



## STAFF REPORT INFORMATION ONLY

### Preliminary Reserves and Reserve Funds Variance Report – December 31, 2009

<b>Date:</b>	March 18, 2010
<b>To:</b>	Budget Committee
<b>From:</b>	Treasurer
<b>Wards:</b>	All
<b>Reference Number:</b>	P:\2010\Internal Services\Acc\Bc10004Acc (AFS11626)

#### SUMMARY

---

The purpose of this report is to provide preliminary information on reserve and reserve fund balances as at December 31, 2009, and activity in reserves and reserve funds during the year then ended. The vast majority of these funds have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending.

#### Financial Impact

There are no financial implications contained in this report.

The Deputy City Manager and Chief Financial Officer has reviewed this report and agrees with the financial impact information.

#### DECISION HISTORY

This report has been provided to the Budget Committee as part of the quarterly budget variance reporting process and incorporates format and content recommendations made by the Committee and Council over several budget cycles.

## **ISSUE BACKGROUND**

Reserve and Reserve Funds, which can only be created with Council approval, are monies set aside to be used for planned, future expenditures, to protect the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital expenditures or irregular or occasional expenses (such as municipal elections every four years).

The major difference between Reserves and Reserve Funds is that all earnings (i.e. interest) from the investment of Reserve Funds must be allocated to, and form part of the, Reserve Fund; while the earnings from Reserves is allocated to the operating budget as investment revenue.

There are two types of Reserve Funds: Obligatory Reserve Funds and Council Directed Reserve Funds:

- a) Obligatory Reserve Funds: are funds received and set aside for specific purposes by legislation or contractual agreements. These funds can only be used for the purposes prescribed.
- b) Council Directed Reserve Funds: are created by Council for specific purposes through by-law.

## **COMMENTS**

This report has been developed based on 2009 reserve and reserve fund information available as of February 19, 2010. The balances and summaries of transactions presented in the appendices to this report are preliminary as our year-end closing is not fully completed as of the date of this report.

Tables 1 and 2 summarize the actual reserves and reserve funds balances as at December 31, 2009, and 2008, as well as budgeted year-end balances from the 2009 approved budget.

Tables 3 and 4 provide information on the nature and authority for transfers made to, and draws made from, reserves and reserve funds during the fourth quarter of 2009 that were approved outside of the 2009 operating and capital budgets.

Detailed information on each reserve and reserve fund, including the date of the last transaction processed (other than interest allocations), is shown in Appendices A, B and C.

The reserves and reserve funds balances at December 31<sup>st</sup>, 2009 total \$2.6 billion (2008: \$2.7 billion) as compared with a projected year-end balance of \$2.2 billion. The planned use of reserves and reserve funds in 2009 continues the trend in recent years to draw (on a net basis) from existing reserves and reserve funds to finance capital and operating expenditures.

As mentioned in previous Reserve Fund Variance Reports, the vast majority of these funds are committed to fund capital projects identified in the ten year capital plan, and known future liabilities, leaving only a small portion available for discretionary spending. Most notably, the full balance of the Vehicle and Equipment Replacement Reserve is required to meet future vehicle and equipment replacements, the balances of all the Obligatory Reserve Funds are restricted for specific purposes as designated by legislation or contractual agreements, and all capital reserves/reserve funds are required to replace and maintain capital assets. Also, the current balances of some reserve funds (e.g. Water and Wastewater Capital, Employee Benefits, Insurance) are not sufficient to cover the future obligations for which they have been set aside.

### 2009 Year-end Preliminary Balance Summary:

<b>TABLE 1 RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES ( \$ MILLIONS)</b>			
<b>Description</b>	<b>Dec. 31, 2008 Actuals</b>	<b>Dec. 31, 2009 Actuals</b>	<b>Dec. 31, 2009 Budget</b>
<b>Reserves</b>			
Corporate	370.3	360.9	287.7
Water / Wastewater	51.9	74.4	49.2
Stabilization	76.4	69.0	56.2
Community Initiatives	0.0	0.0	0.0
Donations	2.8	1.8	2.4
	501.4	506.1	395.5
<b>Council directed reserve funds</b>			
Employee benefits	222.4	228.5	204.7
Corporate	296.6	508.3	456.1
Community initiatives	130.8	103.8	91.6
State of good repair	187.5	125.5	106.7
	837.3	966.1	859.1
<b>Total Reserves and Council directed reserve funds</b>	<b>1,338.7</b>	<b>1,472.2</b>	<b>1,254.6</b>

