

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

Date: November 20, 2023

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

Reserves and Reserve Funds

Reserves and Reserve Funds established by Toronto City Council (Council) are key to support 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 sustained 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 in 2024.

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

Reserves and Reserve Funds balances as at September 30, 2023 totalled \$5,518.6 million, an increase of \$87.0 million over the December 31, 2022 balance of \$5,431.6 million. This change is the result of various deliberate contributions for capital investments in housing and capital infrastructure, contributions to vehicle and equipment replacement, 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 (\$5,245.0 million, or 95.0%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities. Only the remaining balance of \$273.6 million, or 5.0% 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 an administrative amendment to the City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds ("Chapter 227") to establish an obligatory reserve fund called the FCM Funded Retrofit Reserve Fund.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve the establishment of an obligatory reserve fund called the FCM Funded Retrofit Reserve Fund in Schedule 15 – Third Party Agreements Obligatory Reserve Funds, for the purpose of managing funds received from the Federation of Canadian Municipalities (FCM) to support the Taking Action on Tower Renewal Program (TATR) with criteria set out in Appendix C of this report.

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 Fund balances as at September 30, 2023, totalled \$5,518.6 million, an increase of \$87.0 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, contributions to vehicle and equipment replacement, and the proceeds from land sales credited directly to the land acquisition reserve fund.

As of September 30, 2023, 95.0% 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 5.0% 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. The uncommitted amount represents 1.7% of the total 2023 approved Operating Budget of \$16.2 billion.

To date, \$80.8 million in 2023 COVID-19 funding support has been committed specific to Public Health, Shelter and Seniors Services and Long-Term Care costs. Absent of any further intergovernmental COVID-19 funding support, a one-time draw from the City's COVID-19 Backstop of up to \$818.3 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 sustained pandemic impacts moving forward, with COVID-19 pressures currently estimated to be between \$720 million to \$927 million in 2024 alone.

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

EQUITY IMPACT

Administrative Changes

Aging multi-unit rental buildings are the focus of the Taking Action on Tower Renewal Program because these buildings tend to be major energy consumers and provide an opportunity to achieve substantial emissions reductions through retrofits. These buildings also form a critical part of the City's housing stock. In 2010, City Council directed staff to focus on this building stock when it approved the City-wide implementation of the Tower Renewal Program.

Taking Action on Tower Renewal and the High-rise Retrofit Improvement Support financing programs are administered through the City's Tower Renewal Program which focuses on implementing environmental, social, economic and capital improvements at Toronto's approximately 1,200 pre-1990 apartment towers and surrounding neighbourhoods. These privately owned, older apartment towers are the core of the City's affordable market rental housing and many of these buildings are concentrated in the City's Neighbourhood Improvement Areas (NIA), and low-income census tracts. Tower neighbourhoods have a higher prevalence of low-income families, child and youth poverty, newcomers and seniors.

Due to the advanced age of these rental buildings, they require significant capital investment as replacing the stock would be costly, disruptive, and inefficient. Through these financing programs, the City is helping directly with the long-term investment required to maintain this crucial building stock. Implementing the Taking Action on Tower Renewal Program therefore supports the Housing Action Plan 2020-2030, the Poverty Reduction Strategy, the TransformTO Net Zero Strategy and the Net Zero Existing Buildings Strategy.

DECISION HISTORY

Reserves and Reserve Funds

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 June 30, 2023

[Agenda Item History - 2023.EX8.5 \(toronto.ca\)](#)

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

[Agenda Item History - 2023.EX6.8 \(toronto.ca\)](#)

Administrative Changes

At its July 14, 2021 meeting, City Council adopted the Creating "Taking Action on Tower Renewal" as a New Stream of Toronto's Residential Energy Retrofit Programs report. This report added the Taking Action on Tower Renewal Program as a second Multi-Residential Stream of the Residential Energy Retrofit Program.

<https://secure.toronto.ca/council/agenda-item.do?item=2021.IE23.3>

At its February 18, 2021 meeting, City Council adopted the 2021 Capital and Operating Budgets which included recommendations 35, 42 and 200 to:

1. Enter into a grant and loan agreement with the Federation of Canadian Municipalities to accept a loan of up to \$11,746,300 and a grant of up to \$1,761,900 to establish the Taking Action on Tower Renewal Program;
2. Amend the 2021-2030 staff recommended Capital Budget and Plan for Shelter, Support and Housing Administration to add the Taking Action on Tower Renewal Program; and,
3. Report back to the Infrastructure and Environment Committee with the program model, resource needs and program communications and outreach strategy in July 2021. The report would also include any draws from the Local Improvement Charge Energy Works Reserve Fund needed to meet administrative requirements for the program.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX21.2>

COMMENTS

Reserves and Reserve Funds

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 September 30, 2023

Reserve and Reserve Fund balances as at September 30, 2023, totalled \$5,518.6 million, an increase of \$87.0 million over the December 31, 2022 balance. The following allocations and draw contributed to the net increase in this balance:

- Contribution of \$172.7 million to the City Building Reserve Fund from City Building Fund levy to support over \$6 billion in approved Housing and Transit capital investments
- Contributions of \$70.1 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 \$35.2 million which were allocated to the Land Acquisition Reserve Fund
- Contribution of the \$29.6 million 2022 Solid Waste Management net surplus to the Waste Management Reserve Fund
- Draw of \$211.7 million from the COVID Backstop within the Tax Rate Stabilization Reserve to cover the 2022 operating deficit.

Table 1 below summarizes the City's reserve and reserve fund balances as at September 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 September 30, 2023:

(\$ millions)	Sep. 30, 2023	Dec. 31, 2022
Reserves:		
Stabilization	1,424.9	1,956.0
Corporate	966.8	866.7
Water / wastewater	108.7	103.7
Donations	1.7	1.7
	2,502.1	2,928.1
Reserve Funds:		
Corporate	1,803.5	1,403.8
Employee benefits	606.2	612.4
State of good repair	434.5	319.4
Community initiatives	172.3	167.9
	3,016.5	2,503.5
Total Reserves and Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	5,518.6	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 Changes

The Taking Action on Tower Renewal Program (TATR) is administered by the Housing Secretariat and provides funding to help owners make their rental buildings more energy efficient and reduce greenhouse gas emissions. Through TATR, owners of multi-unit rental buildings that meet eligibility requirements can access low-interest loans to cover some of the costs of a wide range of energy efficiency improvements including air-source heat pumps, window/door replacements, rooftop solar photovoltaics, building envelope

improvements and other improvements that reduce GHG-emissions and improve energy efficiency.

At its February 18, 2021 meeting, City Council adopted recommendations to enter into a grant and loan agreement with the Federation of Canadian Municipalities (FCM) to accept a loan and grant to establish the Taking Action on Tower Renewal Program. A final agreement was executed by the City and FCM in February 2023.

This report seeks authority to establish an obligatory reserve fund called the FCM Funded Retrofit Reserve Fund in Appendix C, Schedule 15 – Third Party Agreements Obligatory Reserve Funds of the Municipal Code Chapter 227, for the purpose of managing funds received from the Federation of Canadian Municipalities (FCM) to support the Taking Action on Tower Renewal program (TATR) with criteria set out in Appendix C of this report.

The proposed criteria page for the FCM Funded Retrofit Reserve Fund follows in Appendix C.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

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

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

Appendix C: Recommended Criteria Sheet for the FCM Funded Retrofit Reserve Fund