



## Reserve and Reserve Fund Balances Report – September 30, 2018

**Date:** December 5, 2018

**To:** City Council

**From:** Chief Financial Officer

**Wards:** All

### SUMMARY

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This report provides information on reserve and reserve fund balances as at September 30, 2018, based on budgeted and unbudgeted contributions and draws made during the first nine months of 2018. The vast majority of these funds have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending.

### RECOMMENDATIONS

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The Chief Financial Officer recommends that:

1. City Council receive this report for information.

### FINANCIAL IMPACT

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There are no financial implications contained in this report.

## DECISION HISTORY

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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, 2017 Reserve and Reserve Funds Variance Report:  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.26>

December 31, 2017 Reserve and Reserve Funds Variance Report:  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.27>

## COMMENTS

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Reserves and Reserve Funds are part of good management that allows for funds to be spent judiciously over time or to ensure service levels are maintained and not immediately impacted by a potential downturn in the economy.

The creation, use and management of Reserves and Reserve Funds in a formalized financial reserve policy is a best practice and consistent feature of most large cities in Canada and the U.S.

Reserves and Reserve Funds are used to accumulate funds over time to replace capital assets, and also provide a measure of financial flexibility to react to budget shortfalls or the financial impact of significant unexpected issues in a timely manner.

A properly balanced approach to the planning and use of Reserves and Reserve Funds is considered good financial management and is a key component of the City of Toronto's strong credit rating.

The main difference between Reserves and Reserve Funds is the allocation of investment income, which forms part of the Reserve Fund balance. There are two types of 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 prescribed purposes.
- b. Council Directed Reserve Funds are created by Council for specific purposes through by-law.

## **Reserve and Reserve Fund balances at September 30, 2018**

As at September 30, 2018, the balance of the City's Reserves and Reserve Funds totals \$5.7B (\$4.5B as at December 31, 2017). This balance includes loans payable back to various Reserves and Reserve funds of \$71.1M. The balance of the City's Reserves and Reserve Funds excluding the loans receivable is \$5.6B (\$4.5B as at December 31, 2017).

Table 1 summarizes the total Reserve and Reserve fund balances, which include loans payable back to the Reserves and Reserve Funds, as at September 30, 2018, with a comparison to December 31, 2017. The balances incorporates transfers made to date that were included in the 2018 Council approved operating and capital budgets, as well as other subsequently approved transfers. Loans receivable of \$71.1M represent assets to the Reserves and Reserve Funds.

**Table 1: September 30, 2018 Balance Summary with Loans Receivable (\$Millions)**

Description	Dec. 31, 2017 Actuals	Sep 30, 2018 Actuals
<b>Reserves</b>		
Corporate	674.4	885.4
Water / Wastewater	75.7	77.7
Stabilization	163.7	192.0
Donations	1.4	1.4
<b>Total</b>	<b>915.2</b>	<b>1,156.5</b>
<b>Council Directed Reserve Funds</b>		
Employee benefits	279.4	297.2
Corporate	473.0	526.5
Community initiatives	132.9	140.2
State of Good Repair	248.9	282.5
<b>Total</b>	<b>1,134.2</b>	<b>1,246.4</b>
<b>Total Reserves and Council Directed Reserve Funds</b>	<b>2,049.4</b>	<b>2,402.9</b>
<b>Obligatory Reserve Funds</b>		
Development charges	653.6	913.0
Community services	73.2	63.3
Parkland Acq/New Developmt	408.0	451.1
Third Party agreements	18.2	17.3
Public Transit Funds	114.4	231.7
State of Good Repair	92.6	120.0
Water/Wastewater	885.7	1,253.2
Parking Authority	4.0	4.0
Planning Act	228.1	260.8
<b>Total Obligatory Reserve Funds</b>	<b>2,477.8</b>	<b>3,314.4</b>
<b>TOTAL: All Reserves &amp; Reserve Funds</b>	<b>4,527.2</b>	<b>5,717.3</b>

Table 2 provides Reserve and Reserve Fund balances as at September 30, 2018, with December 31, 2017 comparatives, but excludes loan balances payable back to certain Reserves and Reserve Funds.

