

**REPORT FOR ACTION****Reserves, Council Directed and Obligatory Reserve Fund (Deferred Revenue) Balances Report – September 30, 2019**

Date: November 22, 2019
To: Budget Committee and Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report provides information on reserve and reserve fund balances as at September 30, 2019. The transfers made into and out of reserve and reserve funds are based on amounts approved by Council during the 2019 or prior year budget processes, or on an ad hoc basis 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 82% (\$5.6B) of the \$6.8B of Reserve and Reserve Funds, as at September 30, 2019, represent obligatory and Council directed reserve funds. \$851.9M, of the remaining \$1.2B, is committed to offset capital costs and pressures on rate-based activities. The remaining reserve and reserve fund balances of \$322.6M are available for various unanticipated costs and to stabilize various funding sources including the tax base. The adequacy review of the major reserve and reserve fund balances conducted by an external consultant is expected to be delivered in Q4 of 2019.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive 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:

December 31, 2018 Reserve and Reserve Fund Balances Report:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.EX7.16>

September 30, 2018 Reserve and Reserve Funds Variance Report:
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.CC1.9>

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 to Reserve Funds, 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 budget processes, or by a special report to Council within a fiscal year. 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 September 30, 2019

As at September 30, 2019, the balance of the City's Reserves and Reserve Funds totals \$6.8B (\$5.7B as at December 31, 2018). This balance includes loans receivable of \$69.7M.

Council approves loans provided from reserves and/or reserve funds through programs managed by various City divisions (for example, the Residential Energy Retrofit Pilot). The loans are managed through formalized agreements and are repayable back to the reserve or reserve fund 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 associated property. The divisions administering the various programs 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.

Transactions during the first nine months of 2019 relate primarily to the following:

- Receipt of contributions designated for reserve funds from outside parties (e.g. development charges);
- Payment of actual operating and capital expenditures as provided for in the 2019 budgets;
- Payment of operating accounts for refunds or payments where proceeds had been originally credited to a reserve fund;
- Payment for property acquisitions and receipts from disposals.

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 (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 2019 rate increased to 1.654% from 1.16% in 2018, due to changes in market conditions and interest rate forecasts.

Table 1 summarizes the total Reserve and Reserve fund balances, which include loans receivable, as at September 30, 2019, with a comparison to December 31, 2018.

Table 1: September 30, 2019 Balance Summary with Loans Receivable (\$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	December 31, 2018 Actuals	September 30, 2019 Actuals
Reserves		
Corporate	764.2	888.3
Water / Wastewater	139.4	59.9
Stabilization	203.6	224.9
Donations	1.3	1.4
Total	1,108.5	1,174.5
Council Directed Reserve Funds		
Employee benefits	289.3	282.8
Corporate	497.6	557.0
Community initiatives	142.7	174.9
State of Good Repair	247.5	290.9
Total	1,177.1	1,305.6
Total Reserves and Council Directed Reserve Funds (Reported in Accumulated Surplus in the City's consolidated financial statements)	2,285.6	2,480.1
Obligatory Reserve Funds		
Development charges	1,146.3	1,229.9
Community services	69.3	69.9
Parkland Acq/New Developmt	565.3	601.3
Third Party agreements	13.7	24.1
Public Transit Funds	159.5	162.2
State of Good Repair	121.4	136.6
Water/Wastewater	1,067.6	1,799.4
Parking Authority	3.9	3.9
Planning Act	305.1	310.7
Total Obligatory Reserve Funds (Reported in the Deferred Revenue balance in the City's consolidated financial statements)	3,452.1	4,338.0
TOTAL: All Reserves & Reserve Funds	5,737.7	6,818.1

Table 2 provides details of the loans receivable of \$69.7M as at September 30, 2019, with December 31, 2018 comparatives.

Table 2: September 30, 2019 Loans Receivable Balance Summary (\$Millions)*Details provided in Appendices A2, B2 and C2; budget amounts are included for information only*

Description	December 31, 2018	September 30, 2019
Reserves		
Stabilization	11.6	11.6
Total	11.6	11.6
Council Directed Reserve Funds		
Corporate	17.7	18.1
Community initiatives	22.8	22.3
Total	40.5	40.4
Total Reserves and Council Directed Reserve Fund Loan Balances	52.1	52.0
Obligatory Reserve Funds		
Development charges	10.8	9.5
Community services	9.3	8.2
Total Obligatory Reserve Fund Loan Balances	20.1	17.7
TOTAL: Loan Balances from Reserves and Reserve Funds	72.2	69.7

Reserves and Reserve Funds activity to September 30, 2019

Total Reserve and Reserve Fund balances, including loans receivable, have increased by \$1,080.4 Million during the first nine months of 2019, from \$5,737.7 Million at the beginning of the year to \$6,818.1 Million at September 30th. Most of the balances as reported are committed to fund capital and other known liabilities beyond September 30, 2019.

