



STAFF REPORT ACTION REQUIRED

Reserves and Reserve Funds Variance Report – December 31, 2014

Date:	May 6, 2015
To:	Budget Committee
From:	Treasurer
Wards:	All
Reference Number:	P:\2015\Internal Services\acc\bc15006Acc (AFS20225)

SUMMARY

This report provides information on reserve and reserve fund balances as at December 31, 2014, and activity in reserves and reserve funds during the year. 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 & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

Variance reports are normally 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

Table 1 below, summarizes the actual reserve and reserve fund balances as at December 31, 2014 (with a comparison to December 31, 2013) using data available at April 28, 2015, as well as the 2014 Annual Budget projections which include:

- a) Council approved transfers to and from reserves and reserve funds included in the 2014 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. Information on the nature and authority for transfers made to, and draws made from, reserves and reserve funds during the fourth quarter of 2014 that were approved outside of the 2014 operating and capital budgets, are provided in Tables 3 and 4. 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 which will be repaid to various Reserves and Reserve Funds, and as such represent assets of the funds. The amounts presented in this report are unaudited, as the audit of the City's financial statements will not be completed until the end of June 2015.

The reserve and reserve fund balances at December 31, 2014 total \$3.5 billion (December 31, 2013: \$3.4 billion) as compared with a projected year-end balance of \$3.1 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 June 30th 2013 Reserve Fund Variance report, the loan amounts outstanding from reserves and reserve funds are 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.

December 31, 2014 Balance Summary (Table 1):

RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2013 Actuals	December 31, 2014 Actuals	Dec. 31, 2014 Budget Projection
Reserves			
Corporate	789.3	574.4	532.6
Water / Wastewater	135.3	142.6	135.8
Stabilization	183.0	219.5	211.6
Donations	1.3	1.3	1.0
	1,108.9	937.8	881.0
Council directed Reserve Funds			
Employee benefits	212.1	234.3	220.5
Corporate	491.7	475.2	431.8
Community initiatives	71.5	73.5	57.7
State of Good Repair	191.5	202.1	161.6
	966.8	985.1	871.6
Total Reserves and Council directed Reserve Funds	2,075.7	1,922.9	1,752.6
OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2013 Actuals	December 31, 2014 Actuals	Dec. 31, 2014 Budget Projection
Obligatory Reserve Funds			
Development charges	380.7	526.7	381.6
Community services	72.9	71.6	44.3
Parkland Acq/New Devel	264.1	319.5	269.8
Third Party agreements	12.9	9.9	8.7
TTC Fund	195.8	137.1	108.4
State of Good Repair	37.7	52.3	50.6
Water/Wastewater	236.8	303.0	371.3
Parking Authority	9.1	9.1	4.5
Planning Act	154.2	189.7	108.3
Total Obligatory Reserve Funds	1,364.2	1,618.9	1,347.5
TOTAL: All Reserves & Reserve Funds	3,439.9	3,541.8	3,100.1

December 31, 2014 Loan Balance Summary (Table 2):

RESERVE AND COUNCIL DIRECTED RESERVE FUND LOAN BALANCES (\$ MILLIONS)		
Description	Dec. 31, 2013	December 31, 2014
Reserves		
Stabilization	11.9	11.9
	11.9	11.9
Council directed Reserve Funds		
Corporate	28.4	27.4
Community initiatives	26.0	25.4
State of Good Repair	1.6	0.6
	56.0	53.4
Total Reserves and Council directed Reserve fund Loan Balances	67.9	65.3
OBLIGATORY RESERVE FUND LOAN BALANCES (\$ MILLIONS)		
Description	Dec. 31, 2013	December 31, 2014
Obligatory Reserve Funds		
Development charges	3.1	3.1
Community services	11.2	11.2
Total Obligatory Reserve Fund Loan Balances	14.3	14.3
TOTAL: Loan Balances from Reserves & Reserve Funds	82.2	79.6

