

Preliminary Reserves and Reserve Funds Variance Report – December 31, 2007

Date:	February 29, 2008
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\Acc\bc08002Acc – AFS#6253)

SUMMARY

The purpose of this report is to provide preliminary information on reserve and reserve fund balances as at December 31, 2007, and activity in reserves and reserve funds during the year then ended.

The reserves and reserve funds balances at December 31st, 2007 total \$2.4 billion (\$1.7 billion – December 31, 2006) and were projected to decline by \$261.4 million during the year resulting in a year-end balance of \$1.4 billion. The planned use of reserves and reserve funds in 2007 continues the trend in recent years to draw (on a net basis) from existing reserves and reserve funds to finance capital and operating expenditures.

The major reason for the increase in the reserve funds balance was the delay/deferral of capital spending from 2007 to 2008 and the receipt of \$499.4 million in Provincial and Federal funding to support the Toronto Transit Commission (TTC), which was credited to five newly created TTC reserve funds (Canadian Strategic Infrastructure, Public Transit Capital Trust, Ontario Bus Replacement Program, Transit Technology Infrastructure Program, Ontario Rolling Stock Infrastructure).

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 December 31, 2007, and December 31, 2006, and year-end balances based on 2007 approved budget 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 fourth 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

This report has been developed based on 2007 reserve and reserve fund information available as of February 8, 2008. The balances and summaries of transactions presented in the appendixes to this report are preliminary as our year-end closing is not fully completed as of this date.

2007 Year-end Preliminary Balance Summary:

TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2006 Actuals	Dec. 31, 2007 Actuals	Dec. 31, 2007 Projected
Reserves			
Corporate	216.7	213.9	167.3
Water / Wastewater	22.2	41.1	13.6
	238.9	255.0	180.9
Council directed reserve funds			
Employee benefits	238.2	240.2	221.9
Stabilization	215.4	85.5	69.6
Corporate	205.3	354.8	345.2
Community initiatives	81.9	117.8	63.1
State of good repair	77.7	87.0	57.6
	818.5	885.3	757.4
Total Reserves and Council directed reserve funds	1,057.4	1,140.3	938.3

TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2006 Actuals	Dec. 31, 2007 Actuals	Dec. 31, 2007 Projected
Obligatory reserve funds			
Development charges	194.6	210.7	173.7
Community services	71.1	52.5	40.4
Parkland acquisition	70.6	83.4	58.9
Third party agreements	110.4	608.9	109.1
State of good repair	21.9	60.1	58.5
Water/wastewater	153.6	200.7	43.1
Parking Authority	6.8	7.4	2.9
Planning Act	8.6	10.6	8.8
Donations	2.9	3.0	2.8
Total Obligatory reserve funds	640.5	1,237.3	498.2
TOTAL All	1,697.9	2,377.6	1,436.5

TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Reserves		
Vehicle & Equipment Replacement	1.321	Auction proceeds.
	.008	Insurance recoveries.
Water & Wastewater Stabilization	22.566	Transfer of \$22.566 million operating surplus from Water & Wastewater operations.
	23.895	
Council directed reserve funds		
Green Lane	.905	Transfer of \$905,000 Green Lane landfill site operating surplus as per Item EX7.3 of the Executive Committee, adopted by Council on April 23, and 24, 2007.
Child Care Expansion	.302	Return of \$302,000 in 2006 funding for Best Start program accrued expenses which were unspent in 2007.
	.012	Transfer of \$12,000 refund from daycare centre for funding received in 2006.
	1.219	
Obligatory reserve funds		
Building Code Act Service Improvement	1.830	Transfer of \$1.83 million in Toronto Building budget savings in implementing the Building Code Act as provided by Policy & Finance Committee Report 3, Clause 2, adopted by Council February 21, 22, 23, 24, 25, 28, and March 1, 2005.
Development Charges	.003	Return of \$3,000 in unrequired funding for Fire capital projects.
	.029	Return of \$29,000 in unrequired funding upon closing of Parks capital projects.
Parkland Acquisition / New Development	1.268	Return of \$1.268 million in unrequired funding upon closing of Parks capital projects.
National Child Benefit Support	1.970	Transfer of \$1.97 million in National Child Benefit Supplement savings in excess of program expenditures according to Community Services Committee Report 6, Clause 18, adopted by Council June 18, 19, 20, 2002.
	5.100	

TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Council directed reserve funds		
Capital Financing	5.993	Funding of \$5.993 million for TTC bus purchases as provided by Policy & Finance Committee Report 5, Clause 37, adopted by Council on May 17, 18, 19, 2005.
Land Acquisition	1.800	Funding of \$1.8 million for acquisition of lands located at Kennedy Road and McNicoll Avenue as provided by Policy & Finance Committee Report 7, Clause 29, adopted by Council on July 19, 20, 21, and 26, 2005.
Arbitration and Legal Awards	.080	Funding of \$80,000 for Pearson Airport Taxicab settlement according to Item LS7.3, Toronto City Council Decision Document, adopted by Council on September 26, 27, 2007.
	7.873	

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 year ended December 31, 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)
- Entries which draw from stabilization reserves and reserve funds

- 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.

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

Preliminary year-end balances for reserves increased by \$16.1 million from \$238.9 million at the beginning of the year to \$255.0 million at December 31, 2007, as funding of \$22.6 million transferred from water and wastewater operations and \$53.6 million from other programs exceeded funding required of \$60.1 million for capital project expenditures. This resulted primarily from the deferral of \$48.1 million in capital funding required for the replacement of vehicles and equipment from the Vehicle & Equipment Replacement reserve.

Reserve Funds

Council directed reserve fund balances were budgeted to decrease by \$61.1 million by December 31, 2007. However, Council directed reserve fund preliminary balances actually increased by \$66.8 million from \$818.5 million at the beginning of the year to \$885.3 million at December 31, 2007. The major reasons for this \$127.9 million difference between the \$66.8 million actual increase and the \$61.1 million budgeted decrease are the following:

- (a) The receipt of \$26.7 million in provincial funding for the joint 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) Savings of \$14.7 million in benefit expenses paid to Manulife from the amounts charged to operating programs and funded from the Employee Benefits Reserve Fund.
- (e) Funding of \$43.8 million for capital projects not required in 2007 because of the delay or deferral of capital spending.

Obligatory reserve fund balances were budgeted to decrease by \$142.3 million by the end of December 31, 2007. Nevertheless, preliminary Obligatory reserve fund balances actually increased by \$596.8 million, from \$640.5 million at the beginning of the year to \$1,237.3 million at December 31, 2007. The primary reasons for this \$739.1 million difference between the \$596.8 million actual increase and the \$142.3 million budgeted decrease are the following:

- (a) The receipt of \$499.4 million in Provincial and Federal funding to support the Toronto Transit Commission (TTC), which was credited to five newly created TTC reserve funds (Canadian Strategic Infrastructure, Public Transit Capital Trust, Ontario Bus Replacement Program, Transit Technology Infrastructure Program, Ontario Rolling Stock Infrastructure).
- (b) Development charges and parks levies exceeding budget by \$31.7 million.
- (c) The delay in funding of \$69.5 million in TTC capital projects from the Provincial Gas Tax Revenues for Public Transit reserve fund because the specific projects have not yet been identified by the TTC.
- (d) Funding of \$186.7 million for capital projects not required in 2007 because of the delay or deferral of capital spending.
- (e) The withdrawal of the \$75.3 million balance in the Police OMERS Type 3 reserve fund by the Toronto Police Association (which offset the above factors).

Total reserve and reserve fund preliminary year-end balances increased by \$679.7 million during 2007 as compared to a budgeted decrease of \$261.4 million. This difference is mostly due to the receipt of \$499.4 million in Provincial and Federal funding to support the Toronto Transit Commission, and the delay or deferral of capital spending from 2007 to 2008.

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SIGNATURE

Cam Weldon
Treasurer

ATTACHMENTS

Appendix A: Reserves as of December 31, 2007

Appendix B: Council Directed Reserve Funds as of December 31, 2007

Appendix C: Obligatory Reserve Funds as of December 31, 2007