TORONTO

REPORT FOR ACTION

City of Toronto Reserves and Reserve Funds as at September 30, 2022

Date: March 7, 2023
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

Reserves and Reserve Funds established by Toronto City Council (Council) are key in the financial management and operations of the City of Toronto (City). These funds are set aside to help offset future capital needs, future obligations such as employee expenses, fiscal pressures from ongoing programs and unforeseen costs or revenue shortfalls, minimizing annual tax rate fluctuations. Prudent financial management requires the City to retain a Tax Rate Stabilization Reserve balance as a contingency to address unanticipated and emergency events. The City of Toronto has committed to maintaining a Tax Rate Stabilization Reserve balance of no less than 2% of annual property tax revenues for this purpose. Reserves and Reserve Funds are drawn upon to finance operating and capital expenditures as designated by Council; the contributions to and draws from Reserve and Reserve Funds represent a source or use of funds. Contributions to Reserves and Reserve Funds are not revenue earned by the City. These balances are consolidated within the City's Accumulated Surplus position on the Consolidated Statement of Financial Position. These balances have been built up over a number of years with deliberate contributions over the last few years to address COVID related financial challenges at the expense of contributions that otherwise would have supported the City's capital program. Outside of planned reserve contributions for specific uses, contributions are made when there are excess revenues collected over budgeted amounts, or when there are lower expenditures incurred than budgeted. With the ongoing impacts of the pandemic these situations are less likely to occur and once these balances are drawn down, there is no predictable source of funding to replenish the balances and no guarantee on how long it would take to rebuild the balance.

This report provides 2022 activity to September 30, 2022 for the City's Reserves and Reserve Fund balances.

Reserves and Reserve Funds balances as at September 30, 2022 totalled $4,850.7 million, an increase of $740.4 million over the December 31, 2021 balance. This change is the result of prior year surplus allocations in addition to transfers between funds as authorized by Council. The majority of the City's reserves and reserve funds

($ 4,560.4 million, or 94.1%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities. Only the remaining balance of $290.3 million, or 5.9% of total reserves and reserve funds is uncommitted and available to respond to various unanticipated costs, stabilize various funding sources, including the tax base, or for emergency purposes such as extreme weather events. This remaining balance has also been leveraged as a $145 million one-time backstop in the event funding of $97 million is not received from the federal government to reimburse the City for 2023 refugee response costs; and a further $48 million from the province to reimburse the City for 2023 supportive housing costs. It is important to emphasize the use of these reserves is a one time solution as a funding source.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive the City of Toronto Reserves and Reserve Funds as at September 30, 2022 report for information.

FINANCIAL IMPACT

To ensure prudent financial management and in light of uncertain levels of federal and provincial funding support in 2023 and future years, the City must retain a contingency amount as part of its reserves and reserve funds to be in a position to address both unanticipated costs and prolonged pandemic related financial impacts, while still maintaining a balanced budget.

As of September 30, 2022, 94.1% of the City’s reserves and reserve funds are fully committed to supporting the 10-year capital and operating plans or Council-directed commitments. The remaining uncommitted amount of $290.3 million is required to be reserved for emergency purposes such as extreme weather events as well as a one-time backstop in the event intergovernmental funding is not received for the City's refugee response actions or supportive housing initiatives, which comprises 50% of the emergency reserve balance. The uncommitted amount represents 1.8% of the total 2023 approved Operating Budget of $16.2 billion.

The City has requested and requires support from other orders of government towards $1.4 billion in ongoing COVID-19 impacts ($933 million for 2023 plus $491 million for 2022) and supportive housing and refugee response pressures of $145 million. In the absence of this support the City will be faced to reduce services such as transit and shelter spaces in addition to substantial property tax increases. In addition, uncertainties regarding the impacts of provincial legislations including Bill 23, the More Homes Built Faster Act, will impact reserves in 2024. The City of Toronto's use of one-time emergency backstop reserves is a one time solution and once depleted, will no longer be available for ongoing commitments and COVID-19 impacts in 2024 and beyond.

