

Deferred Revenue Report at December 31, 2023

Date: June 28, 2024
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The City of Toronto (City) receives monies from external parties and is obligated to set these monies aside for specific purposes outlined in Provincial legislation or third-party agreements. These monies may also be set aside for goods and services that will be provided in the future. In both instances, the receipt of these monies creates obligations for the City that must be settled at a future date. An example of such an obligation is the collection of development charges when building permits are issued. These development charges will contribute to the cost of growth-related infrastructure required to provide municipal services that support new development. When these monies are received, they are recognized on the City's Statement of Financial Position as a liability called Deferred Revenue. The deferred revenue amounts are recognized as earned revenue only when the committed investment is completed, and expenditures are recognized as tangible capital assets in the Statement of Financial Position or as operating expenses in the Statement of Operations and Accumulated Surplus. This report provides an update of the deferred revenue balances as at December 31, 2023, and earned revenue for the period ended December 31, 2023, which is included in the City's Statement of Operations and Accumulated Surplus.

As at December 31, 2023, the City recorded \$6,301.7 million in deferred revenues, as compared to \$5,623.9 million recorded at December 31, 2022. The increase was due to the \$2,727.3 million in monies received exceeding the \$2,049.5 million in revenues earned by \$677.8 million. The deferred revenue balance represents accumulated deferred revenue, which reflects obligated investments not yet completed to support growth, or goods and/or service commitments that the City must deliver to third parties, but not yet earned and recognized as revenue. Deferred revenues are fully committed based on contractual obligations to support growth-related infrastructure investments in the community, or other service and/or operational performance obligations.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive the Deferred Revenue Report as at December 31, 2023 for information.

FINANCIAL IMPACT

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

Deferred revenue, as reflected in the Statement of Financial Position, is recorded as a liability for which the City must fulfill a future obligation, either through investment or the delivery of goods or services before it is recognized as earned revenue. Earned revenue, on the Statement of Operations and Accumulated Surplus, is recognized when the committed investment is completed or the intended purpose related to the monies has been executed. As an example, development charges are recorded as deferred revenues when the cash is first received and earned revenue as the growth-related infrastructure investments are made. The full amount of the development charge is recognized as earned revenue when the full investment has been completed and is in service.

For budget purposes, deferred revenue is budgeted as earned revenue based on budgeted expenditures in a fiscal year. However, since actual expenditures will vary from planned expenditures, the actual amount of deferred revenue recognized as earned revenue can differ based on planned versus actual activity.

As at December 31, 2023, the City recorded \$6,301.7 million in deferred revenues, an increase of \$2,727.3 million from monies received predominantly from water and waste water rate revenue and development and planning act contributions; and decreased by \$2,049.5 million from the conversion to earned revenues. The December 31, 2022 deferred revenues balance was \$5,623.9 million.

DECISION HISTORY

As per Chapter 227 of the Municipal Code, the Chief Financial Officer and Treasurer is required to report inflows and outflows of the City's obligatory reserve funds on a quarterly basis, as well as provide updates to this Chapter of the Municipal Code for required administrative changes. To meet this requirement, this report focuses on the contributions to, and earned revenues for the obligatory reserve funds, which are a major part of the balance of Deferred Revenues

To view the most recent reports online, please see the links below:

Deferred Revenue Report at September 30, 2023:
[Agenda Item History - 2023.EX10.11 \(toronto.ca\)](#)

Deferred Revenue Report at June 30, 2023:
[Agenda Item History - 2023.EX8.4 \(toronto.ca\)](#)

COMMENTS

Overview of Deferred Revenues

Deferred revenues are created when cash payments are received from third parties that obligate the City to make an investment or settle an obligation in the future. Cash received from these third parties is deposited in the City's bank accounts and a deferred revenue balance is established as a liability in the City's financial records called "Deferred Revenue" until the obligation is satisfied or as required investments are made.

