REPORT FOR ACTION

# Obligatory Reserve Funds (Deferred Revenues) and Reserves and Council-Directed Reserve Funds (Accumulated Surplus) as at June 30, 2021

**Date:** September 9, 2021
**To:** Executive Committee
**From:** Chief Financial Officer and Treasurer
**Wards:** All

## SUMMARY


This report summarizes the changes impacting the City of Toronto (the City)'s obligatory reserve funds (deferred revenues), and reserves and Council-directed reserve funds (accumulated surplus) as at June 30, 2021.

The City's deferred revenues (obligatory reserve funds) and reserves and Council-directed reserve funds (accumulated surplus) are subject to annual changes based on receipts from third parties, recognition of amounts into income and transfers between funds, which are authorized by legislation, third-party agreements, and Council's approvals. The tables and appendices reflect information by major category.

As at June 30, 2021, the City recognized $8,539.4 million of deferred revenues (obligatory reserve funds) and reserves and Council-directed reserve funds (accumulated surplus), which consist of the following balances:

- Committed funds for legislated, contractually bound or Council-directed activities ($7,579.0 million);
- Committed funds to fund capital costs and pressures on rate-based activities ($745.8 million); and
- Uncommitted funds for the City to respond to various unanticipated costs and to stabilize various funding sources, including the tax base ($214.6 million, equivalent to 2.5% of the total balance).

The reported balances include Council approved reserve and reserve fund loans that were granted to various agencies, City programs, and external parties, which must be repaid to the respective deferred revenues (obligatory reserve funds) and reserves and Council-directed reserve funds (accumulated surplus).

## RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. The Executive Committee receive this report for information.

## FINANCIAL IMPACT

There are no current or known future year financial impacts arising from the recommendations contained in this report.

As noted above, the majority (97.5%) of the City's obligatory reserve funds (deferred revenues) and reserve amounts in accumulated surplus, are committed funds based on legislative or third party agreements, or to fund capital costs and pressures for rate-based activities. As at June 30, 2021, only 2.5% are available to respond to unanticipated costs or stabilize various funding sources, such as the tax base.

## DECISION HISTORY

As per Chapter 227 of the Municipal Code, the Chief Financial Officer and Treasurer will report inflows and outflows of the City's deferred revenues (obligatory reserve funds), reserves, and discretionary reserve funds on a quarterly basis. To view prior period reports online, please see the links below:

Obligatory Reserve Funds (Deferred Revenues), Reserves, and Council-directed Reserve Funds Report – June 30, 2020
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EX16.13

Obligatory Reserve Funds (Deferred Revenues) and Reserves and Council-Directed Reserve Funds (Accumulated Surplus) as at December 31, 2020
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.AU9.3

## COMMENTS

Deferred Revenues (Obligatory Reserve Funds) amounts reflect advance payments for goods and/or services that the City has not yet provided to a government, government organization, third-party entity or individual. Deferred revenues are recognized as earned revenue only after the delivery of required performance obligations (the execution of activities) or stipulations specified in related legislation, contracts or agreements. These balances earn interest and are recognized as liabilities that must be settled in the future, on the City's consolidated financial statements.

Deferred revenue balances are accumulated when funds are received and reduced only with the recognition of revenues once terms and conditions are satisfied.

Reserves and Council-directed Reserve Funds represent an allocation of accumulated net revenue, recognized as accumulated surplus in the City's consolidated financial statements. These amounts have accumulated over time, and are set aside for specific purposes, such as the replacement of capital assets. They also provide a measure of financial flexibility to react to cash budget funding shortfalls, and to address the immediate financial impact of significant unexpected issues. Amounts recognized as reserves do not earn interest, while amounts recognized as reserve funds earn interest.

Reserves and Council-directed reserve funds (accumulated surplus) are impacted by budgeted inflows and outflows made in accordance with Council's approvals during the regular budgeting cycle or through ad hoc requests.

The City provides loans from deferred revenues (obligatory reserve funds), reserves and Council-directed reserve funds to finance various operating and capital programs, such as the Residential Energy Retrofit Program, using interest free or low interest arrangements. These loans are managed through formal agreements with re-payment terms ranging between five to 50 years.

Cash funds are managed to achieve an optimal rate of return on a risk-adjusted basis in accordance with the Council-approved Investment Policy. Shorter term funds are managed internally to meet cash flow needs, while funds not immediately required are guided by the Toronto Investment Board who has contracted external investment managers to handle longer term investments. Interest is allocated to deferred revenues (obligatory reserve funds) and Council-directed reserve funds on an annual basis (at fiscal year-end) based on the interest forecasted to be earned from three-month Treasury bills at the time of the preparation of the annual operating budget.

A properly balanced approach to the planning and use of Accumulated Surplus reserves and reserve funds is considered good financial management and is a key component of the City's strong credit rating. The City has a formal policy to align with best practices, support the stewardship and oversight of reserves and reserve funds, and demonstrate accountability.

