



STAFF REPORT ACTION REQUIRED

Reserves and Reserve Funds Variance Report – June 30, 2008

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|--------------------------|---|
| Date: | September 4, 2008 |
| To: | Budget Committee |
| From: | Treasurer |
| Wards: | All |
| Reference Number: | P:\2008\Internal Services\Acc\bc08016Acc (AFS#8123) |

SUMMARY

The purpose of this report is to provide information on reserve and reserve fund balances as at June 30, 2008, activity in reserves and reserve funds during the first half of 2008, and projected year-end balances and also recommend an inter-reserve transfer for Fire Services. The vast majority of these funds have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending.

RECOMMENDATIONS

It is recommended by the Treasurer that:

1. Council approve a transfer of \$1.247 million from the Fire Equipment Reserve to the Fire Vehicle Reserve to account for the 2007 timing of vehicle expenditures and further, that Council approve a reimbursement of \$0.939 million to the Fire Equipment Reserve from the Fire Vehicle Reserve in order to meet equipment requirements in 2008.

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 June 30, 2008, and December 31, 2007, are shown in Tables 1 and 2, along with projections of their balances to December 31, 2008. Information on the nature and authority for transfers made to and draws made from reserves and reserve funds during the first half of 2008 that were approved outside of the 2008 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 mentioned in previous Reserve Fund Variance Reports, the vast majority of these funds are committed to fund capital projects identified in the five year capital plan, and known future 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

2008 First Half Balance Summary:

| TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS) | | | |
|--|----------------------------------|----------------------------------|------------------------------------|
| Description | Dec. 31, 2007 Actuals | June 30, 2008 Actuals | Dec. 31, 2008 Projected |
| Reserves | | | |
| Corporate | 213.9 | 248.4 | 203.0 |
| Water / Wastewater | 41.1 | 39.9 | 38.2 |
| Stabilization | 0.0 | 85.1 | 58.6 |
| Community Initiatives | 0.0 | 0.0 | 0.0 |
| Donations | 0.0 | 3.0 | 2.6 |
| | 255.0 | 376.4 | 302.4 |
| Council directed reserve funds | | | |
| Employee benefits | 240.0 | 214.9 | 226.3 |
| Stabilization | 85.2 | 0.0 | 0.0 |
| Corporate | 358.8 | 327.6 | 287.6 |
| Community initiatives | 116.9 | 111.9 | 90.8 |
| State of good repair | 121.6 | 122.8 | 111.6 |
| | 922.5 | 777.2 | 716.3 |
| Total Reserves and Council directed reserve funds | 1,177.5 | 1,153.6 | 1,018.7 |

| TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS) | | | |
|--|----------------------------------|----------------------------------|------------------------------------|
| Description | Dec. 31, 2007 Actuals | June 30, 2008 Actuals | Dec. 31, 2008 Projected |
| Obligatory reserve funds | | | |
| Development charges | 212.4 | 202.6 | 220.2 |
| Community services | 55.8 | 54.3 | 28.9 |
| Parkland Acq/New Devel | 83.5 | 87.1 | 62.2 |
| Third Party agreements | 33.5 | 25.1 | 30.6 |
| Public Transit Funds | 353.5 | 825.3 | 606.2 |
| State of Good Repair | 25.9 | 25.5 | 27.7 |
| Water/Wastewater | 195.9 | 288.7 | 125.4 |
| Parking Authority | 7.4 | 7.6 | 5.2 |
| Planning Act | 10.6 | 53.6 | 48.8 |
| Donations | 3.0 | 0.0 | 0.0 |
| Total Obligatory reserve funds | 981.5 | 1,569.8 | 1,155.2 |
| TOTAL All | 2,159.0 | 2,723.4 | 2,173.9 |

| TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS) | | |
|---|---------------|---|
| Description | Amount | Comments |
| Reserves | | |
| Vehicle & Equipment Replacement | .277 | Auction proceeds. |
| | .067 | Insurance recoveries. |
| | .344 | |
| Council directed reserve funds | | |
| Child Care Capital Cost | .041 | Return of \$41,000 in unrequired funding for Children's Services capital project. |
| | .041 | |

| TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS) | | |
|---|---------------|---|
| Description | Amount | Comments |
| Reserves | | |
| Vehicle & Equipment Replacement | .045 | Completion of \$45,000 in funding (budgeted in 2007) upon closing of City Clerks capital project. |
| | .045 | |
| Council directed reserve funds | | |
| Land Acquisition | .388 | Return of \$375,000 deposit plus interest to SNC-Lavalin upon termination of purchase agreement for 3326 Bloor St. West property. |
| Social Housing Stabilization | .061 | Funding of \$61,000 for two temporary staff positions for social housing as provided by Policy & Finance Committee Report 4, Clause 26, adopted by Council on May 23, 24 and 25, 2006. |
| | .449 | |
| Obligatory reserve funds | | |
| Better Building Partnership | 1.800 | Funding of \$1.8 million loan to the University of Toronto for energy efficiency retrofits for the downtown campus, as provided by Policy & Finance Committee Report 1, Clause 1, adopted by Council on July 6, 7, and 8, 1999. |
| Section 37 | .925 | Funding of \$925,000 for improvements to the 519 Church St. Community Centre budgeted in prior years. |
| | 2.725 | |

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 December 2007 and March 2008, respectively, as well as other subsequently approved transfers. 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 first six months of 2008. 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:

- 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 the 2008 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.

