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DISPOSITION OF 2010 OPERATING BUDGET SURPLUS AND CHANGES TO CAPITAL PROJECT FUNDING TO REDUCE DEBT

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated April 6, 2011, from the Commissioner of Finance.

1. RECOMMENDATIONS

It is recommended that:

1. Council approve the redistribution of 2010 operating budget surplus, from that established by the current Surplus Management Policy by allocating part of the surplus as follows:

    a) the contribution of $5.4 million to the Solid Waste Reserve.

    b) the contribution of $1.3 million to the York Regional Police Sick Leave Reserve.

    c) the contribution of $40.0 million to the Spadina Subway Extension capital project to eliminate previously approved tax supported debt financing.

2. Council approve the utilization of the Debt Reduction Fund for previously approved funding sources for projects as outlined in Table 1 of this report thus eliminating $57 million of previously approved tax supported debt financing.

3. Council authorize Regional staff to utilize development charge reserves instead of issuing debt for the remaining cost of the projects outlined in Table 1 of this report where appropriate.

2. PURPOSE

The purpose of this report is to seek approval to redistribute the 2010 Operating Budget surplus on a one-time basis to specific reserves in a manner different to the current Surplus Management Policy. In addition, Council approval is being sought to amend previously approved Budgets to utilize the Debt Reduction Fund and eliminate $57 million of previously approved debt financing.

3. BACKGROUND

The Surplus Management Policy, last revised December 2008, contributes annual surplus to various reserves

The Surplus Management Policy of December 2008 directs the disposition of operating surplus as follows:

1. 80% of the unspent tax levy within the year budgeted for Social Housing programs be contributed to the Social Housing Reserve Fund, the remaining 10% be contributed to the Working Capital Reserve fund; then,
2. The remaining net operating surplus, except where otherwise directed by Council will be allocated to the following reserve funds in the order listed until they reach their target:
   - Reserves which fund potential third party liabilities to the Region which are for WSIB, Long-Term Disability and self insured claim payment; then
   - The Working Capital Reserve,
   - The Tax Stabilization Reserve fund; and then
   - The General Capital Reserve Fund.

The 2010 year end operating surplus before supplemental taxation net of write-offs and payment in lieu is $32.6 million

At December 31, 2010, the actual net operating expenditures were $706.8 million, 93% of the actual net operating budget of $756.0 million.

Year end results are influenced by a number of issues, some of which are common among all departments and others that are more isolated to specific departments. Departmental favourable variances for 2010 totalled $32.6 million at year end as compared to 98% of budget, or $18.7 million favourable variance, forecast in the mid-year update. Uncontrollable factors, such as supplemental taxation, tax write-offs and payments in lieu increased the total year end surplus to $49.2 million.

Annual tax levy contribution to Debt Reduction Fund is part of the annual operating budget

The 2010 operating budget included $11.8 million in tax levy to contribute to the Debt Reduction Fund. This is a contribution that is made prior to any surplus contributions and has been a policy of the Region since 2007. This fund was established to replace tax levy supported debt. The total amount set aside for this purpose that has not yet allocated to fund capital projects has accumulated to $57.0 million.

4. ANALYSIS AND OPTIONS

A contribution of $5.4 million to the Solid Waste Management reserve is recommended

Solid Waste Management experienced a $5.4 million favourable variance in 2010. This variance was due in part to cost savings in the Source Separated Organics program as a result of temporary shut downs of processing facilities, lower tonnages of residual waste processing, blue box costs, lower Community Environmental Center tonnages in Vaughan and favourable blue box material revenues. Blue box revenues were greater than budgeted, resulting in an additional contribution to the solid waste management reserve of $3.9 million, in accordance with the Solid Waste Management Reserve policy. It is recommended that the remaining $5.4 million surplus be contributed to the solid waste management reserve. Solid Waste has a very small annual contribution to capital. This additional contribution will help reduce future debt requirements.

A contribution of $1.3 million to the Sick Leave Reserve on behalf of the York Regional Police is recommended

At its meeting of February 23, 2011, the York Regional Police Services Board adopted a resolution to contribute the year end surplus of $1.3 million to the sick leave reserve subject to Regional Council approval. The current funding for Police sick leave payments is less than existing liabilities. This contribution will assist in moving toward full funding.

Favourable variances in sundry revenue and fees & charges, after mitigating over expenditures in other areas, contributed to a year end surplus of $1.3 million. It is recommended that this surplus be contributed to the York Regional Police sick bank reserve.

