

## **Reserves and Reserve Funds Variance Report – December 31, 2017**

**Date:** June 4, 2018

**To:** Executive Committee

**From:** Interim Chief Financial Officer

**Wards:** All

### **SUMMARY**

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This report provides information on reserve and reserve fund balances as at December 31, 2017, indicating activity during the year, and annual budget projection balances. The vast majority of these funds have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending.

### **RECOMMENDATIONS**

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The Interim Chief Financial Officer recommends that:

1. Executive Committee receive this report for information.

### **FINANCIAL IMPACT**

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There are no financial implications arising from the recommendations in this report.

### **DECISION HISTORY**

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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.

To view previous Variance Reports online please see the links below:

September 30, 2017 Reserve and Reserve Funds Variance Report:  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX29.26>

December 31, 2016 Reserve and Reserve Funds Variance Report:  
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.BU33.3>

## COMMENTS

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Reserves and Reserve Funds are created with Council approval to set funds aside for a variety of reasons, including: for planned future expenditures; to protect the City against unbudgeted or unforeseen events; 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 are 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.

Table 1 on page 4, summarizes the actual reserve and reserve fund balances as at December 31, 2017 (with a comparison to December 31, 2016) using data available at May 8, 2018, as well as the 2017 Annual Budget projections which include:

- a. Council approved transfers to and from reserves and reserve funds included in the 2017 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 included in several of these funds, which are summarized in Table 2.

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 fourth quarter of 2017 that were approved outside of the 2017 operating and capital budgets.

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 receivable by various Reserves and Reserve Funds, which 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 2018, and presented at the July Audit Committee.

The reserve and reserve fund balances at December 31, 2017 total \$4.5 billion (December 31, 2016: \$4.0 billion) as compared with a projected year-end balance of \$3.8 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. For example, 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. Nevertheless, the approved 10 year Operating and Capital budgets and plan for Toronto Water have put the program and Water and Wastewater Capital Reserve Fund on a sustainable footing.

The loan amounts outstanding from reserves and reserve funds have been 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. Outstanding loan balances funded for reserves and reserve funds as of December 31, 2017 are:

Reserves	\$11.9 million
Council Directed Reserve Funds	40.7 million
Obligatory Reserve Funds	<u>20.4 million</u>
Total	<u>\$73.0 million</u>

**Table 1: December 31, 2017 Balance Summary (\$Millions)**

Description	Dec. 31, 2016 Actuals	Dec. 31, 2017 Actuals	Dec. 31, 2017 Projected*
<b>Reserves</b>			
Corporate	535.7	674.4	560.6
Water / Wastewater	168.1	75.7	49.6
Stabilization	173.8	151.8	111.4
Donations	1.5	1.4	1.2
<b>Total</b>	<b>879.1</b>	<b>903.3</b>	<b>722.8</b>
<b>Council Directed Reserve Funds</b>			
Employee benefits	257.3	279.4	246.1
Corporate	436.5	455.7	408.6
Community initiatives	86.6	109.5	80.3
State of Good Repair	281.5	248.9	212.6
<b>Total</b>	<b>1,061.9</b>	<b>1,093.5</b>	<b>947.6</b>
<b>Total Reserves and Council Directed Reserve Funds</b>	<b>1,941.0</b>	<b>1,996.8</b>	<b>1,670.4</b>
<b>Obligatory Reserve Funds</b>			
Development charges	681.9	643.0	592.7
Community services	72.9	63.4	56.8
Parkland Acq/New Developmt	375.8	408.0	336.5
Third Party agreements	12.5	18.2	20.3
Public Transit Funds	99.8	114.4	102.3
State of Good Repair	75.6	92.6	91.7
Water/Wastewater	536.0	885.7	763.3
Parking Authority	5.2	4.0	2.0
Planning Act	218.5	228.1	187.6
<b>Total Obligatory Reserve Funds</b>	<b>2,078.2</b>	<b>2,457.4</b>	<b>2,153.2</b>
<b>TOTAL: All Reserves &amp; Reserve Funds</b>	<b>4,019.2</b>	<b>4,454.2</b>	<b>3,823.6</b>

\*Based on prior year actuals and budget amounts approved during the current year.

