



**STAFF REPORT
ACTION REQUIRED**

**Reserves and Reserve Funds Variance Report –
September 30, 2013**

Date:	November 15, 2013
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2013\Internal Services\acc\bc13017acc (AFS #16929)

SUMMARY

This report provides information on reserve and reserve fund balances as at September 30, 2013, activity in reserves and reserve funds during the first nine months of 2013, 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

Reserves 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

Table 1 below, summarizes the actual reserve and reserve fund balances as at September 30, 2013 (with a comparison to December 31, 2012), as well as the 2013 Annual Budget projections which include:

- a) Council approved transfers to and from reserves and reserve funds included in the 2013 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 below.

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 2013 that were approved outside of the 2013 operating and capital budgets.

Detailed information on each reserve and reserve fund is shown in Appendices A1, B1, C1, A2, B2, and C2.

The reserve and reserve fund balances at September 30, 2013 total \$3.8 billion (December 31, 2012: \$2.9 billion) as compared with a projected year-end balance of \$2.9 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.

In prior years' reports, loans from reserves and reserve funds were shown as disbursements from the funds, without any indication of amounts to be repaid. Beginning with the previous Reserves and Reserve Funds Variance report as at June 30, 2013, the loan amounts outstanding from reserves and reserve funds are shown in Table 2 and appendices A2, B2 and C2. Although reserves and reserve fund balances 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.

2013 Third Quarter Balance Summary (Tables 1):

TABLE 1: RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2012 Actuals	Sep. 30, 2013 Actuals	Dec. 31, 2013 Budget Projection
Reserves			
Corporate	614.4	909.9	726.6
Water / Wastewater	80.8	82.0	81.5
Stabilization	115.7	168.1	151.5
Donations	1.1	1.1	0.9
	812.0	1,161.1	960.5
Council Directed Reserve Funds			
Employee benefits	173.6	187.6	190.0
Corporate	431.6	446.2	400.3
Community initiatives	70.9	70.5	53.7
State of Good Repair	168.6	194.4	138.3
	844.7	898.7	782.3
Total Reserves and Council Directed Reserve Funds	1,656.7	2,059.8	1,742.8
OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2012 Actuals	Sep. 30, 2013 Actuals	Dec. 31, 2013 Budget Projection
Obligatory Reserve Funds			
Development charges	372.0	456.1	310.3
Community services	70.8	81.5	49.4
Parkland Acq/New Devel	194.1	264.3	251.4
Third Party agreements	33.9	48.8	42.0
Public Transit Funds	272.2	273.9	206.0
State of Good Repair	42.3	48.5	48.5
Water/Wastewater	156.0	386.9	160.6
Parking Authority	12.0	12.0	5.5
Planning Act	137.0	148.1	115.4
Total Obligatory Reserve Funds	1,290.3	1,720.1	1,189.1
TOTAL: TABLE 1	2,947.0	3,779.9	2,931.9

2013 Third Quarter Loan Balance Summary (Table 2):

RESERVE AND COUNCIL DIRECTED RESERVE FUND LOAN BALANCES (\$ MILLIONS)		
Description	Dec. 31, 2012	Sep. 30, 2013
Reserves		
Stabilization	11.9	11.9
	11.9	11.9
Council Directed Reserve Funds		
Corporate	21.0	20.3
Community initiatives	26.7	26.3
	47.7	46.6
Total Reserves and Council Directed Reserve Funds	59.6	58.5
OBLIGATORY RESERVE FUND LOAN BALANCES (\$ MILLIONS)		
Description	Dec. 31, 2012	Sep. 30, 2013
Obligatory Reserve Funds		
Development charges	3.1	3.1
Community services	11.2	11.2
Third Party agreements	2.8	2.5
Total Obligatory Reserve Funds	17.1	16.8
TOTAL: TABLE 2	76.7	75.3

TABLE 3: UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL IN THE THIRD QUARTER OF 2013 (\$ MILLIONS)		
Description	Amount	Comments
Reserves		
Capital Financing	.038	Return of unrequired funding for Transportation capital project.
Vehicle & Equipment Replacement	.441	Auction proceeds.
	.479	
Council Directed Reserve Funds		
Strategic Infrastructure Partnership	.369	Return of unrequired funding for Facilities capital projects.
	.369	
Obligatory Reserve Funds		
Development Charges	.055	Return of unrequired funding for Transportation capital projects.
Parkland Acquisition	.010	Return of unrequired funding for Parks capital project.
Section 37	.020	Return of unrequired funding for Parks capital project.
Water & Wastewater	.019	Return of unrequired funding for Water capital project.
	.104	

TABLE 4: UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL IN THE THIRD QUARTER OF 2013 (\$ MILLIONS)		
Description	Amount	Comments
Reserves		
Exhibition Place Stabilization	3.175	Funding for separation payment to the Canadian National Exhibition Association (CNEA) as per EX16.7 adopted by Council on March 5-7, 2012.
	3.175	
Council Directed Reserve Funds		
Solid Waste Management - Perpetual Care	.460	Funding for Solid Waste capital projects, as approved in prior year capital budgets.
Casa Loma Capital Maintenance	.020	Funding for Economic Development & Culture capital project, as approved in prior year capital budgets.
	.480	
Obligatory Reserve Funds		
Development Charges	1.710	Funding for Parks capital project, as approved in prior year capital budgets
	.701	Funding for Police capital project, as approved in the 2011 & 2012 capital budgets.
Parkland Acquisition	.490	Funding for Parks capital project, as approved in prior year capital budgets.
Exhibition Place Conference Centre	.778	Funding for payment to Exhibition Place to cover Allstream Centre cash loss as per 2012 approved operating budget.
Section 37	.010	Funding for Facilities capital project, as approved in prior year capital budgets.
	.009	Funding for Parks capital projects, as approved in prior year capital budgets.
	3.698	

