

Reserve and Reserve Funds Variance Report September 30, 2006

Date:	January 12, 2007
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2007\Internal Services\ACC\bc07002acc (AFS#3426)

SUMMARY

The purpose of this report is to provide detailed & summarized balances and transfer activity for the City's reserve and reserve funds for the first nine months of 2006 and projected year-end balances.

The reserves and reserve funds balances at September 30th, 2006 total \$1.7 billion and are projected to decline by \$410.8 million during the fourth quarter of 2006 resulting in a year-end balance of \$1.3 billion (\$1.5. billion – December 31, 2005). The planned use of reserves and reserve funds in 2006 continues the trend in recent years to draw (on a net basis) from existing reserves and reserve funds to finance capital and operating expenditures.

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 September 30, 2006 and December 31, 2005 and projections of their balances to year end 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 third 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 Third Quarter Balance Summary:

TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2005 Actuals	Sept. 30, 2006 Actuals	Dec. 31, 2006 Projected
Reserves			
Corporate	181.7	225.2	158.2
Water / Wastewater	14.8	17.7	6.7
	196.5	242.9	164.9
Council directed reserve funds			
Employee benefits	227.0	228.8	218.5
Stabilization	123.0	232.9	176.6
Corporate	216.2	211.6	202.0
Community initiatives	54.6	81.5	41.4
State of good repair	73.6	76.6	75.9
	694.4	831.4	714.4
Total Reserves and Council directed reserve funds	890.9	1,074.3	879.3

TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2005 Actuals	Sept. 30, 2006 Actuals	Dec. 31, 2006 Projected
Obligatory reserve funds			
Development charges	190.3	190.3	130.9
Community services	105.3	97.2	73.8
Parkland acquisition	72.9	75.8	63.1
Third party agreements	83.6	100.5	103.3
State of good repair	22.8	18.4	17.5
Water/wastewater	155.8	154.0	37.8
Parking Authority	6.4	6.8	1.6
Planning Act	7.0	7.8	7.4
Donations	2.5	3.0	2.6
Total Obligatory reserve funds	646.6	653.8	438.0
TOTAL all	1,537.5	1,728.1	1,317.3

TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL		
Description	Amount (\$000)	Comments
Reserves		
Vehicle & Equipment Replacement	22.0	Insurance recoveries
	654.6	Auction proceeds
	37.2	Ambulance rentals
	44.0	Provincial Sales Tax refund for hybrid vehicle purchases.
	757.8	
Council directed reserve funds		
Land Acquisition	8.0	Return of funding from Court Facilities projects due to GST savings.
Emergency Technology Acquisition	445.6	Return of funding upon closing of IT projects.
	453.6	
Obligatory reserve funds		
Water/Wastewater Capital	9.4	Return of funding upon closing of water and wastewater capital projects.
	9.4	

TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL		
Description	Amount (\$000)	Comments
Council directed reserve funds		
Employee Benefits	44.0	Cash flow advance to George Bell Arena as authorized by Policy & Finance Report 6, Clause 14, adopted by Council July 25, 26, and 27, 2006.
Hummingbird Stabilization	8.5	Reimbursements to Hummingbird for purchase of OMERS omission period contributions in accordance with Policy & Finance Committee Report 4, Clause 6, adopted by Council on May 18, 19 and 20, 2004.
Animal Transaction	24.3	Funding of 2005 deficit in animal transactions at the Toronto Zoo, as per Executive Committee Report 26, Clause 14, adopted by former Metro Council, Oct 11, 1985.
	76.8	
Obligatory reserve funds		
Better Building Partnership	100.0	Loans for the Toronto Hydro Conservation and Demand Management (CDM) plan as approved by Policy and Finance Committee Report 5, Clause 29, adopted by Council on June 27, 28, and 29, 2006.
Zoo Endangered Species	36.7	Funding of 2005 endangered species projects at the Toronto Zoo, as per Management Committee Report 14, Clause 17, adopted by former Metro Council, Apr 20, 1994.
	136.7	

Detailed Reserve and Reserve Fund Account Highlights

Appendices A, B and C to this report provide detailed balances and activity for the first nine months of 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 third quarter of 2006 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 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. The same is true for variances between budgeted and actual transfers to capital funds. As at September 30, most 2006 capital projects (e.g. water & wastewater, vehicles, roads) have not been completed and will require funding in the remaining months of the year.

Amounts reported as uncommitted funds have been determined by reducing actual balances in reserves and reserve funds as at September 30 by outstanding funding obligations as at that date which are based on budgeted 2006 operating transfers, 2006 to 2010 financing requirements identified in the 2006 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 uncommitted funds being reflected as negative balances.

The negative uncommitted fund balances in the Vehicle and Equipment Replacement Reserve for Water and Wastewater and the reserve fund for Water and Wastewater Capital are expected to be offset by operating contributions from the Water and Wastewater programs in future years. The negative uncommitted balance in the Provincial Gas Tax Revenues for Public Transit Reserve Fund is expected to be eliminated by Provincial Gas Tax revenues to be received in the last three months of 2006, while the negative uncommitted balance in the Toronto Public Library Capital Projects Reserve Fund is expected to be offset by contributions from the Toronto Public Library in later years arising from operational savings.

Reserves:

Reserve balances increased by \$46.4 million from \$196.5 million at the beginning of the year to \$242.9 million at September 30, 2006, as funding of \$73.7 million transferred from operating programs and reserve funds exceeded funding required of \$27.3 million for capital project expenditures.

Reserve Funds:

Council directed reserve fund balances increased by \$137.0 million from \$694.4 million at the beginning of the year to \$831.4 million at September 30, 2006. The \$137.0 million increase is attributed primarily to the receipt of \$100.0 million in provincial subsidies for

the TTC, which was credited to the TTC Stabilization Reserve Fund, and the transfer of \$32.7 million in 2005/2006 provincial funding for the Best Start program to the Child Care Expansion reserve fund.

Obligatory reserve fund balances increased by \$7.2 million from \$646.6 million at the beginning of the year to \$653.8 million at September 30, 2006. The \$7.2 million increase includes the receipt of \$17.7 million in contributions, credited to the OMERS Type 3 Reserve Fund, and net transfers of \$8.6 million out of the Water and Wastewater Capital Reserve Fund during the first nine months of 2006 for the water and wastewater capital program.

Total reserve and reserve fund balances as at December 31, 2005 have increased by \$190.6 million during the first nine months of 2006. These balances are projected to decline by \$410.8 million in the fourth quarter of 2006 upon the completion of funding expenditures approved in 2006 operating and capital budgets.

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SIGNATURE

Cam Weldon
Treasurer

ATTACHMENTS

Appendix A: Reserves as of September 30, 2006
Appendix B: Council Directed Reserve Funds as of September 30, 2006
Appendix C: Obligatory Reserve Funds as of September 30, 2006