

## **City of Toronto Reserve and Reserve Fund Balances as at December 31, 2023**

**Date:** July 2, 2024

**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 has been nearly depleted in 2023 and will be fully depleted by the end of 2024.

This report provides a summary of activities for the year ended December 31, 2023 for the City's Reserves and Reserve Fund balances.

Reserves and Reserve Funds balances as at December 31, 2023 totaled \$5,291.7 million, a decrease of \$139.9 million from the December 31, 2022 balance of \$5,431.6 million. This net decrease is the result of a drawdown of the COVID-19 backstop, partially offset by 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 (\$5,000.1 million, or 94.5%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities. Only the remaining balance of \$291.6 million, or 5.5% of total reserves and reserve funds is uncommitted and available to respond to various unanticipated costs, stabilize funding sources, including the tax base, or for emergency purposes such as extreme weather events.

Of the \$5,000.1 million in committed reserve and reserve funds, there are approximately \$15,447.3 million 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.

## **RECOMMENDATIONS**

---

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve the establishment of a reserve called the Toronto Shelter and Support Services Stabilization Reserve in City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix A, Schedule 3 - Stabilization Reserves, for the purpose of providing funding to stabilize Toronto Shelter and Support Services' shelter operations resulting from changes in shelter demand and changes to intergovernmental funding support.
2. City Council direct that \$200.0 million reflected in the 2023 operating year-end Toronto Shelter and Support Services results be transferred from the 'Working Capital Reserve' to the newly created 'Toronto Shelter and Support Services Stabilization Reserve'.
3. City Council direct that \$48.4 million generated from the 2023 revenue recognized as part of the 'Canada Community-Building Fund' be transferred to the 'Capital Financing Reserve'.

## **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 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, while still maintaining a balanced budget.

Reserve and Reserve Fund balances as at December 31, 2023, totaled \$5,291.7 million, a decrease of \$139.9 million from the December 31, 2022 balance of \$5,431.6 million. The net decrease is the result of various Council approved contributions for capital investments in housing and capital, draws from the COVID Backstop within the Tax Rate Stabilization Reserve, contributions to vehicle and equipment replacement, and the proceeds from land sales credited directly to the land acquisition reserve fund.

As of December 31, 2023, 94.5% 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 5.5% of the City's reserves and reserve funds are uncommitted and being retained for emergency purposes such as stabilization of various funding sources, including the tax base, or for emergency purposes such as extreme weather events. The uncommitted amount represents 1.8% of the total 2023 approved Operating Budget of \$16,200.0 million.

In 2023, \$109.9 million in COVID-19 funding support has been received for specific Public Health, Shelter and Seniors Services and Long-Term Care costs compared to \$932.8 million sustained COVID-19 impacts included in the 2023 Budget. Following \$83.6 million in internal offsets, a one-time draw from the City's COVID-19 Backstop of \$739.3 million was required to ensure that the City maintained a balanced 2023 Operating Budget while addressing the financial impacts continuing to arise from the sustained impacts of the pandemic. The recommendation for COVID-19 Backstop draw has been included in the Operating Variance Report for the Year-Ended December 31, 2023. A draw of this magnitude significantly depletes the funds available in the COVID-19 Backstop, with the remaining balance to be fully depleted in 2024.

## **EQUITY IMPACT**

---

### **Administrative Changes**

Toronto's shelter system continues to experience unprecedented and growing demand. The City continues work to ensure that people experiencing homelessness, including those sleeping outdoors and in encampments, have access to safe, high-quality emergency shelter that offer housing-focused supports. The reserve fund will support the stabilization of shelter operations, which will positively impact a range of equity-deserving groups, including Indigenous and Black people, people experiencing chronic homelessness, seniors, persons with disabilities, youth and members of the 2SLGBTQ+ community. Ensuring people experiencing homelessness have access to safe, high-quality emergency shelter, and access to permanent housing opportunities is an important determinant of health and improves the social and economic status of an individual. By establishing a Toronto Shelter and Support Services Stabilization Reserve, the City is supporting the HousingTO 2020-2030 Action Plan, Poverty Reduction Strategy, Confronting Anti-Black Racism Action Plan, Reconciliation Action Plan, and the SafeTO Community Safety and Well-Being Plan.

