

Obligatory Reserve Funds, Reserves and Discretionary Reserve Funds as at September 30, 2025

Date: November 25, 2025

To: Executive Committee

From: Chief Financial Officer and Treasurer

Wards: All

SUMMARY

The City of Toronto (City) maintains obligatory reserve funds 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 nine months ended September 30, 2025.

Obligatory Reserve Funds

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

For the nine-month period ended September 30, 2025, the City's obligatory reserve funds increased from \$6,726.4 million to \$7,963.3 million. The increase of \$1,236.9 million was primarily driven by monies received from water and wastewater rate revenue, development and planning act contributions, provincial new deal funding and the federal housing accelerator fund.

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 \$433.2 million over the nine-month period ended September 30, 2025, going from \$5,612.8 million to \$6,046.0 million. This net increase is the result of Council-authorized contributions for

capital investments in housing, capital infrastructure, operational support and vehicle and equipment replacement. The majority of the City's Reserves and Discretionary Reserve Funds balances (\$5,752.7 million, or 95.1%) 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 (\$293.3 million, or 4.9%) 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 1.6% of the total 2025 approved Operating Budget of \$18,849.1 million.

There are total commitments and obligations of \$41,066.7 million against the \$14,009.3 million balance in committed reserves, discretionary reserves and obligatory reserve funds consistent with the approved 10-Year Capital Plan and other requirements and obligations. These commitments and obligations are almost three times the current reserve, discretionary reserve fund and obligatory reserve fund balances, requiring continued reserve contributions to support planned expenditures. A further breakdown of the City's current balances in comparison to planned operating and capital expenditures, including both obligatory reserve funds and discretionary reserve funds, can be found in Appendix E.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council direct that a total of \$84.0 million be transferred between reserves and discretionary reserve funds and that following these transfers 20 aged reserves and discretionary reserve funds be closed out, as detailed for both transfers and close outs in Appendix F.

FINANCIAL IMPACT

There are no financial implications arising from the adoption of the recommendations 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 (Obligatory Reserve Funds), Reserves and Discretionary Reserve Funds as at June 30, 2025: [Agenda Item History - 2025.EX26.5](#)
- Deferred Revenue (Obligatory Reserve Funds), Reserves and Discretionary Reserve Funds as at December 31, 2024: [Agenda Item History - 2025.EX25.11](#)

COMMENTS

Obligatory Reserve Funds as at September 30, 2025

As at September 30, 2025, the City recorded obligatory reserve funds liabilities in the amount of \$7,963.3 million, an increase of \$1,236.9 million from the December 31, 2024 balance of \$6,726.4 million. In fiscal 2025, the following significant activities were reflected in the City's obligatory reserve funds:

- Contribution of \$816.1 million from water and wastewater rates to be used for the specific provision of water and wastewater services and capital infrastructure.
- Contribution of \$207.8 million in Development and Planning Act contributions from developers to be earned as revenue when critical growth-related capital project costs are incurred.
- Contribution of \$178.7 million from the New Deal arrangement with the Province of Ontario to support affordable housing and the maintenance and operation of the Gardiner Expressway and Don Valley Parkway.
- Contributions of \$117.8 million to support the implementation of Toronto's Housing Accelerator Fund (HAF) initiatives.
- Contributions of \$92.0 million to be used to fund priority infrastructure projects eligible under the Canada Community-Building Fund Program.

The remainder of the changes consist of smaller contributions to other obligatory reserve funds, which were offset by total revenues earned.

During the nine months ended September 30, 2025, \$191.6 million was recognized as earned revenue. Significant obligatory reserve fund draws (earned revenue) will occur in the last three months of the year as approved in the 2025 operating and capital budgets. Table 1 summarizes the City's obligatory reserve funds as at September 30, 2025, with comparatives at December 31, 2024.

