



## STAFF REPORT INFORMATION ONLY

### Reserves and Reserve Funds Variance Report - December 31, 2006

|                          |  |
|--------------------------|--|
| <b>Date:</b>             | May 29, 2007   |
| <b>To:</b>               | Budget Committee                                     |
| <b>From:</b>             | Treasurer  |
| <b>Wards:</b>            | All  |
| <b>Reference Number:</b> | P:\2007\Internal Services\acc\bc07012acc (AFS #3810) |

#### **SUMMARY**

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The purpose of this report is to provide information on reserve and reserve fund balances as at December 31, 2006 and activity in reserves and reserve funds during the year then ended.

The actual reserves and reserve funds balances at December 31<sup>st</sup>, 2006 total \$1.7 billion (\$1.5 billion – December 31, 2005). Reserves and reserve funds were projected to decline by \$249 million during the year to a balance of \$1.3 billion. The \$400 million difference is due to lower than expected capital expenditures that were to be financed by reserves and reserve funds and higher than expected transfers from operating to reserves and reserve funds.

#### **Financial Impact**

There are no financial implications contained in this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

#### **DECISION HISTORY**

This report has been provided to the Budget Committee as part of the quarterly budget variance reporting process and incorporates format and content recommendations made by the Committee and Council over several budget cycles.

## ISSUE BACKGROUND

Summaries of the actual reserve and reserve funds balances as at December 31, 2006 and at December 31, 2005 and year-end balances based on 2006 approved budget can be found in Tables 1 and 2. Information on the nature and authority for transfers made to and draws made from reserves and reserve funds during the fourth quarter of 2006 that were approved outside of the 2006 operating and capital budgets are detailed in Tables 3 and 4.

Detailed information on each reserve and reserve fund including the date of the last transaction processed (other than interest allocations) and the amount of uncommitted funds is provided in appendices A, B and C.

## COMMENTS

### 2006 Year-end Balance Summary

| <b>TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES ( \$ MILLIONS)</b> |                                  |                                  |                                 |
|--|----------------------------------|----------------------------------|---------------------------------|
| <b>Description</b>   | <b>Dec. 31, 2005<br/>Actuals</b> | <b>Dec. 31, 2006<br/>Actuals</b> | <b>Dec. 31, 2006<br/>Budget</b> |
| <b>Reserves</b>  |                                  |                                  |                                 |
| Corporate  | 181.7                            | 216.7                            | 177.8                           |
| Water / Wastewater   | 14.8                             | 22.2                             | 5.1                             |
|  | 196.5                            | 238.9                            | 182.9                           |
| <b>Council directed<br/>reserve funds</b>  |                                  |                                  |                                 |
| Employee benefits  | 227.0                            | 238.2                            | 218.6                           |
| Stabilization  | 123.0                            | 215.4                            | 176.1                           |
| Corporate  | 216.1                            | 205.4                            | 180.0                           |
| Community initiatives  | 54.7                             | 81.9                             | 40.4                            |
| State of good repair   | 71.5                             | 77.7                             | 71.8                            |
|  | 692.3                            | 818.6                            | 686.9                           |
| <b>Total Reserves and<br/>Council directed<br/>reserve funds</b>                 | <b>888.8</b>                     | <b>1,057.5</b>                   | <b>869.8</b>                    |

| <b>TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)</b> |                                  |                                  |                                 |
|---|----------------------------------|----------------------------------|---------------------------------|
| <b>Description</b>  | <b>Dec. 31, 2005<br/>Actuals</b> | <b>Dec. 31, 2006<br/>Actuals</b> | <b>Dec. 31, 2006<br/>Budget</b> |
| <b>Obligatory reserve funds</b>                               |                                  |                                  |                                 |
| Development charges   | 190.3                            | 194.6                            | 114.3                           |
| Community services  | 105.3                            | 71.1                             | 69.8                            |
| Parkland acquisition  | 72.9                             | 70.6                             | 60.6                            |
| Third party agreements  | 83.6                             | 110.4                            | 103.1                           |
| State of good repair  | 24.9                             | 21.9                             | 21.5                            |
| Water/wastewater  | 155.8                            | 153.6                            | 38.9                            |
| Parking Authority   | 6.4                              | 6.8                              | 1.6                             |
| Planning Act  | 7.0                              | 8.6                              | 6.5                             |
| Donations   | 2.5                              | 2.9                              | 2.4                             |
| Total Obligatory reserve funds                                | 648.7                            | 640.5                            | 418.7                           |
| <b>TOTAL all</b>  | <b>1,537.5</b>                   | <b>1,698.0</b>                   | <b>1,288.5</b>                  |

**TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS  
FROM OPERATING & CAPITAL (\$MILLIONS)**

| Description                                   | Amount | Comments   |
|---|--------|--|
| <b>Reserves</b>                               |        |  |
| Vehicle & Equipment Replacement               | .151   | Transfer of the \$151,000 eligible portion of the Arenas' net surpluses from 2003-2005, according to Policy & Finance Committee Report 7, Clause 64, adopted by Council on Sep 25, 26 and 27, 2006.            |
|   | .151   |  |
| <b>Council directed reserve funds</b>         |        |  |
| Social Housing Stabilization                  | .500   | Contribution of \$500,000 from Shelter & Housing to fund two temporary positions in 2007-2009, as per Policy & Finance Committee Report 4, Clause 26, adopted by Council May 23, 24, and 25, 2006.             |
| Union Station                                 | 1.277  | Transfer of the \$1.3 million 2006 net operating revenue for Union Station as per Administration Committee Report 8, Clause 1, adopted by Council July 22, 23, and 24, 2003.                                   |
| Light Emitting Diode (LED)                    | .850   | Transfer of \$850,000 in 2006 LED traffic signal lamp energy savings from Transportation Services according to Policy & Finance Committee Report 7, Clause 75, adopted by Council on Sep 25, 26, and 27, 2006. |
|   | 2.627  |  |
| <b>Obligatory reserve funds</b>               |        |  |
| Capital Revolving Fund for Affordable Housing | 1.200  | Return of \$1.2 million in unrequired 2005 funding for Let's Build program in Shelter & Housing.   |
|   | 1.200  |  |

