REPORT FOR ACTION

Obligatory Reserve Funds, Reserves and Discretionary Reserve Funds as at December 31, 2025

Date: July 2, 2026
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 year ended December 31, 2025.

This report also serves as a statement of development charge ("DC") balances and activity for 2025, as required by the Development Charges Act, 1997 (DC Act).

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 year ended December 31, 2025, the City's obligatory reserve funds decreased from $6,726.4 million to $6,597.5 million. The decrease of $128.9 million was primarily driven by net changes in development and planning act, Ontario-Toronto New Deal, and water and wastewater obligatory reserve funds.

DCs continue to represent the largest component of the City's obligatory reserve funds. DCs are collected from development projects for the purposes of recovering growth-related capital infrastructure costs. For the year ended December 31, 2025, the City's DC balance decreased from $2,840.2 to $2,466.5 million. The decrease of $373.7 million was primarily driven by monies spent on eligible capital and operating expenditures exceeding DC contributions, due to decreased development activity amid current market conditions.

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.

For the year ended December 31, 2025, the City's reserves and discretionary reserve funds decreased from $5,612.8 million to $5,471.2 million. The decrease of $141.6 million was primarily driven by Council-authorized monies spent on capital infrastructure and operational support. The majority of the City's reserves and discretionary reserve funds balances ($5,131.6 million, or 93.8%) 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 ($339.6 million, or 6.2%) 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 1.8% of the total 2026 Operating Budget of $18,863.7 million.

There are total commitments and obligations of $44,349.1 million against the $12,068.7 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 over 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 can be found in Appendix E.

RECOMMENDATIONS

The Chief Financial Officer and Treasurer recommends that:

1. City Council approve the establishment of a vehicle reserve called the 'Vehicle Reserve – Environment, Climate and Forestry in Appendix A, Schedule 1 – Corporate Reserves of the City of Toronto Municipal Code Chapter 227, Reserves and Reserve Funds, the purpose of which is to provide funding for the replacement of vehicles and equipment for Environment, Climate and Forestry as reflected in the Criteria Sheet in Appendix I.

2. City Council authorize that the names of the following accounts be changed to be consistent with the change in name of their respective Divisions, and amend the schedules of Chapter 227 as set out in the following table:

Existing Reserve Name	Recommended New Reserve Name	Appendix / Schedule #
Vehicle Reserve – Facilities & Real Estate	Vehicle Reserve – Corporate Real Estate Management	Appendix A, Schedule 1 – Corporate Reserves
Vehicle Reserve – Parks, Forestry & Recreation	Vehicle Reserve – Parks & Recreation	Appendix A, Schedule 1 Corporate Reserves
Land Acquisition – Parks, Forestry & Recreation	Land Acquisition – Parks & Recreation	Appendix B, Schedule 7 Corporate Discretionary Reserve Fund

3. City Council direct that the Beneficiary Program for the Tree Canopy Reserve Fund (XR1220) be changed from Parks & Recreation to Environment, Climate & Forestry, as reflected in the Criteria Sheet in Appendix J.

4. City Council approve the transfer of $12.6 million from the Budget Bridging and Balancing Reserve Fund (XR1735) to the New Deal – Subway & Transit Operations Reserve Fund (XR3041) as reflected in Appendix F to align with the intended purpose of the New Deal funds, with no net impact on the budget.

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:

- Obligatory Reserve Funds, Reserves and Discretionary Reserve Funds as at September 30, 2025: Agenda Item History - 2025.EX28.14
- Deferred Revenue (Obligatory Reserve Funds), Reserves and Discretionary Reserve Funds as at June 30, 2025: Agenda Item History - 2025.EX26.5

Section 43 of the provincial *Development Charges Act, 1997* ("DC Act") requires the Chief Financial Officer and Treasurer to provide Council with an annual financial statement detailing activity in DCs. The Chief Financial Officer and Treasurer is also required to provide a copy of the statement to the Minister of Municipal Affairs and Housing upon request.

