TORONTO

REPORT FOR ACTION

Deferred Revenue (Obligatory Reserve Funds), and Reserves and Discretionary Reserve Funds as at December 31, 2021

Date: June 27, 2022
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The City of Toronto (City) maintains balances that will be recognized as revenues in future years, in addition to reserves and discretionary reserve funds that are intended to support the City's future activities. This report provides balances for deferred revenues (obligatory reserve funds), and reserves and discretionary reserve funds as at December 31, 2021.

As at December 31, 2021, the City reported $9,013.5 million in total deferred revenues (obligatory reserve funds), and reserves and discretionary reserve funds, which represents an increase of $1,427.7 million from the December 31, 2020 balance of $7,585.8 million. These balances are subject to annual changes based on amounts received from third parties, recognition of revenue based on meeting the obligations of third party agreements and revenue recognition principles, and transfers between funds as authorized by City Council (Council). A total of 94.9% of the City's deferred revenues, and reserves and discretionary reserve funds are fully committed, with the breakdown of the total balance as follows:

- Committed funds included in the City's deferred revenues (obligatory reserve funds), or in support of legislated, contractually bound or Council-directed activities ($7,909.2 million);
- Committed funds for capital costs and pressures on rate-based activities ($644.8 million); and
- Uncommitted funds of $459.5 million, or 5.1% of the total balance, are available to respond to various unanticipated costs and to stabilize various funding sources, including the tax base.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive this report for information.

FINANCIAL IMPACT

There are no current or known future year financial impacts associated with the receipt of this report.

As noted above, the majority (94.9%) of the City's deferred revenues, and reserves and discretionary reserve funds, are committed for future use based on obligations specified in legislative or third party agreements, Council-directed activities, the development or acquisition of tangible capital assets and responses to pressures on rate-based activities. As at December 31, 2021, only 5.1% of the City's reserves and discretionary reserve funds are available to respond to unanticipated costs or stabilize funding sources, such as property taxes.

To ensure prudent financial management and in light of uncertain levels of funding support in future years, the City must retain a contingency amount as part of its reserves and discretionary reserve funds to be in a position to address both unanticipated and prolonged COVID-19 financial impacts while contributing to COVID-19 response initiatives and social and economic recovery.

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 and reserves and discretionary reserve funds on a quarterly basis, as well as provide updates to this chapter of the Municipal Code, which reflects City Council's decisions and administrative changes made to maintain the accuracy of the City's reserves and discretionary reserve funds. To view the most recent prior reports online, please see the links below:

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

Obligatory Reserve Funds (Deferred Revenues) and Reserves and Discretionary Reserve Funds as at September 30, 2021
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX28.9

COMMENTS

Overview of deferred revenues, and reserves and discretionary reserve funds

Deferred revenues reflect advance payments received 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 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 discretionary reserve funds represent an allocation of the City's annual surplus, and are recognized as part of the accumulated surplus balance in the City's consolidated financial statements. These balances have accumulated over time, and are set aside for specific purposes, such as the replacement of tangible capital assets. They also provide a measure of financial flexibility to react to address the immediate financial impact of significant unexpected pressures.

The City provides Council approved loans from deferred revenues, and reserves and discretionary reserve funds, to agencies, City programs and external parties 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.

A properly balanced approach to the planning and use of reserves and discretionary reserve funds is considered prudent 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.

Balances held by the City as at December 31, 2021

As at December 31, 2021, the City recognized a deferred revenues, and reserves and discretionary reserve funds balance of $9,013.5 million (2020: $7,585.8 million); this balance includes loans receivables of $64.8 million. The City's deferred revenues, and reserves and discretionary reserve funds balance increased by $1,427.7 million or 18.8%, as a result of the following activities:

- Receipt of $1,032.3 million of development charges, park levies and Section 37 funds to be used as the primary tool for funding critical growth-related capital projects;
- Transfer of $946.5 million from Water and Wastewater programs to the Water and Wastewater Capital Reserve Fund to be used for future capital expenditures;

- Transfer of the $376.8 Municipal Land Transfer Tax net revenue to the Tax Rate Stabilization Reserve;
- Allocations to reserves and discretionary reserve funds of $242.6 million as approved by Council through the 2020 Year-End Operating Variance Report , including amounts allocated to the Employee Benefits reserve fund ($61.9M), the Assessment Appeal reserve ($45.1 million), and the Building Code Act Service Improvement reserve fund ($36.9 million);
- Receipt of $185.2 million in Provincial Gas Tax revenue; and
- Withdrawals of $1,345.2 million for various capital projects during the year from the Water and Wastewater Capital Reserve Fund and the Development Charge Reserve Fund.

Table 1 below summarizes the City's total deferred revenues, and reserves and discretionary reserve fund balances, which include loans receivable balances, as at December 31, 2021, with a comparison to December 31, 2020.

