

Inventory of Major Deposits

Date:	June 23, 2008
To:	Audit Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\acc\ac08011acc (AFS# 5558)

SUMMARY

This report provides a summary of the major deposits held by the City as at April 25, 2008, describes how they are administered and outlines the steps taken by staff to improve the management of these deposits.

Financial Impact

There are no financial implications resulting from this report. The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

The Audit Committee requested this report at their June 15, 2007 meeting during their review of management letter points contained in the City of Toronto Audit Results - December 31, 2006 report prepared by the City's external Auditors, Ernst & Young. See <http://www.toronto.ca/legdocs/mmis/2007/au/bgrd/backgroundfile-4249.pdf>

This report is also provided in response to the use of deposits to protect the City's interests and minimization of risk as per the Accounts Receivable Collection Procedures and Credit Protocol report to the Administration Committee on June 6, 2006. See <http://www.toronto.ca/legdocs/2006/agendas/committees/adm/adm060606/it009.pdf>

COMMENTS

The City charges deposits to residential and commercial property owners for two purposes:

- a) *Performance/Security*: these deposits protect the City against property damage that may result from private work done by third parties on or near City property. The deposit is collected at the time the third party applies for permission to perform the work. Once the work is complete or a specified guarantee period has expired, the City is called to inspect. If there has been no damage to City property, the deposit is returned. If there is damage, the City can draw upon the deposit for repairs. Examples of this type of deposit include the Municipal Road Damage Deposit and the Tree Protection deposit.
- b) *Conditional*: these deposits are a prepayment for City services that are generally associated with new construction. These deposits are collected at the time the third party applies for permission to undertake the construction. Once the work is completed by the City, the deposit is taken into income as revenue. In some cases, the deposit represents a standard fee. Residential water and sewer installations are an example of a standard fee. In other cases, the deposit is an estimate of the cost to do the work and upon completion, a portion of the deposit may be returned or the third party may be billed an additional amount. This is how commercial/industrial water and wastewater installations are billed.

The City's major deposits as at April 25, 2008 are listed in *Appendix A*, segregated by category. Of the \$63.5 million in deposits held, 64% of them are for security against damage and the remaining 36% is for City services yet to be rendered. Approximately 65% of the deposits are from commercial/industrial organizations and 35% are from homeowners. Approximately 66% of the total deposits have been received from 2006 and are categorized as current.

	Commercial		Residential		Total		Current	
	\$ millions	%	\$ millions	%	\$ millions	%	\$ millions	%
Performance/Security	24.4	38%	16.2	26%	40.6	64%	23.6	58%
Conditional	17.3	27%	5.6	9%	22.9	36%	18.5	81%
Total	41.7	65%	21.8	35%	63.5	100%	42.1	66%

These deposits are received by the City based on authority obtained from the Planning Act, City of Toronto Act, Municipal Code, Building Code Act, City Council's direction and conditions of agreements or approvals.

There are three important elements to managing deposits:

1. The deposit amount should be sufficient to cover the risk of damage or the cost of services provided.

2. There should be a process in place or the deposit should be large enough to ensure that the City is contacted when required, either to inspect or to install.
3. There should be a process to resolve old unclaimed deposits either through refund or revenue recognition.

The Divisions that charge and collect deposits are generally satisfied that the amounts of the deposits are sufficient for their purposes. However, as the aging analysis in *Appendix B* indicates, further analysis and follow up is required for deposits that have been outstanding beyond the life cycle of work. A significant amount of the deposits (34%) are from 2005 and prior years.

There has been some recent work on some of the larger deposits charged as outlined below:

Municipal Road Damage Deposits

Prior to 2006, there was no process for addressing old, outstanding road damage deposits. In 2007 Transportation Services transferred approximately \$8.0 million in unclaimed road damage deposits dating from 2003 and prior years to the Road & Sidewalk Repair, Maintenance and Reconstruction Reserve Fund. This was accomplished by:

- Posting a notice in a major newspaper and on the City's website to advise the public on the refund process for unclaimed deposits within a 30 day notice period.
- Refunding unclaimed deposits to individuals who were able to demonstrate a legitimate claim.
- Authorizing the transfer of the remaining unclaimed funds to the reserve fund once the notice period expired.