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 reserves and reserve funds on a quarterly basis, as well as provide administrative updates to this chapter of the Municipal Code, based on Council's decisions. To view the most recent reports online, please see the links below:

Obligatory Reserve Funds (Deferred Revenues) and Reserves and Discretionary Reserve Funds as at December 31, 2021:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX34.18

Obligatory Reserve Funds (Deferred Revenues) and Reserves and Discretionary Reserve Funds as at September 30, 2021. This report includes prior year administrative changes to Chapter 227 – Administration of Reserves and Reserve Funds:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX28.9

COMMENTS

Overview of the City's Reserves and Reserve Fund balances

Reserves and Reserve Funds represent an allocation of the City's annual surplus, and represent a part of the accumulated surplus balance in the City's consolidated financial statements. These balances have accumulated over time from net surpluses, and are set aside for specific purposes as directed by Council, such as the replacement of capital infrastructure or funding of ongoing program costs. They also provide a measure of financial flexibility to react to or address the immediate financial impact of significant unexpected pressures.

Reserves and Reserve Funds allocations or balances do not represent revenues on the City's Consolidated Statement of Operations. These balances are accumulated as a result of net surpluses that have already factored in recognized revenues and expenses. In addition, the balances in this report do not include Deferred Revenues, which are contributions recognized on the City's Statement of Financial Position that have performance obligation or stipulations that must be executed before revenues can be earned.

The City's Reserve Funds are required by the Investment Earnings Policy and the Administration of Reserve Accounts to receive a contribution representing an allocation of the City's annual interest earnings.

A properly balanced approach to the planning and use of reserves and 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.

Reserves and Reserve Funds as at September 30, 2022

Reserve and Reserve Fund balances as at September 30, 2022 totalled $4,850.7 million, an increase of $740.4 million over the December 31, 2021 balance. The following allocations contributed to a majority of the increase in this balance:

- Allocation of $181.5 million to the Debt Servicing Stabilization Reserve as approved by Council through the 2021 Year-End Operating Variance Report to support multi-year servicing costs for recoverable debt funded projects;
- Contributions equal to the proceeds from land sales of $158.9 million which were allocated to the Land Acquisition Reserve Fund;
- Contribution of $144.7 million to the City Building Reserve Fund from various non-program cost centres to support over $6 billion in approved Housing and Transit capital investments; and
- Contributions of $58.2 million to the Vehicle & Equipment Replacement Reserve from operating divisions during the first nine months of the year;

Table 1 below summarizes the City's reserves and reserve funds balances, as at September 30, 2022, with a comparison to December 31, 2021.

Balances reported do not reflect the planned commitments to use these reserves and reserve funds 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. Comprehensive infrastructure planning may take time, with expenditures to be incurred in future years following initial development projects.

Table 1: Reserves and Reserve Funds, as at September 30, 2022:

($ millions)	Sep. 30, 2022	Dec. 31, 2021
Reserves:		
Corporate	804.9	687.0
Stabilization	1,586.6	1,391.3
Water / wastewater	59.3	62.2
Donations	1.8	1.8
	2,452.6	2,142.3
Reserve Funds:		
Employee benefits	563.8	568.7
Corporate	1,296.9	988.8
Community initiatives	175.2	168.8
State of good repair	362.2	241.7
	2,398.1	1,968.0
Total Reserves and Reserve Funds reported in the City's Consolidated Accumulated Surplus	4,850.7	4,110.3

Please refer to Appendices A and B for details supporting the above reserves and reserve funds activity and balances.

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SIGNATURE

Heather Taylor
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: City of Toronto Reserves in Accumulated Surplus as at September 30, 2022
Appendix B: City of Toronto Reserve Funds in Accumulated Surplus as at September 30, 2022