

Reserves and Reserve Funds Variance Report – September 30, 2017

Date: November 13, 2017

To: Budget Committee

From: Treasurer

Wards: All

SUMMARY

This report provides information on reserve and reserve fund balances as at September 30, 2017, indicating activity during the first nine months of 2017, and projected year-end balances. The vast majority of these funds have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending.

RECOMMENDATIONS

The Treasurer recommends that:

1. Budget Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications contained in this report.

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

DECISION HISTORY

Variance reports are provided to the Budget Committee as part of the quarterly budget variance reporting process, incorporating format and content recommendations made by the Committee and Council over several budget cycles.

To view previous Variance Reports online please see the links below:

September 30, 2016 Reserve and Reserve Funds Variance Report:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.BU26.6>

December 31, 2016 Reserve and Reserve Funds Variance Report:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.BU33.3>

COMMENTS

Reserves and Reserve Funds are created with Council approval to set monies aside: for planned future expenditures; to protect the City against unbudgeted or unforeseen events; 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 are 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.

Table 1 on page 4, summarizes the actual reserve and reserve fund balances as at September 30, 2017 (with a comparison to December 31, 2016) as well as the 2017 Annual Budget projections which include:

- a. Council approved transfers to and from reserves and reserve funds included in the 2017 approved operating and capital budgets, as well as other subsequently approved transfers; and,

b. Projected reserve fund revenues / contributions (e.g. development charge fees, proceeds from property sales) determined in consultation with appropriate divisions and agencies based on estimates of economic activity relating to the various revenue sources.

In addition to these reserve and reserve fund balances, there are loans recoverable for several of these funds, which are summarized in Table 2.

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 first nine months of 2017 that were approved outside of the 2017 operating and capital budgets.

Detailed information on each reserve and reserve fund is shown in Appendices A1, B1, and C1. Appendices A2, B2, and C2 provide information on outstanding loans receivable by various Reserves and Reserve Funds, which represent assets of the funds.

The reserve and reserve fund balances at September 30, 2017 total \$5.0 billion (December 31, 2016: \$4.0 billion) as compared with a projected year-end balance of \$3.9 billion.

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. For example, 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. Nevertheless, the approved 10 year Operating and Capital budgets and plan for Toronto Water has put the program and Water and Wastewater Capital Reserve Fund on a sustainable footing.

The loan amounts outstanding from reserves and reserve funds have been shown in Table 2 and Appendices A2, B2 and C2. Although reserves and reserve funds will continue to be managed and reported based on cash available, these loans do represent assets of the funds, and should be considered when forecasting future fund balances. Outstanding loan balances as of September 30, 2017 are:

Reserves	\$11.9 million
Council Directed Reserve Funds	41.5 million
Obligatory Reserve Funds	<u>17.8 million</u>
Total	<u>\$71.2 million</u>

Table 1: September 30, 2017 Balance Summary (\$Millions)

Description	Dec. 31, 2016 Actuals	Sep. 30, 2017 Actuals	Dec. 31, 2017 Projected*
Reserves			
Corporate	535.7	750.2	565.1
Water / Wastewater	168.1	50.4	170.2
Stabilization	173.8	183.7	116.7
Donations	1.5	1.6	1.2
Total	879.1	985.9	853.2
Council Directed Reserve Funds			
Employee benefits	257.3	262.6	250.1
Corporate	436.5	489.9	387.7
Community initiatives	86.6	95.9	76.0
State of Good Repair	281.5	307.6	254.3
Total	1,061.9	1,156.0	968.1
Total Reserves and Council Directed Reserve Funds	1,941.0	2,141.9	1,821.3
Obligatory Reserve Funds			
Development charges	681.9	721.5	601.3
Community services	72.9	68.9	60.6
Parkland Acq/New Developmt	375.8	420.0	333.8
Third Party agreements	12.5	19.8	20.3
Public Transit Funds	99.8	168.5	102.3
State of Good Repair	75.6	90.8	92.0
Water/Wastewater	536.0	1,123.6	643.9
Parking Authority	5.2	5.2	5.3
Planning Act	218.5	232.8	189.4
Total Obligatory Reserve Funds	2,078.2	2,851.1	2,048.9
TOTAL: All Reserves & Reserve Funds	4,019.2	4,993.0	3,870.2

*Based on prior year actuals and budget amounts approved during the current year.