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

- 2024 Development Charge Deferred Revenue Activity and Balances: Agenda Item History - 2024.EX19.16
- 2023 Development Charge Deferred Revenue Activity and Balances: Agenda Item History - 2023.EX10.6

COMMENTS

Obligatory Reserve Funds as at December 31, 2025

As at December 31, 2025, the City recorded obligatory reserve funds liabilities in the amount of $6,597.5 million, a decrease of $128.9 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:

- Net contribution of $324.0 million from water and wastewater rates to be used for the specific provision of water and wastewater services and capital infrastructure.
- Net draw of $326.5 million in DC Act and the Planning Act contributions from developers earned as revenue when used to fund critical growth-related capital project costs.
- Net draw of $71.7 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.

The remainder of the changes relates to contributions and revenues earned in other obligatory reserve funds which are not significant enough to disclose in detail.

Table 1 summarizes the City's obligatory reserve funds as at December 31, 2025, with comparatives as at December 31, 2024. Balances reported are reflected at a point in time, and do not incorporate the planned future commitments to use these obligatory reserve funds to support program costs and infrastructure improvements.

Table 1: Obligatory Reserve Funds as at December 31, 2025:

($ millions)	**Dec. 31 2025**	**Dec. 31, 2024**
Restricted by Provincial legislation:		
Development charges	2,466.5	2,840.2
Parkland acquisition/new development	941.5	907.3
Planning Act	723.4	710.4
Building Code Act service improvement	233.6	232.7
Provincial Gas Tax revenues for Public Transit	-	0.6
	4,365.0	4,691.2
Restricted by agreements with third parties:		
Water / wastewater	1,929.9	1,605.9
Third party agreements	234.3	353.9
Community services	52.9	57.8
State of good repair	7.8	8.4
Toronto Transit Commission	4.7	6.6
Parking Authority	2.9	2.6
	2,232.5	2,035.2
Total Obligatory Reserve Funds	**6,597.5**	**6,726.4**

Appendix A provides details of the changes that affected the City’s obligatory reserve fund balances as at December 31, 2025. Appendix D provides an overview of the accounting treatment of obligatory reserve funds.

Development Charges (“DCs”) - Annual Statement and Activity

DCs are collected and spent within a strict legislative framework outlined by the DC Act. The DC Act specifies that DCs can only be collected and used to support eligible growth-related capital projects, as informed by a Council-approved Background Study.

The DC Act allows Council to pass by-laws that impose DCs on new residential and non-residential land development and redevelopment in the City, subject to certain exemptions. DC revenues are a key source of funding for growth-related capital costs, including municipal services such as transit, water infrastructure and roads. DCs are distributed to various DC reserve fund accounts based on the proportions set out in the City’s DC by-law.

Previously, DCs for most development were payable at first building permit issuance. Following successive amendments to the DC Act, payment for rental residential and institutional development is now deferred to occupancy and made in six annual instalments beginning at occupancy. For building permits issued on or after November 3, 2025, payment of DCs for non-rental (ownership) residential development may also be deferred to occupancy. These changes, along with City actions to incentivize development such as the removal of annual indexing, multiplex exemptions, and targeted indefinite DC deferrals for projects with affordable units, have impacts on revenue magnitude and timing.

As at December 31, 2025, the City recorded DCs in the amount of $2,466.5 million, a decrease of $373.7 million from the December 31, 2024 balance of $2,840.2 million. In fiscal 2025, the following significant activities were reflected in the City's DCs:

- Contributions of $288.3 million in DCs (net of $46.8 million in refunds);
- Earned interest of $28.8 million; and
- Draws of $690.8 million to fund growth-related capital expenditures.

Appendix G provides details on the changes in the City's DC activity by service category specified in the City's by-law. In addition, Appendix G also presents planned commitments to be funded by DCs for the 2026-2035 period. Appendix H provides a list of the capital projects and initiatives that were funded from DC earned revenue in 2025 (i.e. reflect withdrawals from DC reserve funds), as well as the amount and source of other funding that was spent on the project in the year.

