



STAFF REPORT INFORMATION ONLY

Preliminary Reserves and Reserve Funds Variance Report – December 31, 2008

Date:	February 23, 2009
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2009\Internal Services\acc\bc09002acc (AFS# 8697)

SUMMARY

The purpose of this report is to provide preliminary information on reserve and reserve fund balances as at December 31, 2008, and activity in reserves and reserve funds during the year then ended. 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 December 31, 2008, and December 31, 2007, and year-end balances based on 2008 approved budget are shown 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 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.

The reserves and reserve funds balances at December 31st, 2008 total \$2.8 billion (\$2.2 billion – December 31, 2007) and were projected to remain unchanged for the year. The planned use of reserves and reserve funds in 2008 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 reasons for the increase in the reserve fund balances during the year was the delay or deferral of capital spending from 2008 to 2009, and the transfer of a \$75.0 million Toronto Hydro Corp. special dividend received in operating to the new TCHC State of Good Repair reserve fund.

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

This report has been developed based on 2008 reserve and reserve fund information available as of January 23, 2009. 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.

2008 Year-end Preliminary Balance Summary:

TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2007 Actuals	Dec. 31, 2008 Actuals (Unaudited)	Dec. 31, 2008 Budgeted
Reserves			
Corporate	213.9	249.9	200.0
Water / Wastewater	41.1	40.9	38.2
Stabilization	0.0	94.6	59.0
Community Initiatives	0.0	0.0	0.0
Donations	0.0	3.2	2.4
	255.0	388.6	299.6
Council directed reserve funds			
Employee benefits	240.0	228.9	219.8
Stabilization	85.2	0.0	0.0
Corporate	358.8	303.0	285.1
Community initiatives	116.9	135.2	88.7
State of good repair	121.6	188.8	101.3
	922.5	855.9	694.9
Total Reserves and Council directed reserve funds	1,177.5	1,244.5	994.5

TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2007 Actuals	Dec. 31, 2008 Actuals	Dec. 31, 2008 Budgeted
Obligatory reserve funds			
Development charges	212.4	259.2	220.0
Community services	55.8	50.1	28.9
Parkland Acq/New Devel	83.5	82.2	60.0
Third Party agreements	33.5	29.8	24.2
Public Transit Funds	353.5	692.2	603.1
State of Good Repair	25.9	28.4	26.5
Water/Wastewater	195.9	296.0	123.7
Parking Authority	7.4	8.7	5.2
Planning Act	10.6	74.0	72.9
Donations	3.0	0.0	0.0
Total Obligatory reserve funds	981.5	1,520.6	1,164.5
TOTAL All	2,159.0	2,765.1	2,159.0

TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Reserves		
Vehicle & Equipment Replacement	.520	Auction proceeds.
	.038	Insurance recoveries.
	.039	Return of \$39,000 in unrequired funding upon closing of Fleet capital projects.
Telecom Public Policy Benefits	5.035	Transfer of \$5.035 million in Toronto Hydro Telecom permit fees received in operating as per EX22.16 adopted by Council July 15, 16 and 17, 2008.
Donations	.239	Donations received
	5.871	
Council directed reserve funds		
TCHC State of Good Repair	75.000	Transfer of \$75.00 million Toronto Hydro Corp. special dividend received in operating as per EX22.16 adopted by Council July 15, 16 and 17, 2008.
Strategic Infrastructure Partnership	.220	Return of \$220,000 in unrequired funding for Toronto Waterfront capital project.
	75.220	

TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Council directed reserve funds		
Capital Revolving Fund – Affordable Housing	.070	Funding of \$70,000 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.
	.070	
Obligatory reserve funds		
Homes for the Aged	.062	Funding of \$62,000 for Homes for the Aged capital project, budgeted in prior year.
	.062	

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 year ended December 31, 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.
- Interest earned on reserve funds
- Entries which draw from stabilization reserves

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 \$3.5 million balance of identified Section 45 funds was transferred to the new Section 45 Reserve Fund in the Planning Act Reserve Fund Group in the fourth quarter, with \$3.2 million coming from various City accounts, and \$0.3 million coming from other Obligatory reserve funds.

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 has been allocated to reserve funds once at year-end, based on the reserve fund account's average monthly closing balance from November 30, 2007 to November 30, 2008. The rate 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 required for some operating and capital expenditures as the City's year-end is not complete as of the date of this report.

Reserves

Preliminary year-end balances for reserves were budgeted to increase by \$44.6 million by the end of December 31, 2008. However, preliminary reserve balances actually increased by \$133.6 million from \$255.0 million at the beginning of the year to \$388.6 million at December 31, 2008. The \$89.0 million difference between the \$133.6 million actual increase and the \$44.6 million budgeted increase was mostly due to the following:

- (a) The transfer of \$5.0 million in Toronto Hydro Telecom permit fees to the new Telecom Public Policy Benefits reserve fund from operating.
- (b) The deferral of \$55.8 in capital funding required for the replacement of vehicles and equipment from the Vehicle and Equipment Replacement reserve.
- (c) Outstanding funding commitments of \$30.3 million to operating divisions from various stabilization reserves, which are processed based on actual expenditures at year-end.

Reserve Funds

Council directed reserve fund balances were budgeted to decrease by \$227.6 million by December 31, 2008. Nevertheless, Council directed reserve fund preliminary balances only decreased by \$66.6 million from \$922.5 million at the beginning of the year to \$855.9 million at December 31, 2008. The main reasons for this \$161.0 million difference between the \$66.6 million actual decrease and the \$227.6 million budgeted decrease are the following:

- (a) The transfer of a \$75.0 million Toronto Hydro Corp. special dividend to the new TCHC State of Good Repair reserve fund from operating.
- (b) The receipt of \$21.5 million in provincial funding for Affordable Housing, which was credited to the Capital Revolving Fund for Affordable Housing reserve fund.
- (c) Funding of \$58.1 million for capital projects not required in 2008 because of the delay or deferral of capital spending.

Obligatory reserve fund balances were budgeted to increase by \$183.0 million by the end of December 31, 2008. However, preliminary Obligatory reserve fund balances actually increased by \$539.1 million, from \$981.5 million at the beginning of the year to \$1,520.6 million at December 31, 2008. The main reason for this \$539.1 million increase was the receipt of \$452.5 million in Provincial transit funding which was credited to the MoveOntario 2020 Reserve Fund. The primary reasons for the \$356.1 million difference between the \$539.1 million actual increase and the \$183.0 million budgeted increase are the following:

- (a) Development charges and parks levies exceeding budget by \$33.8 million.
- (b) Funding of \$326.5 million for capital projects not required in 2008 because of the delay or deferral of capital spending.

Total reserve and reserve fund preliminary year-end balances increased by \$606.1 million during 2008 as compared to no budgeted change for the balances. This difference is mainly due to the transfer of a \$75.0 million Toronto Hydro Corp. special dividend received in operating, and the delay or deferral of capital spending from 2008 to 2009.

CONTACT

Mike St. Amant
Director, Accounting Services
Tel: 416-397-4438
Fax: 416-392-8003
Email: mstaman@toronto.ca

Shairoz Murji
Manager, Corporate Financial Reporting
Tel: 416-397-5829
Fax: 416-397-0834
Email: smurji@toronto.ca

SIGNATURE

Giuliana Carbone
Acting Treasurer

ATTACHMENTS

Appendix A: Reserves as of December 31, 2008
Appendix B: Council Directed Reserve Funds as of December 31, 2008
Appendix C: Obligatory Reserve Funds as of December 31, 2008
Appendix D: Reserve Funds Converted to Reserves