



**STAFF REPORT  
INFORMATION ONLY**

**Reserves and Reserve Funds Variance Report –  
June 30, 2007**

<b>Date:</b>	Aug 31, 2007
<b>To:</b>	Budget Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\acc\bc07016acc (AFS #3394)

**SUMMARY**

The purpose of this report is to provide information on reserve and reserve fund balances as at June 30, 2007, activity in reserves and reserve funds during the first half of 2007, and projected year-end balances.

As was indicated in the Deputy City Manager and Chief Financial Officer’s report of April 13, 2007 entitled ‘2007 Operating Budget – Required Reserve Contribution to Balance the 2007 Budget’, the vast majority of these funds are committed to fund capital projects identified in the five year capital plan, and future known liabilities, leaving only a small portion available for discretionary spending. Most notably, the full balance of the Vehicle and Equipment Replacement Reserve is required to meet future vehicle and equipment replacements, the balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Water and Wastewater Capital, Employee Benefits, Insurance) are not adequate to cover the future obligations for which they have been set aside.

**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 reserves and reserve funds balances as at June 30, 2007, and December 31, 2006, can be found in Tables 1 and 2, along with projections of their balances to December 31, 2007. Information on the nature and authority for transfers made to and draws made from reserves and reserve funds during the first half of 2007 that were approved outside of the 2007 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) is shown in appendices A, B and C.

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## COMMENTS

### 2007 First Half Balance Summary:

TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES ( \$ MILLIONS)			
Description	Dec. 31, 2006 Actuals	June 30, 2007 Actuals	Dec. 31, 2007 Projected
<b>Reserves</b>			
Corporate	216.7	224.1	156.1
Water / Wastewater	22.2	23.3	15.3
	238.9	247.4	171.4
<b>Council directed reserve funds</b>			
Employee benefits	238.2	233.2	223.2
Stabilization	215.4	222.4	60.2
Corporate	205.4	214.9	379.6
Community initiatives	81.9	92.8	54.6
State of good repair	77.7	83.0	56.4
	818.6	846.3	774.0
<b>Total Reserves and Council directed reserve funds</b>	<b>1,057.5</b>	<b>1,093.7</b>	<b>945.4</b>

TABLE 2 OBLIGATORY RESERVE FUND BALANCES ( \$ MILLIONS)			
Description	Dec. 31, 2006 Actuals	June 30, 2007 Actuals	Dec. 31, 2007 Projected
<b>Obligatory reserve funds</b>			
Development charges	194.6	192.3	151.9
Community services	71.1	72.2	52.8
Parkland acquisition	70.6	75.0	62.6
Third party agreements	110.4	108.8	108.8
State of good repair	21.9	20.1	21.6
Water/wastewater	153.6	249.6	48.6
Parking Authority	6.8	7.5	2.9
Planning Act	8.6	8.8	8.8
Donations	2.9	3.0	2.8
Total Obligatory reserve funds	640.5	737.3	460.8
<b>TOTAL all</b>	<b>1,698.0</b>	<b>1,831.0</b>	<b>1,406.2</b>

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

Description	Amount	Comments
<b>Reserves</b>		
Vehicle & Equipment	.172	Auction proceeds
Replacement	.050	Insurance recoveries
	1.264	Return of \$1.264 million in unrequired funding for Fleet capital projects.
	1.486	
<b>Council directed reserve funds</b>		
Child Care Capital Cost	.209	Return of \$209,000 in unrequired funding for Children's Services capital project.
Capital Financing	.134	Return of \$134,000 in unrequired funding for Finance capital project.
	.343	
<b>Obligatory reserve funds</b>		
Parking Payment in Lieu	.437	Return of \$437,000 in unrequired funding for Parking capital project.
Racquet Sports - Scarborough	.115	Correction of membership fees for L'amoreaux Tennis Centre transferred to reserve fund in 2005 and 2006.
	.552	

TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
<b>Reserves</b>		
Vehicle & Equipment Replacement	.226	Completion of \$226,000 in funding (budgeted in prior years) upon closing of Fleet capital projects.
	.226	
<b>Obligatory reserve funds</b>		
Golden Mile Transportation System Improvement	1.110	Refund of \$1,110,000 excess Transportation System Improvement contribution for the Golden Mile Employment District as provided by Policy & Finance Committee Report 9, Clause 8, adopted by Council on Jun 26, 27, and 28, 2001.
	1.110	

### Detailed Reserve and Reserve Fund Account Highlights

Transfers budgeted to and from reserves and reserve funds agree with amounts included in capital and operating budgets approved by Council in March and April 2007, as well as other transfers subsequently approved by Council. Reserve fund interest is budgeted based on estimated monthly balances in reserve funds and an interest rate of 4.6 percent projected on the City's investment portfolio for 2007. Other reserve fund revenues are in the form of contributions (e.g. development charge fees, proceeds from property sales) and are budgeted in consultation with appropriate divisions based on estimates of economic activity relating to those sources.

Appendices A, B and C to this report provide detailed balances and activity for the first half of 2007. 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)
- Funding of actual operating and capital expenditures as provided for in 2007 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. As at June 30, most 2007 capital projects have not been completed and will require funding in the remaining months of the year.

## **Reserves**

Reserve balances increased by \$8.5 million from \$238.9 million at the beginning of the year to \$247.4 million at June 30, 2007, as funding of \$24.4 million transferred from operating programs exceeded funding required of \$15.9 million for capital project expenditures.

## **Reserve Funds**

Council Directed reserve fund balances increased by \$27.7 million from \$818.6 million at the beginning of the year to \$846.3 million at June 30, 2007. The principal reasons for this increase are:

- (a) The transfer of an additional \$11.5 million in unspent 2005/2006 provincial funding for the Best Start program to the Child Care Expansion Reserve Fund.
- (b) The receipt of \$4.7 million in Municipal Access Fees from Toronto Hydro, which was credited to the Road and Sidewalk Repair Reserve Fund.

Obligatory reserve fund balances increased by \$96.8 million from \$640.5 million at the beginning of the year to \$737.3 million at June 30, 2007. This increase was mostly due to the net transfer of \$92.1 million into the Water and Wastewater Capital Reserve Fund from operating during the first half, for the water and wastewater capital program.

Total reserve and reserve fund balances have increased by \$133.0 million during the first six months of 2007 from \$1,698.0 million at the beginning of the year to \$1,831.0 million at June 30, 2007. These balances are projected to decline by \$424.8 million in the last half of 2007 upon the completion of funding expenditures approved in the 2007 operating and capital budgets.

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## SIGNATURE



Cam Weldon  
Treasurer

## ATTACHMENTS

Appendix A: Reserves as of June 30, 2007

Appendix B: Council Directed Reserve Funds as of June 30, 2007

Appendix C: Obligatory Reserve Funds as of June 30, 2007