

Deferred Revenue Report at June 30, 2024

Date: September 17, 2024
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

This report provides an update of the deferred revenue balances as at June 30, 2024, and earned revenue for the six months ended June 30, 2024, which is included in the City of Toronto's (City) Statement of Operations and Accumulated Surplus.

The 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. 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.

As at June 30, 2024, the City recorded \$7,241.0 million in deferred revenues, as compared to \$6,301.7 million recorded at December 31, 2023. The increase of \$939.3 million results from the City receiving more monies (\$994.1 million) than amounts recognized as revenue (\$54.8 million) in the period.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive the Deferred Revenue Report as at June 30, 2024 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 June 30, 2024, the City recorded \$7,241.0 million in deferred revenues, which includes an increase of \$994.1 million from monies received predominantly from water and waste water rate revenue, development and planning act contributions and federal housing accelerator fund, as well as a decrease of \$54.8 million from the conversion to earned revenues. The December 31, 2023 deferred revenues balance was \$6,301.7 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 December 31, 2023:
[Agenda Item History - 2024.EX16.14 \(toronto.ca\)](#)

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

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 June 30, 2024

As at June 30, 2024, the City recorded deferred revenue liabilities in the amount of \$7,241.0 million, an increase of \$939.3 million from the December 31, 2023 balance of \$6,301.7 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 \$542.9 million from Water and Wastewater rates to be used for the specific provision of water and wastewater services and capital infrastructure;
- Contributions of \$333.1 million in development and planning act contributions from developers to be earned as revenue when critical growth-related capital project costs are incurred. Development charges are restricted by the Development Charges Act, 1997; and
- Contributions of \$117.8 million to support the implementation of Toronto's Housing Accelerator Fund (HAF) initiatives and costs permitted under the HAF program.

During the six months ended June 30, 2024, \$54.8 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 June 30, 2024, with comparatives at December 31, 2023.

Table 1: Deferred revenues at June 30, 2024 with December 31, 2023 comparatives (\$ millions)

(\$ millions)	Jun. 30, 2024	Dec. 31, 2023
Deferred revenues:		
Restricted by Provincial legislation		
Development charges	3,237.5	3,045.6
Parkland acquisition/new development	965.4	914.7
Planning Act	670.3	625.3
Building Code Act service improvement	224.1	229.9
Provincial Gas Tax revenues for Public Transit	0.5	0.4
	<u>5,097.8</u>	<u>4,815.9</u>
Restricted by agreements with third parties		
Water / wastewater	1,919.9	1,374.8
Third party agreements	138.4	26.1
Community services	62.7	63.0
Toronto Transit Commission	10.5	10.5
State of good repair	9.1	9.1
Parking Authority	2.6	2.3
	<u>2,143.2</u>	<u>1,485.8</u>
Deferred Revenues as at June 30	<u>7,241.0</u>	<u>6,301.7</u>

Appendix A provides details of deferred revenue contributions and earned revenues by deferred revenue type that make up the total deferred revenue balance at June 30, 2024.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: Deferred Revenues as at June 30, 2024