BU7.4

REPORT FOR ACTION

Reserve and Reserve Fund Balances Report – December 31, 2018

Date: June 14, 2019
To: Budget Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report provides information on reserve and reserve fund balances as at December 31, 2018, based on Council approved transfers to, and draws from, made during the year. The transfers made into and out of reserve and reserve funds are based on amounts approved as part of the 2018 or prior year budget processes, or approved by Council throughout the fiscal year. The tables and appendices reflect information by major reserve and reserve fund category.

The reported balances include Council approved loans, granted under various City programs, which must be repaid to the reserves or reserve funds.

It is important to note that the vast majority of the City's reserve and reserve fund balances have been committed to fund capital projects and known future liabilities, leaving minimal amounts for discretionary spending. The City has engaged an external consultant to perform an adequacy review of the major reserves and reserve funds which is expected to be delivered in 2019.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Budget Committee receive this report for information.

FINANCIAL IMPACT

There are no financial implications contained in this report.

DECISION HISTORY

Reserve and Reserve Funds Balance update reports are provided to Committee and Council on a quarterly basis.

To view prior period reports online, please see the links below:

September 30, 2018 Reserve and Reserve Fund Balances Report:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.CC1.9

December 31, 2017 Reserve and Reserve Funds Variance Report:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX35.27

COMMENTS

Reserves and Reserve Funds are part of good management that allows for funds to be spent judiciously over time or to ensure service levels are maintained and not immediately impacted by a potential downturn in the economy.

The creation, use and management of Reserves and Reserve Funds in a formalized financial reserve policy is a best practice and consistent feature of most large cities in Canada and the U.S.

Reserves and Reserve Funds are used to accumulate funds over time to replace capital assets, and also provide a measure of financial flexibility to react to budget shortfalls or the financial impact of significant unexpected issues in a timely manner.

A properly balanced approach to the planning and use of Reserves and Reserve Funds is considered good financial management and is a key component of the City of Toronto's strong credit rating.

The main difference between Reserves and Reserve Funds is the allocation of investment income, which forms part of the Reserve Fund balance. There are two types of 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 prescribed purposes and are considered deferred revenues for financial statement reporting purposes.

b. Council Directed Reserve Funds are created by Council for specific purposes through by-law.

Transfers to, and draws from, Reserves and Reserve Funds are approved by Council as part of the operating and capital process, or by a special report to Council. Contributions to reserve funds from outside parties (e.g. government grants, development charges, land sales) are budgeted in consultation with appropriate divisions and agencies based on estimates of economic activity relating to the various revenue sources.

Reserve and Reserve Fund balances at December 31, 2018

As at December 31, 2018, the balance of the City's Reserves and Reserve Funds totals $5.7B ($4.5B as at December 31, 2017). This balance includes loans payable back to various Reserves and Reserve funds of $72.2M.

Council approves the provision of loans from reserves and/or reserve funds through programs managed by various City divisions (for example, Better Buildings Partnership, Sustainable Energy Funds, Residential Energy Retrofit Pilot). The loans are managed through formalized agreements and are repayable back to the reserve or reserve fund balance within five (5) to 50 years. The loans are typically interest free or have low interest rates and can be repaid directly or through a special charge to the property tax bill of the benefiting property. The divisions administering the program are responsible for ensuring that balances are repaid, however, in the rare circumstances when repayment terms are in default, the loan agreement allows for the write-off of the balance.

2018 transactions during the year relate primarily to the following:

- Receipt of contributions designated for reserve funds from outside parties (e.g. development charges);
- Funding of actual operating and capital expenditures as provided for in the 2018 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 annually at year-end, based on the reserve funds average quarterly closing balances from December 1 to November 30. 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. The 2018 rate increased to 1.16% from 0.48% in 2017, as the

Bank of Canada has relaxed the very low and accommodative interest rates from 2017 because of improved economic activity.

Table 1 summarizes the total Reserve and Reserve fund balances, which include loans payable back to the Reserves and Reserve Funds, as at December 31, 2018, with a comparison to December 31, 2017.