**Table 2: September 30, 2018 Balance Summary excluding Loans Receivable (\$Millions)**

Description	Dec. 31, 2017 Actuals	Sep 30, 2018 Actuals
<b>Reserves</b>		
Corporate	674.4	885.4
Water / Wastewater	75.7	77.7
Stabilization	151.8	180.1
Donations	1.4	1.4
<b>Total</b>	<b>903.3</b>	<b>1,144.6</b>
<b>Council Directed Reserve Funds</b>		
Employee benefits	279.4	297.2
Corporate	455.7	510.0
Community initiatives	109.5	117.2
State of Good Repair	248.9	282.5
<b>Total</b>	<b>1,093.5</b>	<b>1,206.9</b>
<b>Total Reserves and Council Directed Reserve Funds</b>	<b>1,996.8</b>	<b>2,351.5</b>
<b>Obligatory Reserve Funds</b>		
Development charges	643.0	902.6
Community services	63.4	54.0
Parkland Acq/New Developmt	408.0	451.1
Third Party agreements	18.2	17.3
Public Transit Funds	114.4	231.7
State of Good Repair	92.6	120.0
Water/Wastewater	885.7	1,253.2
Parking Authority	4.0	4.0
Planning Act	228.1	260.8
<b>Total Obligatory Reserve Funds</b>	<b>2,457.4</b>	<b>3,294.7</b>
<b>TOTAL: All Reserves &amp; Reserve Funds</b>	<b>4,454.2</b>	<b>5,646.2</b>

Table 3 provides details of the outstanding loans receivable balances of \$71.1M as at September 30, 2018, with December 31, 2017 comparatives.

**Table 3: September 30, 2018 Loan Receivable Balance Summary (\$Millions)**

Description	Dec. 31, 2017	Sep 30, 2018
<b>Reserves</b>		
Stabilization	11.9	11.9
Total	11.9	11.9
<b>Council Directed Reserve Funds</b>		
Corporate	17.3	16.5
Community initiatives	23.4	23.0
Total	40.7	39.5
<b>Total Reserves and Council Directed Reserve Fund Loan Balances</b>	<b>52.6</b>	<b>51.4</b>
<b>Obligatory Reserve Funds</b>		
Development charges	10.6	10.4
Community services	9.8	9.3
<b>Total Obligatory Reserve Fund Loan Balances</b>	<b>20.4</b>	<b>19.7</b>
<b>TOTAL: Loan Balances from Reserves &amp; Reserve Funds</b>	<b>73.0</b>	<b>71.1</b>

As part of the operating and capital budget processes, transfers to, and draws from, Reserves and Reserve Funds are approved by Council. Information on the nature and authority for contributions made to, and draws made from, reserves and reserve funds during the third quarter of 2018 that were approved outside of the current year operating and capital budgets or through a special report to Council are reported in Tables 4 and 5 as unbudgeted transfers.

**Table 4: Unbudgeted 2018 Transfers to Reserves or Reserve Funds from Operating and Capital in the Third Quarter of 2018 (\$Millions)**

Description	Amount (\$Millions)	Comments
<b>Reserves</b>		
Vehicle & Equipment Replacement	.487	Auction proceeds
	.279	Insurance loss recoveries
	.169	Sale of Critical Care Transfer Unit vehicle to Province as part of Ornge subsidy
	.047	Return of unrequired funding for Resource Requirements IT project
<b>Total</b>	<b>.982</b>	
<b>Council Directed Reserve Funds</b>		
SWM Perpetual Care	.017	Return of unrequired funding for 2016 Landfill project
Waste Management	.034	Return of unrequired funding for various Solid Waste projects
<b>Total</b>	<b>.051</b>	
<b>Obligatory Reserve Funds</b>		
Development Charges	.930	Return of unrequired funding for various Library projects
Parkland Acq/ New Development	.016	Return of unrequired funding for Humberton Park Stairway project
Building Code Act Service Improvement	.286	Return of unrequired funding for Electronic Service Delivery project for Toronto Buildings as approved in prior year capital budgets
Section 37*	.836	Return of unrequired funding for various Library projects
<b>Total</b>	<b>2.068</b>	

\*Holds funds collected under Section 37 of the Provincial Planning Act for local community benefits.

