

## **City of Toronto Reserve and Reserve Fund Balances as at December 31, 2022**

**Date:** June 26, 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. As an example, 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, or 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; similarly, draws are not expenses. Total Reserve and Reserve Funds are consolidated within the City's Accumulated Surplus position on the Consolidated Statement of Financial Position. These balances have accumulated 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, some contributions are made when there are excess cash inflows over budgeted amounts, or when there are lower expenditures than budgeted or when there are timing impacts to commitments originally planned and approved. With the ongoing impacts of the pandemic and the increased financial pressures on the City, it is likely these balances will be drawn down. It is essential to understand that based on current practices and the current budget there is no predictable source of funding to replenish the balances.

This report provides 2022 activity to December 31, 2022 for the City's Reserves and Reserve Fund balances.

Reserves and Reserve Funds balances as at December 31, 2022 totalled \$5,431.6 million, an increase of \$1,321.3 million over the December 31, 2021 balance. This change is the result of prior year budget surplus allocations, along with various deliberate contributions, such as land sales credited directly to the land acquisition reserve fund, as authorized by Council. The majority of the City's reserve and reserve fund balances (\$5,135.6 million, or 94.6%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities. Only the remaining balance of \$296 million, or 5.4% 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.

## **RECOMMENDATIONS**

---

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive the City of Toronto Reserve and Reserve Fund Balances report as at December 31, 2022 for information.

## **FINANCIAL IMPACT**

---

There are no financial implications arising from the adoption of the recommendation in this report.

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.

Reserve and Reserve Funds balances as at December 31, 2022 totalled \$5,431.6 million, an increase of \$1,321.3 million over the December 31, 2021 balance of \$4,110.3 million. The net increase is the result of prior year budget surplus allocations, along with various deliberate contributions, such as land sales credited directly to the land acquisition reserve fund, as authorized by Council.

As of December 31, 2022, 94.6% of the City's reserve and reserve fund balances are fully committed to supporting future operating expenses, or other Council-directed commitments, and expenditures in the 10-year capital plan. The remaining 5.4% of the City's reserves and reserve funds are uncommitted and being retained for emergency purposes such as extreme weather events, with 50% of this amount reflected as a one-time backstop in the event intergovernmental funding is not received for the City's refugee response actions or supportive housing. The uncommitted amount represents 1.8% of the total 2023 approved Operating Budget of \$16.2 billion.

The City requires funding support of \$1.3 billion to address ongoing COVID-19 impacts including \$395 million for the remaining 2022 shortfall and \$933 million for 2023 budgeted impacts. In addition to continued COVID-19 financial pressures, Toronto requires reimbursement of \$97 million from the federal government to maintain refugee response efforts in 2023. In the absence of further funding support, the City will be required to make a one-time draw from the COVID-19 backstop. After the recommended 2022 year-end adjustments and the one-time withdrawals from the COVID-19 backstop included in the Operating Variance Report for the Twelve Months Ended December 31, 2022, the balance will be reduced to \$1.039 billion prior to any additional reserve contributions. This remains sufficient to manage on a one time basis the 2023 budgeted COVID-19 impacts of \$933 million, but not sufficient beyond 2023. The City of Toronto's use of one-time emergency backstop reserves is a one-time solution. Once depleted, it will no longer be available for ongoing commitments and COVID-19 impacts in 2024 and beyond. In addition, uncertainties regarding the impacts of provincial legislation, including Bill 23, the More Homes Built Faster Act, will impact reserves 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:

City of Toronto Reserves and Reserve Funds as at September 30, 2022  
<https://secure.toronto.ca/council/agenda-item.do?item=2023.EX3.5>

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>

## **COMMENTS**

---

### **Overview of the City's Reserves and Reserve Fund balances**

Reserves and Reserve Funds represent an allocation of the City's annual budget surplus, and comprise a component of the accumulated surplus balance in the City's consolidated financial statements. These balances have accumulated over time from net surpluses or specific contributions, 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 are balances and do not represent revenues and/or expenses on the City's Consolidated Statement of Operations and Accumulated Surplus. These balances are accumulated as a result of net surpluses that have

already factored in recognized revenues and incurred expenses. In addition, the balances in this report do not include Deferred Revenues, which are contributions recognized on the City's Consolidated Statement of Financial Position that have performance obligations 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 December 31, 2022**

Reserve and Reserve Fund balances as at December 31, 2022 totalled \$5,431.6 million, an increase of \$1,321.3 million over the December 31, 2021 balance. The following allocations contributed to the net increase in this balance:

- Contribution of \$300.0 million COVID backstop to the Tax Rate Stabilization Reserve, available as a result of pausing planned capital projects in order to manage the unexpected impacts of the pandemic;
- Contributions equal to the proceeds from land sales of \$199.2 million which were allocated to the Land Acquisition Reserve Fund;
- Contribution of \$193.5 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;
- 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 as the increase in interest rates was anticipated;
- Contributions of \$114.1 million to the Vehicle & Equipment Replacement Reserve from operating divisions during the year to help stabilize our fleet plan;
- Contribution of \$95.1 million annual Municipal Land Transfer Tax (MLTT) specific surplus to the Capital Financing Reserve; and
- Withdrawals of \$81.4 million for various capital projects during the year from the Vehicle & Equipment Replacement Reserve.

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

Balances reported are reflected at a point in time, and do not incorporate the planned future commitments to use these reserves and reserve funds to support program costs and infrastructure improvements. These commitments are included in the annual Operating Budget and Ten (10) Year Capital Plan, and other multi-year initiatives in the early stages of cost estimation which are subject to future year budget consideration

and approval. Comprehensive planning may take time, with expenditures to be incurred in future years following initial development of project plans.

**Table 1: Reserves and Reserve Funds, as at December 31, 2022:**

(\$ millions)	Dec. 31, 2022	Dec. 31, 2021
Reserves:		
Corporate	866.7	687.0
Stabilization	1,956.0	1,391.3
Water / wastewater	103.7	62.2
Donations	1.7	1.8
	2,928.1	2,142.3
Reserve Funds:		
Employee benefits	612.4	568.7
Corporate	1,403.8	988.8
Community initiatives	167.9	168.8
State of good repair	319.4	241.7
	2,503.5	1,968.0
Total Reserves and Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	5,431.6	4,110.3

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

## CONTACT

---

Andrew Flynn, Controller, Tel: 416-392-8427, [Andrew.Flynn@toronto.ca](mailto:Andrew.Flynn@toronto.ca)

Sandra Califaretti, Director, Accounting Services, Tel: 416-397-4438, [Sandra.Califaretti@toronto.ca](mailto:Sandra.Califaretti@toronto.ca)

Stephen Conforti, Executive Director Financial Planning, Tel: 416-397-4229, [Stephen.Conforti@toronto.ca](mailto:Stephen.Conforti@toronto.ca)

## SIGNATURE

---

Heather Taylor  
Chief Financial Officer and Treasurer

## **ATTACHMENTS**

---

Appendix A: City of Toronto Reserves in Accumulated Surplus as at December 31, 2022

Appendix B: City of Toronto Reserve Funds in Accumulated Surplus as at December 31, 2022