

City of Toronto Reserve and Reserve Fund Balances as at June 30, 2023

Date: September 19, 2023

To: Executive Committee

From: Interim 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 to offset 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 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 the last several years with half of the contributions made 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, when possible, contributions may be made when there are excess cash inflows over budgeted amounts, when there are lower expenditures than budgeted or when there are timing impacts to commitments originally planned and approved. With the lasting impacts of the pandemic and the increased financial pressures on the City, these balances are being drawn down. The COVID-19 backstop is expected to be nearly depleted in 2023 and then fully depleted early in 2024. Based on current practices and the current budget there is no predictable source of funding to replenish the balances.

This report provides 2023 activity to June 30, 2023, for the City's Reserves and Reserve Fund balances.

Reserves and Reserve Funds balances as at June 30, 2023 totalled \$5,663.0 million, an increase of \$231.4 million over the December 31, 2022, balance. This change is the result of various deliberate contributions for capital investments in housing and capital infrastructure, and the proceeds from 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 (\$5,463.9 million, or 96.5%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities. Only the remaining balance of \$199.1 million, or 3.5% 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.

Of the \$5.5 billion in committed reserve and reserve funds, there are approximately \$15.4 billion in future commitments and obligations against the existing reserves and discretionary reserve fund balances, which are consistent with Council approved plans over the 2023-2032 capital planning period. These commitments and obligations are nearly 3 times greater than the current reserve and discretionary reserve fund balances, requiring continued reserve contributions to support planned expenditures.

This report also requests Council approval for administrative amendments to the City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds ("Chapter 227"). This involves a request to merge the Doubtful Loan Guarantee Reserve into the Debt Servicing Reserve Fund, amend the purpose of the Debt Servicing Reserve Fund, and close the Doubtful Loan Guarantee Reserve.

RECOMMENDATIONS

The Interim Chief Financial Officer and Treasurer recommends that:

1. City Council consolidate the Doubtful Loan Guarantee Reserve in Appendix A, Schedule 1 of Toronto Municipal Code Chapter 227 with the Debt Servicing Reserve Fund in Appendix B, Schedule 7 of Toronto Municipal Code Chapter 227, the purpose of which is to mitigate the effects of the rising costs of capital financing, reducing the volatility of the City's annual debt service costs and to provide a source of funding for any shortfalls or defaults in interest and/or principal payments by an organization under which the City has provided a loan guarantee or a loan.
2. City Council close and delete the 'Doubtful Loan Guarantee Reserve' from Appendix A, Schedule 1 in Toronto Municipal Code Chapter 227.

FINANCIAL IMPACT

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

To ensure prudent financial management and considering 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 June 30, 2023, totalled \$5,663.0 million, an increase of \$231.4 million over the December 31, 2022 balance of \$5,431.6 million. The net increase is the result of various Council approved contributions for capital investments in housing and capital, and the proceeds from land sales credited directly to the land acquisition reserve fund.

As of June 30, 2023, 96.5% 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 3.5% 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 1.2% of the total 2023 approved Operating Budget of \$16.2 billion.

To date, \$53.7 million in 2023 COVID-19 support funding has been committed specific to Public Health costs with an additional \$4.5 million committed for Seniors Services and Long-Term Care. In addition to COVID-19 support funding, the City has generated \$33.7 million in offsets associated with projected COVID-19 impacts compared to budgeted estimates, resulting in a \$840.9 million remaining COVID-19 funding shortfall in 2023. Absent of any further intergovernmental COVID-19 funding support, a one-time draw from the City's COVID-19 Backstop of up to \$840.9 million will be required to ensure the City maintains a balanced 2023 Operating Budget while addressing the financial impacts continuing to arise from the pandemic. A draw of this magnitude would significantly deplete funds available in the COVID-19 backstop, which would severely limit the City ability to address COVID-19 impacts moving forward, with COVID-19 pressures currently estimated to be between \$720 million to \$927 million in 2024 alone.

The Interim Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as identified in the Financial Impact section.