**Table 5: Unbudgeted 2018 Transfers from Reserves or Reserve Funds to Operating and Capital in the Third Quarter of 2018 (\$Millions)**

Description	Amount (\$Millions)	Comments
<b>Reserves</b>		
Capital Financing	.157	Funding of prior year expenses in the Wan High Speed Fibre Data Services project
Vehicle & Equipment Replacement	.492	Funding of prior year expenses in various IT capital projects
<b>Total</b>	<b>.649</b>	
<b>Council Directed Reserve Funds</b>		
Green Lane	1.864	Funding of prior year expenses in various Solid Waste projects
<b>Total</b>	<b>1.864</b>	
<b>Obligatory Reserve Funds</b>		
Development Charges	2.197	Funding of prior year expenses in various Library projects
Parkland Acq/New Development	.333	Funding of prior year expenses in various Parks projects
TransformTo Initiatives	6.242	Return of unspent Municipal Green House Gas Challenge funds to the Province after cancellation of the program
Section 37	.143	Funding of prior year expenses in various Library projects
	.209	Funding of prior year expenses in the Lisgar Park project
	.024	Funding of prior year expenses in the Porte-Cochere lighting restoration project
<b>Total</b>	<b>9.148</b>	

### **Reserves and Reserve Funds activity to September 30, 2018**

Appendices A1, B1 and C1 to this report provide activity and balances, excluding loans receivable, by individual Reserve or Reserve Fund for the nine months ended September 30, 2018. 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 of the borrowers and amounts outstanding for the reserve fund loan balances presented in Table 3. Budget amounts are provided for information purposes only.



Transactions during the first nine months of 2018 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 2018 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; and
- Repayments on loans previously granted from reserves and reserve funds.

Interest is allocated to reserve funds annually at year-end, based on the reserve funds average quarterly closing balances from December 1 to November 30. 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. The 2018 rate increased to 1.16% from 0.48% in 2017, as the Bank of Canada has relaxed the very low and accommodative interest rates from 2017 because of improved economic activity.

### Reserves balance activity summary

Reserve balances, excluding loans receivable, increased by \$241.3 million, from \$903.3 million at the beginning of the year to \$1,144.6 million at September 30, 2018. This increase was due to:

		\$M
(a)	Allocation from the 2017 year-end operating surplus to various reserves	249.5
(b)	Transfer of Municipal Land Transfer Tax to the Capital Financing Reserve	30.0
(c)	Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year	50.6
(d)	Funding for capital projects during the first nine months of the year	(82.4)
(e)	Other	(6.4)
	<b>Increase in Reserve balances</b>	<b>241.3</b>

## Reserve Funds - Council Directed activity summary

Council directed reserve fund balances, excluding loans receivable, increased by \$113.4 million, from \$1,093.5 million at the beginning of the year to \$1,206.9 million at September 30, 2018. This increase was due to:

