



STAFF REPORT INFORMATION ONLY

Reserves and Reserve Funds Variance Report – December 31, 2008

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| Date: | September 8, 2009 |
| To: | Budget Committee |
| From: | Acting Treasurer |
| Wards: | All |
| Reference Number: | P:\2009\Internal Services\acc\bc09013acc (AFS# 8702) |

SUMMARY

The purpose of this report is to provide 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 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, with a comparison to December 31, 2007 and the 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 \$2.7 billion. This represents an increase of \$0.5 billion from the December 31, 2007 balance of \$2.2 billion. 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 were the:

- delay or deferral of capital spending from 2008 to 2009;
- transfer of \$124.3 million from unallocated capital financing to the Capital Financing reserve; and,
- transfer of a \$75.0 million Toronto Hydro Corp. special dividend received in operating to the new Toronto Community Housing Corporation (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

2008 Year-end Balance Summary:

| TABLE 1: RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS) | | | |
|---|----------------------------------|----------------------------------|--|
| Description | Dec. 31, 2007 Actuals | Dec. 31, 2008 Actuals | Dec. 31, 2008 Annual Budget |
| Reserves | | | |
| Corporate | 213.9 | 364.5 | 193.8 |
| Water / Wastewater | 41.1 | 51.9 | 38.3 |
| Stabilization | 0.0 | 76.4 | 61.1 |
| Donations | 0.0 | 2.8 | 2.4 |
| | 255.0 | 495.6 | 295.6 |
| Council directed reserve funds | | | |
| Employee benefits | 240.0 | 222.4 | 216.8 |
| Stabilization | 85.2 | 0.0 | 0.0 |
| Corporate | 358.8 | 296.6 | 283.4 |
| Community initiatives | 116.9 | 130.8 | 88.7 |
| State of good repair | 121.6 | 187.5 | 101.7 |
| | 922.5 | 837.3 | 690.6 |
| Total Reserves and Council directed reserve funds | 1,177.5 | 1,332.9 | 986.2 |

| TABLE 2 OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS) | | | |
|--|----------------------------------|----------------------------------|--|
| Description | Dec. 31, 2007 Actuals | Dec. 31, 2008 Actuals | Dec. 31, 2008 Annual Budget |
| Obligatory reserve funds | | | |
| Development charges | 212.4 | 277.0 | 215.8 |
| Community services | 55.8 | 54.1 | 28.9 |
| Parkland Acq/New Devel | 83.5 | 82.7 | 59.3 |
| Third Party agreements | 33.5 | 29.5 | 24.2 |
| Public Transit Funds | 353.5 | 614.1 | 602.9 |
| State of Good Repair | 25.9 | 27.4 | 26.5 |
| Water/Wastewater | 195.9 | 214.8 | 125.3 |
| Parking Authority | 7.4 | 8.8 | 5.2 |
| Planning Act | 10.6 | 72.7 | 73.1 |
| Donations | 3.0 | 0.0 | 0.0 |
| Total Obligatory reserve funds | 981.5 | 1,381.1 | 1,161.2 |
| TOTAL All | 2,159.0 | 2,714.0 | 2,147.4 |

| 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. |
| Arbitration & Legal Awards | .077 | Legal award payments |
| Donations | .247 | Donations received |
| Public Arts | .110 | Art dedication fees received according to the site plan agreement for Alness St. and Steeles Ave W |
| Capital Financing | 124.330 | Transfer of \$124.33 million from unallocated capital financing as authorized by Council in its approval of the 2009 Capital budget. |
| Water & Wastewater Stabilization | 10.343 | Transfer of \$10.343 million operating surplus from Water & Wastewater operations. |
| 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. |
| | 140.739 | |
| 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 | |
| Obligatory reserve funds | | |
| National Child Benefit Support | 7.966 | Transfer of \$7.966 million in National Child Benefit Supplement savings as provided by Strategic Policies & Priorities Committee Report 26, Clause 30, adopted by Council on Dec 16 and 17, 1998. |
| | 7.966 | |

| TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS) | | |
|---|---------------|--|
| Description | Amount | Comments |
| Reserves | | |
| Transportation Services Extreme Weather | 2.443 | Funding of \$2.443 million to cover higher than budgeted snow removal and winter maintenance costs as per the 2009 Operating budget. |
| | 2.443 | |
| 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. |
| Canada Strategic Infrastructure | 11.687 | Funding of \$11.687 million for TTC capital projects as per the 2008 approved capital budget funding from the Public Transit Reserve Fund Group. |
| MoveOntario 2020 | 7.813 | Funding of \$7.813 million for TTC capital projects as per the 2008 approved capital budget funding from the Public Transit Reserve Fund Group. |
| Sony Centre Improvement | .033 | Funding of \$33,000 for unexpected legal expenses for the Sony Centre redevelopment plan, which will be presented for approval in the 2008 Final year-end operating variance report. |
| | 19.595 | |

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 held on March 3, 4 and 5, 2008, Council adopted Executive Committee report 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 of 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. Furthermore, the amounts of some special transfers between reserve funds and operating and capital can not be estimated or budgeted during the year.

Reserves

Year-end balances for reserves were budgeted to increase by \$40.6 million by the end of December 31, 2008. However, reserve balances actually increased by \$240.6 million from \$255.0 million at the beginning of the year to \$495.6 million at December 31, 2008. The \$200.0 million difference between the \$240.6 million actual increase and the \$40.6 million budgeted increase was mostly due to the following:

- (a) The transfer of \$124.3 million from unallocated capital financing to the Capital Financing reserve.
- (b) The draw from the Social Housing Stabilization reserve for GTA pooling recoveries was \$11.4 million less than the budgeted amount because of salary savings and increased provincial subsidies for hostels in Social Housing.
- (c) The transfer of the \$10.3 million Water & Wastewater operating surplus to the Water & Wastewater Stabilization reserve.
- (d) The deferral of the \$5.2 million budgeted draw from the Social Assistance Stabilization reserve by Toronto Employment & Social Services (TESS) to 2009.
- (e) The transfer of \$5.0 million in Toronto Hydro Telecom permit fees to the new Telecom Public Policy Benefits reserve from operating.
- (f) The deferral of \$38.7 in capital funding required for the replacement of vehicles and equipment from the Vehicle and Equipment Replacement reserve.

Reserve Funds

Council directed reserve fund balances were budgeted to decrease by \$231.9 million by December 31, 2008. Nevertheless, Council directed reserve fund balances only decreased by \$85.2 million from \$922.5 million at the beginning of the year to \$837.3 million at December 31, 2008. The main reasons for this \$146.7 million difference between the \$85.2 million actual decrease and the \$231.9 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) The accrual of \$11.5 million in revenue to the Strategic Infrastructure Partnership reserve fund for the City's share of the income distribution from the Move Ontario Trust.
- (d) Funding of \$27.6 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 \$179.7 million by the end of December 31, 2008. However, Obligatory reserve fund balances actually increased by

\$399.6 million, from \$981.5 million at the beginning of the year to \$1,381.1 million at December 31, 2008. The main reason for this \$399.6 million increase was the receipt of \$425.5 million in Provincial transit funding, which was credited to the MoveOntario 2020 Reserve Fund. The primary reasons for the \$219.9 million difference between the \$399.6 million actual increase and the \$179.7 million budgeted increase are the following:

- (a) Development charges and parks levies exceeded the budgeted amounts by \$59.0 million.
- (b) The draw from the Social Housing Federal reserve fund for GTA pooling recoveries was \$9.2 million less than the budgeted amount because of salary savings and increased provincial subsidies for hostels in Social Housing.
- (c) Funding of \$155.5 million for capital projects was not required in 2008 because of the delay or deferral of capital spending.
- (d) Reimbursements to the Toronto-York Spadina Subway Extension reserve fund from the Move Ontario Trust were \$14.8 million less than the budgeted amount because of lower than expected expenditures on the Toronto-York Spadina subway extension. This shortfall offsets points (a) to (c) above.

Total reserve and reserve fund year-end balances increased by \$555.0 million during 2008 as compared to a budgeted decrease of \$11.6 million. This difference is mainly due to the transfer of \$124.3 million from unallocated capital financing, the transfer of a \$75.0 million Toronto Hydro Corporation special dividend received in operating, and the delay or deferral of capital spending from 2008 to 2009.

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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