Table 1: Obligatory Reserve Funds as at September 30, 2025:

(\$ millions)	Sep. 30, 2025	Dec. 31, 2024
Restricted by Provincial legislation:		
Development charges	2,824.7	2,840.2
Parkland acquisition/new development	951.8	907.3
Planning Act	745.2	710.4
Building Code Act service improvement	241.5	232.7
Provincial Gas Tax revenues for Public Transit	0.6	0.6
	<u>4,763.8</u>	<u>4,691.2</u>
Restricted by agreements with third parties:		
Water / wastewater	2,385.4	1,605.9
Third party agreements	742.7	353.9
Community services	55.7	57.8
State of good repair	8.5	8.4
Toronto Transit Commission	4.6	6.6
Parking Authority	2.6	2.6
	<u>3,199.5</u>	<u>2,035.2</u>
Total Obligatory Reserve Funds	<u>7,963.3</u>	<u>6,726.4</u>

Appendix A provides details of the changes that affected the City's obligatory reserve fund balances as at September 30, 2025. Appendix D provides an overview of the accounting treatment of obligatory reserve funds.

Development Charges

The City currently has a balance of \$2.8 billion in development charge (DC) funding which has been received to support critical growth-related infrastructure. DCs are collected and spent within a strict legislative framework outlined by the provincial *Development Charges Act, 1997*. The Act specifies that DCs can **only** be collected and used to support eligible growth-related capital projects, informed by a Council-approved Background Study.

As shown in Table 2, the City has received an average of \$520M in DC funding annually from 2014 to 2024. Year-to-date revenue in 2025 is significantly lower than previous years, with only \$103M received so far, primarily due to lower development activity. This reduced revenue also includes refunds issued for cancelled building permits during the reporting period. Current market conditions have resulted in increased project cancellations, and additional refunds are expected through the remainder of 2025.

Table 2: Average Annual Development Charge Contributions (2014-2025)¹

Time Period	Average Annual DC Net Contributions (\$ millions)	Key Trends
2014 - 2017	\$236	A period of lower contributions due to volume of development activity and DC rates in effect. Amounts were insufficient to support the City's growth-related infrastructure.
2018 - 2023	\$732	A period of higher development activity resulted in funds being received at a faster pace than the City's ability to spend and implement new capital projects, which was exacerbated by global supply chain and labour market challenges.
2024	\$383	A slower period of development activity resulted in lower DC contributions than anticipated. During this time, the City increased capital spending, with a total of \$723 million (\$678 million, net of refunds) withdrawn from the reserve fund to support critical growth-related projects. This resulted in a net reduction to the DC reserve fund balance.
2014 – 2024 Avg.	\$520	
2025 Year-to-Date	\$103	If this year-to-date trend continues, the City is estimated to receive contributions as low as \$137 million, a decrease of 74% over the previous decade's average, which is an insufficient level to support future approved and planned capital spending.

¹Contributions are net of refunds.

While there is \$2.8 billion in the reserve fund currently, the planned funding and obligations are \$6.7 billion. This includes funding for critical major infrastructure projects required to support new development, including:

- \$1.4 billion to support major transit initiatives, including Line 1 and 2 capacity enhancements;
- \$1.3 billion for water and wastewater infrastructure, including new and upgraded trunk sewer systems; and
- \$0.9 billion for critical road and transportation requirements.

This level of approved and planned spending relies on a steady inflow of DC funding, generally aligned with the historical average of \$520 million annually, to support new population and development growth. The City's ability to fund these projects is currently at risk based on market conditions and a slowdown in development activity, as reflected by the \$103 million received to date this year.

The City's DC revenue projections have been further impacted by new provincial legislation, Bill 17. As was outlined in [Item EX24.2](#), the City estimates that Bill 17's introduction of an interest-free deferral for all residential DCs until the time of occupancy, instead of building permit, will result in a \$1.9 billion cash flow impact over

the next decade. As such, the City will likely need to defer, reprioritize or cancel planned capital projects, which are required to support growth.

Reserves and Discretionary Reserve Funds as at September 30, 2025

Reserve and Discretionary Reserve Fund balances as at September 30, 2025, totaled \$6,046.0 million, an increase of \$433.2 million from the December 31, 2024 balance. The following contributions and draws were responsible for the increase in the City's Reserve and Discretionary Reserve Fund balances:

- Net contribution of \$217.6 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.
- Contributions of \$130.0 million, net of other operating transfers, to the Budget Bridging and Balancing Reserve Fund from 2024 year end expenditure authority ([Agenda Item History - 2025.EX25.8](#))
- Contributions of \$82.1 million to Vehicle & Equipment Replacement Reserves as authorized by the City's Operating and Capital Budget ([Agenda Item History - 2025.MPB27.1](#)).