TABLE 2 OBLIGATORY RESERVE FUND BALANCES ( \$ MILLIONS)			
Description	Dec. 31, 2008 Actuals	Dec. 31, 2009 Actuals	Dec. 31, 2009 Budget
<b>Obligatory reserve funds</b>			
Development charges	269.9	250.0	203.2
Community services	54.1	61.7	13.6
Parkland Acq/New Devel	82.7	90.7	69.6
Third Party agreements	29.5	34.3	30.2
Public Transit Funds	614.1	529.5	445.0
State of Good Repair	27.4	46.6	30.1
Water/Wastewater	215.2	67.4	83.4
Parking Authority	8.8	9.3	6.5
Planning Act	72.7	74.3	53.7
<b>Total Obligatory reserve funds</b>	1,374.4	1,163.8	935.3

**TOTAL: TABLES 1 & 2**

**2,713.1**

**2,636.0**

**2,189.9**

TABLE 3 UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
<b>Reserves</b>		
Vehicle & Equipment Replacement	.560	Auction proceeds.
	.260	Insurance recoveries.
	.015	Other recoveries
Water & Wastewater Stabilization	21.949	Transfer of \$21.949 million operating surplus from Water & Wastewater operations.
Water & Wastewater Stabilization	1.042	Transfer of \$1.042 million Toronto Water net savings from the 2009 labour disruption as per EX36.29 adopted by Council on November 30, December 1, 2, 4 and 7, 2009.
	23.826	
<b>Council directed reserve funds</b>		
Waste Management	4.854	Transfer of \$4.854 million in tax related net savings from the 2009 labour disruption as per EX35.6 adopted by Council on October 26, and 27, 2009.
	4.854	

<b>TABLE 4 UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING &amp; CAPITAL (\$MILLIONS)</b>		
<b>Description</b>	<b>Amount</b>	<b>Comments</b>
<b>Council directed reserve funds</b>		
Capital Revolving Fund – Affordable Housing	.120	Funding of \$120,000 for the preliminary planning of the Lawrence Heights Revitalization project, according to item EX10.36 adopted by Council on July 16, 17, 18, and 19, 2008.
Mayor's Homeless Initiative	.550	Funding of \$550,000 for Shelter recreation centres as per Policy & Finance Committee Report 2, Clause 1, adopted by Council on February 1, 2, and 3, 2005
Land Acquisition	2.359	Funding of \$2.359 million for print shop relocation project, as approved in the 2008 capital budget.
	3.029	
<b>Obligatory reserve funds</b>		
Development Charges	1.425	Funding of \$1.425 million for Library capital project, as approved in the 2008 capital budget.
Development Charges	.745	Funding of \$745,000 for affordable housing developments according to EX32.12 adopted by Council on May 25, 26, and 27, 2009.
Section 37	.170	Funding of \$170,000 for Parks capital projects, as approved in prior capital budgets.
	2.340	

### **Detailed Reserve and Reserve Fund Account Highlights**

Transfers budgeted to and from reserves and reserve funds agree with amounts included in capital and operating budgets approved by Council in December 2008 and March 2009, respectively, as well as other subsequently approved transfers. Reserve fund revenues are in the form of contributions (e.g. development charge fees, proceeds from property sales) and are budgeted in consultation with appropriate divisions based on estimates of economic activity relating to those sources.

Appendices A, B and C to this report provide detailed balances and activity for the year ended December 31, 2009. Appendix A provides details for reserves, Appendix B provides details for Council directed reserve funds, and Appendix C provides details for Obligatory reserve funds.

Transactions during the year relate primarily to the following:

- Receipt of contributions designated for reserve funds from third parties (e.g. development charges).
- Funding of actual operating and capital expenditures as provided for in the 2009 budgets.
- Funding of operating accounts for refunds or payments where proceeds had been originally credited to a reserve fund.
- Funding for property acquisitions and disposals.
- Interest earned on reserve funds.
- Entries which draw from stabilization reserves.

Interest is allocated to reserve funds once a year, at year-end, based on the reserve fund accounts' average quarterly closing balances from November 30, 2008 to November 30, 2009. In accordance with the interest allocation policy approved by Council at its meeting held on March 3, 4 and 5, 2008 (re: EX17.2 "Investment Earnings Policy and the Administration of Reserve Accounts"), the amount of interest to be allocated to reserve funds is based on the rate earned by 3 month Treasury Bills as estimated at the time of the preparation of the annual operating budget. As a result of the Federal government actions to combat the recession, this rate was very low for 2009 – 0.5%, a significant decrease from prior years.

