

Deferred Revenue (Obligatory Reserve Funds), Reserves and Discretionary Reserve Funds as at December 31, 2024

Date: July 2, 2025
To: Executive Committee
From: Chief Financial Officer and Treasurer
Wards: All

SUMMARY

The City of Toronto (City) maintains deferred revenue balances that will be recognized as revenues in future years, in addition to reserves and discretionary reserve funds that are intended to support the City's future activities. This report provides an update of these balances, as well as their related earned revenues and activities for the year ended December 31, 2024.

Deferred Revenue

Deferred revenue, or obligatory reserve funds, are monies received from external parties for specific purposes outlined in Provincial legislation or third-party agreements.

For the twelve-month period ended December 31, 2024, the City's deferred revenues increased from \$6,362.1 million to \$6,728.9 million. The increase of \$366.8 million was primarily driven by New Deal contributions from the Provincial government for affordable housing, subway and transit operations, and contributions from the City's water and wastewater revenues that will be leveraged to support ongoing water and wastewater expenditures and commitments.

Reserves and Discretionary Reserve Funds

Reserves and Discretionary Reserve Funds are established by Council to support the financial management and operations of the City, minimize annual tax rate fluctuations, and provide a measure of financial flexibility to address the impact of significant unexpected pressures.

Reserves and Discretionary Reserve Funds balances increased by \$318.9 million over the twelve-month period ended December 31, 2024, going from \$5,291.7 million to \$5,610.6 million. This net increase is the result of Council-authorized contributions for

capital investments in housing, transit, capital infrastructure, and vehicle and equipment replacement. The majority of the City's Reserves and Discretionary Reserve Funds balances (\$5,381.7 million, or 95.9%) are committed to future Council directed activities that include capital and operating expenditures and rate-based activities.

The remaining reserve and discretionary reserve fund balance (\$228.9 million, or 4.1%) 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. The uncommitted amount represents 1.3% of the total 2024 approved Operating Budget of \$17,119.6 million.

There are total commitments and obligations of \$15,720.8 million against the \$5,381.7 million balance in committed reserves, consistent with the approved 10-Year Capital Plan. These commitments and obligations are nearly three 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 authorize that the criteria sheet of the Paver Maintenance Reserve Fund be amended to reflect changes to its purpose and withdrawal policy as outlined in Appendix E, and amend Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix B, Schedule 8 to reflect the change.
2. City Council authorize the General Manager, Transportation Services to negotiate, enter into and execute amending agreements to existing paver agreements, with terms and conditions satisfactory to the General Manager, Transportation Services, and in a form satisfactory to the City Solicitor.
3. City Council direct that the balance of the Housing Allowance Reserve in the amount of \$4,543,300 be transferred to the Social Housing Stabilization Reserve and that it be closed and deleted from Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix A, Schedule 1 – Corporate Reserves.
4. City Council direct that the balance of the Home Improvement Reserve Fund in the amount of \$95,002 be transferred to the Social Housing Stabilization Reserve and that it be closed and deleted from Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix B, Schedule 9 – Community Initiatives Reserve Funds.
5. City Council authorize that the criteria sheet of the Social Housing Stabilization Reserve be amended, reflecting changes to its purpose and contribution and withdrawal policies, as outlined in Appendix F of this staff report, and also amended in Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix A, Schedule 3 to reflect its change in purpose.

6. City Council approve a change in the name of the “MLTT (Municipal Land Transfer Tax) Stabilization Reserve Fund” to the “MLTT (Municipal Land Transfer Tax) Stabilization Reserve” and amend City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds by removing the “MLTT (Municipal Land Transfer Tax) Stabilization Reserve Fund” from Municipal Code Chapter 227, Reserves and Reserve Funds, Appendix B, Schedule 7, Corporate Discretionary Reserve Funds, and adding the “MLTT (Municipal Land Transfer Tax) Stabilization Reserve” to Appendix A, Schedule 3, Stabilization Reserves.

FINANCIAL IMPACT

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

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 and reserves and discretionary reserve funds on a quarterly basis, as well as provide updates to this Chapter of the Municipal Code.