The City's deferred revenues are accumulated from various advance payments, including amounts received from legislated development payments for growth-related infrastructure, government grants that restrict use of funds for specific programs like transit or housing, and third-party agreements that outline how funds are expected to support future investments or the cost of operating programs. Advance payments can also be received from customers who use City services, such as advance payment for rent of City event spaces or City facilities.

Although cash is provided in advance, the deferred revenue balances are not reserves; the amounts are liabilities that obligate the City to complete an action committed to a third party for which the monies were received. Deferred revenues are considered liabilities because the amounts must be returned to the third party, if the good, service or investment is not delivered as planned. Deferred revenue liabilities are recognized on the City's Statement of Financial Position.

When these payments are received, they are considered contributions to the deferred revenue balance. When the good, service or investment for which the funds were intended is delivered, they are recognized as earned revenue in the City's Statement of Operations and Accumulated Surplus. It is only when the conditions for use of the funds are met, that the deferred revenue is recognized as earned revenue in the City's financial results.

The timing of earned revenue from deferred revenue balances depends on the type and complexity of performance obligations or stipulations in third party agreements that need to be met. As an example, development charges governed by Provincial legislation make up a significant portion of the City's deferred revenue balance. The amounts paid by developers are recorded as deferred revenue contributions when building permits are issued, but recognition of these amounts into the City's earned revenues is tied to capital infrastructure planning and execution activities that transcend

several years. Similarly, deferred revenue contributions from third party agreements may require that the City execute on obligations over a number of fiscal years; earned revenue would only be recognized in the future as the expenditures incurred to execute on those obligations are also recognized.

Certain agreements, contracts or legislation require that interest be allocated to deferred revenue contributions. These interest allocations are recorded as contributions to the individual balances in the fourth quarter of the fiscal year, increasing the value available to be recognized as earned revenue in future years.

Deferred Revenue balances as at December 31, 2023

As at December 31, 2023, the City recorded deferred revenue liabilities in the amount of \$6,301.7 million, an increase of \$677.8 million from the December 31, 2022 balance of \$5,623.9 million. Major deferred revenue contributions which are restricted by legislative requirements or contractual terms and conditions, and annual interest allocations to the reserve fund, come from:

- Contributions of \$1,083.1 million from Water and Wastewater rates to be used for the specific provision of water and wastewater services and capital infrastructure;
- Contributions of \$1,078.6 million in development and planning act contributions from developers to be earned revenue when critical growth-related capital project costs are incurred. Development charges are restricted by the Development Charges Act, 1997;
- Contributions of \$351.3 million to be used to fund priority infrastructure projects eligible under the Canada Community-Building Fund Program; and
- Contributions of \$180.1 million from the Provincial Gas Tax government grant to be used for transit capital infrastructure.

During the twelve months ended December 31, 2023, \$2,049.5 million was recognized as earned revenue following the completion of performance obligations or activities stipulated in legislation or third-party agreements.

Table 1 below summarizes the City's deferred revenues as at December 31, 2023, with comparatives at December 31, 2022.

Table 1: Deferred revenues at December 31, 2023 with December 31, 2022 comparatives (\$ millions)

(\$ millions)	Dec. 31, 2023	Dec. 31, 2022
Deferred revenues:		
Restricted by Provincial legislation		
Development charges	3,045.6	2,713.9
Parkland acquisition/new development	914.7	819.5
Planning Act	625.3	522.7
Building Code Act service improvement	229.9	220.6
Provincial Gas Tax revenues for Public Transit	0.4	0.4
	4,815.9	4,277.1

(\$ millions)	Dec. 31, 2023	Dec. 31, 2022
Restricted by agreements with third parties		
Water / wastewater	1,374.8	1,210.7
Community services	63.0	66.6
Third party agreements	26.1	12.9
Toronto Transit Commission	10.5	45.6
State of good repair	9.1	9.4
Parking Authority	2.3	1.6
	1,485.8	1,346.8
Deferred Revenues as at December 31	6,301.7	5,623.9

Appendix A provides details of deferred revenue contributions and earned revenues by deferred revenue type that make up the total deferred revenue balance at December 31, 2023.

CONTACT

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: Deferred Revenues as at December 31, 2023