



STAFF REPORT ACTION REQUIRED

Reserves and Reserve Funds Variance Report – September 30, 2012

Date:	January 3, 2013
To:	Budget Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2013\Internal Services\Acc bc13001acc (AFS14748)

SUMMARY

This report provides information on reserve and reserve fund balances as at September 30, 2012, and activity in reserves and reserve funds during the first nine months of 2012, 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 Acting Treasurer recommends that:

1. Budget Committee receive this report for information.

Financial Impact

There are no financial implications contained in this report.

The Acting 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, 2012 (with a comparison to December 31, 2011), as well as the 2012 Annual Budget projections which include:

- a) Council approved transfers to and from reserves and reserve funds included in the 2012 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.

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 2012 that were approved outside of the 2012 operating and capital budgets. Detailed information on each reserve and reserve fund is shown in Appendices A, B and C.

The reserves and reserve fund balances at September 30, 2012 total \$2.9 billion (December 31, 2011: \$2.4 billion) as compared with a projected year-end balance of \$1.9 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. 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.

2012 Third Quarter Balance Summary (Tables 1 and 2):

TABLE 1: RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2011 Actuals	Sep. 30, 2012 Actuals	Dec. 31, 2012 Budget Projection
Reserves			
Corporate	288.8	296.1	215.1
Water / Wastewater	31.5	29.9	28.9
Stabilization	162.2	177.1	103.0
Donations	2.0	1.9	1.6
	484.5	505.0	348.6
Council directed reserve funds			
Employee benefits	164.7	165.1	145.3
Corporate	439.5	450.4	358.9
Community initiatives	78.9	80.9	52.5
State of Good Repair	138.2	116.4	111.8
	821.3	812.8	668.5
Total Reserves and Council directed reserve funds	1,305.8	1,317.8	1,017.1
TABLE 2: OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2011 Actuals	Sep. 30, 2012 Actuals	Dec. 31, 2012 Budget Projection
Obligatory reserve funds			
Development charges	317.4	402.7	305.3
Community services	70.7	81.7	43.0
Parkland Acq/New Devel	134.9	192.8	189.6
Third Party agreements	35.2	35.8	29.0
Public Transit Funds	388.5	493.2	151.4
State of Good Repair	33.7	33.7	40.5
Water/Wastewater	30.9	235.5	40.5
Parking Authority	11.6	11.7	7.9
Planning Act	109.9	131.3	90.9
Total Obligatory reserve funds	1,132.8	1,618.4	898.1

TOTAL: TABLES 1 & 2

2,438.6

2,936.2

1,915.2

TABLE 3: UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Reserves		
Vehicle & Equipment Replacement	.800	Auction proceeds.
	.065	Return of unrequired funding for Fleet capital projects.
	.003	Return of unrequired funding for City Clerk's capital project.
Capital Financing	.312	Return of unrequired funding for Transportation capital projects.
	.033	Return of unrequired funding for 311 Toronto capital project.
	.053	Return of unrequired funding for Facilities capital project.
Donations	.114	Donations received.
	1.380	
Council directed reserve funds		
Solid Waste Management Perpetual Care	.134	Return of unrequired funding for Solid Waste capital projects.
	.134	
Obligatory reserve funds		
Toronto York Spadina Subway Extension	17.357	Interim bridge financing for 2012 capital budget authorized debt funding of Spadina Subway Extension capital project.
Development Charges	.014	Return of unrequired funding for City Planning capital projects.
	.016	Return of unrequired funding for Transportation capital projects.
	1.826	Return of unrequired funding for Parks capital projects.
Parkland Acquisition	.662	Return of unrequired funding for Parks capital projects.
	19.875	

TABLE 4: UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL (\$MILLIONS)		
Description	Amount	Comments
Reserves		
Capital Financing	.655	Funding for Transportation capital projects, as approved in the 2011 capital budget.
Vehicle & Equipment Replacement	.725	Funding for Information Technology capital projects, as approved in the 2011 capital budget
	.020	Funding for Fleet capital project, as approved in the 2011 capital budget..
Donation	.115	Funding for Parks capital project, as approved in the 2009 & 2010 capital budgets.
	1.515	
Council directed reserve funds		
Land Acquisition	.022	Funding for Facilities capital project, as approved in the 2005 capital budget.
	.022	
Obligatory reserve funds		
Development Charges	.004	Funding for City Planning capital project, as approved in the 2010 capital budget.
	2.809	Funding for Transportation capital projects, as approved in the 2011 capital budget.
Ward 23 Parks & Recreation Improvement	2.100	Funding for Parks capital project, as approved in the 2010 capital budget.
Section 37	.117	Funding for Parks capital project, as approved in the 2010 capital budget.
	5.030	

Detailed Reserve and Reserve Fund Account Highlights

Appendices A, B and C to this report provide detailed balances and activity for the first nine months of 2012. 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 2012 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, 2011 to November 30, 2012. 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 remains very low for 2012 – 0.82%.