Table 1: December 31, 2018 Balance Summary ($Millions)

Details incorporate Appendices A1, B1 and C1 totals and loans noted in Appendices A2, B2 and C2; budget amounts are included for information only

Description	**Dec. 31, 2017 Actuals**	**Dec 31, 2018 Actuals**
Reserves		
Corporate	674.4	764.2
Water / Wastewater	75.7	139.4
Stabilization	163.7	203.6
Donations	1.4	1.3
Total	**915.2**	**1,108.5**
Council Directed Reserve Funds		
Employee benefits	279.4	289.3
Corporate	473.0	497.6
Community initiatives	132.9	142.7
State of Good Repair	248.9	247.5
Total	**1,134.2**	**1,177.1**
Total Reserves and Council Directed Reserve Funds (forms part of Accumulated Surplus in the City's consolidated financial statements)	**2,049.4**	**2,285.6**
Obligatory Reserve Funds		
Development charges	653.6	1,146.3
Community services	73.2	69.3
Parkland Acq/New Developmt	408.0	565.3
Third Party agreements	18.2	13.7
Public Transit Funds	114.4	159.5
State of Good Repair	92.6	121.4
Water/Wastewater	885.7	1,067.6
Parking Authority	4.0	3.9
Planning Act	228.1	305.1
Total Obligatory Reserve Funds (forms part of the Deferred Revenue balance in the City's consolidated financial statements)	**2,477.8**	**3,452.1**
TOTAL: All Reserves & Reserve Funds	**4,527.2**	**5,737.7**

Table 2 provides details of the loan balances repayable to the reserves and reserve funds of $72.2M as at December 31, 2018, with December 31, 2017 comparatives.

Table 2: December 31, 2018 Loan Receivable Balance Summary ($Millions)

Details provided in Appendices A2, B2 and C2; budget amounts are included for information only

Description	Dec. 31, 2017	Dec 31, 2018
Reserves		
Stabilization	11.9	11.6
Total	11.9	11.6
Council Directed Reserve Funds		
Corporate	17.3	17.7
Community initiatives	23.4	22.8
Total	40.7	40.5
Total Reserves and Council Directed Reserve Fund Loan Balances	**52.6**	**52.1**
Obligatory Reserve Funds		
Development charges	10.6	10.8
Community services	9.8	9.3
Total Obligatory Reserve Fund Loan Balances	**20.4**	**20.1**
TOTAL: Loan Balances from Reserves and Reserve Funds	**73.0**	**72.2**

Reserves and Reserve Funds activity to December 31, 2018

Total Reserve and Reserve Fund balances, including loans receivable, have increased by $1,210.5 Million during 2018 from $4,527.2 Million at the beginning of the year to $5,737.7 Million at December 31. Most of the balances as reported are committed to fund capital and other liabilities beyond December 31, 2018.

Reserve balances, including loans receivable, increased by $193.3 Million, from $915.2 Million at the beginning of the year to $1,108.5 Million at December 31, 2018, with details below:

		$M
(a)	Allocation from the 2017 year-end operating surplus to various reserves	249.5
(b)	Transfer of Municipal Land Transfer Tax to the Capital Financing Reserve	40.0
(c)	Transfer of Build Toronto dividends to the Capital Financing Reserve in accordance with the capital financing strategy in the 2013 capital budget	50.0
(d)	Contributions to the Vehicle and Equipment Replacement Reserve from operating divisions during the year	84.2
(e)	Contributions to the Vehicle and Equipment Replacement Reserve for Water and Wastewater by Toronto Water during the year	5.8
(f)	Transfer of the 2018 surplus from Water and Wastewater operations to the Water and Wastewater Stabilization Reserve	65.0
(g)	Contribution to the TTC Stabilization Reserve by the TTC from a one-time recovery from Metrolinx for future TTC operating costs	6.9
(h)	Draw from the Social Housing Stabilization Reserve for Shelter Beds and Spaces initiative	(6.6)
(i)	Funding for various capital projects during the year	(299.2)
(j)	Other, including changes in loan balances	(2.3)
	Net increase in Reserve balances	**193.3**

Council directed reserve fund balances, including loans receivable, increased by $42.9 Million, from $1,134.2 Million at the beginning of the year to $1,177.1 Million at December 31, 2018 with details below:

