

RESERVES AND RESERVE FUNDS

Reserves and Reserve Funds are monies set aside by Council to finance future expenditures for which it has authority to spend money, to defend the City against an unbudgeted or unforeseen event that may result in a budget deficit such as an economic downturn, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities. While the reserve fund balances would appear to be a large sum, it should be noted that the majority of these funds are committed to special purposes.

Toronto Municipal Code, Chapter 227 - Reserves and Reserve Funds - provides all pertinent information regarding the City's reserves and reserve funds, including definitions, the authority to establish new reserves and reserve funds, closing out inactive reserves and reserve funds, as well as the use and administration of reserves and reserve fund monies. A link to Chapter 227 of the Toronto Municipal Code is provided below:

http://www.toronto.ca/legdocs/municode/1184_227.pdf

The City maintains approximately 300 active Reserves and Reserve Funds (including Obligatory Reserve Funds) that are classified into three major categories, namely Council-Direct Reserves, Council-Directed Reserve Funds and Obligatory Reserve Funds, or Deferred Revenues. They are sub-divided into 17 sub-categories according to the nature of their purposes.

The main difference between Reserves and Reserve Funds is that earnings from the investment of Reserve Funds must be allocated to and form part of the reserve fund, while earnings from Reserves flow to the Operating Budget as investment revenue. In addition, Reserve Funds are restricted to fund specific purposes set out by bylaws, legislation or agreements.

Council-Directed Reserves and Reserve Funds

Council Directed Reserves and Reserve Funds are made up of several major categories: Corporate, Employee Benefits, Stabilization for Operations, Corporate, State of Good Repair (Capital), Community Initiatives and Donations. These funds have been set aside by Council to earmark revenues to finance a future expenditure for which it has authority to spend money, to defend the City against "rainy days", e.g. economic downturn or other extraneous reasons resulting in a budget deficit, to smooth out future program expenditures which may fluctuate from one year to the next, or to accumulate funds for future capital requirements.

Deferred Revenues/Obligatory Reserve Funds

Funds that are set aside for specific purposes by legislation, regulation or agreement and may only be used in the conduct of certain programs or the completion of specific work are reported as Deferred Revenues (but are also known as Obligatory Reserve Funds). These include funds received from the other orders of government,

Development Charges or third parties earmarked for certain purposes, e.g. Transit, Social Housing, Parkland Acquisition, Long Term Care Homes and Services. These amounts are recognized as liabilities in the year the funds are deposited, and received into revenue in the fiscal year the related expenditures are incurred or services performed. These funds are all committed, some of which will be used to fund some of the City's priority capital needs like transit expansion, and are not available at Council's discretion.

Reserve Sub-Categories

Corporate - Reserves that provide funding for capital and operating items of a corporate nature. The Reserves with the largest balances are: Capital Financing, Working Capital and Vehicle & Equipment Replacement.

Stabilization – Reserves that provide funding to stabilize the City's budgets from year to year due to various unanticipated financial pressures. The stabilization reserves with the largest balances are: Water/Wastewater, Tax Rate and Toronto Transit Commission (TTC).

Community Initiatives – Reserves that provide funding for a variety of grants programs. The reserve with the largest balance is: Termite Control.

Donations – Reserves that provides funding for various projects.

Obligatory Reserve Fund Sub-Categories (Also known as Deferred Revenues)

Development Charges – Reserve Funds that hold funding received from real estate developers that will be used offset the capital cost of providing growth-related municipal infrastructure that may be required as a result of the new development. The reserve funds with the largest balances are: Transit, Sanitary Sewage and Parks & Recreation.

Community Services – Reserve Funds for specific community services by legislation, regulation or agreement. The reserve funds with the largest balances are: National Child Benefit, Social Housing Federal and Kids @Computers Scholarship Project.

Parkland Acquisition/New Development – Reserve Funds that provide funding for the acquisition of parkland and/or other public recreational purposes, including the erection of buildings and the acquisition of machinery for park or recreational purposes. The reserve funds with the largest balances are: Alternative Parkland Dedication, City-Wide Land Acquisition and City-Wide Development.

Third Party Agreements - Reserve Funds that provide funds for purposes established in agreements with a third party. The reserve funds with the largest balances are: Subdividers Deposit, Better Building Partnerships and Section 16.

