



**STAFF REPORT
ACTION REQUIRED**

**Reserves and Reserve Funds Variance Report –
September 30, 2014**

Date:	November 20, 2014
To:	Executive Committee
From:	Acting Treasurer
Wards:	All
Reference Number:	P:\2014\Internal Services\acc\ec14017acc (AFS18834)

SUMMARY

This report provides information on reserve and reserve fund balances as at September 30, 2014, and activity in reserves and reserve funds during the first nine months of 2014, 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. Executive 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 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 on page 4, summarizes the actual reserve and reserve fund balances as at September 30, 2014 (with a comparison to December 31, 2013) 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 first nine months 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 reserve and reserve fund balances at September 30, 2014 total \$4.0 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.

September 30, 2014 Balance Summary (Table 1):

RESERVE AND COUNCIL DIRECTED RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2013 Actuals	September 30, 2014 Actuals	Dec. 31, 2014 Budget Projection
Reserves			
Corporate	789.3	895.0	529.5
Water / Wastewater	135.3	136.5	135.8
Stabilization	183.0	222.5	211.6
Donations	1.3	1.4	1.0
	1,108.9	1,255.4	877.9
Council directed reserve funds			
Employee benefits	212.1	229.2	220.5
Corporate	491.7	495.8	433.0
Community initiatives	71.5	72.7	58.4
State of Good Repair	191.5	222.1	161.7
	966.8	1,019.8	873.6
Total Reserves and Council directed Reserve Funds	2,075.7	2,275.2	1,751.5
OBLIGATORY RESERVE FUND BALANCES (\$ MILLIONS)			
Description	Dec. 31, 2013 Actuals	September 30, 2014 Actuals	Dec. 31, 2014 Budget Projection
Obligatory reserve funds			
Development charges	380.7	580.4	378.2
Community services	72.9	80.1	44.3
Parkland Acq/New Devel	264.1	329.3	270.6
Third Party agreements	12.9	11.1	9.3
TTC Fund	195.8	204.6	108.4
State of Good Repair	37.7	51.3	50.5
Water/Wastewater	236.8	295.2	373.5
Parking Authority	9.1	9.1	4.5
Planning Act	154.2	202.3	132.0
Total Obligatory reserve funds	1,364.2	1,763.4	1,371.3
TOTAL: All Reserves & Reserve Funds	3,439.9	4,038.6	3,122.8

September 30, 2014 Loan Balance Summary (Table 2):

RESERVE AND COUNCIL DIRECTED RESERVE FUND LOAN BALANCES (\$ MILLIONS)		
Description	Dec. 31, 2013	September 30, 2014
Reserves		
Stabilization	11.9	11.9
	11.9	11.9
Council directed reserve funds		
Corporate	28.4	27.4
Community initiatives	26.0	25.6
State of Good Repair	1.6	1.8
	56.0	54.8
Total Reserves and Council directed reserve fund Loan Balances	67.9	66.7
OBLIGATORY RESERVE FUND LOAN BALANCES (\$ MILLIONS)		
Description	Dec. 31, 2013	September 30, 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	81.0

TABLE 3: UNBUDGETED TRANSFERS TO RESERVES / RESERVE FUNDS FROM OPERATING & CAPITAL IN THE THIRD QUARTER OF 2014 (\$MILLIONS)		
Description	Amount (\$Millions)	Comments
Reserves		
Vehicle & Equipment Replacement	.310	Auction proceeds.
	.898	Insurance loss recoveries.
	1.208	
Obligatory reserve funds		
Development Charges	.099	Return of unrequired funding for Library capital projects.
	.099	

TABLE 4: UNBUDGETED TRANSFERS FROM RESERVES / RESERVE FUNDS TO OPERATING & CAPITAL IN THE THIRD QUARTER OF 2014 (\$MILLIONS)		
Description	Amount (\$Millions)	Comments
Reserves		
Capital Financing	.616	Funding for Facilities capital project as approved in the 2012 capital budget.
	.616	
Council directed reserve funds		
Land Acquisition	11.447	Funding for Police Traffic Services and Garage Facilities capital project as approved in the 2013 capital budget.
Waste Management	.395	Funding for Solid Waste capital projects as approved in the 2013 capital budget.
Exhibition Place Conference Centre	.152	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.
	11.994	
Obligatory reserve funds		
Development Charges	.628	Funding for Library capital project as approved in the 2013 capital budget.
	.021	Funding for Parks capital project as approved in the 2013 capital budget.
Parkland Acquisition / New Development	.011	Funding for Parks capital projects as approved in the 2013 capital budget.
Section 37	.761	Funding for Transportation capital project as approved in the 2013 capital budget.
Section 45	.180	Funding for Transportation capital project as approved in the 2013 capital budget.
Water & Wastewater	.010	Funding for Water capital project as approved in the 2013 capital budget.
	1.611	

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 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 first nine months of 2014 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; 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, 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. 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 (e.g. auction proceeds, insurance loss recoveries etc.) between reserves and / or reserve funds and operating and capital cannot be accurately estimated or budgeted early in the year.