Reserve balances, including loans receivable, increased by \$66.0 Million, from \$1,108.5 Million at the beginning of the year to \$1,174.5 Million at September 30, 2019, with details below:

		\$M
(a)	Allocation from the 2018 year-end operating surplus to various reserves	125.8
(b)	Council approved payment of net miscellaneous expenses from the Capital Financing Reserve	(50.9)
(c)	Transfer of Municipal Land Transfer Tax to the Capital Financing Reserve	30.0
(d)	Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year	57.3
(e)	Transfer from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund as per EX3.1 adopted by Council on Mar 10-11, 2015	(84.2)
(f)	Draw from the Social Housing Stabilization Reserve for rental housing	(6.4)
(g)	Net payments for capital projects during the first nine months of the year	(5.7)
(h)	Other	0.1
	Net increase in Reserve balances	66.0

Council directed reserve fund balances, including loans receivable, increased by \$128.5 Million, from \$1,177.1 Million at the beginning of the year to \$1,305.6 Million at September 30, 2019 with details below:

		\$M
(a)	Allocation from the 2018 year-end operating surplus to various reserve funds	5.9
(b)	Contributions to the Employee Benefits Reserve Fund less benefit expenses for retirees and LTD employees	(7.3)
(c)	Net draws from the Insurance Reserve Fund by divisions and agencies	(9.9)
(d)	Toronto Hydro transfer to the Strategic Infrastructure Reserve Fund	5.7
(e)	Draw from the Transit Infrastructure Reserve Fund for debt charges	(4.0)
(f)	Contribution of transit expansion levy to the Scarborough Transit Reserve Fund	30.5
(g)	Contribution to the City Building Reserve Fund	32.9
(h)	Proceeds from land sales credited to the Land Acquisition Reserve Fund	25.7
(i)	Repayment by Artscape of a conditional loan drawn from the Capital Revolving Reserve Fund for Affordable Housing, drawn in prior years for the Bayside Rental Housing project	6.0
(j)	Draws for Affordable Housing and the Bayside Pilot Project from the Capital Revolving Reserve Fund for Affordable Housing	(7.1)
(k)	Contribution to the Child Care Capital Cost Reserve Fund for capital financing by Children's Services	12.1
(l)	Solid Waste Management contributions to the SWM Perpetual Care Reserve Fund	6.1
(m)	Solid Waste Management contributions to the Waste Management Reserve Fund	10.0
(n)	Contribution of minimum annual revenue to the Public Realm Reserve Fund from Astral Media	26.0
(o)	Draw from the Public Realm Reserve Fund for Transportation services	(15.1)
(p)	Solid Waste Management net contributions to the Solid Waste Debt Reserve Fund	6.7
(q)	Other	4.3
	Net increase in Council Directed Reserve Fund Balances	128.5

Obligatory reserve fund balances, including loans receivable, increased by \$885.9 Million, from \$3,452.1 Million at the beginning of the year to \$4,338.0 Million at September 30, 2019, with details below:

		\$M
(a)	Allocation from the 2018 year-end operating surplus to the Building Code Act Service Improvement Reserve Fund	15.5
(b)	Receipt of \$114.5 Million in Development Charges and \$37.0 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively	151.5
(c)	Draw from the Development Charges Reserve Fund for debt charges	(15.0)
(d)	Draw from the Development Charges Reserve Fund for rental housing	(6.1)
(e)	Refunds of development charges during the first nine months of 2019	(6.9)
(f)	Receipt of \$8.2 million for the Ontario Cannabis Legalization Reserve Fund	8.2
(g)	Receipt of \$46.2 million in Provincial Gas Tax revenue less a transfer of \$68.7 million in funding for TTC operations	(22.5)
(h)	Receipt of \$9.2 million for the Spadina Subway Extension Project from the Region of York, credited to the Toronto-York Spadina Subway Extension Reserve Fund	9.2
(i)	Transfer of \$24.9 million to the Toronto York Spadina Subway Extension Reserve Fund as approved in the capital budget	24.9
(j)	Transfer from Water and Wastewater programs to the Water and Wastewater Capital Reserve Fund for capital financing	647.6
(k)	Transfer from the Water & Wastewater Stabilization Reserve to the Water & Wastewater Capital Reserve Fund as per EX3.1 adopted by Council on Mar 10-11, 2015	84.2
(l)	Receipt of Section 37 and 45 funds, credited to the Section 37 and Section 45 Reserve Funds	19.1
(m)	Payments to various agencies from the Section 37 and Section 45 Reserve Funds	(11.3)
(n)	Payments for capital projects during the first nine months of the year	(11.4)
(o)	Other	(1.1)
	Net increase in Obligatory Reserve Fund Balances	885.9

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 in Q4 of 2019. The study is focusing on 27 reserve fund groupings that represent about 90% of the balance of the City's reserves and reserve funds. Based on established criteria, internal assessments, and other external benchmark research, the study is determining if target balances have been established, and assigning a high-level adequacy grading for each reserve and reserve fund category. Reserves and reserve funds requiring further detailed review, potentially by a third party, in order to establish target balances, will also be identified.

In addition, the study is providing recommendations on reserve fund management, including systematic approaches to establishing reserve fund targets, and reserve fund consolidation.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A1: Reserves as of September 30, 2019
Appendix B1: Council Directed Reserve Funds as of September 30, 2019
Appendix C1: Obligatory Reserve Funds as of September 30, 2019
Appendix A2: Loan Receivable Balance: Reserves as of September 30, 2019
Appendix B2: Loan Receivable Balance: Council Directed Reserve Funds as of September 30, 2019
Appendix C2: Loan Receivable Balance: Obligatory Reserve Funds as of September 30, 2019