



**STAFF REPORT
ACTION REQUIRED**

**Reserves and Reserve Funds Variance Report –
September 30, 2011**

Date:	December 20, 2011
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2012\Internal Services\Acc\bc12001Acc (AFS11723)

SUMMARY

The purpose of this report is to provide information on reserve and reserve fund balances as at September 30, 2011, and activity in reserves and reserve funds during the first nine months of 2011, 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.

RECOMMENDATION

The Treasurer recommends that:

1. Budget Committee receive this report for information.

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

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.

ISSUE BACKGROUND

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

Tables 1 and 2, below, summarize the actual reserves and reserve fund balances as at September 30, 2011 (with a comparison to December 31, 2010), as well as budgeted year-end balances from the 2011 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 third quarter of 2011 that were approved outside of the 2011 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 fund balances at September 30, 2011 total \$2.6 billion (December 31, 2010: \$2.5 billion) as compared with a projected year-end balance of \$2.0 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. 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.

2011 Third Quarter Balance Summary (Tables 1 and 2):

TABLE 1: RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2010 Actuals	Sept. 30, 2011 Actuals	Dec. 31, 2011 Budget
Reserves			
Corporate	319.8	325.5	211.7
Water / Wastewater	56.6	36.0	33.0
Stabilization	151.9	162.3	144.0
Donations	2.0	2.3	1.9
	530.3	526.1	390.6
Council directed reserve funds			
Employee benefits	182.6	156.2	157.6
Corporate	414.4	409.9	320.1
Community initiatives	91.3	78.7	39.3
State of Good Repair	136.5	145.0	73.4
	824.8	789.8	590.4
Total Reserves and Council directed reserve funds	1,355.1	1,315.9	981.0

TABLE 2: OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2010 Actuals	Sept. 30, 2011 Actuals	Dec. 31, 2011 Budget
Obligatory reserve funds			
Development charges	273.9	340.0	255.3
Community services	67.1	77.3	53.0
Parkland Acq/New Devel	99.0	135.1	128.8
Third Party agreements	39.1	42.5	36.2
Public Transit Funds	485.2	427.8	372.6
State of Good Repair	28.6	31.4	32.9
Water/Wastewater	2.7	135.8	5.2
Parking Authority	10.2	10.4	10.3
Planning Act	90.0	113.9	75.4
Total Obligatory reserve funds	1,095.8	1,314.2	969.7

TOTAL: TABLES 1 & 2 **2,450.9** **2,630.1** **1,950.7**

TABLE 3: UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Reserves		
Vehicle & Equipment Replacement	.269	Auction proceeds.
	.127	Motor pool contributions
Donations	.261	Donations received.
Social Housing Stabilization	.178	Return of \$178,000 in unspent loan funds from 55 Howard Park Co-op Homes, including GST rebate and interest earned.
	.835	
Obligatory reserve funds		
Toronto York Spadina Subway Extension	18.357	Interim bridge financing of \$18.357 million for 2011 capital budget authorized debt funding of Spadina Subway Extension capital project.
Water & Wastewater Capital	3.871	Transfer of \$3.871 million settlement with Republic Services for the bio-solids contractual dispute, as per CC7.7, adopted by Council on April 12-13, 2011.
	22.228	

TABLE 4: UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Obligatory reserve funds		
Development Charges	3.915	Funding of \$3.915 million for Police capital projects, approved in the 2010 capital budget.
Section 37	.069	Funding of \$69,000 for Economic Development & Culture capital project, as approved by Motion J(30) adopted by Council on Sep 25-28, 2006.
Section 45	.050	Funding of \$50,000 for Parks capital project, as approved in the 2007 capital budget.
	4.034	

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 2010 and February 2011, 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 first nine months of 2011. 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 2011 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 is allocated to reserve funds once a year, at year-end, based on the reserve fund accounts' average quarterly closing balances from November 30, 2010 to November 30, 2011. 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 concern about the economic recovery, this rate was very low for 2011 – 0.94%.