## **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 September 30, 2023  
[Agenda Item History - 2023.EX10.10 \(toronto.ca\)](#)

City of Toronto Reserve and Reserve Fund Balances as at June 30, 2023  
[Agenda Item History - 2023.EX8.5 \(toronto.ca\)](#)

### **Administrative Changes**

On December 13, 2023, Council approved recommendations to execute components of the Toronto-Ontario New Deal (New Deal), which included shelters and homelessness annual operating support of \$200 million for a three-year period. The New Deal operating grant received in 2023 (i.e., first year) was used to support eligible base shelter and homelessness expenditures, which resulted in corresponding underspending within Toronto Shelter and Support Services. This underspending will provide the initial contribution for the new Toronto Shelter and Support Services Stabilization Reserve.

CC13.2 - Ontario-Toronto New Deal Agreement  
[Agenda Item History - 2023.CC13.2 \(toronto.ca\)](#)

## **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 December 31, 2023**

Reserve and Reserve Fund balances as at December 31, 2023, totaled \$5,291.7 million, a decrease of \$139.9 million from the December 31, 2022 balance. The following allocations and draw contributed to the net decrease in this balance:

- Draw of \$739.3 million from the COVID Backstop within the Tax Rate Stabilization Reserve to offset the intergovernmental funding shortfall for COVID-19 related impacts incurred by the City in 2023.
- Contribution of \$251.8 million to the City Building Reserve Fund from the City Building Fund levy (offset by \$30.5 million in debt charge recoveries) to support \$6,100.0 million in approved Housing and Transit capital investments.
- Contribution of \$200.0 million to the Working Capital Reserve from underspending in the City's emergency shelter system in 2023 resulting from the City's receipt of an operating grant received as part of the New Deal.
- Contribution of \$177.2 million from the City's Capital from Current funding to the Capital from Current Reserve Fund as authorized by City Council ([2023.EX10.9](#)).
- Contribution of \$166.6 million to the Tax Rate Stabilization Reserve from operating as budgeted to maintain the COVID Backstop.

Table 1 shown on the next page summarizes the City's reserve and reserve fund balances as at December 31, 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 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, 2023:**

(\$ millions)	Dec. 31, 2023	Dec. 31, 2022
Reserves:		
Corporate	1,092.1	866.7
Stabilization	891.2	1,956.0
Water / wastewater	61.4	103.7
Donations	1.6	1.7
	2,046.3	2,928.1
Reserve Funds:		
Corporate	2,090.3	1,403.8
Employee benefits	650.5	612.4
State of good repair	346.3	319.4
Community initiatives	158.3	167.9
	3,245.4	2,503.5
Total Reserves and Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	5,291.7	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, the City has \$15,447.3 million in commitments and obligations against the existing reserves and discretionary reserve fund balances. This is mostly to support a part of the Council approved 2023-2032 Capital Budget and Plan that would require reserve and reserve fund withdrawals. The largest funding commitments will come from the City Building Reserve Fund (\$6,100.0 million), Vehicle & Equipment Replacement Reserve (\$1,567.7 million), and the Solid Waste Reserve Funds (\$1,023.6 million). The City's commitments and obligations, therefore, exceed reserves and discretionary reserve funds by nearly 3 times.

### **Administrative Changes**

To provide stabilization funding in Toronto Shelter and Support Services operations as a result of changes in shelter demand and changes to the level of intergovernmental funding support, a new reserve creation is being requested as part of this report. The initial contribution of \$200.0 million is being proposed to be made from a one-time underspending in City's emergency shelter system in the fiscal year of 2023. This is as a result of the fiscal timing difference of when the provincial government announced the three-year New Deal funding support for non-refugee shelter and homelessness prevention and when the funding could be recognized in the respective City's fiscal period.

The proposed criteria page for the Toronto Shelter and Support Services Stabilization Reserve follows in Appendix C.

## CONTACT

---

David Mclsaac, Interim Controller and Executive Director, Finance Shared Services, Tel: 416-397-5467, [David.Mclsaac@toronto.ca](mailto:David.Mclsaac@toronto.ca)

Duri Lee, Director (Acting), Accounting Services, Tel: 416-392-8009, [Duri.Lee@toronto.ca](mailto:Duri.Lee@toronto.ca)

## SIGNATURE

---

Stephen Conforti  
Chief Financial Officer and Treasurer

## ATTACHMENTS

---

- Appendix A: City of Toronto Reserves in Accumulated Surplus as at December 31, 2023
- Appendix B: City of Toronto Reserve Funds in Accumulated Surplus as at December 31, 2023
- Appendix C: Recommended Criteria Sheet for the Toronto Shelter and Support Services Stabilization Reserve