

Establishing a Toronto Public Library Reserve

Date:	December 9, 2013
To:	Toronto Public Library Board
From:	City Librarian

SUMMARY

The purpose of this report is to respond to a Toronto Public Library Board request to assess the feasibility of Toronto Public Library (TPL) establishing a reserve in order to retain the annual operating surplus.

The *Public Libraries Act* requires the Board to submit its budget in a form as specified by Council, and the Council-approved budget must be adopted by the Board. The Board is required to spend the budget as approved and if there is an operating surplus, the practice is to return the surplus to the City. The City’s *Policy on Managing Operating Budget Surpluses* require that operating surpluses be returned and applied as per the policy.

Under the City’s *Policy on Managing Operating Budget Surpluses*, the City surplus, which includes any surplus returned by TPL, is allocated at least 75% for the Capital Financing Reserve Fund and the remainder to fund any under-funded liabilities, and/or reserves/reserve funds such as the Employee Benefits Reserve Fund. TPL has benefitted from being able to access City reserves when necessary to fund special pay-outs for wages and for certain capital needs.

TPL would need Council approval to establish a reserve to retain the annual operating surplus. Considering the City’s *Policy on Managing Operating Budget Surpluses*, a TPL reserve to hold its annual surplus may not receive Council support. Furthermore, such a reserve may not be in the Library’s long-term interest.

FINANCIAL IMPACT

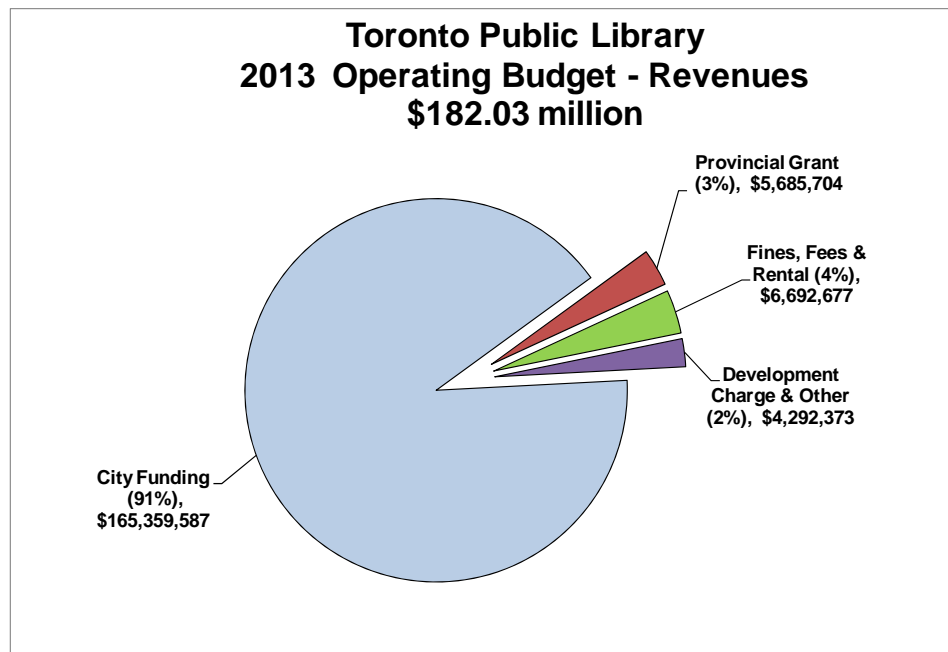
A TPL reserve to hold the annual surplus could provide some funding relief to offset cost pressures. However, the relief could only be temporary as the balance in the reserve would not be sufficient to fund a permanent budget relief.

Apart from 2012, which was a very unusual year with a \$5.7 million surplus due to a labour disruption and staff downsizing through a Voluntary Separation Program, the annual average surplus is \$234,000 for the previous five years, which equates to 0.1% of the total budget.

The Director, Finance and Treasurer has reviewed this financial impact statement and is in agreement with it.

BACKGROUND

The City funds the vast majority, 91%, of TPL’s operating budget. In addition, the City has provided special one-time payouts for wage settlements as required.



The City also issues debt to fund approximately 60% to 80% of the Library’s capital program each year.

DECISION HISTORY

At the meeting on May 28, 2012, the Board reviewed the *Operating Budget Monitoring Report – April 30, 2012* and approved a motion requesting the City Librarian to report on options for spending the projected operating surplus. At the meeting on June 25, 2012, the Board reviewed the *2012 Operating Budget Surplus* report and adopted a recommendation to return the 2012 operating budget surplus to the City.

At the meeting on November 18, 2013, the Board reviewed the *Operating Budget Monitoring Report – September 30, 2013*, and approved a motion requesting the City Librarian to report on “*establishing a reserve fund for the annual surplus for the purpose of addressing unpredictable or underfunded cost pressures*”.

The report responds to the Board’s motion.

COMMENTS

Public Libraries Act and TPL Financial Control Policy

Section 24 of the *Public Libraries Act* deals with the process for budget approval and expenditure. Section 24(1) requires the Board to submit its budget in the form specified by Council in respect to all sums required by the Board during the year. Under subsection 24(2) Council can approve the budget as submitted, but it can also amend the budget. Subsection 24(3) provides that the Library Board “shall apply the money paid to it...in accordance with the estimates as approved. While the *Public Libraries Act* is silent on the treatment of any operating surplus, the assumption is that it should be returned to the City unless Council approval is obtained to send the surplus.