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

- Deferred Revenue Report at September 30, 2024: [Agenda Item History - 2024.EX19.15](#)
- City of Toronto Reserve and Discretionary Reserve Fund Balances as at September 30, 2024: [Agenda Item History - 2024.EX19.14](#)
- Deferred Revenue Report at June 30, 2024: [Agenda Item History - 2024.EX17.13 \(toronto.ca\)](#)
- City of Toronto Reserve and Discretionary Reserve Fund Balances as at June 30, 2024: [Agenda Item History - 2024.EX17.14 \(toronto.ca\)](#)

The City's Reserve Funds are required by the City's [Investment Earnings Policy and the Administration of Reserve Accounts](#) (Policy) to earn investment income. City Council [recently approved an amendment to the City's Policy](#) so that each reserve fund receives an allocation of investment income based on the lesser of:

- (i) The three-month treasury bill rate as estimated at the time of the preparation of the annual operating budget, or
- (ii) 1 per cent, credited on November 30th of each year based on the account's average balance.

COMMENTS

Deferred Revenues as at December 31, 2024

As at December 31, 2024, the City recorded deferred revenue liabilities in the amount of \$6,728.9 million, an increase of \$366.8 million from the December 31, 2023 balance of \$6,362.1 million. In fiscal 2024, the following significant activities were reflected in the City's deferred revenues:

- Net contribution of \$231.1 million from water and wastewater rates to be used for the specific provision of water and wastewater services and capital infrastructure;
- Net draw of \$185.6 million in Development and Planning Act-related deferred revenues as revenues were earned in response to the City's investments in critical growth-related capital projects; and
- Net contribution of \$235.8 million from the New Deal arrangement with the Province of Ontario to support affordable housing, subway and transit operations, as well as the maintenance and operation of the Gardiner Expressway and Don Valley Parkway.

During the twelve months ended December 31, 2024, \$2,490.4 million was recognized as earned revenue. Table 1 below summarizes the City's deferred revenues as at December 31, 2024, with comparatives at December 31, 2023.

Table 1: Deferred Revenues as at December 31, 2024:

(\$ millions)	Dec. 31, 2024	Dec. 31, 2023
Restricted by Provincial legislation		
Development charges ¹	2,842.7	3,106.0
Parkland acquisition/new development	907.3	914.7
Planning Act	710.4	625.3
Building Code Act service improvement	232.7	229.9
Provincial Gas Tax revenues for Public Transit	0.6	0.4
	<u>4,693.7</u>	<u>4,876.3</u>
Restricted by agreements with third parties		
Water / wastewater	1,605.9	1,374.8
Third party agreements	353.9	26.1
Community services	57.8	63.0
Toronto Transit Commission	6.6	10.5
State of good repair	8.4	9.1
Parking Authority	2.6	2.3
	<u>2,035.2</u>	<u>1,485.8</u>
Total Deferred Revenues	<u>6,728.9</u>	<u>6,362.1</u>

Appendix A provides details of the changes that affected the City's deferred revenue balances as at December 31, 2024. Appendix D provides an overview of the accounting treatment of deferred revenues.

Reserves and Discretionary Reserve Funds as at December 31, 2024

Reserve and Discretionary Reserve Fund balances as at December 31, 2024, totaled \$5,610.6 million, an increase of \$318.9 million from the December 31, 2023 balance. The following contributions and draws were responsible for the majority of the increase in the City's Reserve and Discretionary Reserve Fund balances:

- Net contribution of \$257.9 million to the City Building Reserve Fund from the City Building Fund levy to support \$8,515.0 million of capital investments included in the City's 10-year capital plan..
- Contribution of \$285.7 million to the Capital from Current Reserve Fund as authorized by the City's Operating Budget to be applied as funding against final capital expenditures ([Agenda Item History - 2024.MPB15.1 \(toronto.ca\)](#)).
- Contribution of \$219.1 million, net of other operating transfers, to the Budget Bridging and Balancing Reserve Fund from the 2023 year-end operating surplus consistent with the enhanced multi-year budget strategy discussed as part of the 2024 Budget Process ([Agenda Item History - 2024.EX16.11 \(toronto.ca\)](#)), and the 2024 Pending Expenditure Authority ([Agenda Item History - 2024.EX19.13](#));
- Draw of \$152.0 million from the Capital Financing Reserve for capital funding;
- Draw of \$189.6 million, net of other operating transfers, from the COVID backstop in the Tax Rate Stabilization Reserve to help balance the overall City surplus ([Agenda Item History - 2024.MPB15.1 \(toronto.ca\)](#)).

