

Revised March 23, 2004

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## **2004 BUDGET BRIEFING NOTE: TTC Retained Earnings**

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### Issue/Background:

The purpose of this briefing note is to respond to a question raised at the Budget Advisory Committee meeting of February 27, 2004 on the balance of TTC retained earnings and the impact on the 2004 TTC Operating Budget of drawing on retained earnings by \$6.9 million.

### Key Point(s):

#### 2003 Balance of TTC Retained Earnings:

- At the end of 2002 the balance of retained earnings was \$31.143 million.
- In order to balance the 2003 TTC operating Budget, TTC was authorized to draw down retained earnings by up to \$17.0 million. The TTC required this \$16.8 of this amount to offset the revenue shortfall from SARS and the blackout in August 2003.
- In 2003 the year-end balance of retained earnings will be approximately \$14.3 million subject to final year-end audit.

#### 2004 and Future Years:

- In 2004 the TTC must account for post-retirement dental benefits on an accrual basis as recommended in the CICA Handbook. The cash expense increase in 2004 is \$0.2 million and the non-cash dental expense increase is \$6.9 million – an accrual amount for future post retirement benefits not actually paid in 2004.
- The 2004 Recommended Operating Budget assumes the cash basis for the post-retirement dental benefits will be funded through operating subsidy and the non-cash charge will be funded through a draw on retained earnings of \$6.9 million. Given the City's financial pressures it would not be appropriate to increase the operating budget subsidy to the TTC for a non-cash expense.
- At the end of 2004, after drawing down retained earnings by a further \$6.9 million, the balance will be approximately \$7.4 million. This amount will be confirmed once the TTC 2003 Annual Report is available.

- The pressure in 2005 for post retirement dental benefits is expected to be \$7.2 million. The option of using retained earnings to absorb the non-cash expense increase in post-retirement dental benefits would be nearly exhausted by the end of 2005.
- The Chief General Manager of the TTC has been asked report back to the Budget Advisory Committee prior to March 2004 on the operating budget impacts arising from drawing on retained earnings to fund the non-cash portion of the post-retirement dental benefits in 2004 and beyond. The TTC has been asked to report back on a long-term strategy to deal with the implications of using retained earnings in this manner.

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