



STAFF REPORT INFORMATION ONLY

Reserves and Reserve Funds Variance Report – September 30, 2008

Date:	October 27, 2008
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2008\Internal Services\Acc\bc08019Acc (AFS#8124)

SUMMARY

The purpose of this report is to provide information on reserve and reserve fund balances as at September 30, 2008, activity in reserves and reserve funds during the third quarter of 2008, and projected year-end balances. The vast majority of these funds have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending.

Financial Impact

There are no financial implications contained in this report.

The Acting 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, 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 third quarter 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 Third Quarter Balance Summary:

TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2007 Actuals	Sept. 30, 2008 Actuals	Dec. 31, 2008 Projected
Reserves			
Corporate	213.9	260.5	201.3
Water / Wastewater	41.1	41.5	38.2
Stabilization	0.0	93.8	58.9
Community Initiatives	0.0	0.1	0.1
Donations	0.0	3.0	2.5
	255.0	398.9	301.0
Council directed reserve funds			
Employee benefits	240.0	231.7	226.3
Stabilization	85.2	0.0	0.0
Corporate	358.8	329.3	275.1
Community initiatives	116.9	109.9	90.8
State of good repair	121.6	115.8	110.8
	922.5	786.7	703.0
Total Reserves and Council directed reserve funds	1,177.5	1,185.6	1,004.0

TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2007 Actuals	Sept. 30, 2008 Actuals	Dec. 31, 2008 Projected
Obligatory reserve funds			
Development charges	212.4	224.7	220.3
Community services	55.8	50.5	28.9
Parkland Acq/New Devel	83.5	79.3	62.2
Third Party agreements	33.5	24.7	30.6
Public Transit Funds	353.5	732.6	603.1
State of Good Repair	25.9	25.3	27.4
Water/Wastewater	195.9	297.0	123.5
Parking Authority	7.4	8.5	5.2
Planning Act	10.6	58.3	48.8
Donations	3.0	0.0	0.0
Total Obligatory reserve funds	981.5	1,500.9	1,150.0
TOTAL All	2,159.0	2,686.5	2,154.0

TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Reserves		
Vehicle & Equipment Replacement	.660	Auction proceeds.
	.115	Insurance recoveries.
	.775	

TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Council directed reserve funds		
Land Acquisition-TTC	5,900	Funding of \$5.9 million for the acquisition of the Kennedy/McNicoll property in 2005, as authorized by Policy & Finance Report 8, Clause 55, adopted by Council on Sep 28, 29, and 30, 2005.
Child Care Expansion	.690	Funding of \$690,000 for the Bergamot Ave Child Care project as per item EX24.14 (the June 30, 2008 Capital Variance Report) adopted by the Executive Committee on Oct 6, 2008.
Capital Revolving Fund – Affordable Housing	.073	Funding of \$73,000 for the preliminary planning of the Lawrence Heights Revitalization project, according to item EX10.36 adopted by Council on July 16, 17, 18, and 19, 2007.
	6.663	
Obligatory reserve funds		
Section 37	.255	Funding of \$255,000 for improvements to the 519 Church St. Community Centre budgeted in prior years.
Golden Mile Transportation System Improvement	.153	Refund of \$153,000 excess Transportation System Improvement contribution for the Golden Mile Employment District as provided by Policy & Finance Committee Report 9, Clause 8, adopted by Council on Jun 26, 27, and 28, 2001.
Water Capital	.002	Completion of \$2,000 in funding (budgeted in prior years) upon closing of Water project.
	.410	

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 third quarter 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 December 31st, based on the reserve fund account's average monthly 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 \$143.9 million from \$255.0 million at the beginning of the year to \$398.9 million at September 30, 2008, primarily because of the following:

- (a) The transfer of \$127.3 million to new reserves from the 59 reserve funds reclassified to reserves.
- (b) The allocation of \$9.9 million from the preliminary and additional 2007 operating surplus to the Winter Control Stabilization Reserve and Capital Financing Reserve.
- (c) Net transfers from operating and capital of \$5.9 million to reserves.

Reserve Funds

Council directed reserve fund balances decreased by \$135.8 million from \$922.5 million at the beginning of the year to \$786.7 million at September 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) Funding of \$34.8 million for capital projects during the first nine months of the year.
- (c) The receipt of \$19.1 million in proceeds from land sales, credited to the Land Acquisition Reserve Fund, which offset the above transfers.

Obligatory reserve fund balances increased by \$519.4 million from \$981.5 million at the beginning of the year to \$1,500.9 million at September 30, 2008. This increase is mainly due to the following:

- (a) The receipt of \$452.5 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 and \$5.2 million in new contributions to the new Section 37 Reserve Fund within the Planning Act Reserve Fund Group.
- (c) The receipt of \$80.6 million in Provincial Gas Tax revenues, which was credited to the Provincial Gas Tax Revenues for Public Transit Reserve Fund.
- (d) The receipt of \$34.8 million in Development Charges and \$9.8 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively.
- (e) Funding of \$111.4 million for public transit capital projects during the first nine months of the year, which offset the above factors.

Total reserve and reserve fund balances have increased by \$527.5 million during the first nine months of 2008 from \$2,159.0 million at the beginning of the year to \$2,686.5 million at September 30, 2008. These balances are projected to decline by \$532.5 million in the last quarter of 2008 upon the completion of funding expenditures approved in the 2008 operating and capital budgets.

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SIGNATURE

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ATTACHMENTS

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