

City of Toronto Reserve and Reserve Fund Balances as at June 30, 2024

Date: September 17, 2024

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

This report summarizes the activities of the City's Reserves and Reserve Fund balances for the six months ended June 30, 2024, and recommends Council approval to establish three obligatory reserve funds to hold provincial funding contributions from the Ontario-Toronto New Deal Agreement.

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, in order to minimize annual tax rate fluctuations.

Reserves and Reserve Funds balances as at June 30, 2024 totaled \$5,530.0 million, an increase of \$238.3 million from December 31, 2023 (\$5,291.7 million). This net increase is the result of deliberate contributions for capital investments in housing, transit, capital infrastructure, and vehicle and equipment replacement as authorized by Council. The majority of the City's reserve and reserve fund balances (\$5,303.3 million, or 95.9%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities. Only the remaining balance of \$226.7 million, or 4.1% 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 \$5,303.3 million in committed reserve and reserve funds, there are approximately \$15,720.8 million in future commitments and obligations against the existing reserves and discretionary reserve fund balances, which are consistent with Council approved plans over the 2024-2033 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 an obligatory reserve called the New Deal – Building Faster Fund Reserve Fund in City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix C, Schedule 15 – Third Party Agreements Obligatory Reserve Funds. The purpose of this reserve fund is to hold funds provided by the Provincial government under the Toronto-Ontario New Deal Agreement, aimed at supporting the building targets of new rental and affordable housing supply set in the HousingTO 2020-2030 Action Plan in Toronto.
2. City Council approve the establishment of an obligatory reserve called the New Deal – Subway and Transit Operations Reserve Fund in City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix C, Schedule 15 – Third Party Agreements Obligatory Reserve Funds. The purpose of this reserve fund is to hold funds from the Provincial government under the Toronto-Ontario New Deal Agreement to support subway and transit safety, recovery, and sustainable operations.
3. City Council approve the establishment of an obligatory reserve called the New Deal - Gardiner Expressway & Don Valley Parkway Upload Reserve Fund in City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix C, Schedule 15 – Third Party Agreements Obligatory Reserve Funds. The purpose of this reserve fund is to hold funds from the Provincial government under the Toronto-Ontario New Deal Agreement to support the rehabilitation, operations, and maintenance of the Gardiner Expressway and Don Valley Parkway while the due diligence assessment for the upload of these assets to the Province is underway.
4. City Council authorize that the City's policy concerning the allocation of investment earnings to reserve accounts be amended as follows:
 - a. Delete the paragraph under the section Determination of Quantum of Earnings and replace with: The amount to be assigned to each reserve fund account be the lesser of the (i) 3-month treasury bill rate as estimated at the time of the preparation of the annual operating budget or (ii) 1%, credited on November 30th each year based on the account's average balance.

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. 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.

Reserve and Reserve Fund balances as at June 30, 2024, totaled \$5,530.0 million, an increase of \$238.3 million from the December 31, 2023 balance of \$5,291.7 million. The net increase is the result of various Council approved contributions for capital investments in housing, transit and capital, and contributions to vehicle and equipment replacement.

As of June 30, 2024, 95.9% 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 4.1% 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 1.3% of the total 2024 approved Operating Budget of \$17,119.6 million.

EQUITY IMPACT

Administrative Changes

The New Deal for the City of Toronto offers significant opportunities to address financial stability and advance equity, particularly in housing, transit, and infrastructure. The reserve funds will support the development of new rental and affordable rental housing supply in Toronto, support the rehabilitation, operations, and maintenance of the Gardiner Expressway and Don Valley, and support subway and transit safety, recovery, and sustainable operations which will positively impact a range of equity-deserving groups, including low-income residents, Indigenous and Black people, people experiencing chronic homelessness, seniors, persons with disabilities, youth and members of the 2SLGBTQ+ community. By establishing the Building Faster Fund Reserve, Subway and Transit Operations Reserve, and the Gardiner Expressway & Don Valley Parkway Upload Reserve Fund, 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:

Administrative Changes

On December 13, 2023 ([Agenda Item History – 2023.CC13.2 \(toronto.ca\)](#)), City Council approved in principle the terms of the Ontario-Toronto New Deal Agreement (the New Deal), which included a package of capital and operating funding supports from the Province to assist the City with its long-term financial sustainability. The package focused on the priority areas of Housing, Transit, and Transportation by:

- providing funding to support the City in achieving its building targets of new rental and affordable housing supply;
- providing funding to support subway and transit safety, recovery, and sustainable operations of the TTC; and,
- providing funding to support the rehabilitation, operations, and maintenance of the Gardiner Expressway and Don Valley Parkway while the transition for the upload of these assets to the Province is underway.

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.

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. 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.

