



## STAFF REPORT INFORMATION ONLY

### Reserves and Reserve Funds Variance Report – September 30, 2007

<b>Date:</b>	October 30, 2007
<b>To:</b>	Budget Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2007\Internal Services\acc\bc07020acc (AFS# 3395)

#### **SUMMARY**

---

The purpose of this report is to provide information on reserve and reserve fund balances as at September 30, 2007, activity in reserves and reserve funds during the third quarter of 2007, and projected year-end balances. The vast majority of these funds have been committed to fund capital projects and future known liabilities, leaving minimal amounts for discretionary spending.

#### **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 September 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 third quarter 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.

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.

## COMMENTS

### 2007 Third Quarter Balance Summary:

<b>TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES ( \$ MILLIONS)</b>			
<b>Description</b>	<b>Dec. 31, 2006 Actuals</b>	<b>Sept. 30, 2007 Actuals</b>	<b>Dec. 31, 2007 Projected</b>
<b>Reserves</b>			
Corporate	216.7	219.6	156.2
Water / Wastewater	22.2	22.4	15.3
	238.9	242.0	171.5
<b>Council directed reserve funds</b>			
Employee benefits	238.2	227.8	222.6
Stabilization	215.4	123.9	60.2
Corporate	205.3	235.4	373.3
Community initiatives	81.9	119.4	54.4
State of good repair	77.7	91.3	57.5
	818.5	797.8	768.0
<b>Total Reserves and Council directed reserve funds</b>	<b>1,057.4</b>	<b>1,039.8</b>	<b>939.5</b>

<b>TABLE 2 OBLIGATORY RESERVE FUND BALANCES ( \$ MILLIONS)</b>			
<b>Description</b>	<b>Dec. 31, 2006 Actuals</b>	<b>Sept. 30, 2007 Actuals</b>	<b>Dec. 31, 2007 Projected</b>
<b>Obligatory reserve funds</b>			
Development charges	194.6	208.1	152.6
Community services	71.1	71.8	52.8
Parkland acquisition	70.6	76.6	59.3
Third party agreements	110.4	50.4	108.8
State of good repair	21.9	20.2	21.6
Water/wastewater	153.6	263.7	42.9
Parking Authority	6.8	7.6	2.9
Planning Act	8.6	8.8	8.8
Donations	2.9	3.1	2.8
Total Obligatory reserve funds	640.5	710.3	452.5
<b>TOTAL all</b>	<b>1,697.9</b>	<b>1,750.1</b>	<b>1,392.0</b>

<b>TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING &amp; CAPITAL (\$MILLIONS)</b>		
<b>Description</b>	<b>Amount</b>	<b>Comments</b>
<b>Reserves</b>		
Vehicle & Equipment Replacement	.040	Refund of Provincial Sales Tax for gas/electric hybrid vehicles.
	.005	Insurance recoveries.
	.045	
<b>Council directed reserve funds</b>		
Child Care Capital Cost	.209	Return of \$209,000 in unrequired funding for Children's Services capital project.
	.209	
<b>Obligatory reserve funds</b>		
Water & Wastewater	.038	Return of \$38,000 in unrequired funding for Water & Wastewater capital projects.
	.038	

<b>TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING &amp; CAPITAL (\$MILLIONS)</b>		
<b>Description</b>	<b>Amount</b>	<b>Comments</b>
<b>Council directed reserve funds</b>		
Child Care Capital Cost	.125	Funding of \$125,000 loan to Thorncliffe Park Day Care for housing program as provided by Item EX10.30 of the Executive Committee, adopted by Council on July 16, 17, 18, and 19, 2007.
	.125	
<b>Obligatory reserve funds</b>		
Parkland Acquisition / New Development	.092	Completion of \$92,000 in funding (budgeted in prior years) upon closing of Parks & Recreation capital project
Police OMERS Type 3	75.266	Withdrawal of the \$75,266,000 balance by the Toronto Police Association according to Policy & Finance Committee Report 6, Clause 6, adopted by Council on July 20, 21, and 22, 2004.
	75.358	

### **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 third quarter 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 September 30, most 2007 capital projects have not been completed and will require funding in the remaining months of the year.

During the third quarter, 23 Council Directed reserve funds (e.g. Tourism Events, Curling Rinks, Ski Equipment) that were previously recommended to be depleted and closed (Policy and Finance Committee Report 2, Clause 1, adopted by Council March 29 and 30, 2006) because of inactivity or redundancy, had their year to date interest and outstanding beginning balances reversed to allow for closure. Since these 23 reserve funds now have no balances and activity for the year, they have been removed from Appendix B of this report, which has had the effect of reducing the beginning balance of Council Directed and overall reserve funds by \$120,400.

## **Reserves**

Reserve balances increased by \$3.1 million from \$238.9 million at the beginning of the year to \$242.0 million at September 30, 2007, as funding of \$34.8 million transferred from operating programs exceeded funding required of \$31.7 million for capital project expenditures.

## **Reserve Funds**

Council Directed reserve fund balances decreased by \$20.7 million from \$818.5 million at the beginning of the year to \$797.8 million at September 30, 2007. This decrease was mostly because net transfers to operating and capital of \$101.1 million exceeded contributions of \$50.9 million and interest of \$28.6 million. The \$50.9 million in contributions to Council Directed reserve funds consists of the following:

- (a) The receipt of \$26.7 million in provincial funding for the Federal Housing Trust Fund Provincial Delivering Opportunities for Ontario Renters Initiative (DOOR), which was credited to the Capital Revolving Fund for Affordable Housing Reserve Fund.
- (b) 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.
- (c) The contribution of \$8.0 million in unclaimed Municipal Road Damage deposits to the Road and Sidewalk Repair Reserve Fund.
- (d) 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 \$69.8 million from \$640.5 million at the beginning of the year to \$710.3 million at September 30, 2007. This increase was primarily due to the net transfer of \$103.3 million to the Water and Wastewater Capital Reserve Funds from operating, and the receipt of development charges and parks levies totalling \$33.8 million, which offset a \$75.3 million withdrawal from the Police OMERS Type 3 Reserve Fund by the Toronto Police Association.

Total reserve and reserve fund balances have increased by \$52.2 million during the first nine months of 2007 from \$1,697.9 million at the beginning of the year to \$1,750.1 million at September 30, 2007. These balances are projected to decline by \$358.1 million in the last quarter of 2007 upon the completion of funding expenditures approved in the 2007 operating and capital budgets.

## **CONTACT**

Mo Lewis  
Director, Accounting Services  
Tel: 416-397-4438  
Fax: 416-392-8003  
Email: [molewis@toronto.ca](mailto:molewis@toronto.ca)

Shairoz Murji  
Manager, Corporate Financial Reporting  
Tel: 416-397-5829  
Fax: 416-397-0834  
Email: [smurji@toronto.ca](mailto:smurji@toronto.ca)

## **SIGNATURE**

---

Cam Weldon  
Treasurer

## **ATTACHMENTS**

Appendix A: Reserves as of September 30, 2007

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

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