		$M
(a)	Allocation from the 2017 year-end operating surplus to various reserve funds	19.7
(b)	Net contributions to the Worker's Compensation Reserve Fund	3.4
(c)	Funding of election operations and events from the Election Reserve Fund	(5.6)
(d)	Toronto Hydro transfer to the Strategic Infrastructure Reserve Fund	5.0
(e)	Draw from the Transit Infrastructure Reserve Fund for debt charges	(5.3)
(f)	Contribution of transit expansion levy to the Scarborough Transit Reserve Fund	40.6
(g)	Contribution to the Long Term Liability Reserve Fund by the TTC	12.6
(h)	Contribution to the City Building Reserve Fund	28.8
(i)	Proceeds from land sales credited to the Land Acquisition Reserve Fund	10.7
(j)	Transfer from the Section 37 and Section 45 Reserve Funds to the Capital Revolving Reserve Fund for Affordable Housing	3.4
(k)	Contribution to the Child Care Capital Cost Reserve Fund for capital financing by Children's Services	16.1
(l)	Solid Waste Management contributions to the SWM Perpetual Care Reserve Fund	8.3
(m)	Solid Waste Management contributions to the Waste Management Reserve Fund	21.7
(n)	Draw from the Waste Management Reserve Fund to cover the 2018 Solid Waste Management operating deficit	(5.7)
(o)	Allocation of the 2017 Solid Waste Management surplus to the Waste Management Reserve Fund	4.0
(p)	Contribution of minimum annual revenue to the Public Realm Reserve Fund from Astral Media	24.8
(q)	Funding for Transportation operations from the Public Realm Reserve Fund	(14.7)
(r)	Funding operating cash deficits for Bike Share over 2013-2018 from the Public Realm Reserve Fund	(5.8)
(s)	Solid Waste Management net contributions to the Solid Waste Debt Reserve Fund	4.9
(t)	Funding for various capital projects during the year	(130.3)
(u)	Other, including changes in loan balances	6.3
	Net increase in Council Directed Reserve Fund Balances	**42.9**

Obligatory reserve fund balances, including loans receivable, increased by $974.3 Million, from $2,477.8 Million at the beginning of the year to $3,452.1 Million at December 31, 2018 with details below:

		$M
(a)	Allocation from the 2017 year-end operating surplus to the Building Code Act Service Improvement Reserve Fund	27.6
(b)	Receipt of $771.6 Million in Development Charges and $204.9 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively	976.5
(c)	Receipt of $184.2 Million in Provincial Gas Tax revenue less a transfer of $91.6 Million in funding to TTC operations	92.6
(d)	Receipt of funding for the Spadina Subway Extension Project from the Federal government and the Region of York, which was credited to the Toronto-York Spadina Subway Extension Reserve Fund	69.6
(e)	Transfer of funding from capital to the Toronto York Spadina Subway Extension Reserve Fund as approved in the capital budget	53.0
(f)	Transfer from Water and Wastewater programs to the Water and Wastewater Capital Reserve Fund for capital financing	842.0
(g)	The receipt of Section 37 and 45 funds, which were credited to the Section 37 Reserve Fund and Section 45 Reserve Fund	108.3
(h)	Payments to various parties from the Section 37 and 45 Reserve Funds during the year	(10.9)
(i)	Transfer from the Section 37 and Section 45 Reserve Funds to the Capital Revolving Reserve Fund for Affordable Housing	(3.4)
(j)	Funding for various capital projects during the year	(1,192.0)
(k)	Other, including changes in loan balances	11.0
	Net increase in Obligatory Reserve Fund Balances	**974.3**

Reserve Adequacy Review

The City has engaged an external consultant to conduct a high-level reserves and reserve funds adequacy study, which is expected to be completed by Q3, 2019. The study is focusing on 28 reserve fund groupings that represent about 90% of the reserve fund balance of the City's reserves and reserve funds. Based on interviews with City Program contacts most familiar with these reserve funds, the consultant will be profiling the reserve fund groups to categorize the primary function of the reserve fund and the funding mechanism, to determine if reserve fund adequacy is relevant. Where adequacy is relevant, the study will determine if a target balance has been established and assign a high-level adequacy grading for each. Reserve funds requiring further detailed review in order to establish target balances will also be identified.

The study is also providing recommendations on reserve fund management, including different approaches to establishing reserve fund targets, strategies to achieving adequate reserve fund balances in underfunded areas, and opportunities and municipal approaches for further consolidation of reserve funds. Additionally, the study will highlight any other pertinent issues found during the course of the interviews and research conducted.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A1: Reserves as of December 31, 2018
Appendix B1: Council Directed Reserve Funds as of December 31, 2018
Appendix C1: Obligatory Reserve Funds as of December 31, 2018
Appendix A2: Loan Receivable Balance: Reserves as of December 31, 2018
Appendix B2: Loan Receivable Balance: Council Directed Reserve Funds as of December 31, 2018
Appendix C2: Loan Receivable Balance: Obligatory Reserve Funds as of December 31, 2018