

2007 Sinking Fund Surplus

Date:	October 31, 2007
To:	Budget Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\bc07048Cf – et (AFS #5892)

SUMMARY

This report requests Council approval for payment of the 2007 sinking fund surplus in order to fulfil the legislative requirements of the *City of Toronto Act, 2006*.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends that:

- (1) Council approve payment of the tax-supported sinking fund surplus of \$4,535,783.45 declared by the Sinking Fund Committee and these funds be applied to the City's capital financing requirements;
- (2) Council approve payment of the sinking fund surplus of \$1,591,883.29 attributable to the Toronto District School Board that was declared by the Sinking Fund Committee and that these funds be remitted to the TDSB; and
- (3) the appropriate officials be authorized to take the necessary action to give effect thereto.

FINANCIAL IMPACT

The 2007 City portion of the sinking fund surplus of \$4,535,783.45 for tax-supported functions will be applied to finance capital expenditures in 2007. The Toronto District School Board (TDSB) will receive \$1,591,883.29 as their portion of the total sinking fund surplus of \$6,127,666.74

DECISION HISTORY

Council, at its meeting held on May 23rd, 24th and 25th, 2006 approved the payment of the 2006 sinking fund surplus of \$1,341,160.22 for City purposes and \$1,374,178.70 for the TDSB.

ISSUE BACKGROUND

The *City of Toronto Act, 2006* states that:

249. (1) No amount raised for a sinking or retirement fund of the City, including earnings or proceeds derived from the investment of those funds, shall be applied toward paying any part of the current or other expenditure of the City. 2006, c. 32, Sched. B, s. 48.

(2) Despite subsection (1), if the balance of a sinking or retirement fund, including any estimated revenue, as audited by the city auditor is or will be sufficient to entirely repay the principal of the debt for which the fund was established on the date or dates the principal becomes due, the City may apply any surplus in the fund to one or both of the following purposes:

1. Repayment of the principal and interest of any other sinking or retirement fund.
2. Payment for any capital expenditure of the City. 2006, c. 32, Sched. B, s. 48.

When the City of Toronto issues debentures, the *City of Toronto Act, 2006* requires that the principal repayment must be amortized over the term-to-maturity of the debenture or an annual amount be contributed to a sinking fund. Sinking funds are required and established to ensure that adequate financing is available at a debenture's maturity. Currently, the City has three separate sinking fund portfolios in support of sixteen individual debenture issues. Each portfolio represents a specific actuarial rate of return that is used in calculating the required annual contribution. The Sinking Fund Committee, consisting of four citizen members appointed by Council with the Deputy City Manager and Chief Financial Officer as the committee chair, is responsible for the management of all sinking fund investment portfolios.

The Sinking Fund Committee declared and approved the payment of the 2007 sinking fund surplus, subject to Council approval in a telephone poll that was concluded on October 22, 2007.

City Council, at its meeting on April 23rd - 30th and May 1st - 2nd, 2001, in approving a report from the Chief Financial Officer and Treasurer, "Recommended 2001 - 2005 Tax Supported Capital Plan - Debt & Debt Service Impact", adopted the recommendation that "any surplus in the City's Sinking Fund accounts that is released in 2001 and future years be applied to the capital program to reduce borrowing".

As a trustee of these portfolios, the Sinking Fund Committee exercises its fiduciary responsibility by achieving the specified actuarial rates of return while ensuring compliance with legislative and investment policy limits. This is accomplished through the prudent investment management of the annual sinking fund contributions, the re-investment of interest income and achieving capital gains.

If the sinking fund earns in excess of its actuarial earnings assumption, a surplus is generated that is available to be paid to the City when the debenture matures as these excess funds are not required to retire the debt.

COMMENTS

On June 28, 1996, debenture by-law 71-96 was issued by the former Municipality of Metropolitan Toronto in the amount of \$100,000,000 for a term of 10 years. The debenture matured on June 28, 2006 and after \$100,000,000 was paid to the bondholders, \$2,978,415.96 remained as surplus due to the Sinking Fund earning in excess of the 6% actuarial interest rate that was established when the debenture was issued.

On September 27, 1996, debenture by-law 117-96 was issued by the former Municipality of Metropolitan Toronto in the amount of \$100,000,000 for a term of 10 years. The Metropolitan Toronto School Board received \$50,548,000 from the debenture proceeds and Metropolitan Toronto received \$49,452,000. The debenture matured on September 27, 2006 and after \$100,000,000 was paid to the bondholders, \$3,149,250.78 remained as surplus due to the Sinking Fund earning in excess of the 6% actuarial interest rate that was established when the debenture was issued.

During the course of their 2006 year-end audit of the Sinking Fund's financial statements, Ernst and Young certified that the assets of the Fund, in addition to future committed sinking fund deposits, are sufficient to repay the requirements of the debentures when they mature.

After considering the unappropriated surplus funds in the sinking fund, as well as projected surpluses that will be available in future years, it is being recommended that the 2007 tax-supported sinking fund surplus of \$4,535,783.45 be remitted to the City. As approved by Council in 2001, these funds will be used to partially offset 2007 capital financing requirements. Use of the funds in this manner is financially prudent, since it lowers the City's debt requirements and the associated debt charges in the operating budget.

As previously stated, the former Metropolitan Toronto had issued sinking fund debt on behalf of the TDSB. The interest and sinking fund deposits associated with these debentures have been funded by the TDSB and therefore it is being recommended that the associated surplus of \$1,591,883.29 be remitted to the TDSB.

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SIGNATURE

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