TABLE 3: UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL IN THE FOURTH QUARTER OF 2014 (\$MILLIONS)		
Description	Amount (\$Millions)	Comments
Reserves		
Doubtful Loan Guarantee	.038	Proceeds of loan recovery from Toronto Arts Council for Toronto Philharmonia, as per EX31.14, adopted by Council on May 7-10, 2013.
Vehicle & Equipment Replacement	4.070	Funds from equipment buy back allowance on Communications Infrastructure project.
	.043	Insurance loss recoveries.
	.570	Auction proceeds.
Water & Wastewater Stabilization	5.444	Transfer of 2014 surplus from Water & Wastewater operations, since Toronto Water is rate supported and self sustaining.
Emergency Human Services	.281	Transfer of surplus from the Emergency Human Services expense account, as per EX43.3, adopted by Council on May 11-12, 2010.
	10.446	
Council directed Reserve Funds		
Scarborough Transit	.048	Transfer of additional special transit tax levy revenue associated with supplementary assessments, as per EX36.14 adopted by Council on Dec 16-18, 2013.
	.048	
Obligatory Reserve Funds		
Section 37	.015	Return of unrequired funding for Jean Sibelius Park phase 2 project.
	.015	

TABLE 4: UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL IN THE FOURTH QUARTER OF 2014 (\$MILLIONS)		
Description	Amount (\$Millions)	Comments
Reserves		
Zoo Stabilization	.904	Funding of 2014 Zoo operating deficit.
	.904	
Council directed Reserve Funds		
Land Acquisition	.017	Funding for Toronto and Region Conservation Authority capital project, approved in the 2013 capital budget but funded in 2014 according to contract.
Regent Park Residents' Association	.296	Transfer of balance to trust fund according to CD28.10, adopted by Council on May 6-8, 2014.
Exhibition Place Conference Centre	.469	Funding for loan to Exhibition Place for disposal of contaminated soil on hotel site as per EX34.24, adopted by Council on Oct 8-11, 2013.
	.782	
Obligatory Reserve Funds		
Development Charges	.448	Funding for TTC capital project which will be presented for approval to the TTC Board in the 2014 Capital Budget Technical Adjustments report.
Provincial Gas Tax Revenues for Public Transit	.265	Funding for TTC capital projects which will be presented for approval to the TTC Board in the 2014 Capital Budget Technical Adjustments report.
Transit Expansion	8.173	Funding for TTC capital projects, flowed directly from Metrolinx through the City to the TTC, with no budget impact.
Water & Wastewater Capital	68.468	Funding for Water & Wastewater capital projects in excess of cash-flow budget, since Water & Wastewater operations are self-sustaining and fully funded at year-end.
Section 37	.307	Funding for Toronto and Region Conservation Authority capital project, approved in the 2013 capital budget but funded in 2014 according to contract.
Section 45	.056	Funding for Toronto and Region Conservation Authority capital projects, approved in the 2013 capital budget but funded in 2014 according to contract.
	77.717	

Detailed Reserve and Reserve Fund Account Highlights

Appendices A1, B1 and C1 to this report provide detailed balances and activity for the year ended December 31, 2014. 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 2014 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 earned on reserve funds; and,
- Draws from stabilization reserves.

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, 2013 to November 30, 2014. 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 and the high rate of unemployment, this rate remains low for 2014 – 0.89%.

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. Furthermore, the amounts of some special transfers (e.g. auction proceeds, insurance loss recoveries) between reserves and / or reserve funds and operating and capital cannot be accurately estimated or budgeted early in the year.

Reserves

Reserves were budgeted to decrease by \$227.9 million by the end of December 31, 2014. However, reserve balances only decreased by \$171.1 million during the year, from \$1,108.9 million to \$937.8 million as at December 31, 2014. The \$56.8 million difference between the actual decrease and the budgeted decrease was due to the following:

	<u>\$ M</u>
(a) Funding from the Capital Financing Reserve for capital projects not required in 2014 due to the delay or deferral of capital spending.	12.5
(b) Funds from equipment buy back allowance on Communications Infrastructure project credited to the Vehicle and Equipment Replacement Reserve.	4.1
(c) Draw from the Vehicle and Equipment Replacement Reserve for IT sustainment less than budget because of under spending in hardware & software maintenance, as well as operational support.	4.6
(d) Funding from the Vehicle and Equipment Replacement Reserve not required in 2014 due to the deferral in replacing vehicles and equipment.	18.3
(e) Transfer of the 2014 surplus from Water & Wastewater operations to the Water & Wastewater Stabilization Reserve.	5.4
(f) Budgeted draw from the Social Assistance Stabilization Reserve for the accelerated phase-out of Toronto Pooling compensation by the Province not required because of the operating surplus in Toronto Employment & Social Services.	5.0
(g) Budgeted draw from the Social Housing Stabilization Reserve not required because of savings in property taxes, mortgage payments, and rent geared to income subsidies, and unanticipated revenue from the Province.	4.2
(h) Other	<u>2.7</u>
Difference between budget and actual	<u>\$ 56.8</u>

