

# TORONTO TRANSIT COMMISSION

## REPORT NO.

**MEETING DATE:** May 28, 2014

**SUBJECT:** 2013 TTC OPERATING BUDGET UPDATE

### **INFORMATION ITEM**

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#### **RECOMMENDATION**

It is recommended that the Board receive this report for information.

#### **FUNDING**

The only funding implication of this report relates to the final disposition of the reduced operating subsidy requirement for the TTC's 2013 Operating Budget, which will be determined by the City in accordance with the City of Toronto's Policy on Management of Operating Budget Surpluses as adopted by City Council at its meeting of September 28, 29, 30 and October 1, 2004.

#### **BACKGROUND**

Subsequent to the preparation of the March 2014 Chief Executive Officer's (CEO) Report Update which was submitted to the Board at its meeting of March 26, 2014, a number of standard year-end accounting adjustments were finalized, most of which resulted from actuarial valuations completed after December 31. Accordingly, the reduced operating subsidy requirement for 2013 has been revised from about \$7.3 million to \$47.7 million. Explanations for this change and the disposition of this are addressed in this report.

#### **DISCUSSION**

As noted in the March CEO Report, earlier results (including subsidy requirements for 2013) were preliminary and subject to audit. A number of year-end accounting adjustments are made subsequent to the end of the fiscal year and after independent experts (actuarial and legal) have completed financial assessments of TTC's long-term liabilities for both accident claims and employee benefits expenses.

In accordance with the City of Toronto's Policy on Management of Operating Budget Surpluses (reduced subsidy requirement), the Chief Financial Officer and Treasurer is authorized to apply any additional surplus, in priority order to:

- (a) Capital Financing Reserve Fund (at least 75% of the additional surplus); and
- (b) The remainder to fund any under-funded liabilities, and/or reserves/reserve funds, as determined by the Chief Financial Officer and Treasurer.

The objective of this policy is to maintain revenue consistency while reducing debt servicing costs (related to capital expenditures) and ensuring a planned approach to funding under-funded liabilities. City staff have indicated that the remaining 25% of the combined \$47.7 million will be allocated to a City reserve for the purpose of funding TTC's post-retirement benefits and accident claims long-term liabilities.

For 2013, the long-term liabilities for Workplace Safety and Insurance benefits and the Long-Term Disability plan were reduced by \$6.3 million. Further, there are several accounting expenses which cannot be determined/reasonably projected until the year has lapsed. These include: depreciation expense on capital assets funded in part or whole by the TTC, allocations of overhead costs to capital projects and administration fees, accident claims payouts and retroactive pay. For 2013, these items amounted to one-time reductions of approximately \$18 million. In addition, lower requirements for certain non-labour items resulted in favourable budget variances of \$16 million. Overall, the reduced subsidy requirements for TTC and Wheel-Trans are \$46 million for the TTC and \$1.7 million for Wheel-Trans.

Each year, actuarial valuations are performed by the TTC's actuaries for the unsettled accident claims and future employee benefits liabilities. The calculation of these amounts is subject to complex accounting standards and represent in excess of \$600 million in costs that will be paid in the future for items that happened prior to the end of the year: for example, accident claims and benefits earned by employees that will be paid during retirement. These benefits have been partially funded in past budgets, but there is discretion regarding the amounts to be funded in current years budgets. The unfunded portions of accident claims and retiree benefits as of December 31, 2013 are \$45 million and \$208 million, respectively.

The City has traditionally set aside some funding as part of its budget process for its portion of future employee benefits, and also applied surplus funds on an ad hoc basis at year-end. The accident claim and retiree benefit liability will be reviewed in light of recent legislative changes, with a funding approach to be recommended upon completion of the review.

Any disposition of a reduced operating subsidy requirement in a manner different from this City policy requires approval of City Council.

### **JUSTIFICATION**

Year-end accounting activity and the annual external attest audit are now complete. Accordingly, the 2013 financial results have been updated as outlined in this report. The final 2013 audited financial statements are scheduled to be presented to the TTC Audit Committee on May 28, 2014.

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May 21, 2014  
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