The City is compliant with the DC Act requirement to spend or allocate at least 60% of the reserve fund balances for applicable services. Through the City's 10-year Capital Plan and the Operating Budget, approximately $2,574.1 million has been committed in DC spending against water, sewer, stormwater and roads reserve funds. This represents approximately 299% of the related DC reserve fund balances, which significantly exceeds the minimum annual requirement. The Province has also introduced changes in 2025 to expand this requirement to additional services, subject to regulation.

The City has also complied with the requirements of subsection 59.1 (1) of the DC Act, in that it has not imposed a charge related to development, or required the construction of a service related to development, except as permitted by the DC Act or another Act.

As shown in Table 2, the City has received an average of $501M in DC contributions annually from 2014 to 2025. Contributions in 2025 were significantly lower than previous years, with only $288.3M recorded, primarily due to decreased development activity. The amount is net of refunds issued, largely associated with cancelled building permits during the reporting period and the Toronto Green Standard (TGS) DC refund program.

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.
2025	$288	During this time, the City increased spending, with a total of $737.6 million ($690.8 million, net of refunds) withdrawn from the reserve fund to support critical growth-related projects and operating expenditures. This resulted in a net reduction to the DC reserve fund balance.
2014 – 2025 Avg.	**$501**	

[1]Contributions are net of refunds.

While there is $2.5 billion in the DC reserve funds currently, the planned funding and obligations are $6.5 billion over the next 10 years. This includes funding for critical major infrastructure projects required to support new development, including:

- $2.0 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
- $1.1 billion for critical road and transportation requirements.

These figures are exclusive of additional DC eligible project costs not currently reflected in the City's 10-Year Capital Plan.

This level of approved and planned spending relies on a steady inflow of DC funding, generally aligned with the prior decade's average of $501 million annually. The City's ability to fund these projects is currently at risk based on market conditions (a slowdown in development activity), as well as changes to recoverability and cash flow timing, as reflected by the $288.3 million received in the year ended December 31, 2025. As of May 31, 2026, the City received $121.0 million in net DC contributions.

The City's DC revenue projections have been impacted by new provincial legislation, Bill 17. As was outlined in Item 2025.EX24.2, the City estimates that Bill 17's introduction of an interest-free payment and delaying collection 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. To date, the shift to occupancy-based payment timing has resulted in a cash flow impact of $632.7 million since 2020, with $529.2 million ($514.9 million residential rentals) due in future years to the City as of December 31, 2025. Deferred DCs collections accounted for approximately 68% of all new DCs in 2025. As of May 30, 2026, deferred DCs now account for 99% of all new DCs in 2026.

On June 23, 2026, it was announced that the City of Toronto would receive up to $1.5 billion in intergovernmental funding to support a reduction of DCs of 40% to 60% for more than three years, subject to the execution of a Transfer Payment Agreement. While this funding is revenue neutral and replaces the existing DC-funded growth portions of planned projects, the predictable, multi-year nature of the funding over the subsequent decade is expected to partially offset the cashflow impacts arising from payment timing deferral and variable market conditions.

Reserves and Discretionary Reserve Funds as at December 31, 2025

As at December 31, 2025, the City recorded reserves and discretionary reserve fund balances in the amount of $5,471.2 million, a decrease of $141.6 million from the December 31, 2024 balance of $5,612.8 million. In fiscal 2025, the following significant activities were reflected in the City's reserve and discretionary reserve fund balances:

- Net contribution of $217.8 million to the City Building Reserve Fund from the City Building Fund levy to support $8,811.4 million of capital investments included in the City's 10-year capital plan.
- Net draws of $229.4 million from the Capital from Current Reserve Fund as authorized by the City's Operating and Capital Budget to be applied as funding against final capital expenditures (Agenda Item History - 2025.MPB27.1).
- Net draws of $122.3 million from the Budget Bridging and Balancing Reserve Fund to fund the 2024 year end expenditure authority (Agenda Item History - 2025.EX25.8)
- Net draws of $102.9 million from the Capital Financing Reserve for capital funding.

