

Deferred Revenue Report at September 30, 2024

Date: November 25, 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 September 30, 2024, and related earned revenue for the nine months ended September 30, 2024, for the City of Toronto (City).

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 when the committed investment is completed. Related 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.

For the nine-month period ended September 30, 2024, the City's deferred revenues increased from \$6,362.1 million to \$7,602.9 million. The increase of \$1,240.8 million was primarily driven by the City receiving more monies (\$1,490.3 million) than amounts recognized as revenue (\$249.5 million) in the period with the greatest driver being contributions from the City's water and wastewater revenues that will be leveraged to support ongoing water and wastewater expenditures and commitments.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. Executive Committee receive the Deferred Revenue Report as at September 30, 2024 for information.

FINANCIAL IMPACT

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

A deferred revenue is recorded when funds are received by the City for a future obligation. Earned revenue is recognized when the future obligation, such as an investment, or delivery of goods or services, is completed. As an example, development charges are recorded as deferred revenues when the cash is first received, and earned revenue is recorded when the corresponding growth-related infrastructure investments are made.

For budget purposes, earned revenue is budgeted based on planned 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 actual activity.

The City's deferred revenues increased from \$6,362.1 million to \$7,602.9 million for the 9-months ended September 30, 2024. The increase of \$1,240.8 million was primarily driven by an increase in contributions from the City's water and wastewater revenues (\$795.2 million), Development and Planning Act-related activities (\$425.6 million), Federal Housing Accelerator Fund (\$117.8 million), which were offset by amounts recognized in earned revenues of \$249.5 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 June 30, 2024:
[Agenda Item History - 2024.EX17.13 \(toronto.ca\)](#)

Deferred Revenue Report at December 31, 2023:
[Agenda Item History - 2024.EX16.14 \(toronto.ca\)](#)

COMMENTS

Deferred Revenue balances as at September 30, 2024

As at September 30, 2024, the City recorded deferred revenue liabilities in the amount of \$7,602.9 million, an increase of \$1,240.8 million from the December 31, 2023 balance of \$6,362.1 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 \$795.2 million from water and wastewater rates to be used for the specific provision of water and wastewater services and capital infrastructure;
- Contributions of \$425.6 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 nine months ended September 30, 2024, \$249.5 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 September 30, 2024, with comparatives at December 31, 2023.

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

(\$ millions)	Sep. 30, 2024	Dec. 31, 2023
Deferred revenues:		
Restricted by Provincial legislation		
Development charges ¹	3,252.3	3,106.0
Parkland acquisition/new development	922.2	914.7
Planning Act	718.8	625.3
Building Code Act service improvement	242.1	229.9
Provincial Gas Tax revenues for Public Transit	0.5	0.4
	<u>5,135.9</u>	<u>4,876.3</u>
Restricted by agreements with third parties		
Water / wastewater	2,172.4	1,374.8
Third party agreements	210.5	26.1
Community services	62.7	63.0
Toronto Transit Commission	10.5	10.5
State of good repair	8.3	9.1
Parking Authority	2.6	2.3
	<u>2,467.0</u>	<u>1,485.8</u>
Deferred Revenues as at September 30	<u>7,602.9</u>	<u>6,362.1</u>

¹ December 31, 2023 balance has been restated to confirm with the City of Toronto's December 31, 2023 audited financial statements.

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

Appendix B provides an overview of the accounting treatment of deferred revenues.

CONTACT

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: Deferred Revenues as at September 30, 2024

Appendix B: Accounting Overview of Deferred Revenues