City Policy on Managing Operating Budget Surpluses

Subsection 228(5) of the City of Toronto Act allows the City to use the surplus from the previous year as part of estimated revenues for balancing the current year’s budget. If a portion of the prior year’s surplus is not required to balance the current year’s budget, the City’s *Policy on Managing Operating Budget Surpluses* is applied.

At the meeting on September 28, 29, 30 and 31 and October 1, 2004, Council adopted a *City Policy on Managing Operating Budget Surpluses* report that included the following recommendation:

Starting with fiscal 2005, for any surplus, the Chief Financial Officer and Treasurer be authorized....to apply any additional surplus, in priority order to:

- a) Capital Financing Reserve Fund (at least 75% of the additional surplus); and*
- b) The remainder to fund any under-funded liabilities, and/or reserves/reserve funds as determined by the Chief Financial Officer and Treasurer.*

Historically, the TPL operating surplus has been returned to the City and applied as described above, and the City’s Employee Benefits Reserve Fund has been a recipient of some of the annual surplus.

TPL Funding from City Reserves

In addition to the annual funding for the capital and operating budgets, the City has also funded a number of special one-time payouts from its Employee Benefits Reserve Fund, including:

- 2012 – a \$7.2 million Voluntary Separation Program;
- 2010 – \$2.4 million special payout to employees who transferred to the Illness or Injury Plan (IIP); and
- 2008 – \$6.4 million one-time payout for a Job Evaluation and Pay Equity settlement.

The City has also approved capital funding from its reserves for TPL including:

- 2012 – \$0.7 million from the Land Acquisition Reserve Fund for Scarborough Civic Centre; and
- 2012 – \$9.3 million from Land Acquisition Reserve Fund to relocate the Library Processing Centre as part of the agreement for the City to acquire the former First Parliament Site.

City's 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 that may fluctuate from one year to the next, or to accumulate funds for future capital requirements or contingent liabilities.

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. To establish a reserve or reserve fund, 227-2 of the Municipal Code states:

- A. *Council, on the recommendation of the Chief Financial Officer, may establish a reserve or discretionary reserve fund or an account or an account group within such a reserve or reserve fund and shall establish an obligatory reserve fund or an account or an account group within an obligatory reserve or reserve fund.*
- B. *An account can be recommended to be established as a reserve fund or a reserve fund account only if at least one of the following applies:*
 - (1) *A mandatory obligation exists, either pursuant to legislation or contract, to provide interest on the funds;*
 - (2) *With the exception of donated funds, the funds are intended for purchasing or maintaining a capital asset;*
 - (3) *The funds are intended to fund a future liability which is increasing over time; and*
 - (4) *The funds are intended for an endowment.*
- C. *A report that recommends the establishment of an account, account group, reserve, or reserve fund must be signed by the Chief Financial Officer and include the following:*
 - (1) *Statement of purpose;*
 - (2) *Designation of the beneficiary program area -- Rationale for the appropriate level to be maintained or target in the account, as appropriate;*
 - (3) *Initial contribution, if any;*
 - (4) *Contribution policy;*
 - (5) *Withdrawal policy; and*
 - (6) *The review cycle which would provide the necessary periodic review to ensure a suitable level of funds, the appropriateness of the account and the conditions, if any, on which the account, account group, reserve or reserve fund may be closed.*

The City maintains approximately 300 active Reserves and Reserve Funds (including Obligatory Reserve Funds) that are classified into three major categories, namely Council-Directed Reserves, Council-Directed Reserve Funds and Obligatory Reserve Funds, or Deferred Revenues.

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, 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 that 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.

Establishing a TPL Reserve

A TPL reserve to hold the annual surplus could provide some funding relief to offset cost pressures such as the economic adjustment for collections, and especially e-collections. E-collections have experienced significant growth in use over the past three years, in excess of 100% a year. The pricing model for libraries from some publishers charges public libraries three to five times the price for retail consumers. Reserve funds could help to smooth expenditures in this area, as the public library community continues to advocate for fairer pricing for e-book content. However, the budget relief could only be temporary as the balance in the reserve would not be sufficient to fund a permanent budget relief.

If TPL wishes to create a reserve, it would need to seek Council approval. Considering the City’s *Policy on Managing Operating Budget Surpluses*, a TPL reserve to retain its annual surplus may not receive Council support. Furthermore, there are potential drawbacks to establishing reserves to fund e-collections or other aspects of the Library’s collections budget. The City may treat these reserves as supplemental funding sources for the Library’s

budget and direct that these reserves be used to offset TPL budget pressures in any given year, including funding for economic adjustments for collections if the Library has established a resource for similar purposes. The Library may need to find more savings annually in order to produce higher surpluses to fund collections.

CONCLUSION

TPL's annual surplus is used by the City to replenish its reserves and TPL has benefitted from being able to access these reserves when necessary to fund special pay-outs for wages and for capital purposes. Establishing a TPL reserve to retain the annual surplus, for whatever purpose, could result in TPL no longer having access to City reserves or City funding for certain pressures and this would likely be a detriment in the long-term.

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SIGNATURE

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