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. All activities were previously approved by City Council as part of the City's budgeting process.

Table 3 summarizes the City's reserve and discretionary reserve fund balances as at December 31, 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 December 31, 2025

($ millions)	**Dec. 31, 2025**	**Dec. 31, 2024**
Reserves:		
Stabilization	810.9	662.4
Corporate	404.7	645.7
Water / wastewater	110.9	61.1
Donations	2.0	2.1
	1,328.5	1,371.3
Discretionary Reserve Funds:		
Corporate	3,010.8	3,115.4
Employee benefits	692.6	651.1
State of good repair	277.2	312.2
Community initiatives[2]	162.1	162.8
	4,142.7	4,241.5
Total Reserves and Discretionary Reserve Funds reported in the City's Consolidated Accumulated Surplus balance	**5,471.2**	**5,612.8**

[2]Balances are inclusive of internal reserve fund loans which are eliminated in the City's consolidated financial statements.

Appendix B and C provide details on reserve and discretionary reserve fund activities and balances as at December 31, 2025. 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 D provides an overview of the accounting treatment for reserve and discretionary reserve funds.

New Reserve Accounts

Vehicle Reserve – Environment, Climate and Forestry

On January 1, 2025, the Urban Forestry Branch of Parks, Forestry and Recreation merged with the Environment & Climate Division to create a new division within Corporate Services: Environment, Climate and Forestry (ECF). Since the Urban Forestry Branch maintains a fleet of vehicles, it is necessary to establish a reserve to support the future replacement of these assets.

The purpose of the proposed reserve is to provide funding for the replacement of vehicles and equipment for Environment, Climate and Forestry. Funding promotes efficiencies and provides budget stabilization by mitigating significant year-to-year fluctuations in vehicle replacement costs.

The proposed criteria page for Vehicle Reserve – Environment, Climate and Forestry follows in Appendix I.

Administrative Amendment to Existing Accounts

Reserve Names Changes

Changes in name are recommended for the following reserves and reserve funds to be consistent with the changed names of their respective programs and that Chapter 227 of the Municipal Code be amended to reflect the revised names.

a. Vehicle Reserve – Facilities & Real Estate (XQ1502) – recommended to be changed to Vehicle Reserve – Corporate Real Estate Management
b. Vehicle Reserve – Parks, Forestry & Recreation (XQ1201) – recommended to be changed to Vehicle Reserve – Parks and Recreation
c. Land Acquisition – Parks, Forestry & Recreation (XR1214) – recommended to be changed to Land Acquisition – Parks and Recreation

Budget Bridging and Balancing Reserve Fund

This report recommends a transfer of $12.6 million from the Budget Bridging and Balancing Reserve (XR1735) to the New Deal – Subway & Transit Operations Reserve (XR3041). The proposed transfer aligns prior funding with the intended purpose of the New Deal Reserve Fund and restores the reserve fund balance to support future commitments. This adjustment has no net impact on the City's overall financial position, as it represents an internal reallocation between reserve funds.

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SIGNATURE

Stephen Conforti
Chief Financial Officer and Treasurer

ATTACHMENTS

Appendix A:	Obligatory Reserve Funds as at December 31, 2025
Appendix B:	Reserves in Accumulated Surplus as at December 31, 2025
Appendix C:	Discretionary Reserve Funds in Accumulated Surplus as at December 31, 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 December 31, 2025
Appendix F:	Discretionary Reserve Funds Recommended for Transfer
Appendix G:	Development Charge Reserve Funds as at December 31, 2025
Appendix H:	Details of Project Funding Included in Development Charge Reserve Funds as at December 31, 2025
Appendix I:	Criteria Sheet for Vehicle Reserve – Environment, Climate and Forestry
Appendix J:	Criteria Sheet for Tree Canopy Reserve Fund