These figures represent a snapshot of the City's balances at a point in time. The amounts displayed do not reflect the planned commitments that are included in the annual Operating Budget and Ten (10) Year Capital Plan, or other initiatives in the early stages of cost estimation which are subject to future year budget consideration. Funds are often received for specific purposes, such as funding critical growth-related capital projects. It is important to consider that comprehensive infrastructure planning may take time, with expenditures to be incurred in future years following initial development projects. Therefore, infrastructure planning and spending does not necessarily happen simultaneously with, or immediately following, receipt of funds, depending on their purpose and eligible uses.

As noted earlier, the majority (94.9%) of the City's deferred revenues, and reserve and discretionary reserve fund amounts are committed for future use based on obligations from legislative or third party agreements, Council-directed activities, to support the acquisition of tangible capital assets, or respond to pressures for rate-based activities, with only 5.1% of balances available and uncommitted to respond to emergencies.

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

($ millions)	Dec. 31, 2021	Dec. 31, 2020
Deferred revenues:		
Restricted by Provincial legislation		
Development charges	2,263.1	1,678.2
Parkland acquisition/new development	743.5	745.2
Planning Act	402.7	393.2
Provincial Gas Tax revenues for Public Transit	0.2	0.1
Building Code Act service improvement	183.6	151.9
	3,593.1	2,968.5

($ millions)	Dec. 31, 2021	Dec. 31, 2020
Restricted by agreements with third parties		
Community services	66.7	67.2
Third party agreements	15.4	18.6
Public Transit funds	82.2	96.5
State of good repair	9.7	10.5
Parking Authority	1.5	1.5
Water / wastewater	1,134.6	1,152.0
	1,310.1	1,346.3
Total deferred revenues in the City's consolidated financial statements:	**4,903.2**	**4,314.8**
Reserves:		
Corporate	687.0	612.4
Stabilization	1,391.3	822.8
Water / wastewater	62.2	165.6
Donations	1.8	1.8
	2,142.3	1,602.6
Discretionary reserve funds:		
Employee benefits	568.7	478.3
Corporate	988.8	696.6
Community initiatives	168.8	213.7
State of good repair	241.7	279.8
	1,968.0	1,668.4
Total reserves and discretionary reserve funds reported in the City's consolidated financial statements accumulated surplus	**4,110.3**	**3,271.0**
Total deferred revenues, and reserves and discretionary reserve funds[1]	**9,013.5**	**7,585.8**

[1] The City's internal reserve fund loans to divisions and loans to consolidated entities are reflected in this report, but are eliminated upon consolidation of the City's overall financial statements. The presentation of balances reported in the City's consolidated financial statements were also modified to improve the relevance of the financial information for financial statement users. These changes are considered to be minor re-classifications in nature and did not significantly affect the City's consolidated accumulated surplus balance.

Please refer to Appendices A, B, and C for details supporting the above deferred revenues, and reserves and discretionary reserve funds, as well as Appendices D, E, and F for details supporting the loans receivables included in the balances above.

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

Table 2: Loans receivable balances

($ millions)	Dec. 31, 2021	Dec. 31, 2020
Deferred revenues:		
Restricted by Provincial legislation		
Development charges[2]	10.4	11.4
	10.4	11.4
Restricted by agreements with third parties		
Community services	8.1	8.1
	8.1	8.1
Total deferred revenues loans	**18.5**	**19.5**
Reserves:		
Stabilization	11.6	11.6
	11.6	11.6
Discretionary reserve funds:		
Corporate	13.8	16.6
Community initiatives	20.9	21.6
	34.7	38.2
Total reserves and discretionary reserve funds loans	**46.3**	**49.8**
Total loans from deferred revenues, and reserves and discretionary reserve funds	**64.8**	**69.3**

[2]These balances are associated with loans that the City provided to external parties using the Development Charges reserve fund, which represents a deferred revenue balance. 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 receivable balances.

2022 Activity to Date

Although there is limited deferred revenue, reserve and discretionary reserve fund activity in the first quarter of the fiscal year, summary information related to rate-based program transfers and changes to the City's development charges is being provided for information purposes.

During the first four months of 2022, the balances of deferred revenues, and reserves and discretionary reserve funds (accumulated surplus) increased by $548.7 million, or 6.1%, which is mainly the result of the activities noted below. These balances do not reflect the planned commitments or other initiatives in the early stages of cost estimation which may require use of funds:

- Transfer of $243.9 million from Water and Wastewater programs to the Water and Wastewater Capital Reserve Fund for capital financing;
- Receipt of $135.5 million of development charges, park levies, and Section 37 contributions, to be used as the primary tool for funding critical growth-related capital projects; and
- Receipt of $155.3 million in proceeds from land sales which was recognized in the Land Acquisition Reserve Fund.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: Deferred Revenues (Obligatory Reserve Funds) as of December 31, 2021
Appendix B: Accumulated Surplus (Reserves) as of December 31, 2021
Appendix C: Accumulated Surplus (Discretionary Reserve Funds) as of December 31, 2021
Appendix D: Loan Receivable Balances - Deferred Revenues (Obligatory Reserve Funds) as of December 31, 2021
Appendix E: Loan Receivable Balances - Accumulated Surplus (Reserves) as of December 31, 2021
Appendix F: Loan Receivable Balances - Accumulated Surplus (Discretionary Reserve Funds) as of December 31, 2021