**Table 2: December 31, 2017 Loan Balance Summary (\$Millions)**

Description	Dec. 31, 2016	Dec. 31, 2017
<b>Reserves</b>		
Stabilization	11.9	11.9
<b>Total</b>	<b>11.9</b>	<b>11.9</b>
<b>Council Directed Reserve Funds</b>		
Corporate	18.8	17.3
Community initiatives	24.0	23.4
State of Good Repair	0.6	0.0
<b>Total</b>	<b>43.4</b>	<b>40.7</b>
<b>Total Reserves and Council Directed Reserve Fund Loan Balances</b>	<b>55.3</b>	<b>52.6</b>
<b>Obligatory Reserve Funds</b>		
Development charges	4.0	10.6
Community services	10.0	9.8
<b>Total Obligatory Reserve Fund Loan Balances</b>	<b>14.0</b>	<b>20.4</b>
<b>TOTAL: Loan Balances from Reserves &amp; Reserve Funds</b>	<b>69.3</b>	<b>73.0</b>

**Table 3: Unbudgeted 2017 Transfers to Reserves/Reserve Funds from Operating & Capital in the Fourth Quarter of 2017 (\$Millions)**

Description	Amount (\$Millions)	Comments
<b>Reserves</b>		
Capital Financing	50.000	Transfer of 2013–2016 Build Toronto dividends in accordance with the capital financing strategy in the 2013 capital budget
Vehicle & Equipment Replacement	.353 .757	Auction proceeds Insurance loss recoveries
Water & Wastewater Stabilization	27.186	Transfer of 2017 surplus from Water & Wastewater operations, since Toronto Water is rate supported and self-sustaining
Emergency Human Services	.199	Transfer of surplus from the Emergency Human Services expense account, as per EX43.3, adopted by Council on May 11-12, 2010
<b>Total</b>	<b>78.495</b>	
<b>Council Directed Reserve Funds</b>		
Major Special Event	.667	Return of unrequired funding for Cycling Infrastructure project
City Building	.098	Transfer of additional special transit and housing tax levy revenue associated with supplementary assessments, as per EX12.2 adopted by Council on Feb 17, 2016
Scarborough Transit	.054	Transfer of additional special transit tax levy revenue associated with supplementary assessments, as per EX36.14 adopted by Council on Dec 16-18, 2013
Tree Canopy	.599	Replacement tree planting contributions in excess of budget as per PE14.2 adopted by Council on Nov 8-9, 2016
Lakeshore Arena Capital	.338	Transfer of half of 2017 Lakeshore Arena operating surplus, for capital contributions, as per EX9.10, adopted by Council on Nov. 3-4, 2015
<b>Total</b>	<b>1.756</b>	
<b>Obligatory Reserve Funds</b>		
MoveOntario 2020	1.200	Return of unrequired funding for Cycling Infrastructure project

Description	Amount (\$Millions)	Comments
Section 37	.036	Return of unrequired funding for improvements to Mimico train station
	.027	Adjustment to funding of Grange Park construction project
<b>Total</b>	<b>1.263</b>	

**Table 4: Unbudgeted 2017 Transfers from Reserves/Reserve Funds to Operating & Capital in the Fourth Quarter of 2017 (\$Millions)**

Description	Amount (\$Millions)	Comments
<b>Reserves</b>		
Police Museum	.066	Funding of 2017 gift shop operating deficit
Zoo Stabilization	1.103	Funding for the 2015 Zoo operating deficit
<b>Total</b>	<b>1.169</b>	
<b>Council Directed Reserve Funds</b>		
Long Term Liabilities	19.562	Draw to support TTC accident claim payments at the time of settlement. EX29.25, adopted by Council on Dec 5-8, 2017, contributed \$34.050M for this purpose – this represents the unbudgeted withdrawal
<b>Total</b>	<b>19.562</b>	

### 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, 2017. 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 2017 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, 2016 to November 30, 2017. 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, this rate remains very low: 0.48% for 2017.

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.

## Reserves

Reserves were budgeted to decrease by \$156.3 million by the end of December 31, 2017. However, reserve balances actually increased by \$24.2 million during the year, from \$879.1 million to \$903.3 million as at December 31, 2017. The \$180.5 million difference between the actual increase and the budgeted decrease was due to the following:

		\$M
(a)	Transfer of 2013–2016 Build Toronto dividends to the Capital Financing Reserve in accordance with the capital financing strategy in the 2013 capital budget.	50.0
(b)	Transfer of the 2017 surplus from Water & Wastewater operations to the Water & Wastewater Stabilization Reserve.	27.2
(c)	Draw from the Assessment Appeal Stabilization Reserve less than budget because of lower tax deficiency and administration costs from a shortfall in appeal adjustments.	4.0
(d)	Draw from the Social Assistance Stabilization Reserve not required because of lower than budgeted spending on capped funded programs.	4.1
(e)	Draw from the TTC Stabilization Reserve not required mainly because of labour and benefit savings due to hiring and operating delays.	14.0
(f)	Funding not required for capital projects in 2017 due to the delay in start of capital spending.	71.1
(g)	Other	10.1
	<b>Difference between budget and actual</b>	<b>180.5</b>