| <b>TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS<br/>TO OPERATING &amp; CAPITAL (\$MILLIONS)</b> |               |   |
|---|---------------|---|
| <b>Description</b>  | <b>Amount</b> | <b>Comments</b>   |
| <b>Council directed<br/>reserve funds</b>   |               |   |
| Provincial Offences<br>Courts Stabilization   | .030          | Funding of \$30,000 expense from 2002 for<br>Courthouse project incorrectly billed to the Toronto<br>Community Housing Corporation. |
|   | .030          |   |

### **Detailed Reserve and Reserve Fund Account Highlights**

Appendices A, B and C to this report provide detailed balances and activity for the year ended December 31, 2006. Appendix A provides details for reserves, Appendix B provides details for Council directed reserve funds and Appendix C provides details for Obligatory reserve funds.

Transactions during the year relate primarily to the following:

- Interest earned on reserve funds
- Receipt of contributions designated for reserve funds from third parties (e.g. development charges)
- Entries which fund or draw from stabilization reserves and reserve funds
- Funding of actual operating and capital expenditures as provided for in 2006 budgets
- Funding of operating accounts for refunds or payments where proceeds had been originally credited to a reserve fund
- Funding for property acquisitions and disposals

Most variances between budgeted and actual transfers to/from operating funds result from funding requirements that are based on actual expenditure results for the year rather than budgeted amounts. Similarly, variances between budgeted and actual transfers to capital funds relate to the funding of capital projects (e.g. wastewater, vehicles, land, roads) based on actual expenditures incurred.

Amounts reported as uncommitted funds have been determined by reducing actual balances in reserves and reserve funds as at December 31 by outstanding funding obligations as at that date which are based on 2006 to 2010 financing requirements identified in the 2006 capital budget, and updates subsequently approved by Council.

Funding commitments for certain capital projects in the 2006-2010 period are dependent on funds not currently available in reserves and reserve funds but expected to be generated in 2006 and subsequent years. Under the City's current practice, future

expenses (commitments) are reflected in the schedule but projected revenues are not, which can result in some reserve fund balances being over committed and reflected as negative uncommitted balances.

The over committed (negative uncommitted) fund balances in the Vehicle and Equipment Replacement Reserve for Water and Wastewater (\$0.5 million) and the reserve fund for Water and Wastewater Capital (\$449.7 million) are expected to be offset by operating contributions from the Water and Wastewater programs in future years. The negative uncommitted balance in the Toronto Public Library Capital Projects Reserve Fund (\$0.06 million) is expected to be offset by contributions from the Toronto Public Library in later years arising from operational savings. The negative uncommitted balance in the Parking Payment in Lieu Reserve Fund (\$0.6 million) is expected to be offset by future contributions from developers.

## **Reserves**

Year-end balances for reserves increased by \$42.4 million from \$196.5 million at the beginning of the year to \$238.9 million at December 31, 2006, as funding of \$77.5 million transferred from operating programs and \$19.8 million transferred from reserve funds exceeded funding required of \$54.9 million for capital project expenditures. This resulted primarily from the deferral of \$42.9 million in capital funding required for the replacement of vehicles and equipment from the Vehicle & Equipment Replacement reserve.

## **Reserve Funds**

Council directed reserve fund balances were budgeted to decrease by \$5.4 million by December 31, 2006. However, Council directed reserve fund balances actually increased by \$126.3 million from \$692.3 million at the beginning of the year to \$818.6 million at December 31, 2006. This \$126.3 million increase occurred mostly as a result of the following activities:

- (a) The transfer of \$32.7 million in 2005/2006 provincial funding for the Best Start program to the Child Care Expansion reserve fund.
- (b) Savings of \$26.4 million in the required draw from the Social Services Stabilization Reserve Fund due to a lower than budgeted caseload, cost containment measures, and prior year GTA pooling revenue.
- (c) Savings of \$12.6 million in the required draw from the Social Housing Stabilization Reserve Fund because of delays in finalizing the legal agreements with social housing providers.
- (d) Funding not required in 2006 on delayed or deferred capital projects of \$30.3 million

Obligatory reserve fund balances were budgeted to decrease by \$230.0 million by the end of December 31, 2006. However, the actual decrease in Obligatory reserve fund balances was only \$8.2 million, from \$648.7 million at the beginning of the year to \$640.5 million at December 31, 2006. The difference between the \$8.2 million actual decrease and the \$230.0 million budgeted decrease is primarily attributable to the following:

- (a) Development charges and parks levies exceeding budget by \$15.3 million.
- (b) Funding of \$194.6 million for capital projects not required in 2006 because of the delay or deferral of capital spending.

Total reserve and reserve fund year-end balances increased by \$160.5 million during 2006 as compared to a budgeted decrease of \$249.0 million. This difference is mainly due to the delay or deferral of capital spending from 2006 to 2007 and the transfer of \$32.7 million in 2005/2006 provincial funding for the Best Start program to the Child Care Expansion reserve fund.

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## **SIGNATURE**

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Cam Weldon  
Treasurer

## **ATTACHMENTS**

- Appendix A: Reserves as of December 31, 2006
- Appendix B: Council Directed Reserve Funds as of December 31, 2006
- Appendix C: Obligatory Reserve Funds as of December 31, 2006