financial Officer on Operating Variance Report for the Nine Month Period Ended September 30, 2017
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-109257.pdf)
(November 13, 2017) Report from the Acting Chief Financial Officer on Operating Variance Report for the Nine Month Period Ended September 30, 2017 - Notice of Pending Report
(http://www.toronto.ca/legdocs/mmis/2017/bu/bgrd/backgroundfile-108954.pdf)

Communications

(November 24, 2017) Letter from Tim Maguire, President, Canadian Union of Public Employees (CUPE), Local 79 (BU.Supp.BU37.2.1)
(http://www.toronto.ca/legdocs/mmis/2017/bu/comm/communicationfile-74016.pdf)