Table 2: September 30, 2017 Loan Balance Summary (\$Millions)

Description	Dec. 31, 2016	Sep. 30, 2017
Reserves		
Stabilization	11.9	11.9
Total	11.9	11.9
Council Directed Reserve Funds		
Corporate	18.8	17.9
Community initiatives	24.0	23.6
State of Good Repair	0.6	0.0
Total	43.4	41.5
Total Reserves and Council Directed Reserve Fund Loan Balances	55.3	53.4
Obligatory Reserve Funds		
Development charges	4.0	8.0
Community services	10.0	9.8
Total Obligatory Reserve Fund Loan Balances	14.0	17.8
TOTAL: Loan Balances from Reserves & Reserve Funds	69.3	71.2

Table 3: Unbudgeted 2017 Transfers to Reserves/Reserve Funds from Operating & Capital in the First Nine months of 2017 (\$Millions)

Description	Amount (\$Millions)	Comments
Reserves		
Capital Financing	.126	Return of unrequired funding for various Transportation projects.
Vehicle & Equipment Replacement	.488	Auction proceeds.
	.018	Fuel tax refund
	.547	Arbitration award (damages)
	.043	Return of unrequired funding for various IT projects.
Total	1.222	
Council Directed Reserve Funds		
Major Special Event	.178	Return of unrequired funding for Pan Am Path project.
Energy Conservation	.016	Return of unrequired funding for various Facilities projects.
SWM Perpetual Care	.147	Return of unrequired funding for various Solid Waste projects.
Waste Management	.115	Return of unrequired funding for various Solid Waste projects.
Green Lane	.300	Return of unrequired funding for Cell Excavation project.
Public Realm	.179	Return of unrequired funding for various Transportation projects.
Total	.935	

Obligatory Reserve Funds		
Development Charges	.118	Return of unrequired funding for various Library projects.
	.266	Return of unrequired funding for various Parks projects.
	.234	Return of unrequired funding for various Transportation projects.
	.127	Return of unrequired funding for James Finlay Way Wastewater project.
Parkland Acq/ New Development	.363	Return of unrequired funding for various Parks projects.
Water & Wastewater Capital	.014	Return of unrequired funding for various Wastewater projects.
Section 37	.112	Return of unrequired funding for various Transportation projects.
	.215	Return of unrequired funding for various Parks projects.
Total	1.449	

Table 4: Unbudgeted 2017 Transfers from Reserves/Reserve Funds to Operating & Capital in the First Nine months of 2017 (\$Millions)

Description	Amount (\$Millions)	Comments
Reserves		
Vehicle & Equipment Replacement	.762	Funding for Bunker Suits Lifecycle Replacement project as approved in prior year capital budgets.
	.063	Funding for City Clerks Archive SOGR project as approved in prior year capital budgets.
	2.315	Funding for Enterprise Server Replacement project as approved in prior year capital budgets.
	9.724	Funding for various Fleet capital projects as approved in prior year capital budgets.
Vehicle & Equip Rep Water/Wastewater	1.330	Funding for Water Vehicle & Equipment Replacement project as approved in the 2016 capital budget.
Total	14.194	
Council Directed Reserve Funds		
Strategic Infrastructure Partnership	.046	Funding for Lake Ontario Park project as approved in prior year capital budgets.
SWM Perpetual Care	8.240	Funding for various Solid Waste projects as approved in prior year capital budgets.
Waste Management	12.279	Funding for various Solid Waste projects as approved in prior year capital budgets.
Green Lane	.420	Funding for Gas Control System project as approved in prior year capital budgets.
Public Realm	.011	Funding for various Transportation projects, as approved in prior year capital budgets.
Total	20.996	

Obligatory Reserve Funds		
Development Charges	.918	Funding for Virtual Branch project as approved in prior year capital budgets.
Parkland Acq/New Development	.553	Funding for various Parks projects as approved in prior year capital budgets.
Water & Wastewater Capital	1.272	Funding for various Water projects as approved in prior year capital budgets.
Section 37	.124	Funding for various Transportation projects as approved in prior year capital budgets.
	.062	Funding for various Parks projects as approved in prior year capital budgets.
Total	2.929	

Detailed Reserve and Reserve Fund Account Highlights

Appendices A1, B1 and C1 to this report provide detailed balances and activity for the first nine months of 2017. Appendix A1 provides details for reserves, Appendix B1 provides details for Council directed reserve funds, and Appendix C1 provides details for Obligatory reserve funds. Appendices A2, B2, and C2 provide details on the borrowers and amounts outstanding for the reserve fund loan balances presented in Table 2.

Transactions during the first nine months of 2017 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 2017 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;
- Repayments on loans previously granted from reserves and reserve funds;

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, 2016 to November 30, 2017. 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 three month Treasury Bills as estimated at the time of the preparation of the annual operating budget. As a result of the Bank of Canada's continuing concern about economic conditions, this rate remains very low: 0.48% for 2017.

The main reason for the variances between budgeted and actual transfers to/from operating and capital is that expenditures are funded on an actual basis. A large portion of approved capital expenditures is incurred during the latter portion of the year, which will be funded from Reserves and Reserve Funds in the fourth quarter.

Furthermore, most operating transfers are processed on a quarterly basis beginning in the second quarter, so that the total amount transferred will not equal the budget amount until the end of the year.