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, 2024

Reserve and Reserve Fund balances as at June 30, 2024, totaled \$5,530.0 million, an increase of \$238.3 million from the December 31, 2023 balance. The following allocations and draws contributed to the net increase in this balance:

- Contribution of \$157.0 million to the City Building Reserve Fund from the City Building Fund levy (offset by \$30.0 million in debt charge recoveries) to support \$6,100.0 million in approved Housing and Transit capital investments.
- Contribution of \$143.0 million to the Capital from Current Reserve Fund as authorized by the City's Operating Budget ([Agenda Item History - 2024.MPB15.1 \(toronto.ca\)](#)).
- Draw of \$53.2 million from the Social Assistance Stabilization Reserve for the Homeless Prevention Program (HPP) eligible subsidy.

Table 1 shown on the next page summarizes the City's reserve and reserve fund balances as at June 30, 2024, with a comparison to December 31, 2023. 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 June 30, 2024:

(\$ millions)	Jun. 30, 2024	Dec. 31, 2023
Reserves:		
Corporate	1,127.1	1,092.1
Stabilization	835.8	891.2
Water / wastewater	43.6	61.4
Donations	1.6	1.6
	2,008.1	2,046.3
Reserve Funds:		

Corporate	2,359.3	2,090.3
Employee benefits	653.2	650.5
State of good repair	351.2	346.3
Community initiatives	158.2	158.3
	3,521.9	3,245.4
Total Reserves and Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	5,530.0	5,291.7

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.

Administrative Changes

At its meeting on December 13, 2023, City Council approved in principle the terms of the Ontario-Toronto New Deal Agreement (the New Deal). This included a package of capital and operating funding supports from the Province to assist the City with its long-term financial sustainability and advance shared priorities with a focus in the areas of Housing, Transit, and Transportation. This report seeks authority to establish three new obligatory reserve funds to hold the Provincial funding contributions that support the City's delivery of initiatives for these three priority areas under the Ontario-Toronto New Deal Agreement, as well as any future funding contributions that may be received under the Agreement.

The criteria pages for the proposed reserves which include details on the reserve's purpose, beneficiary, initial contribution, and contribution and withdrawal policy are contained within Appendices C, D & E for the following reserve funds, respectively:

- New Deal – Building Faster Fund Reserve Fund
- New Deal – Subway and Transit Operations Reserve Fund
- New Deal – Gardiner Expressway and Don Valley Parkway Upload Reserve Fund

Policy Changes

In 2008, Council adopted a policy regarding the allocation of interest earnings to funds held by the City. It was recommended that, where the City holds funds in eligible reserve funds, those funds receive investment earnings. It was further recommended that funds in reserve fund accounts be allocated interest earnings at the annual average three-month treasury bill rate as of November 30th each year. Between 2008 to 2021 the interest rate allocated to reserve funds averaged around 1% annually and since 2008, the City's interest allocation policy has not been updated.

Updating the policy offers the opportunity to provide greater budgetary consistency and predictability and align interest allocation practices with average historical financial conditions. Under the recommended update, the amount allocated to each reserve fund will be the lesser of the three-month treasury bill rate estimated at the time of preparing the annual operating budget or a 1% fixed rate. Interest will still be allocated to reserve funds once a year, at year-end, based on the reserve fund accounts' average quarterly closing balances from November 30th, of the preceding year to November 30th of the current year. Any additional investment earnings generated through the short-term fund

investments and the Toronto Investment Board are reflected in the annual operating budget as a Corporate Revenue.

The policy revision provides for interest earning allocations to reserve funds that are consistent with historical experience while also ensuring consistent and predictable impacts for budgeting and reserve modelling purposes. Furthermore, this approach minimizes the fluctuations that can arise from market volatility, thereby supporting long-term financial planning.

The economic cycle in 2023 and 2024 saw the three-month T-bill rate shift significantly. However, given that between 2008 to 2021 the interest rate averaged around 1%, the policy change is not expected to have material impacts on reserve funds or reserve fund planning.

By adopting this update, the City enhances its ability to manage resources efficiently, providing a clearer framework for both the operating budget and capital reserve funds, while maintaining fiscal responsibility and long-term sustainability.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

- Appendix A: City of Toronto Reserves in Accumulated Surplus as at June 30, 2024
- Appendix B: City of Toronto Reserve Funds in Accumulated Surplus as at June 30, 2024
- Appendix C: Recommended Criteria Sheet for the New Deal – Building Faster Fund Reserve Fund
- Appendix D: Recommended Criteria Sheet for the New Deal – Subway and Transit Operations Reserve Fund
- Appendix E: Recommended Criteria Sheet for the New Deal – Gardiner Expressway & Don Valley Parkway Upload Reserve Fund