Budget forecasts include substantial new tax-supported debt repayment

The 2011 budget forecast increased debt repayment costs related to a few large projects to serve future service requirements. In order to mitigate some of the future operating budgetary pressures staff is recommending that a portion of the 2010 surplus be used to directly eliminate the need to borrow on projects that have been previously approved.

It is recommended that allocation of $40.0 million be made to the Spadina Subway Extension to eliminate an equal amount of debt financing. This change will result in a reduction of approximately $3.3 million of forecast increase in annual tax levies.

Utilizing the Debt Reduction Fund will result in a reduction of $7.5 million in annual tax levy

The projects listed in Table 1 were previously approved in the Capital budget as being financed by tax supported debt. In order to mitigate debt and its associated financing costs, it is recommended that the following projects be funded through the debt reduction fund that has been accumulated over the past several years. For every $1 million of 10 year debentures not issued, approximately $130,000 in financing costs (includes principal and interest) will be saved annually. Therefore future annual financing costs will be reduced by $7.5 million from what has been forecast.

Table 1 summarizes the recommended capital projects to be financed through Debt Reduction Fund.

Table 1
Tax Levy Debt Supported Capital Projects to be financed through Debt Reduction Fund

Project #	Project Name	Previously Approved Tax Levy Debt ($000's)
71335	Source Separated Organics Facility (Solid Waste)	412
71325	Energy From Waste Facility (Solid Waste)	30,869
90992	Bus Rapid Transit (BRT) Facilities and Terminals (Rapid Transit)	2,352
90993	Bus Rapid Transit (BRT) Vehicles (Rapid Transit)	5,216
14780	Central Services Centre - Pre Construction (Property Services)	3,958
29011	Two-Factor Authentification (Police)	338
29012	Radio Infrastructure (Police)	459
29027	Tactical Specialty Vehicle (Police)	250
26070	Renovations to Existing Facilities (Police)	2,790
29033	Renovations to Existing Facilities (Police)	300
29031	#3 District - Marine Headquarters (Police)	980
29020	Digital Evidence Management (Police)	450
29026	In Car Video (Police)	488
29030	IT Infrastructure and Retention (Police)	1,295
29035	Cell Block Safety and Security (Police)	173
81810	Hwy 50 - Hwy 7 to Rutherford Rd (Roads)	40
82680	Highway 404 crossing North of Hwy 7 (Roads)	74
83400	Birchmount at Hwy 407 (Roads)	54
98340	19th Ave - Yonge St to Leslie St (Roads)	266
98570	Langstaff Rd - Hwy 50 to Hwy 27 (Roads)	6
54490	Pefferlaw Station (EMS)	650
54510	Vaughan Station - Maple Teston Rd (EMS)	655
54590	Markham Station - 280 Church (EMS)	2,000
54630	Multi-Patient Ambulance (EMS)	1,000
54570	Northwest King Township-Schomberg Station (EMS)	575
54390	Keswick Station (EMS)	650
54420	Queensville EMS Station Replacement (EMS)	700
	Total	57,000

Some of the projects listed above also have a development charge portion which is to be financed through debt, as previously approved in the budget. Staff will investigate whether that debt can be replaced with funding from development charge reserves and report back if adjustments can be made.

5. FINANCIAL IMPLICATIONS

After allocation of $6.7 million to Solid Waste and Police reserves and the allocation of $40 million to the Spadina Subway Extension, $ 2.5 million will be disposed of according to the current Surplus Management Policy

The total year end operating surplus, after accounting for supplemental taxation, net of write-offs and payments in lieu, totalled to $49.2 million. Prior to distributing the year end surplus as per the Surplus Management Policy, specific contributions of $5.4 million and $1.3 million will be allocated to the Solid Waste Management Reserve and York Regional Police Sick Leave Reserve respectively. In addition, $40.0 million will be allocated to the Spadina Subway Extension capital project. The remaining $2.5 million will be distributed as per the current Surplus Management Policy.

$10.8 million in future tax increases can be eliminated through the recommendations within this report

For every $1 million of 10 year debentures not issued, $130,000 in additional future financing costs (includes principal and interest) will be saved annually. Therefore, as a result of utilizing the debt reduction fund, annual financing costs will be reduced by $7.5 million in future operating budgets. The reduction of debt requirement for the Spadina Subway project will eliminate an additional $3.3 million in future debt repayments that would have been needed.

6. LOCAL MUNICIPAL IMPACT

There is no direct impact to the local municipalities.

7. CONCLUSION

This report provides the recommendation for the disposition of operating surplus beyond the current Surplus Management Policy and the utilization of the Debt Reduction Fund and direct access to Development Charge reserves if necessary.

For more information on this report, please contact Kelly Strueby, Director at Ext. 1611.