



## STAFF REPORT INFORMATION ONLY

### Reserves and Reserve Funds Variance Report – September 30, 2009

<b>Date:</b>	October 26, 2009
<b>To:</b>	Budget Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2009\Internal Services\acc\bc09015acc (AFS# 8738)

#### SUMMARY

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The purpose of this report is to provide information on reserve and reserve fund balances as at September 30, 2009, and activity in reserves and reserve funds during the first nine months of 2009, 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 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, 2009, with a comparison to December 31, 2008 and the 2009 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 first three quarters of 2009 that were approved outside of the 2009 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 Reserves and 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

### 2009 Third Quarter Balance Summary:

TABLE 1: RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2008 Actuals	Sep. 30, 2009 Actuals	Dec. 31, 2009 Budget
<b>Reserves</b>			
Corporate	369.7	364.3	280.9
Water / Wastewater	51.9	55.1	49.2
Stabilization	76.4	78.7	56.2
Donations	2.8	2.7	2.4
	500.8	500.8	388.7
<b>Council directed reserve funds</b>			
Employee benefits	222.4	214.8	208.3
Corporate	296.6	281.6	459.0
Community initiatives	130.8	120.0	94.7
State of good repair	187.5	195.9	181.4
	837.3	812.3	943.4
<b>Total Reserves and Council directed reserve funds</b>	<b>1,338.1</b>	<b>1,313.1</b>	<b>1,332.1</b>

TABLE 2 OBLIGATORY RESERVE FUND BALANCES ( \$ MILLIONS)

Description	Dec. 31, 2008 Actuals	Sep. 30, 2009 Actuals	Dec. 31, 2009 Budget
<b>Obligatory reserve funds</b>			
Development charges	269.9	268.6	210.5
Community services	54.1	51.3	13.7
Parkland Acq/New Devel	82.7	85.8	70.4
Third Party agreements	29.5	33.3	29.3
Public Transit Funds	614.1	531.9	464.1
State of Good Repair	27.4	27.2	39.2
Water/Wastewater	215.2	420.5	83.2
Parking Authority	8.8	9.3	6.5
Planning Act	72.7	72.2	53.6
Total Obligatory reserve funds	1,374.4	1,500.1	970.5
<b>TOTAL All</b>	<b>2,712.5</b>	<b>2,813.2</b>	<b>2,302.6</b>

TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
<b>Reserves</b>		
Vehicle & Equipment Replacement	1.383	Auction proceeds.
	.109	Insurance recoveries.
Donations	.006	Donations received
Provincial Offences Courts Stabilization	1.933	Return of \$1.933 million in unrequired funding for Courts capital projects.
Capital Financing	.030	\$30,000 repayment (budgeted in 2008) on loan to the St Lawrence Centre for the Arts Renewal Project
Social Housing Stabilization	.060	Return of \$60,000 unused loan proceeds by Grace Carmen Senior's Home.
	3.521	
<b>Obligatory reserve funds</b>		
Development Charges	.215	Reversal of \$215,000 funding for parks project as per 2008 budget adjustment.
Parkland Acquisition	.025	Reversal of \$25,000 funding for parks project as per 2008 budget adjustment.
	.240	

<b>TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING &amp; CAPITAL (\$MILLIONS)</b>		
<b>Description</b>	<b>Amount</b>	<b>Comments</b>
<b>Reserves</b>		
Balfour Park Improvements	.077	Funding of \$77,000 (budgeted in prior years) for improvements to David Balfour Park
	.077	
<b>Council directed reserve funds</b>		
Capital Revolving Fund – Affordable Housing	.059	Funding of \$59,000 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.
	.059	
<b>Obligatory reserve funds</b>		
Section 37	.104	Funding of \$104,000 (budgeted in prior years) for Ward 27 parks improvements
Development Charges	.116	Funding of \$116,000 for Victoria Memorial Park Restoration, budgeted in 2006.
	.220	

### **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 2008 and March 2009, 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 three quarters ended September 30, 2009. 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 2009 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 is allocated to reserve funds once a year at year-end, based on the reserve fund account's average quarterly closing balance from November 30, 2008 to November 30, 2009.

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. A large portion of approved capital expenditures is incurred during the latter portion of the year, which will be funded from Reserve and Reserve Funds in the fourth quarter.

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. Finally, the amounts of some special transfers between reserve funds and operating and capital can not be estimated or budgeted during the year.

## **Reserves**

Reserve balances increased slightly by \$.06 million from \$500.77 million at the beginning of the year to \$500.83 million at September 30, 2009.

## **Reserve Funds**

Council directed reserve fund balances decreased by \$25.0 million from \$837.3 million at the beginning of the year to \$812.3 million at September 30, 2009. This decrease was mostly due to the following:

- (a) The transfer of \$7.0 million from the Strategic Infrastructure Partnership Reserve Fund to the Obligatory Toronto-York Spadina Subway Extension Reserve Fund to fund the City's share of the Spadina Subway Extension Project.
- (b) Funding of \$38.0 million for capital projects during the first nine months of the year.
- (c) The receipt of \$19.7 million in proceeds from land sales, credited to the Land Acquisition Reserve Fund, which offset the above transfers.

Obligatory reserve fund balances increased by \$125.7 million from \$1,374.4 million at the beginning of the year to \$1,500.1 million at September 30, 2009. This increase is mainly due to the following:

	\$Million
(a) The receipt of \$47.0 million in funding for the Spadina Subway Extension Project from the Federal and Provincial governments and the region of York, which was credited to the Toronto-York Spadina Subway Extension Reserve Fund.	47.0
(b) The transfer of \$7.0 million from the Council directed Strategic Infrastructure Partnership Reserve Fund to the Toronto-York Spadina Subway Extension Reserve Fund to fund the City's share of the Spadina Subway Extension Project.	7.0
(c) The receipt of \$8.8 million in Section 37 funds, which was credited to the Section 37 Reserve Fund.	8.8
(d) The receipt of \$17.3 million in Development Charges and \$8.6 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively.	25.9
(e) The transfer of \$312.4 million from water and wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing as budgeted.	312.4
(f) Funding of \$165.6 million for public transit capital projects and \$107.0 million for water and wastewater capital projects during the first nine months of the year, which offset the above factors.	(272.6)
	<u>128.5</u>

Total reserve and reserve fund balances have increased by \$100.7 million during the first nine months of 2009 from \$2,712.5 million at the beginning of the year to \$2,813.2 million at September 30, 2009. These balances are projected to decline by \$510.6 million in the last quarter of 2009 upon the completion of funding expenditures approved in the 2009 operating and capital budgets.

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## **SIGNATURE**

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Giuliana Carbone  
Treasurer

## **ATTACHMENTS**

Appendix A: Reserves as of September 30, 2009  
Appendix B: Council Directed Reserve Funds as of September 30, 2009  
Appendix C: Obligatory Reserve Funds as of September 30, 2009