

January 16, 2003

City of Toronto's Reserves and Reserve Funds

Reserves and reserve funds are monies set aside for designated purposes and can only be created with Council approval. The major difference between reserves and reserve funds is that all earnings from the investment of reserve funds must form part of the reserve fund, while the earnings from reserves flow to the operating budget. The assets of reserve funds are held separately and can only be used for the stated purpose of the reserve funds.

Reserves and reserve funds form an important part of sound financial management. Revenues from one period can be set aside to grow and then finance planned expenditures in the future. This approach allows for funding of irregular or occasional expenses such as the municipal elections every three years, major equipment purchases or building purchases. The City cannot legally budget for a deficit, so it must put aside funds in reserves and reserve funds to cover irregular or occasional expenses.

- A. Reserve — A reserve is funded by contributions from the Operating Budget at the discretion of Council.
- B. Reserve Funds — There are two types of Reserve Funds: Obligatory and Council-specific. Obligatory Reserve Funds contain funds which have to be provided on the basis of legislation or contractual obligations. These funds can only be used for the purpose indicated. Council-specific Reserve Funds are created by Council for specific purposes other than those due to legislation or contractual obligations.

The City's Reserve Funds at December 31, 2001 were:

	\$ Millions
A. Reserves e.g. vehicle replacement, working capital, water rate stabilization	\$ 235.3
B. Reserve Funds:	
Obligatory:	
Operating (e.g. social services)	\$ 26.6
Capital Program Support (e.g. Homes for Aged, Parklands)	\$ 216.1
Specific Purpose – Council:	
Operating (e.g. Employee Benefits, TTC Stabilization)	\$ 425.5
Capital (e.g. Land Acquisition, Homeless)	\$ 126.5
Total Reserves and Reserve Funds – December 31, 2001	\$ 1,030.0

Although the City had over \$1 billion in reserves and reserve funds at the end of 2001, this amount is inadequate. The reserve levels are not sufficient to meet the obligations the funds are set up for. Some reserves and reserve funds have been depleted due to fiscal constraints over the past ten years, such as for vehicles and equipment, insurance, employee benefits and snow removal. Some reserve funds are under-funded, such as social assistance and social housing, as a result of transfers of new responsibilities from the Province without sufficient revenues.

Reserve funds should not be used to fix Operating Budget issues. It would simply result in a short-term deferral of tax increases.

How Do We Compare?

The City’s reserve levels are comparatively low. As the chart below indicates, on a per capita basis the City’s reserves and reserve funds were the lowest among the major city/regions in Ontario at the end of 2000. In fact, the City’s reserve per capita was less than one third of either the Ontario average or the GTA average. Without a healthy reserve level, the City may not be able to cover expense contingencies that arise from time to time.