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 2013. 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 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 2013 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 once a year, at year-end, based on the reserve fund accounts' average quarterly closing balances from November 30, 2012 to November 30, 2013. 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 the economic recovery, this rate remains low for 2013 – 0.9%.

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 \$349.1 million (from \$812.0 million at the beginning of the year to \$1,161.1 million at September 30, 2013). This increase was mostly because of the following:

	<u>\$ M</u>
(a) Allocation from the 2012 surplus and bank tower surplus to various reserves.	292.8
(b) Additional dividends from corporations transferred to the Capital Financing Reserve according to the Capital Financing Strategy approved in the 2013 capital budget.	73.2
(c) Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year.	23.4
(d) Non-program contribution to the Vehicle & Equipment Replacement Reserve for the replacement of computer hardware and software.	17.9
(e) Draw from the Tax Rate Stabilization Reserve for Arts & Culture as approved in the 2013 operating budget.	(3.5)
(f) Budgeted draw from the Tax Rate Stabilization Reserve for lump sum COLA payment to union staff.	(13.1)
(g) Draw from the Exhibition Place Stabilization Reserve for separation payment to the Canadian National Exhibition Association (CNEA) as per EX16.7 adopted by Council on March 5-7, 2012.	(3.2)
(h) Funding for capital projects during the first nine months of the year.	(42.2)
(i) Other.	3.8
Increase in Reserve balances	<u>\$349.1</u>

Reserve Funds - Council Directed

Council directed reserve fund balances increased by \$54.0 million (from \$844.7 million at the beginning of the year to \$898.7 million at September 30, 2013). This increase was mostly due to the following:

	<u>\$ M</u>
(a) Allocation from the 2012 surplus and bank tower surplus to various reserve funds.	52.5
(b) Net contributions to the Sick Leave Reserve Fund by divisions and agencies.	6.1
(c) Budgeted draw from the Ontario Bus Replacement Reserve Fund for non-program debt charges.	(4.0)
(d) Proceeds from land sales credited to the Land Acquisition Reserve Fund.	3.7
(e) Budgeted draws from the Capital Revolving Fund for Affordable Housing Reserve Fund for developments by the TCHC.	(6.9)
(f) Contributions to the Solid Waste Management Perpetual Care Reserve Fund.	3.1
(g) Contributions to the Waste Management Reserve Fund.	7.5
(h) Transfer of 2012 Solid Waste Management surplus to the Waste Management Reserve Fund.	11.3
(i) Contribution of minimum annual revenue to the Public Realm Reserve Fund from Astral Media.	15.0
(j) Funding for capital projects during the first nine months of the year.	(28.5)
(k) Other	(5.8)
Increase in Council Directed Reserve Fund Balances	<u>\$ 54.0</u>

Reserve Funds - Obligatory

Obligatory reserve fund balances increased by \$429.8 million (from \$1,290.3 million at the beginning of the year to \$1,720.1 million at September 30, 2013). This increase is mostly the result of the following:

	<u>\$ M</u>
(a) Allocation from the 2012 surplus to various reserve funds.	20.5
(b) Receipt of \$139.2 million in Development Charges and \$76.3 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively.	215.5
(c) Budgeted transfer from the Development Charges Reserve Fund to cover debt charges.	(19.9)
(d) Budgeted transfer of National Child Benefit Supplement savings to the National Child Benefit Support Reserve Fund for the first nine months of the year.	9.8
(e) 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.	121.7
(f) Transfer of funding from capital to the Toronto York Spadina Subway Extension Reserve Fund as approved in the capital budget.	26.7

	<u>\$ M</u>
(g) Transfer from Water and Wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing as budgeted.	409.6
(h) The receipt of Section 37/45 funds, which were credited to the Section 37 and Section 45 reserve funds respectively.	20.6
(i) Funding for capital projects during the first nine months of the year.	(370.1)
(j) Other	(4.6)
Increase in Obligatory Reserve Fund Balances	<u>\$429.8</u>

Total reserve and reserve fund balances have increased by \$832.9 million during the first nine months of 2013 from \$2,947.0 million at the beginning of the year to \$3,779.9 million at September 30, 2013.

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SIGNATURE

Giuliana Carbone
 Treasurer

ATTACHMENTS

- Appendix A1: Reserves as of September 30, 2013
- Appendix B1: Council Directed Reserve Funds as of September 30, 2013
- Appendix C1: Obligatory Reserve Funds as of September 30, 2013
- Appendix A2: Reserves – Loan Receivable Balance as of September 30, 2013
- Appendix B2: Council Directed Reserve Funds – Loan Receivable Balance as of September 30, 2013
- Appendix C2: Obligatory Reserve Funds – Loan Receivable Balance as of September 30, 2013