## Deferred revenues (obligatory reserve funds) and reserves and discretionary reserve funds (accumulated surplus) balance as at June 30, 2021

As at June 30, 2021, the City recognized a deferred revenues (obligatory reserve funds) and reserves and discretionary reserve funds balance of $8,539.4 million (2020: $7,585.8 million); this balance includes loans receivables of $66.7 million. The City's deferred revenues (obligatory reserve funds), reserves, and discretionary reserve funds balance increased by $953.6 million or 12.6%, which resulted mostly from the following activities:

- Transfer of $469.9 million from Water and Wastewater programs to the Water and Wastewater Capital Reserve Fund for capital financing;
- Receipt of $315.0 million of development charges, park levies and Section 37 funds;

- Contribution of $70.6 million to the City Building Reserve Fund from relevant Non-program cost centres;
- Receipt of $46.3 million in Provincial Gas Tax revenue.

The following table summarizes the City's total deferred revenue (obligatory reserve funds), reserve, and Council-directed reserve fund balances, which includes loans receivable balances, as at June 30, 2021, with a comparison to December 31, 2020.

**Table 1: Deferred revenues (obligatory reserve funds), reserves, discretionary reserve funds balances, including loans receivables ($ millions)**

| | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Deferred revenues (obligatory reserve funds):** | | |
| Restricted by Provincial legislation[1] | | |
| Development charges | 1,935.4 | 1,678.2 |
| Parkland acq. / new development | 758.0 | 745.2 |
| Planning Act | 402.4 | 393.2 |
| Provincial Gas Tax revenues for Public Transit | 0.5 | 0.0 |
| Building Code Act service improvement | 151.4 | 151.9 |
| | 3,247.7 | 2,968.5 |
| Restricted by agreements with third parties[1] | | |
| Community services | 67.2 | 67.2 |
| Third party agreements | 16.8 | 18.6 |
| Public Transit funds | 97.6 | 96.5 |
| State of good repair | 10.7 | 10.5 |
| Parking Authority | 1.5 | 1.5 |
| Water / wastewater | 1,622.1 | 1,152.0 |
| | 1,815.9 | 1,346.3 |
| Total deferred revenues (obligatory reserve funds) in the City's consolidated financial statements: | 5,063.6 | 4,314.8 |
| **Reserves:** | | |
| Corporate | 680.6 | 612.4 |
| Stabilization | 835.5 | 822.8 |
| Water / wastewater | 169.5 | 165.6 |
| Donations | 1.8 | 1.8 |
| | 1,687.4 | 1,602.6 |
| **Council-directed reserve funds:** | | |
| Employee benefits | 464.5 | 478.3 |
| Corporate[1] | 805.9 | 696.6 |
| Community initiatives[1] | 213.3 | 213.7 |
| State of good repair | 304.7 | 279.8 |
| | 1,788.4 | 1,668.4 |
| Total reserves and Council-directed reserve funds – accumulated surplus in the City's consolidated financial statements | 3,475.8 | 3,271.0 |
| **Total deferred revenues (obligatory reserve funds), reserves, and Council-directed reserve funds** | **8,539.4** | **7,585.8** |

[1]Year end 2020 balances differ slightly from this report as a result of a misallocation between federal and provincial government categories.  The difference is not significant to the City's consolidated financial statements but will be corrected at Year end 2021.  In addition, internal reserve fund loans and loans to consolidated entities are reflected in this report, but not in the consolidated financial statements, but the difference is not material to the City's financial reporting.

Please refer to Appendices A, B, and C for details supporting the above reserves and Council-directed reserve funds, as well as Appendices D, E, and F for details supporting the loans receivables.

The following table summarizes the City's loans receivable as at June 30, 2021, with December 31, 2020 comparatives:

**Table 2: Loans receivable balances ($ millions)**

| | Jun. 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Deferred revenues:** | | |
| Restricted by Provincial legislation | | |
| Development charges[2] | 11.2 | 11.4 |
| | 11.2 | 11.4 |
| Restricted by agreements with third parties | | |
| Community services | 8.1 | 8.1 |
| | 8.1 | 8.1 |
| Total deferred revenues loans | 19.3 | 19.5 |
| **Reserves:** | | |
| Stabilization | 11.6 | 11.6 |
| | 11.6 | 11.6 |
| **Council-directed reserve funds:** | | |
| Corporate | 14.5 | 16.6 |
| Community initiatives | 21.3 | 21.6 |
| | 35.8 | 38.2 |
| Total reserves and Council-directed reserve funds loans | 47.4 | 49.8 |
| **Total deferred revenues (obligatory reserve fund), reserve, and Council-directed reserve fund loans** | **66.7** | **69.3** |

[2]These balances are associated with loans that the City provided to external parties using the development charges reserve fund. Please refer to Appendix D for a list of external parties that have received a loan.

Please refer to Appendices D, E, and F for details supporting the loans receivables.

## CONTACT

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## SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

## ATTACHMENTS

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|---|---|
| Appendix A: | Deferred Revenues (Obligatory Reserve Funds) as of June 30, 2021 |
| Appendix B: | Accumulated Surplus - Reserves as of June 30, 2021 |
| Appendix C: | Accumulated Surplus - Council-Directed Reserve Funds as of June 30, 2021 |
| Appendix D: | Loan Receivable Balances - Deferred Revenues (Obligatory Reserve Funds) as of June 30, 2021 |
| Appendix E: | Loan Receivable Balances - Reserves as of June 30, 2021 |
| Appendix F: | Loan Receivable Balances - Council-Directed Reserve Funds as of June 30, 2021 |