Table 2 summarizes the City's reserve and discretionary reserve fund balances as at December 31, 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 Discretionary Reserve Funds to support program costs and infrastructure improvements.

Table 2: Reserves and Discretionary Reserve Funds as at December 31, 2024

(\$ millions)	Dec. 31, 2024	Dec. 31, 2023
Reserves:		
Stabilization	662.4	891.2
Corporate	645.7	1,092.1
Water / wastewater	61.1	61.4
Donations	2.1	1.6
	1,371.3	2,046.3
Discretionary Reserve Funds:		
Corporate	3,115.4	2,090.3
Employee benefits	651.1	650.5

State of good repair	312.2	346.3
Community initiatives	160.6	158.3
	4,239.3	3,245.4
Total Reserves and Discretionary Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	5,610.6	5,291.7

As per Council's directive ([2023.CC4.1](#)), the City is required to report on contributions to and withdrawals from the Tax Rate Stabilization Reserve.

Appendix B and C provides details on reserve and discretionary reserve fund activities and balances as at December 31, 2024. Appendix D provides an overview of the accounting treatment for reserve and discretionary reserve fund contributions.

Administrative Amendments to Existing Accounts

Transfer of Balance and Deletion from Chapter 227

a. Housing Allowance Reserve (XQ1112)

The Housing Allowance Reserve was authorized by City Council at its October 8-11, 2013 meeting, with the purpose of providing funding for housing allowances to individuals at risk of homelessness. Similar to the Social Housing Stabilization Reserve, it was established to address gaps and emerging funding pressures in the City's Housing Allowance program. The need for the reserve has currently diminished over time as the Housing Secretariat has transitioned portable allowances to alternate funding sources in addition to leveraging portable benefits funding by the Province to ensure a more stable and sustainable approach. For these reasons, staff are recommending that this reserve be closed and its balance transferred to the Social Housing Stabilization Reserve (XQ1106).

b. Home Improvement Reserve Fund (XR1303)

The Home Improvement Reserve Fund was originally authorized by City Council prior to amalgamation, in 1969, according to reserve fund records. It was further included as a discretionary reserve fund with the purpose of providing funding for residential owners to cover principal payments of home improvement loans in Bylaw 181-2000, a bylaw approved by City Council on April 13, 2000 to provide consolidation, continuance and creation of reserves and discretionary reserve funds at the time of the City's amalgamation. This discretionary reserve fund has not been used since 2006. Also, programs formerly associated with Home Improvement Reserve Fund are no longer being administered by the Housing Secretariat and there is no current programming that could be aligned to the purpose of the Home Improvement Reserve Fund. For these reasons, staff are recommending that this discretionary reserve fund be closed and its balance of \$95,002 be transferred to the Social Housing Stabilization Reserve (XQ1106).

Changes to Purpose and Contribution/Withdrawal Policies

a. Paver Maintenance Reserve Fund (XR1413)

On February 3 and 4, 2016, City Council approved the establishment of a discretionary reserve fund, named the 'Paver Maintenance Reserve Fund' to provide funding for the maintenance of street pavers. The adopted contribution policy established that a portion of the cost of any streetscape improvement project initiated by any city division, agency or third party on Public Right of Way would be contributed to the Paver Maintenance Reserve Fund.

Subsequently, on December 13, 14 and 15, 2016, City Council approved the establishment of a one-time maintenance user fee to cover a portion of Transportation Services costs to maintain pavers over their lifecycle. The staff report provided that the maintenance user fees will be paid into the Paver Maintenance Reserve Fund. The funds were to be made available to Transportation Services to use when maintenance work is required on pavers in the designated project area.

Since the establishment of the maintenance fee and the reserve fund, the reserve fund has accumulated to \$858,891, and no withdrawals have been made due to the complexity of accessing the funds. Transportation Services has funded paver maintenance repairs to-date through existing operating funds. The site-specific nature of the reserve and small dollar values (i.e. some accounts have less than \$1,000) is limiting and does not represent good use or stewardship of the reserve fund.