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 increased by \$20.5 million (from \$484.5 million at the beginning of the year to \$505.0 million at September 30, 2012). This increase was mostly because of the following:

	<u>\$ M</u>
(a) Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year.	\$ 39.1
(b) Allocation from the 2011 surplus to the Tax Rate Stabilization Reserve (as approved by Council on Jan. 17, 2012 re: EX14.1 "2012 Capital and Operating Budgets").	15.0
(c) Funding for capital projects during the first nine months of the year.	(36.5)
(d) Other	<u>2.9</u>
Increase in Reserve balances	<u>\$ 20.5</u>

Reserve Funds - Council Directed

Council directed reserve fund balances decreased by \$8.5 million (from \$821.3 million at the beginning of the year to \$812.8 million at September 30, 2012). This decrease was mostly due to the following:

	<u>\$ M</u>
(a) Net funding of employee benefits from the Employee Benefits Reserve Fund.	(8.3)
(b) Net contributions to the Sick Leave Reserve Fund by divisions and agencies.	12.8
(c) Net contributions to the Insurance Reserve Fund by divisions and agencies.	10.1
(d) Budgeted funding of debt charges from the Ontario Bus Replacement Program Reserve Fund.	(4.0)
(e) Proceeds from land sales credited to the Land Acquisition Reserve Fund.	12.6
(f) Contributions to the Waste Management Reserve Fund.	9.2
(g) Funding for capital projects during the first nine months of the year.	(38.9)
(h) Other	(2.0)
Decrease in Council Directed Reserve Fund Balances	<u><u>\$ (8.5)</u></u>

Reserve Funds - Obligatory

Obligatory reserve fund balances increased by \$485.6 million (from \$1,132.8 million at the beginning of the year to \$1,618.4 million at September 30, 2012). This increase is mostly the result of the following:

	<u>\$ M</u>
(a) The receipt of \$110.8 million in Development Charges and \$60.7 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively.	171.5
(b) Budgeted transfer of National Child Benefit Supplement savings to the National Child Benefit Support Reserve Fund for the first nine months of the year.	11.2
(c) Net provincial gas tax revenues credited to the Provincial Gas Tax Revenues for Public Transit Reserve Fund (after budgeted transfers to operating).	52.3
(d) 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.	174.2
(e) Interim bridge financing for the 2012 capital budget authorized debt funding of Spadina Subway Extension capital project from the Toronto York Spadina Subway Extension Reserve Fund.	40.9
(f) The receipt of advanced funds from Metrolinx for TTC capital projects, which was credited to the Transit Expansion Reserve Fund.	61.6
(g) Transfer from Water and Wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing as budgeted.	382.3
(h) The receipt of Section 37/45 funds, which were credited to the Section 37 and Section 45 reserve funds respectively.	26.0

	<u>\$ M</u>
(i) Funding for capital projects during the first nine months of the year.	(435.5)
(j) Other	<u>1.1</u>
Increase in Obligatory Reserve Fund Balances	<u><u>\$485.6</u></u>

Total reserve and reserve fund balances have increased by \$497.6 million during the first nine months of 2012 from \$2,438.6 million at the beginning of the year to \$2,936.2 million at September 30, 2012. These balances are projected to decline by \$1,021.0 million in the last quarter of 2012 upon the completion of funding expenditures approved in the 2012 operating and capital budgets.

CONTACT

Mike St. Amant
Acting Treasurer
Tel: 416-397-4438
Fax: 416-392-8003
Email: mstaman@toronto.ca

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

SIGNATURE

Mike St. Amant
Acting Treasurer

ATTACHMENTS

Appendix A: Reserves as of September 30, 2012
Appendix B: Council Directed Reserve Funds as of September 30, 2012
Appendix C: Obligatory Reserve Funds as of September 30, 2012