On a go forward basis, City Council approved a formal process for the refund of road damage deposits. The application form now states that a request for the deposit refund must be submitted within two years from the date on which the deposit was originally made (or within a one-time extension period of up to two years). Once this period has expired, the deposit is forfeited and transferred to a Transportation Services Division account related to street maintenance and reconstruction. Transportation Services Division will attempt to conduct an inspection on a timely basis.

Transportation Services is developing further improvements to the process to address situations where a contractor makes the deposit on behalf of a property owner. Under the proposed process, to be implemented later in 2008, when a permit is issued, the applicant will be required to advise the City who the property owner is. Following the issuance of the permit, the City will notify the contractor/property owner by letter between 20 and 23 months advising that at the end of the 2 year period, the deposit will be forfeited unless an extension has been requested or a final inspection is arranged.

Tree Planting/Tree Protection Security Deposit

Parks, Forestry & Recreation's (PF&R) Tree Planting Security deposit is collected at time of approved site plan/developer agreement, a severance of property or front yard parking or driveway widening. The deposits ensure that the Owner acknowledges and agrees to plant new trees on City property and maintain them for a specified guarantee period (approximately two to three years). The Owner acknowledges that should any newly planted tree require replacement during the guarantee period, the tree shall be replaced immediately and a new guarantee period will begin. When the guarantee period has expired the Owner shall provide a written request for refund of the Tree Planting Security Deposit. Upon receipt of the written request and confirmation that the trees are well established and in excellent condition, PF&R will refund the owner the Tree Planting Security Deposit. The deposits are generally entirely refundable and the standard unit cost is \$583.00 per newly planted tree.

The Tree Protection Security deposit ensures that City-owned trees are protected during construction activity. The deposit amount for Tree Protection Security is based on the total estimated asset value of City-owned tree(s) to be protected, estimate removal costs, and the standard replacement costs. The deposit will be held until all demolition and/or construction on the site is complete and a specified guarantee period has expired. Upon receipt of a written request for refund, PF&R agrees to inspect the subject trees to ensure there has not been any demise in tree condition or infraction to the City's tree protection policy. The Division will retain the full or portion of the deposit depending on the type, duration and impact of any infractions. The property owner is then notified and PF&R will process the refund accordingly and/or transfer all or part of the deposit into a tree planting services account.

PF&R is currently undergoing a review of the process for refunding the deposits. The review to date indicates that the process is efficient and effective and a relatively small backlog of deposits is to be refunded.

Inactive Deposits

Fence deposits of approximately \$911,000 date back to pre-amalgamation and are no longer collected. Toronto Building has initiated a process similar to the one used for road damage deposits by posting a notice in a major newspaper and a community newspaper, as well as on the City's website, advising the public of the existence of these unclaimed deposits. The appropriate amounts will be refunded to depositors who can show a legitimate claim within 90 days from the posting period. The unclaimed amount of deposits after the 90 day period will be deemed forfeited and transferred to an appropriate City account. Toronto Building will report on the progress of the disposition to the Treasurer.

Next Steps

The Policy, Planning, Finance and Administration Division within Cluster B is leading an effort of staff from Transportation Services, Toronto Water, Technical Services and City Planning in the review of the deposits currently held by these Divisions and will address any deposit backlogs within these accounts. Accounting Services will monitor and assist as required and will report on the progress the Divisions are making through the Treasurer's report submitted to the Government Management Committee.

CONTACT

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SIGNATURE

Cam Weldon
Treasurer

ATTACHMENTS

Appendix A: Summary of Deposits as at April 25, 2008
Appendix B: Age Analysis of Deposits as at April 25, 2008