The remainder of the changes relates to contributions to and draws from other reserves and discretionary reserve funds which are not significant enough to disclose in detail.

Table 3 summarizes the City's reserve and discretionary reserve fund balances as at September 30, 2025, with a comparison to December 31, 2024. 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 3: Reserves and Discretionary Reserve Funds as at September 30, 2025

(\$ millions)	Sep. 30, 2025	Dec. 31, 2024
Reserves:		
Stabilization	732.8	662.4
Corporate	702.3	645.7
Water / wastewater	66.3	61.1
Donations	2.1	2.1
	1,503.5	1,371.3
Discretionary Reserve Funds:		
Corporate	3,383.4	3,115.4
Employee benefits	657.5	651.1
State of good repair	350.8	312.2
Community initiatives	150.8	162.8
	4,542.5	4,241.5
Total Reserves and Discretionary Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	6,046.0	5,612.8

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 September 30, 2025. Appendix D provides an overview of the accounting treatment for obligatory reserve fund, reserve and discretionary reserve fund contributions.

Union Station Reserve Fund and Debt Servicing Reserve Fund Transfer

At this time, staff are recommending a transfer of \$15.816 million from the Union Station Reserve Fund (XR2501) to the Debt Servicing Reserve Fund (XR1734).

The Union Station Reserve Fund was approved by City Council at its meeting of October 26-31st, 2005 to provide funding for Union Station purposes or Union Station capital requirements, any post-closing adjustments and transaction costs, and any necessary outside legal, accounting or other consultants' fees.

The Debt Servicing Reserve Fund was approved by City Council at its meeting of February 15, 2023, to mitigate effects of the rising costs of capital and capital financing, and to reduce the volatility of the City's annual debt service costs.

The recommended transfer of \$15.816 million from the Union Station Reserve Fund to the Debt Servicing Reserve Fund represents a repayment of the recoverable debt for the Union Station Revitalization Project. The \$15.816 million in funds represent the expropriation proceeds from Metrolinx related to specific sections of Union Station.

Reserve Clean-Up and the Budget Bridging and Balancing Reserve Fund

At this time, staff recommend transferring the full balance of the reserves and discretionary reserve funds listed in Appendix F, totaling approximately \$29.2 million, to the Budget Bridging and Balancing Reserve Fund (XR1735). Following the transfer, the reserves and discretionary reserve funds will be closed and deleted from their respective Schedules in Appendix A and B in Toronto Municipal Code Chapter 227.

The proposed transfer represents a consolidation of funds to support City-wide budget balancing strategies within the Budget Bridging and Balancing Reserve Fund, while maintaining availability of these funds for future expenditures anticipated in 2026 and 2027. The selected reserves have been identified due to an extended period of inactivity or because their intended purpose has been fulfilled, leaving a residual balance.

Tax Stabilization Reserve and Budget Bridging and Balancing Reserve Fund

The Tax Rate Stabilization Reserve (XQ0703) was established in 2000 to fund non-recurring expenditures required to eliminate any year-end operating deficits of City programs or agencies. At this time, staff are recommending a transfer of \$39.0 million from the Tax Rate Stabilization Reserve to the Budget Bridging and Balancing Reserve Fund (XR1735).

This transfer supports operational bridging strategies for the 2026 budget, consolidating funds in a single reserve to provide flexibility in addressing year-end financial pressures while maintaining funding availability for anticipated program and operational requirements. After this adjustment the Tax Rate Stabilization Reserve (XQ0703) balance will remain above its minimum funding target of 2% of property tax revenue.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A: Obligatory Reserve Funds as at September 30, 2025

Appendix B: Reserves in Accumulated Surplus as at September 30, 2025

Appendix C: Discretionary Reserve Funds in Accumulated Surplus as at September 30, 2025

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

Appendix E: Summary of Current Balances and Commitments for Obligatory Reserve Funds, Reserves and Discretionary Reserve Funds as at September 30, 2025

Appendix F: Reserves and Discretionary Reserve Funds Recommended for Transfer