At its meeting of March 3, 4 and 5, 2008, Council adopted the report of item EX17.2 titled "Investment Earnings Policy and the Administration of Reserve Accounts" which provided new criteria for the establishment of reserve funds versus reserves. As a consequence of these new criteria, 59 reserve funds have been reclassified to reserves (refer to Appendix D) in this report and \$127.3 million in total balances of the old reserve fund accounts, being \$124.3 million from discretionary reserve funds and \$3.0 million from obligatory reserve funds, have been transferred to new reserve accounts.

The above Investment Earnings report also authorized the transfer of all the available funds collected under Sections 37 and 45 of the Planning Act to the Planning Act Reserve Fund Group to improve tracking and provide for the allocation of interest to these funds. During the second quarter, a total of \$49.9 million in identified Section 37 funds, being \$37.2 million from various City accounts and \$12.7 million from other Obligatory reserve funds, were transferred to a new Section 37 Reserve Fund in the Planning Act Reserve Fund Group. The balances of the Section 45 funds will be transferred to a new Section 45 Reserve Fund in the Planning Act Reserve Fund Group at a later date.

Additionally, the Investment Earnings report changed the policy for allocating interest to reserve funds. Interest is no longer allocated to reserve funds on a monthly basis. Instead, interest will be allocated to reserve funds once a year on November 30th, based on the reserve fund account's average balance. The rate to be used for the interest calculation (and budgeting in this report) is the 3 month Treasury bill rate estimated at the time of the preparation of the annual operating budget, which was 3.66% for 2008.

The main reason for the variances between budgeted and actual transfers to/from operating and capital is due to expenditures being funded on an actual basis. Additional funding will be provided in the remaining months of the year as expenditures are incurred. Furthermore, most operating transfers are processed on a quarterly basis beginning in the second quarter, so that the total amount transferred will not equal the budget amount until the end of the year.

Reserves

Reserve balances increased by \$121.4 million from \$255.0 million at the beginning of the year to \$376.4 million at June 30, 2008, principally because of the transfer of \$127.3 million to new reserves from the 59 reserve funds reclassified to reserves. This transfer was offset by net transfers to operating and capital of \$5.9 million from reserves.

Reserve Funds

Council directed reserve fund balances decreased by \$145.3 million from \$922.5 million at the beginning of the year to \$777.2 million at June 30, 2008. This decrease was mostly due to the following:

- (a) The transfer of \$124.3 million to new reserves from discretionary reserve funds according to the reclassifications required by the Investment Earnings report.
- (b) Net budgeted transfers of \$35.9 million to operating programs during the first half of the year.
- (c) The receipt of \$15.5 million in proceeds from land sales, credited to the Land Acquisition Reserve Fund, which offset the above transfers.

Obligatory reserve fund balances increased by \$588.3 million from \$981.5 million at the beginning of the year to \$1,569.8 million at June 30, 2008. This increase is mainly due to the following:

- (a) The receipt of \$450.1 million in Provincial transit funding which was credited to the MoveOntario 2020 Reserve Fund.
- (b) The transfer of \$37.2 million in identified Section 37 funds from various City accounts to the new Section 37 Reserve Fund within the Planning Act Reserve Fund Group.
- (c) The receipt of \$40.3 million in Provincial Gas Tax revenues, which was credited to the Provincial Gas Tax Revenues for Public Transit Reserve Fund.

Total reserve and reserve fund balances have increased by \$564.4 million during the first six months of 2008 from \$2,159.0 million at the beginning of the year to \$2,723.4 million at June 30, 2008. These balances are projected to decline by \$549.5 million in the last half of 2008 upon the completion of funding expenditures approved in the 2008 operating and capital budgets.

Fire Services Reserve Transfer

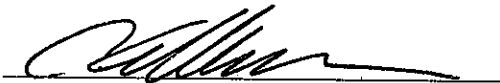
A transfer in the amount of \$1.247 million from the Fire Equipment Reserve to the Fire Vehicle Reserve is required to account for timing differences of cash flow commitments for actual vehicle purchases in 2007. In addition it is recommended that an amount of \$0.939 million be transferred from the Fire Vehicle Reserve to the Fire Equipment Reserve to meet equipment requirements in 2008.

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SIGNATURE



Cam Weldon
Treasurer

ATTACHMENTS

- Appendix A: Reserves as of June 30, 2008
- Appendix B: Council Directed Reserve Funds as of June 30, 2008
- Appendix C: Obligatory Reserve Funds as of June 30, 2008
- Appendix D: Reserve Funds Converted to Reserves