RE: EX8.15

REPORT FOR ACTION

Reserve and Reserve Fund Balances Report – June 30, 2019

Date: August 21, 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 June 30, 2019 as directed by Council. The transfers made into and out of reserve and reserve funds are based on amounts approved as part of the 2019 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 82% ($5.2B) of the $6.3B of Reserve and Reserve Funds, as at June 30, 2019, represent obligatory or previously Council directed reserve funds. $811M, of the remaining $1.1B, is committed to offset capital costs and pressures on rate-based activities. The remaining reserve and reserve fund balances of $294.5M 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 quarter four 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

May 31, 2018 Reserve and Reserve Funds Variance Report:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX36.18

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. 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 June 30, 2019

As at June 30, 2019, the balance of the City's Reserves and Reserve Funds totals $6.3B ($5.7B as at December 31, 2018). This balance includes loans receivable of $69.8M.

Council approves the provision of loans from reserves and/or reserve funds through programs managed by various City divisions (for example, 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 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 six months of 2019 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 2019 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 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 2019 rate increased to 1.654% from 1.16% in 2018, due to drastic changes in market conditions and interest rate forecasts.

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

Table 1: June 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	June 30, 2019 Actuals
Reserves		
Corporate	764.2	765.7
Water / Wastewater	139.4	142.4
Stabilization	203.6	196.0
Donations	1.3	1.4
Total	**1,108.5**	**1,105.5**
Council Directed Reserve Funds		
Employee benefits	289.3	284.8
Corporate	497.6	574.2
Community initiatives	142.7	155.3
State of Good Repair	247.5	268.1
Total	**1,177.1**	**1,282.4**
Total Reserves and Council Directed Reserve Funds (Reported in Accumulated Surplus in the City's consolidated financial statements)	**2,285.6**	**2,387.9**
Obligatory Reserve Funds		
Development charges	1,146.3	1,187.6
Community services	69.3	69.9
Parkland Acq/New Developmt	565.3	573.5
Third Party agreements	13.7	20.4
Public Transit Funds	159.5	135.7
State of Good Repair	121.4	121.2
Water/Wastewater	1,067.6	1,499.3
Parking Authority	3.9	3.9
Planning Act	305.1	310.3
Total Obligatory Reserve Funds (Reported in the Deferred Revenue balance in the City's consolidated financial statements)	**3,452.1**	**3,921.8**
TOTAL: All Reserves & Reserve Funds	**5,737.7**	**6,309.7**

Table 2 provides details of the loans receivable of $69.8M as at June 30, 2019, with December 31, 2018 comparatives.

Table 2: June 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	June 30, 2019
Reserves		
Stabilization	11.6	11.6
Total	11.6	11.6
Council Directed Reserve Funds		
Corporate	17.7	18.0
Community initiatives	22.8	22.5
Total	40.5	40.5
Total Reserves and Council Directed Reserve Fund Loan Balances	**52.1**	**52.1**
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**	**69.8**

Reserves and Reserve Funds activity to June 30, 2019

Total Reserve and Reserve Fund balances, including loans receivable, have increased by $572.0 Million during the first six months of 2019, from $5,737.7 Million at the beginning of the year to $6,309.7 Million at June 30th. Most of the balances as reported are committed to fund capital and other liabilities beyond June 30, 2019.

Reserve balances, including loans receivable, decreased by $3.0 Million, from $1,108.5 Million at the beginning of the year to $1,105.5 Million at June 30, 2019, with details below:

		$M
(a)	Council approved funding of net miscellaneous expenses from the Capital Financing Reserve	(50.9)
(b)	Transfer of Municipal Land Transfer Tax to the Capital Financing Reserve	20.0
(c)	Contributions to the Vehicle & Equipment Replacement Reserve from operating divisions during the first six months of the year	33.1
(d)	Draw from the Social Housing Stabilization Reserve for rental housing	(6.4)
(e)	Other	1.2
	Net decrease in Reserve balances	**(3.0)**

Council directed reserve fund balances, including loans receivable, increased by $105.3 Million, from $1,177.1 Million at the beginning of the year to $1,282.4 Million at June 30, 2019 with details below:

		$M
(a)	Contributions to the Employee Benefits Reserve Fund less benefit expenses for retirees and LTD employees	(4.0)
(b)	Net contributions to the Insurance Reserve Fund by divisions and agencies	10.9
(c)	Toronto Hydro transfer to the Strategic Infrastructure Reserve Fund	3.8
(d)	Contribution of transit expansion levy to the Scarborough Transit Reserve Fund	20.3
(e)	Contribution to the City Building Reserve Fund	21.9
(f)	Proceeds from land sales credited to the Land Acquisition Reserve Fund	24.1
(g)	Repayment by Artscape of conditional loan drawn from the Capital Revolving Reserve Fund for Affordable Housing in prior years for the Bayside Rental Housing project	6.0
(h)	Contribution to the Child Care Capital Cost Reserve Fund for capital financing by Children's Services	8.1
(i)	Solid Waste Management contributions to the SWM Perpetual Care Reserve Fund	6.1
(j)	Solid Waste Management contributions to the Waste Management Reserve Fund	10.0
(k)	Draw from the Public Realm Reserve Fund for Transportation services	(9.9)
(l)	Solid Waste Management net contributions to the Solid Waste Debt Reserve Fund	8.3
(m)	Other	(0.3)
	Net increase in Council Directed Reserve Fund Balances	**105.3**

Obligatory reserve fund balances, including loans receivable, increased by $469.7 Million, from $3,452.1 Million at the beginning of the year to $3,921.8 Million at June 30, 2019 with details below:

		$M
(a)	Receipt of $61.4 Million in Development Charges and $8.2 million in Parks Levies which were credited to the Development Charges and Parkland Acquisition reserve funds respectively	69.6
(b)	Draw from the Development Charges Reserve Fund for debt charges	(10.0)
(c)	Refunds of development charges during the first six months of 2019	(5.6)
(d)	Provincial funding for the Ontario Cannabis Legalization Reserve Fund	6.7
(e)	Draw from the Provincial Gas Tax Revenues for Public Transit Reserve Fund for TTC operations	(39.8)
(f)	Receipt of funding for the Spadina Subway Extension Project from the Region of York, credited to the Toronto-York Spadina Subway Extension Reserve Fund	9.2
(g)	Transfer from Water and Wastewater programs to the Water and Wastewater Capital Reserve Fund for capital financing	431.7
(h)	Receipt of Section 37 and 45 funds, credited to the Section 37 Reserve Fund and Section 45 Reserve Fund	13.8
(i)	Other	(5.9)
	Net increase in Obligatory Reserve Fund Balances	**469.7**

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 the third quarter 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 interviews with City Program contacts most familiar with these reserve funds, and other research conducted by the consultant, 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 June 30, 2019
Appendix B1: Council Directed Reserve Funds as of June 30, 2019
Appendix C1: Obligatory Reserve Funds as of June 30, 2019
Appendix A2: Loan Receivable Balance: Reserves as of June 30, 2019
Appendix B2: Loan Receivable Balance: Council Directed Reserve Funds as of June 30, 2019
Appendix C2: Loan Receivable Balance: Obligatory Reserve Funds as of June 30, 2019