Reserve Funds - Council Directed

Council directed reserve fund balances were budgeted to decrease by \$95.2 million by December 31, 2014. However, Council directed reserve fund balances actually increased by \$18.3 million from \$966.8 million at the beginning of the year to \$985.1 million at December 31, 2014. The \$113.5 million difference between the actual increase and the budgeted decrease was due to the following:

	<u>\$ M</u>
(a) Funding of pension deficit payments from the Employee Benefits Reserve Fund less than budget.	4.8
(b) Savings from lower than anticipated employee benefit expenses transferred to the Employee Benefits Reserve Fund.	10.9
(c) Draw from the Major Special Event Reserve Fund less than budget because of lower than expected spending in anticipation of the Pan Am Games.	3.8
(d) Draw from the Environment Protection Reserve Fund less than budget due to under spending in forestry.	4.0
(e) Draw from the Local Improvement Charge Energy Works Reserve Fund less than budget because of delayed spending in the Tower Renewal Energy Retrofit Pilot Program.	4.2

	<u>\$ M</u>
(f) Budgeted draw from the Child Care Expansion Reserve Fund not required because of higher than budgeted user fee revenue, increased provincial funding, and a gross under expenditure in purchased child care.	13.0
(g) Funding not required for capital projects in 2014 due to the delay or deferral of capital spending.	62.4
(h) Other	10.4
	<hr/>
Difference between budget and actual	<u>\$ 113.5</u>

Reserve Funds – Obligatory

Obligatory reserve fund balances were budgeted to decrease by \$16.7 million by the end of December 31, 2014. However, Obligatory reserve fund balances actually increased by \$254.7 million during the year, from \$1,364.2 million to \$1,618.9 million as at December 31, 2014. This \$271.4 million difference between the actual increase and the budgeted decrease was due to the following:

	<u>\$ M</u>
(a) Development charges credited to the Development Charge Reserve Fund greater than budget.	93.2
(b) Draws from the National Child Benefit Supplement Reserve Fund for social assistance were less than budget because of lower than expected expenses in Investing in Families and Child Care.	5.1
(c) Draw from the Social Housing Federal Reserve Fund less than budget because of savings in property taxes, mortgage payments, and rent geared to income subsidies, and unanticipated revenue from the Province.	20.5
(d) Park levies credited to the Parkland Acquisition Reserve Fund greater than budget.	13.8
(e) Reimbursements to the Toronto-York Spadina Subway Extension Reserve Fund from the Move Ontario Trust were less than the budget amount because of lower than expected expenditures on the Toronto-York Spadina subway extension.	(329.7)
(f) Funding for Water & Wastewater capital projects from the Water & Wastewater Capital Reserve Fund in excess of cash-flow budget, since Water & Wastewater operations are self-sustaining and fully funded at year-end.	(68.5)

(g) The receipt of Section 37 & 45 funds.	51.8
(h) Funding for capital projects not required in 2014 because of the delay or deferral of capital spending.	490.5
(i) Other	<u>(5.3)</u>
Difference between budget and actual	<u>\$ 271.4</u>

In summary, total reserve and reserve fund year-end balances increased by \$101.9 million during 2014 as compared to a budgeted decrease of \$339.8 million. The details regarding differences between actual and budget for each of the reserves, discretionary reserve funds, and obligatory reserve funds are outlined in this report.

CONTACT

Mike St. Amant
 Director, Accounting Services
 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

Giuliana Carbone
 Treasurer

ATTACHMENTS

- Appendix A1: Reserves as of December 31, 2014
- Appendix B1: Council Directed Reserve Funds as of December 31, 2014
- Appendix C1: Obligatory Reserve Funds as of December 31, 2014
- Appendix A2: Loan Receivable Balances: Reserves, as of December 31, 2014
- Appendix B2: Loan Receivable Balances: Council Directed Reserve Funds, as of December 31, 2014
- Appendix C2: Loan Receivable Balances: Obligatory Reserve Funds, as of December 31, 2014