## Reserve Funds - Council Directed

Council directed reserve fund balances were budgeted to decrease by \$114.3 million by December 31, 2017. However, Council directed reserve fund balances actually increased by \$31.6 million from \$1,061.9 million at the beginning of the year to \$1,093.5 million at December 31, 2017. The \$145.9 million difference between the actual increase and the budgeted decrease was due to the following:

		\$M
(a)	Savings from lower than anticipated employee benefit expenses transferred to the Employee Benefits Reserve Fund.	14.1
(b)	Draw from the Sick Leave Reserve Fund less than budget due to a lower than expected number of retirees.	5.1
(c)	Budgeted draw from the Police Central Sick Pay Reserve Fund not drawn to improve the future sustainability of the reserve.	4.3
(d)	Draw from the Insurance Reserve Fund lower than budget because of reduced 3rd party claims and higher insurance loss recoveries.	8.1
(e)	Draw from the Environment Protection Reserve Fund less than budget because of underspending in salaries and benefits and favourable price contracts in Urban Forestry.	3.1
(f)	Draw from the Local Improvement Charge Energy Works Reserve Fund less than budget due to lower than expected uptake in the Home Energy Loan Program because of regulatory requirement roadblocks and lack of participants in the program.	6.9
(g)	Unbudgeted draw from the Long Term Liability Reserve Fund Draw to support TTC accident claim payments at the time of settlement as per EX29.25, adopted by Council on Dec 5-8, 2017.	(19.6)
(h)	Draw from the Ontario Works Reserve Fund less than budget because of higher than budgeted provincial subsidies.	5.9
(i)	Draw from the Capital Revolving Reserve Fund for Affordable Housing less than budget mainly because of construction delays in one major affordable rental development.	3.9
(j)	Draw from the Solid Waste Debt Reserve Fund to cover debt charges less than budget due to delays in issuing debentures.	10.7
(k)	Draw from the Union Station Reserve Fund not required because of operating surplus including an account reconciliation settlement with Metrolinx from 2012-2016.	6.8
(l)	Funding not required for capital projects in 2017 due to the delay in the state of capital spending.	70.8
(m)	Other	25.8
	<b>Difference between budget and actual</b>	<b>145.9</b>

## Reserve Funds - Obligatory

Obligatory reserve fund balances were budgeted to increase by \$75.0 million by the end of December 31, 2017. However, Obligatory reserve fund balances actually increased by \$379.2 million during the year, from \$2,078.2 million to \$2,457.4 million as at December 31, 2017. This \$304.2 million difference between the actual and budgeted increase, was due to the following:

		\$M
(a)	Development charges credited to the Development Charge Reserve Fund greater than budget.	16.1
(b)	Park levies credited to the Parkland Acquisition Reserve Fund greater than budget.	31.2
(c)	Donations to the Gardiner West Public Realm Improvements Reserve Fund less than expected.	(4.5)
(d)	Provincial Gas Tax Revenues credited to the Provincial Gas Tax Revenues for Public Transit Reserve Fund greater than budget.	9.1
(e)	Reimbursements to the Toronto-York Spadina Subway Extension Reserve Fund from the Move Ontario Trust greater than budget.	76.1
(f)	The receipt of Section 37 & 45 funds, which were credited to the Section 37 Reserve Fund and Section 45 Reserve Fund.	29.3
(g)	Funding for capital projects not required in 2017 because of the delay of capital spending.	139.9
(h)	Other	7.0
	<b>Difference between budget and actual</b>	<b>304.2</b>

In summary, total reserve and reserve fund balances have increased by \$435.0 million during 2017 as compared to a budgeted decrease of \$195.6 million. The details regarding differences between the actual and budget for each of the reserves, discretionary reserve funds, and obligatory reserve funds are outlined in this report.

## CONTACT

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## **SIGNATURE**

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Joe Farag  
Interim Chief Financial Officer

## **ATTACHMENTS**

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Appendix A1: Reserves as of December 31, 2017

Appendix B1: Council Directed Reserve Funds as of December 31, 2017

Appendix C1: Obligatory Reserve Funds as of December 31, 2017

Appendix A2: Loan Receivable Balance: Reserves, as of December 31, 2017

Appendix B2: Loan Receivable Balance: Council Directed Reserve Funds, as of  
December 31, 2017

Appendix C2: Loan Receivable Balance: Obligatory Reserve Funds, as of December  
31, 2017