Reserves

Reserve balances increased by \$146.5 million (from \$1,108.9 million at the beginning of the year to \$1,255.4 million at September 30, 2014). This increase was mostly because of the following:

	<u>\$ M</u>
(a) Allocation from the 2013 year-end operating surplus to various reserves.	172.5
(b) Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year.	28.5
(c) Budgeted draws from the Tax Rate Stabilization Reserve for various operating divisions.	(6.4)
(d) Funding for capital projects during the first nine months of the year.	(52.3)
(e) Other	4.2
Increase in Reserve balances	<u>\$146.5</u>

Reserve Funds - Council Directed

Council directed reserve fund balances increased by \$53.0 million (from \$966.8 million at the beginning of the year to \$1,019.8 million at September 30, 2014). This increase was mostly due to the following:

	<u>\$ M</u>
(a) Allocation from the 2013 year-end operating surplus to various reserve funds.	44.8
(b) Quarterly budgeted contributions to the Worker's Compensation Reserve Fund from Non-program in excess of actual draws.	4.1
(c) Quarterly budgeted contributions to the Employee Benefits Reserve Fund from Non-program in excess of actual draws.	2.8
(d) Budgeted contribution to the Ontario Works Reserve Fund by Toronto Employment & Social Services.	8.3
(e) Budgeted draw from the City Parking Reserve Fund for Non-program.	(6.0)
(f) Proceeds from land sales credited to the Land Acquisition Reserve Fund.	6.7
(g) Budgeted contributions to the Solid Waste Management Perpetual Care Reserve Fund.	3.1
(h) Budgeted contributions to the Waste Management Reserve Fund.	9.8
(i) Allocation of the Solid Waste Management 2013 final year-end surplus to the Waste Management Reserve Fund.	10.5
(j) Contribution of minimum annual revenue to the Public Realm Reserve Fund from Astral Media.	17.0
(k) Funding for capital projects during the first nine months of the year.	(50.7)
(l) Other	2.6
Increase in Council Directed Reserve Fund Balances	<u>\$ 53.0</u>

Reserve Funds – Obligatory

Obligatory reserve fund balances increased by \$399.2 million (from \$1,364.2 million at the beginning of the year to \$1,763.4 million at September 30, 2014). This increase is mostly the result of the following:

	<u>\$ M</u>
(a) Allocation from the 2013 year-end operating surplus to the Building Code Act Service Improvement Reserve Fund.	13.7
(b) Receipt of \$264.5 million in Development Charges and \$73.4 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively.	337.9
(c) Refunds from the Development Charges and Parkland Acquisition Reserve Funds.	(5.3)
(d) Budgeted funding to the TCHC from the Development Charges Reserve Fund as approved in the TCHC Ten-Year Capital Financing Plan.	(5.0)
(e) Quarterly budgeted contributions to the National Child Benefit Support Reserve Fund in excess of actual draws.	7.9
(f) 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.	64.8
(g) Transfer of funding from capital to the Toronto York Spadina Subway Extension Reserve Fund as approved in the capital budget.	20.9
(h) Transfer from Water and Wastewater programs to the Water & Wastewater Capital Reserve Fund for capital financing as budgeted.	309.3
(i) The receipt of Section 37/45 funds, which were credited to the Section 37 and Section 45 reserve funds respectively.	51.8
(j) Funding for capital projects during the first nine months of the year.	(392.5)
(k) Other	(4.3)
Increase in Obligatory Reserve Fund Balances	<u>\$399.2</u>

In summary, total reserve and reserve fund balances have increased by \$598.7 million during the first nine months of 2014 from \$3,439.9 million at the beginning of the year to \$4,038.6 million at September 30, 2014. These balances would decline by \$915.8 million in the rest of 2014 based on commitments to fund expenditures approved in the 2014 operating and capital budgets. Amounts not spent but re-committed form part of the following year's budget process.

CONTACT

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SIGNATURE

Mike St. Amant
Acting Treasurer

ATTACHMENTS

- Appendix A1: Reserves as of September 30, 2014
- Appendix B1: Council Directed Reserve Funds as of September 30, 2014
- Appendix C1: Obligatory Reserve Funds as of September 30, 2014
- Appendix A2: Loan Receivable Balances: Reserves, as of September 30, 2014
- Appendix B2: Loan Receivable Balances: Council Directed Reserve Funds, as of September 30, 2014
- Appendix C2: Loan Receivable Balances: Obligatory Reserve Funds, as of September 30, 2014