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. Finally, the amounts of some special transfers between reserve funds and operating and capital cannot be accurately estimated or budgeted early in the year.

Reserves

Reserve balances decreased by \$4.2 million (from \$530.3 million at the beginning of the year to \$526.1 million at September 30, 2011). This decrease was mostly the result of the following:

	<u>\$ M</u>
(a) Transfer from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund.	\$ (21.9)
(b) Transfer from the 2010 net operating surplus to the Tax Rate Stabilization Reserve	88.4
(c) Transfer remaining 2009 budget surplus from Tax Stabilization Reserve to fund 2011 Operating Budget	(77.5)
(d) Transfers from operating to reserves (excluding the transfer of the 2010 net operating surplus to the Tax Rate Stabilization Reserve	59.4
(e) Funding for capital projects during the first nine months of the year.	(52.5)
(f) Other	(.1)
Decrease in Reserves balances	<hr/> \$(4.2) <hr/> <hr/>

Reserve Funds - Council Directed

Council directed reserve fund balances decreased by \$35.0 million (from \$824.8 million at the beginning of the year to \$789.8 million at September 30, 2011). This decrease was mostly due to the following:

	<u>\$ M</u>
(a) Net funding of employee benefits from the Employee Benefits Reserve Fund.	\$ (13.4)
(b) Net funding of sick leave payouts from the Sick Leave Reserve Fund.	(7.5)
(c) Budgeted transfers to Parks operating from the Environment Protection Reserve Fund.	(7.0)
(d) The receipt of proceeds from land sales, which were credited to the Land Acquisition Reserve Fund	8.2
(e) Budgeted transfers to TCHC for pre-development work on Railway Lands from the Capital Revolving Fund for Affordable Housing Reserve Fund.	(12.3)
(f) Transfer from the 2010 net operating surplus to the Waste Management Reserve Fund.	11.5
(g) The receipt of Year 5 minimum annual revenue from the street furniture agreement with Astral Media, which was credited to the Public Realm Reserve Fund.	11.6
(h) Budgeted transfers to Transportation Services from the Public Realm Reserve Fund.	(7.2)

	<u>\$ M</u>
(i) Funding for capital projects during the first nine months of the year.	(17.4)
(j) Other.	(1.5)
Decrease in Council Directed Reserve Fund balances	<u>\$(35.0)</u>

Reserve Funds - Obligatory

Obligatory reserve fund balances increased by \$218.4 million (from \$1,095.8 million at the beginning of the year to \$1,314.2 million at September 30, 2011). This increase is primarily the result of the following:

	<u>\$ M</u>
(a) Receipt of \$105.6 million in Development Charges and \$38.8 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively.	144.4
(b) 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.	82.1
(c) Transfer of interim bridge financing for 2011 capital budget authorized debt funding of Spadina Subway Extension capital project to the Toronto-York Spadina Subway Extension Reserve Fund.	28.0
(d) Transfer from Water and Wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing as budgeted.	321.9
(e) Transfer from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund.	21.9
(f) Receipt of Section 37 funds, which were credited to the Section 37 Reserve Fund.	30.0
(g) Funding for capital projects during the first nine months of the year.	(415.1)
(h) Other	5.2
Increase in Obligatory Reserve Fund balances	<u><u>\$ 218.4</u></u>

Total reserve and reserve fund balances have increased by \$179.2 million during the first nine months of 2011 from \$2,450.9 million at the beginning of the year to \$2,630.1 million at September 30, 2011. These balances are projected to decline by \$679.4 million in the last quarter of 2011 upon the completion of funding expenditures approved in the 2011 operating and capital budgets.

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SIGNATURE

Giuliana Carbone
Treasurer

ATTACHMENTS

Appendix A: Reserves as of September 30, 2011
Appendix B: Council Directed Reserve Funds as of September 30, 2011
Appendix C: Obligatory Reserve Funds as of September 30, 2011