Public Transit Funds – Funds received from Other Orders of Government that are specific to public transit expansion. The reserve funds with the largest balances are: MoveOntario 2020, Provincial Gas Tax Revenues for Public Transit and Canadian Strategic Infrastructure.

State of Good Repair – Reserve Funds that are set aside by reason of legislation, regulation or agreement for the rehabilitation and major repair of City assets. The reserve funds with the largest balances are: Building Code Act Service Improvement, Toronto Centre for the Arts Improvement and Harbourfront Parkland.

Water/Wastewater – Reserve Funds that are set aside by reason of legislation, regulation or agreement for water/wastewater Reserve Funds capital projects. The reserve funds with the largest balances are: Wastewater Capital and Water Capital.

Parking Authority - Reserve Funds that are set aside by legislation, regulation or agreement with the Toronto Parking Authority. The reserve funds with the largest balances are: City Parking Payment- In-Lieu and Parking Authority Shopping Mall Rented Properties.

Planning Act – Reserve Funds that hold and dispense funds collected under the Provincial Planning Act. The reserve funds with the largest balances are: Section 37, Section 45 and Transportation Cash-in-Lieu.

Council Directed Reserve Fund Sub-Categories

Employee Benefits – Reserve Funds for the employee benefit costs of employees and retirees, as directed by Council. The reserve funds with the largest balances are: Employee Retiree Benefits, Sick Leave and Worker's Compensation.

Corporate - Reserve Funds for capital and operating items of a corporate nature, as directed by Council. The reserve funds with the largest balances are: Strategic Infrastructure Partnership, Land Acquisition and Ontario Bus Replacement.

Community Initiatives - Reserve Funds that provide funding for a variety of grants programs, as directed by Council. The reserve funds with the largest balances are: Childcare expansion, Capital Revolving – Affordable Housing and Childcare Capital Cost.

State of Good Repair – Reserve Funds for the rehabilitation and major repair of City assets, as directed by Council. The reserve funds with the largest balances are: Waste Management, Public Realm and Solid Waste Perpetual Care.

Program/Fund Relationship

The City maintains Corporate Reserves and Reserve Funds which provide funding for operating and capital items of a corporate nature. Likewise the Employee Benefits Reserve Fund sub-category contains Reserve Funds that set aside funds that pay for the future employee benefit costs of all the City's employees and former employees.

The other Reserves and Reserve Fund sub-categories contain Reserves and Reserve funds that are not corporate and their purpose is more specific to the responsibilities of specific Programs such as library development charges.

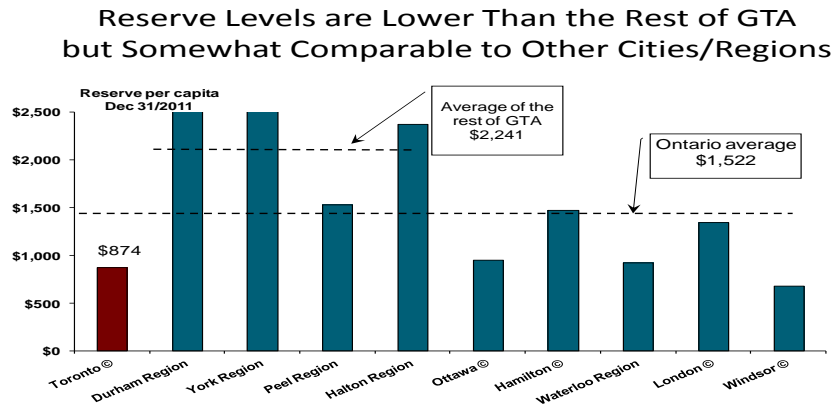
The matrix below demonstrates the relationship between City Programs and major Reserves/Reserve Fund sub-categories:

Program / Fund Relationship Use of Reserve and Reserve Funds by Program

Program/Reserve/RFund Category	Corporate	Stabilization	Community Services	Donations	Development Charges	Parkland Acquisition	Third Party Agreements	Public Transit	Water/Wastewater	Parking Authority	Planning Act	Employee Benefits	State of Good Repair
Affordable Housing Office	X	X	X		X						X	X	
Children's Services	X		X		X						X	X	X
City Council	X											X	
City Planning	X						X				X	X	
Courts Services	X	X										X	
Economic Development & Culture	X	X	X	X			X				X	X	X
Emergency Medical Services	X				X							X	
Facilities Management	X											X	X
Finance	X	X			X		X				X	X	
Fire	X			X	X							X	
Fleet Services	X											X	
Long-Term Care Homes & Services	X		X		X						X	X	X
Municipal Licensing & Standards	X		X									X	
Parks, Forestry & Recreation	X			X	X	X	X				X	X	X
Police	X				X							X	
Public Health	X				X							X	
Shelter, Support & Housing Admin.	X	X			X						X	X	X
Social Development	X	X	X		X							X	
Solid Waste Management Services	X				X							X	X
Technical Services	X											X	
Toronto Building	X											X	
Toronto Parking Authority	X									X		X	
Toronto Water	X	X			X				X			X	
Transit	X	X			X		X	X				X	
Transportation Services	X	X			X			X			X	X	X
Zoo	X											X	X

Reserve / Reserve Fund Year-end Balance

On a comparative basis, the City's overall reserve fund balance on a per capita basis is much lower than those in other Ontario jurisdictions. Toronto's 2011 reserve per capita of \$874 was considerably less than the rest of the GTA (\$2,241), and 57% of the provincial average (\$1,522). The City has established long-term reserve strategies for major reserves, e.g. employee benefits reserves, landfill sites and water and wastewater stabilization reserves, to address and make sure that adequate funds are in place, including determining needs and establishing contribution policies.



Source: Ontario Ministry of Municipal Affairs & Housing – 2011 FIR
Regional data consolidated for upper & lower tiers
Balances include Obligatory Reserve Funds/Deferred Revenues

The City's reserve and reserve funds stood at \$2.9 billion as at December 31, 2012, consisting of \$812.0 million in Council-Directed Reserves, \$844.7 million in Council-Directed Reserves Funds and \$1,290.0 billion in Deferred Revenues (also referred to as Obligatory Reserves Funds). A more detailed breakdown of the City's reserves and reserve funds is provided below:

Reserves and Reserve Funds as at December 31, 2012

(\$000s)	Dec. 31, 2010 Actual	Dec. 31, 2011 Actual	Dec. 31, 2012 Actual
Reserves			
Corporate	319,725	288,761	614,422
Water & Wastewater	56,564	31,516	80,816
Stabilization	151,914	162,896	115,700
Community Initiatives	23	23	23
Donations	2,045	1,363	1,079
	<u>530,271</u>	<u>484,559</u>	<u>812,040</u>
Obligatory Reserve Funds			
Development Charges	273,942	317,369	372,019
Community Services	67,129	70,738	70,745
Parkland Acq / New Development	99,004	134,934	194,081
Third Party Agreements	39,148	35,217	33,932
Public Transit Funds	432,163	388,529	272,203
State of Good Repair	28,629	33,700	42,188
Water / Wastewater	2,674	30,900	156,017
Parking Authority	10,155	11,574	11,833
Planning Act	89,968	109,838	137,030
	<u>1,042,812</u>	<u>1,132,799</u>	<u>1,290,048</u>
Council Directed Reserve Funds (RFs)			
Employee Benefits	182,586	164,628	173,628
Corporate	467,375	439,475	431,626
Community Initiatives	91,277	78,927	70,867
State of Good Repair	136,557	138,217	168,614
	<u>877,795</u>	<u>821,247</u>	<u>844,735</u>
Total Reserve Funds	<u>1,920,607</u>	<u>1,954,046</u>	<u>2,134,783</u>
Grand Total - Reserves & RFs	<u>2,450,878</u>	<u>2,438,605</u>	<u>2,946,823</u>

The following chart shows the historical trend of reserve and reserve fund balances since 2002. While the overall trend had been rising, this reversed in recent years as the City attempted to catch up on the State of Good Repair backlog and begins to invest in major capital initiatives like transit. In 2012, the year-end balance rebounded sharply, in part due to operating surplus funds being directed to the Capital Financing Reserve and other underfunded Reserves and Reserve Funds as mandated by the City's Surplus Management Policy.

City's Reserves and Reserve Funds Balances