Reserves

Reserve balances increased by \$106.8 million (from \$879.1 million at the beginning of the year to \$985.9 million at September 30, 2017). This increase was due to:

		\$M
(a)	Allocation from the 2016 year-end operating surplus to various reserves.	174.8
(b)	Transfer of Municipal Land Transfer Tax to the Capital Financing Reserve	30.0
(c)	Transfer from the Waste Management Reserve Fund to the Vehicle and Equipment Replacement Reserve to fund the replacement of 60 Class 8 collection vehicles as per EX20.23, adopted by Council on Dec 13-14, 2016	18.3
(d)	Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year	47.8
(e)	Transfer of surplus balance from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund as per EX3.1, adopted by Council on Mar 10-11, 2015.	(118.9)
(f)	Funding for capital projects during the first nine months of the year.	(49.0)
(g)	Other	3.8
	Increase in Reserve balances	106.8

Reserve Funds - Council Directed

Council directed reserve fund balances increased by \$94.1 million (from \$1,061.9 million at the beginning of the year to \$1,156.0 million at September 30, 2017). This increase was due to:

		\$M
(a)	Allocation from the 2016 year-end operating surplus to various reserve funds.	30.3
(b)	Non-program contribution to the Election Reserve Fund.	10.9
(c)	Draw from Transit Infrastructure Reserve Fund for debt charges	(4.0)
(d)	Contribution of transit expansion levy to the Scarborough Transit Reserve Fund	30.5
(e)	Non-program contribution to the City Building Reserve Fund	10.5
(f)	Proceeds from land sales credited to the Land Acquisition Reserve Fund.	5.4
(g)	Contribution to the Child Care Capital Cost Reserve Fund for capital financing by Children's Services.	7.9
(h)	Solid Waste Management contributions to the SWM Perpetual Care Reserve Fund	6.2
(i)	Solid Waste Management contributions to the Waste Management Reserve Fund	9.5
(j)	Transfer from the Waste Management Reserve Fund to the Vehicle and Equipment Replacement Reserve to fund the replacement of 60 Class 8 collection vehicles as per EX20.23, adopted by Council on Dec 13-14, 2016	(18.3)
(k)	Contribution of minimum annual revenue to the Public Realm Reserve Fund from Astral Media.	19.6
(l)	Solid Waste Management contributions to the Solid Waste Debt Reserve Fund	27.6
(m)	Funding for capital projects during the first nine months of the year.	(46.3)
(n)	Other	4.3
	Increase in Council Directed Reserve Fund Balances	94.1

Reserve Funds - Obligatory

Obligatory reserve fund balances increased by \$772.9 million (from \$2,078.2 million at the beginning of the year to \$2,851.1 million at September 30, 2017). This increase was due to:

		\$M
(a)	Allocation from the 2016 year-end operating surplus to various reserve funds.	16.3
(b)	Receipt of \$163.7 million in Development Charges and \$51.7 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively	215.4
(c)	Funding of debt charges from the Development Charge Reserve Fund	(8.2)
(d)	Funding for Shelter programs from the Development Charge Reserve Fund	(6.4)
(e)	Draw from the National Child Benefit Support Reserve Fund for TESS.	(5.1)
(f)	Receipt of donation to the Gardiner West Public Realm Improvement Reserve Fund	8.0
(g)	Receipt of funding for the Spadina Subway Extension Project from the Federal and Provincial governments and the Region of York, which was credited to the Toronto-York Spadina Subway Extension Reserve Fund	74.2
(h)	Transfer of funding from capital to the Toronto York Spadina Subway Extension Reserve Fund as approved in the capital budget.	108.4
(i)	Transfer from Water and Wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing as budgeted	591.2
(j)	Transfer of surplus balance from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund as per EX3.1, adopted by Council on Mar 10-11, 2015.	118.9
(k)	The receipt of Section 37 & 45 funds, which were credited to the Section 37 Reserve Fund and Section 45 Reserve Fund	22.1
(l)	Funding of payments to outside parties from the Section 37 & 45 Reserve Funds.	(3.9)
(m)	Funding for capital projects during the first nine months of the year.	(354.2)
(n)	Other	(3.8)
	Increase in Obligatory Reserve Fund Balances	772.9

In summary, total reserve and reserve fund balances have increased by \$973.8 million during the first nine months of 2017 from \$4,019.2 million at the beginning of the year to \$4,993.0 million at September 30, 2017. These balances are projected to decline by \$1,122.8 million in the rest of 2017 upon the completion of funding expenditures approved in the 2017 operating and capital budgets.

CONTACT

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SIGNATURE

Mike St. Amant
Treasurer

ATTACHMENTS

Appendix A1: Reserves as of September 30, 2017
Appendix B1: Council Directed Reserve Funds as of September 30, 2017
Appendix C1: Obligatory Reserve Funds as of September 30, 2017
Appendix A2: Loan Receivable Balance: Reserves, as of September 30, 2017
Appendix B2: Loan Receivable Balance: Council Directed Reserve Funds, as of September 30, 2017
Appendix C2: Loan Receivable Balance: Obligatory Reserve Funds, as of September 30, 2017