Transportation Services recommends using the existing and future funds for the general maintenance of all pavers, which provides an opportunity for Transportation Services to address the outstanding service requests and provide proactive paver maintenance. Transportation Service plans to further invest in paver maintenance above the collected fees through the operating budget. Alongside this administrative amendment, Transportation Services is renewing its temporary and permanent paver repair program to improve outcomes and align with City Council direction.

Existing third-party legal agreements will be reviewed, and Legal Services, in coordination with Transportation Services, will execute amending agreements as required. New legal agreements will be developed for future streetscape projects that include pavers.

Given the limitations to accessing funds for paver maintenance, it is recommended that the purpose and the withdrawal policy for the Paver Maintenance Reserve Fund be revised to allow for the funds to be used for replacement or repair of street pavers on a citywide basis. A copy of Criteria Sheet for the Paver Maintenance Reserve Fund is attached as Appendix E of this staff report.

b. The Social Housing Stabilization Reserve (XQ1106)

Work continues to transition all functions and funding associated with housing program delivery to the Housing Secretariat. This includes rationalizing housing reserves and reserve funds, as appropriate, and aligning them with current risk mitigation strategies.

Through analysis and available data, it is apparent that many housing providers are operating with constrained operating budgets and capital reserves, limiting their ability to absorb the financial impact of unforeseen capital repairs or other financial liabilities that may arise.

Given the enhanced risk posed by constrained operating budgets and capital reserves, risk mitigation measures are required to ensure housing providers are able to adequately respond to serious unanticipated costs.

Staff are recommending that the Housing Allowance Reserve, Social Housing Stabilization Reserve and Home Improvement Reserve Fund be amalgamated and repurposed to address unforeseen financial exposure associated with the Housing Providers Portfolio administered by the City. This would align these reserves and reserve funds to current program needs, mitigate financial risk in the Housing Providers Portfolio and increase flexibility to respond to both urgent capital needs and unforeseen liabilities.

Staff are also recommending that the purpose of the Social Housing Stabilization Reserve be changed to the following:

Provides funds to mitigate unforeseen financial exposure associated with the Housing Providers Portfolio administered by the City, including:

1. Funding to address urgent capital repairs
2. Funding other potential liabilities as they arise

In addition to the funds provided by the consolidation of balances of the Housing Allowance Reserve, the Home Improvement Reserve Fund and the Social Housing Stabilization Reserve, future funding will be directed to the Social Housing Stabilization Reserve through the annual operating budget of the Housing Secretariat, or as otherwise directed by City Council. Likewise, withdrawals will be initiated through the annual budget process or through a specific report to Council authorizing the purpose and amount of the allocation/withdrawal. The Criteria Sheet for the Social Housing Stabilization Reserve is attached as Appendix F of this staff report.

Change Name and Schedule Number in Municipal Code Chapter 227

At its Special Meeting of February 11, 2025, City Council approved the establishment of the MLTT (Municipal Land Transfer Tax) Stabilization Reserve Fund to help ensure stable and sustainable revenues for the City by mitigating fluctuations in MLTT revenue during economic downturns or real estate slowdowns, and to support uninterrupted City operations and services.

While the intent was to establish a Stabilization Reserve, the account was initially categorized as a Reserve Fund and included in Appendix B, Schedule 7, Corporate

Reserve Funds. This classification was recently reviewed to ensure alignment with the intended purpose of the account. As part of that review, it is recommended that the account be reclassified as a reserve and moved to Appendix A, Schedule 3, Stabilization Reserves to better reflect its function in supporting revenue stability.

A revised Criteria Sheet reflecting this change is attached as Appendix G of this Staff Report.

CONTACT

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: Deferred Revenues as at December 31, 2024

Appendix B: Reserves in Accumulated Surplus as at December 31, 2024

Appendix C: Discretionary Reserve Funds in Accumulated Surplus as at December 31, 2024

Appendix D: Accounting Overview of Deferred Revenues, Reserves and Discretionary Reserve Funds

Appendix E: Criteria Sheet for Paver Maintenance Reserve Fund

Appendix F: Criteria Sheet for Social Housing Stability Reserve

Appendix G: Criteria Sheet for Municipal Land Transfer Tax Stabilization Reserve