Variances between budgeted and actual transfers to/from operating and capital typically arise when expenditures are funded on an actual basis. Furthermore, the amounts of some special transfers between reserve funds and operating and capital can not be accurately estimated or budgeted early in the year. Additional funding may be required for some operating and capital expenditures as the City's year-end financial statements are not complete as of the date of this report.

## **Reserves**

Reserves were budgeted to decrease by \$105.9 million by the end of December 31, 2009. However, preliminary reserve balances actually increased by \$4.7 million during the year, from \$501.4 million to \$506.1 million as at December 31, 2009. The \$110.6 million difference between the \$4.7 million actual increase and the \$105.9 million budgeted decrease was due to the following:

	<u>\$ M</u>
(a) The transfer of the Water & Wastewater operating surplus to the Water & Wastewater Stabilization reserve.	\$ 22.0
(b) The budgeted draw from the Social Assistance Stabilization Reserve was not required because of a lower than expected caseload in Toronto Employment & Social Services.	8.1
(c) Funding from the Vehicle and Equipment Replacement reserve not required in 2009 due to a deferral in replacing vehicles and equipment.	58.3
(d) Funding from the Capital Financing Reserve for capital projects not required in 2009 due to the delay or deferral of capital spending.	10.2
(e) Other	12.0
Difference between budget and actual	<u><u>\$ 110.6</u></u>

### **Reserve Funds - Council Directed**

Council directed reserve fund balances were budgeted to increase by \$21.8 million by December 31, 2009. However, Council directed reserve fund preliminary balances actually increased by \$128.8 million from \$837.3 million at the beginning of the year to \$966.1 million at December 31, 2009. The \$107.0 million difference between the \$128.8 million actual increase and the \$21.8 million budgeted increase was due to the following:

	<u>\$ M</u>
(a) Transfer of employee benefit expense savings from program allocation estimates to the Employee Benefits Reserve Fund.	\$ 21.5
(b) Draw from the Child Care Expansion Reserve Fund to purchase child care spaces was less than budgeted due to the receipt of higher than expected user fees in Children's Services.	6.9
(c) Transfer of tax related net savings from the 2009 labour disruption to the Waste Management Reserve Fund	4.9
(d) Funding not required for capital projects in 2009 due to the delay or deferral of capital spending.	77.3
(e) Proceeds from land sales credited to the Land Acquisition Reserve Fund less than the budgeted amount	(11.4)
(f) Other	7.8
Difference between budget and actual	<u><u>\$ 107.0</u></u>

### **Reserve Funds - Obligatory**

Obligatory reserve fund balances were budgeted to decrease by \$439.1 million by the end of December 31, 2009. However, preliminary Obligatory reserve fund balances only decreased by \$210.6 million during the year, from \$1,374.4 million to \$1,163.8 million as at December 31, 2009. This \$228.5 million difference between the \$210.6 million actual decrease and the \$439.1 million budgeted decrease was due to the following:

	<u>\$ M</u>
(a) The receipt of Section 37 funds, credited to the Section 37 Reserve Fund.	15.1
(b) Draw from the Social Housing Federal Reserve Fund for GTA pooling recoveries less than budgeted due to savings in Shelter & Housing from both a lower garbage levy due to the labour disruption, and lower property assessments.	21.1
(c) Draw from the National Child Benefit Supplement Reserve Fund for social assistance less than budgeted due to delays in the Investing in Neighbourhoods & Families programs caused by the 2009 labour disruption.	18.3
(d) Funding of \$183.5 million for capital projects not required in 2009 because of the delay or deferral of capital spending.	183.5
(e) Other	(9.5)
Difference between budget and actual	<u><u>\$ 228.5</u></u>

In summary, total reserve and reserve fund preliminary year-end balances decreased by \$77.1 million during 2009 as compared to a budgeted decrease of \$523.2 million. The details regarding differences between actual and budget for each of the reserves, reserve funds, and obligatory reserve funds are outlined in this report.

## CONTACT

Mike St. Amant  
Director, Accounting Services  
Tel: 416-397-4438  
Fax: 416-392-8003  
Email: [mstaman@toronto.ca](mailto:mstaman@toronto.ca)

Shairoz Murji  
Manager, Corporate Financial Reporting  
Tel: 416-397-5829  
Fax: 416-397-0834  
Email: [smurji@toronto.ca](mailto:smurji@toronto.ca)

## SIGNATURE

---

Giuliana Carbone  
Treasurer

## ATTACHMENTS

Appendix A: Reserves as of December 31, 2009

Appendix B: Council Directed Reserve Funds as of December 31, 2009

Appendix C: Obligatory Reserve Funds as of December 31, 2009