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 Reserve and Reserve Fund Balances as at December 31, 2022
[Agenda Item History - 2023.EX6.8 \(toronto.ca\)](#)

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 are allocations of balances; contributions and/or draws 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 specific 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 June 30, 2023

Reserve and Reserve Fund balances as at June 30, 2023, totalled \$5,663.0 million, an increase of \$231.4 million over the December 31, 2022 balance. The following allocations contributed to the net increase in this balance:

- Contribution of \$125.9 million to the City Building Reserve Fund from non-program sources to support over \$6 billion in approved Housing and Transit capital investments
- Contributions of \$42.4 million to the Vehicle & Equipment Replacement Reserve from operating divisions during the year to help stabilize our fleet plan
- Contributions equal to the proceeds from land sales of \$34.2 million which were allocated to the Land Acquisition Reserve Fund

Table 1 below summarizes the City's reserve and reserve fund balances as at June 30, 2023, with a comparison to December 31, 2022.

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 June 30, 2023:

(\$ millions)	Jun. 30, 2023	Dec. 31, 2022
Reserves:		
Stabilization	1,732.2	1,956.0
Corporate	928.6	866.7
Water / wastewater	107.2	103.7
Donations	1.7	1.7
	2,769.7	2,928.1
Reserve Funds:		
Corporate	1,780.8	1,403.8
Employee benefits	608.3	612.4
State of good repair	329.9	319.4
Community initiatives	174.3	167.9
	2,893.3	2,503.5
Total Reserves and Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	5,663.0	5,431.6

As per City Council's directive (2023.CC4.1), the City is required to report on contributions to and withdrawals from the Tax Rate Stabilization Reserve. Information regarding changes in the Tax Rate Stabilization Reserve, as well as other reserve and reserve fund activities and balances, can be found in Appendices A and B. In addition, \$15.4 billion in commitments and obligations to mostly support a part of the Council approved 2023-2032 Capital Budget and Plan that would require reserve and reserve fund withdrawals, with the largest funding commitments coming from the City Building Reserve Fund (\$6.1 billion), Vehicle & Equipment Replacement Reserve (\$1.6 billion), COVID-19 backstop (\$1.1 billion), and the Solid Waste Reserve Funds (\$1.0 billion). The City's commitments and obligations, therefore, exceed reserves and discretionary reserve funds by nearly 3 times.

Administrative Amendments to Existing Accounts: Reserve Name Changes and/or Changes to Purpose

- a. Doubtful Loan Guarantee Reserve (XQ1714) – recommend to be merged with the Debt Servicing Reserve Fund (XR1734) and closed.
- b. Debt Servicing Reserve Fund (XR1734) – recommend that the purpose of the reserve fund be amended.

At the City Council meeting of May 7-10, 2013, City Council granted authority to establish a discretionary reserve called the 'Doubtful Loan Guarantee Reserve' (XQ1714) for the purpose of providing a source of funding for any potential shortfalls or defaults in interest and/or principal payments by an organization under which the City has provided a loan guarantee or loan, such draws and payments to be made at the discretion of the Deputy City Manager and Chief Financial Officer. At its meeting on February 15, 2023, City Council granted authority to establish a discretionary reserve fund called the 'Debt Servicing Reserve Fund' (XR1734) the purpose of which is to mitigate effects of the rising costs of capital and capital financing and reduce the volatility of the City's annual debt service costs.

In order to secure an ongoing source of future funding and to ensure that the reserve balance to address any unforeseen needs in relation to loans/loan guarantees, staff recommend that the Doubtful Loan Guarantee Reserve be consolidated with Debt Servicing Reserve Fund. Staff recommend that the purpose of the Debt Servicing Reserve Fund be amended to include mitigation of the effects of the rising costs of capital financing, reducing the volatility of the City's annual debt service costs and to provide a source of funding for any potential shortfalls or defaults in interest and/or principal payments by an organization under which the City has provided a loan guarantee or loan. Furthermore, staff recommend that the Doubtful Loan Guarantee Reserve be closed and removed from City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds, after the existing balance is transferred to XR1734.

The proposed amended criteria page for the Debt Servicing Reserve Fund follows in Appendix C.

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SIGNATURE

Stephen Conforti
Interim Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: City of Toronto Reserves in Accumulated Surplus as at June 30, 2023

Appendix B: City of Toronto Reserve Funds in Accumulated Surplus as at June 30, 2023

Appendix C: Recommended Amended Criteria Sheet for the Debt Servicing Reserve Fund