Toronto Community Housing

Date: May 3, 2005

To: **Finance Committee**

From: Chief Executive Officer

Subject: **2004 RESERVE CONTRIBUTIONS (FC:2005-16)**

May 16/05
Finance Committee
Item 1

PURPOSE:

To seek the Board of Directors approval, through the Finance Committee, for allocating 2004 net operating revenue to the reserve funds.

RECOMMENDATIONS:

It is recommended that the Finance Committee adopt the report and forward to the Board of Directors recommending that the Board:

(1) approve the contribution of $6.8 million to the Unrestricted Contingency Reserve with $1.4m to be set aside for future employee benefit liability;

(2) approve the contribution of $4.0 million to the Regent Park Redevelopment Reserve Fund; and

(3) authorize the appropriate Toronto Community Housing Corporation officials to take the necessary action to give effect to recommendations (1) & (2).

BACKGROUND:

The 2004 year end financial audit has been completed. The 2004 audited financial statements and the audited results have been forward to the Audit Committee for review as outlined in their mandate. The TCHC CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS as at year ending December 31, 2004 shows unallocated operating revenue of $24.833 million. This report proposes the allocation of the operating revenue cash flow balance to reserves for future capital work.

REASONS FOR RECOMMENDATIONS:

Recommendation 1: *approve the contribution of $6.8 million to the Unrestricted Contingency Reserve with $1.4 million to be set aside for future employee benefit liability.*

The TCHC CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS as at year ending December 31, 2004 showed unallocated operating revenue of $24.833 million. This included an opening balance from prior year of $9.991 million for a 2004 cash flow surplus of $14.892 million.

This 2004 operating revenue cash flow is due mainly to the under-spending of the 2004 building capital plan. The Building Renewal Program (BRP) is being implemented in 2005 and so the $10 million budgeted in 2004 was not spent. There was also another $4 million from planned 2004 spending initiated but not all work was complete by the end of the year. The 2005 Building Capital Plan approved by the Board in December 2004 has incorporated these 2004 projects into the 2005 plan as budget carryover items totalling $14 million ($10 million for BRP and $4 million for other building capital). This carryover amount accounts for most of the $14.892 million surplus cash flow.

The remaining cash flow balance also includes a refund from prior year over-contribution to the employee benefit plan of about $1.4 million. This amount should be allocated to deal with future benefit plan liabilities.

After taking the $14 million into the 2005 Building Capital Plan and setting aside $1.4 million as noted above, the remaining balance of operating revenue cash flow is about $9.4 million.

It is recommended that $5.4 million be allocated to the Unrestricted Contingency Reserve Fund to finance building refurbishment and redevelopment projects such Silverthorn, Bartlett, Albion Lodge and Murray and $1.4 million allocated to the Unrestricted Contingency reserve fund to deal with future benefit plan liabilities for a total allocation of $6.8 million.

Recommendation 2: *approve the contribution of $4.0 million to the Regent Park Redevelopment Reserve Fund*

The Board approved in the 2004 operating plan a contribution of $8 million to this reserve. This additional contribution of $4m will bring the total 2004 contribution to $12m. The additional contribution will reduce future year contribution requirements. TCHC has agreed to a total equity contribution of $70m, as well as a portion of the deferred capital for this community. The 2004 closing balance of this reserve including the $4 million additional contribution is approximately $22 million.

CONCLUSION:

Allocation of unallocated operating revenue at the year end as proposed is consistent with the budgeted intent and with strategic priorities – funding of reserves to support future needs as identified in the Board approved Portfolio Strategy and support for the redevelopment initiatives at Regent Park. The funds requested to support completion of the 2004 capital spending plan in 2005 will allow TCHC to address priorities, without a major impact on 2004 capital spending. An alternative is to simply cancel planned 2004 projects and replace these with those listed as needing to be completed. However, the funds were available within the 2004 and would have been dedicated to this purpose, had the 2004 plan been completed. The Board approved this carryover as part of the 2005 Building Capital Plan. With the completion of the year end financial audit, this allocation to the reserves completes the 2004 year end process.

FINANCIAL IMPLICATIONS:

The recommended contribution is based on the completion of the 2004 year end financial audit.

LEGAL IMPLICATIONS:
N/A.

COMMUNICATIONS IMPLICATIONS:
N/A.

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