		\$M
(a)	Allocation from the 2017 year-end operating surplus to various reserve funds	19.7
(b)	Net contributions to the Worker's Compensation Reserve Fund from Non-program	4.3
(c)	Non-program contributions to the Employee Benefits Reserve Fund greater than benefit expenses for retirees and LTD employees	9.3
(d)	Net contributions to the Sick Leave Reserve Fund from Non-program	2.8
(e)	Net contributions to the Insurance Reserve Fund by divisions and agencies	26.0
(f)	Funding of election operations and events from the Election Reserve Fund	(5.5)
(g)	Toronto Hydro transfer to the Strategic Infrastructure Reserve Fund	4.0
(h)	Draw from the Transit Infrastructure Reserve Fund for debt charges	(4.0)
(i)	Contribution of transit expansion levy to the Scarborough Transit Reserve Fund	30.5
(j)	Non-program contribution to the City Building Reserve Fund	7.2
(k)	Proceeds from land sales credited to the Land Acquisition Reserve Fund	9.3
(l)	Contribution to the Child Care Capital Cost Reserve Fund for capital financing by Children's Services	11.2
(m)	Solid Waste Management contributions to the SWM Perpetual Care Reserve Fund	8.0
(n)	Solid Waste Management contributions to the Waste Management Reserve Fund	11.5
(o)	Allocation of the Solid Waste surplus to the Waste Management Reserve Fund	4.0
(p)	Contribution of minimum annual revenue to the Public Realm Reserve Fund from Astral Media	26.0
(q)	Solid Waste Management net contributions to the Solid Waste Debt Reserve Fund	11.3
(r)	Funding for capital projects during the first nine months of the year	(60.7)
(s)	Other	(1.5)
	<b>Increase in Council Directed Reserve Fund Balances</b>	<b>113.4</b>

## Reserve Funds – Obligatory activity summary

Obligatory reserve fund balances, excluding loans receivable, increased by \$837.3 million, from \$2,457.4 million at the beginning of the year to \$3,294.7 million at September 30, 2018. This increase was due to:

		\$M
(a)	Allocation from the 2017 year-end operating surplus to the Building Code Act Service Improvement Reserve Fund	27.6
(b)	Receipt of \$314.2 million in Development Charges and \$45.9 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively	360.1
(c)	Refunds of development charges during the first nine months of 2018	(5.7)
(d)	Draw from the National Child Benefit Support Reserve Fund for TESS	(4.4)
(e)	Draw from the Social Housing Federal Reserve Fund for Shelter, Support & Housing Administration	(5.6)
(f)	Receipt of \$181.9 million in Provincial Gas Tax revenue less a transfer of \$68.7 million in funding to TTC operations	113.2
(g)	Receipt of funding for the Spadina Subway Extension Project from the Federal government and the Region of York, which was credited to the Toronto-York Spadina Subway Extension Reserve Fund	49.2
(h)	Transfer of funding from capital to the Toronto York Spadina Subway Extension Reserve Fund as approved in the capital budget	72.5
(i)	Transfer from Water and Wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing	631.6
(j)	The receipt of Section 37 & 45 funds, which were credited to the Section 37 Reserve Fund and Section 45 Reserve Fund	35.7
(k)	Funding for capital projects during the first nine months of the year	(433.9)
(l)	Other	(3.0)
	<b>Increase in Obligatory Reserve Fund Balances</b>	<b>837.3</b>

Total Reserve and Reserve fund balances, excluding loans receivable, have increased by \$1,192.0 million during the first nine months of 2018 from \$4,454.2 million at the beginning of the year to \$5,646.2 million at September 30.

Contributions to, and draws from, continue to be made to both Reserves and Reserve Funds based on Council approved transfers. In fact, a large portion of approved capital expenditures is incurred during the latter portion of the year, and therefore funded from Reserves and Reserve Funds in the fourth quarter. Most balances as reported are committed to fund capital and other liabilities beyond December 31, 2018.

The City is currently initiating a reserve fund study which will inform the City on the recommended reserve fund balances.

## **CONTACT**

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## **SIGNATURE**

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Heather Taylor  
Chief Financial Officer

## **ATTACHMENTS**

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Appendix A1: Reserves as of September 30, 2018  
Appendix B1: Council Directed Reserve Funds as of September 30, 2018  
Appendix C1: Obligatory Reserve Funds as of September 30, 2018  
Appendix A2: Loan Receivable Balance: Reserves as of September 30, 2018  
Appendix B2: Loan Receivable Balance: Council Directed Reserve Funds as of September 30, 2018  
Appendix C2: Loan Receivable Balance: Obligatory Reserve Funds as of September 30, 2018