
2023 OPERATING BUDGET BRIEFING NOTE

Contributions to and Withdrawals from Reserves/Reserve Funds

Issue/Background:

This briefing note consolidates the information provided in Budget Notes on the budgeted and planned contributions (inflows) to and withdrawals (outflows) from program-specific and corporate reserves and reserve funds (collectively referred to as reserves in this document). The projected year-end balances of inflows to and outflows from reserves are reported as part of the budget process for both the Capital and Operating Budgets.

Key Points:

- Reserves and reserve funds represent funds received for legislatively obligated and/or restricted purposes created through contractual commitments, which are to be invested for specific and eligible purposes.
- The majority of the City's reserve amounts are restricted or committed funds based on legislative or third-party agreements, Council-directed activities, or to fund expenses approved by Council in the City's operating and capital budgets. As of September 30, 2022, 97.4% of these reserve balances are fully committed to support:
 - Legally mandated reserves with legislated, contractual bound, capital plan or Council-directed commitments (e.g. provincial legislation restricts the use of growth-related funds to specific purposes: Development Charges Act, Planning Act)
 - 10-year capital and operating plans

The remaining balance of \$290 million is required to be reserved for:

- Emergency purposes such as extreme weather, or
 - One-time backstop purposes in the event funding is not received such as refugee response or supportive housing
- In addition to existing reserve commitments included in the City's 10-Year Capital Plan, reserves balances will also support planned commitments that are not yet reflected in the City's capital program, that either reside outside the 10-year planning

period or are currently in the early stages of design and will be brought forward for Council consideration as part of the capital plan upon completion of detailed design and associated project costing.

- Reserves receive annual contributions from the following sources: operating budget including dedicated capital levies, funding secured by legislation or contractual agreements (Development Charges Reserve Funds), grants and transfers from the provincial and federal government and from private donors.

City-wide Reserve / Reserve Funds Inflows / (Outflows):

The City utilizes reserves as a funding source for both operating and capital expenditures. Table 1 below details the combined net impact of inflows / (outflows) of City reserves. Essentially, the table demonstrates if the reserves are growing or depleting over time, based on the combined impact of planned contributions and withdrawals.

Table 1 provides information as follows:

- Budgeted Net Inflow / (Outflow) – the combined impact of budgeted contributions and draws from reserves, split between:
 - Operating Reserves – primary purpose to fund obligations associated with operations; and
 - Capital Reserves - primary purpose to fund obligated capital projects.
- Actual Net Inflow / (Outflow) – the combined net impact of actual operating and capital expenses funded from reserves and actual reserve contributions made in 2022 and prior years.

Table 1: Historical 5-Year Reserves/Reserve Funds Inflow / (Outflows)

Description	2018	2019	2020	2021	2022*
Budgeted Net Inflow/(Outflow) ⁽¹⁾ :					
Operating Reserves	41	43	23	(52)	(97)
Capital Reserves	(280)	(313)	(330)	(295)	(463)
Budgeted Net Inflow/(Outflow)	(239)	(270)	(307)	(347)	(560)
Opening Balance	4,527	5,737	6,059	7,585	9,013
Actual Net Inflow/(Outflow) ⁽²⁾	1,210	322	1,526	1,428	851
Actual Ending Balance	5,737	6,059	7,585	9,013	9,867*

* This reflects the projected Year-End balance. The balance as of Sept. 30, 2022 is \$11.2B

(1) Budgets based on historical reserve briefing notes at budget launch

(2) 2022 Actual is a projection based on Q3 commitment report and budget adjustments

As demonstrated in Table 1 above, 2021 and 2022 experienced more budgeted net cash outflows compared to previous years. This is caused by increased budgeted withdrawals and lower contributions, which includes increased planned withdrawals from the Operating Reserves related to the municipal election and the Council transition

in 2022. Due to the financial challenges associated with COVID-19 the City has had reduced funds available to contribute to reserves and reserve funds.

The actual net inflow/outflow for the year 2022 will be available in the year-end Reserve Fund Balance Report and reflects both actuals spending and corresponding reserve draws as well as any additional year-end reserve contributions.

Staff review the continuity of each reserve to ensure the adequacy of available funding over both the 10-Year Capital Plan and future-year operating outlooks.

Table 2 below provides the consolidated view of city-wide withdrawals (outflows) and contributions (inflows) to the City's operating and capital reserves in the 2023 Tabled Capital and Operating Budgets. The table also provides the estimated combined year-end closing balances for reserves over the next three years.

Table 2: Reserve/Reserve Fund Three-Year Forecast

Reserve/ Reserve Funds	Projected Balance as of December 31, 2022*	2023			Estimated Year-End Balance		
		Outflow	Inflow	Net	2023	2024	2025
Operating	2,571	(475)	365	(109)	2,462	2,425	2,357
Capital	7,296	(2,516)	2,345	(170)	7,125	6,126	5,442
Reserves/Reserve Funds Total	9,867*	(2,991)	2,711	(280)	9,587	8,551	7,799

* This reflects the projected Year-End balance. The balance as of Sept. 30, 2022 is \$11.2B

2023 Tabled Operating Budget includes \$365 million in budgeted contributions (inflows) to operating reserves, compared to \$475 million in budgeted withdrawals (outflow) reflecting a net outflow of \$109 million.

- The estimated year-end balance over a 3-year period, is calculated based on 2023 budgeted and future year planned annual withdrawals and contributions, consistent with current budget levels.
 - This serves as an early warning sign on the projected health of the reserves and any need for corrective action to address any potential issues.
 - These reserves are reviewed as part of the annual budget process, from which analysis and funding strategies are recommended to either reduce withdrawals or increase contributions to ensure healthy status.

While operating reserves are projected to decline slightly year-over-year based on budgeted levels, capital reserves year-end balances are projected to decline at a higher speed over the next 3 years consistent with planned capital investments. This indicates that our spending is outpacing our ability to generate revenues such as DC revenue to contribute to the reserves.

Development Charge (DC) reserves reflect a component of the City's overall reserve balance. These reserves are impacted by Bill 23, reducing the amount of DC revenue received over the next ten years to support growth related infrastructure investments. It is estimated that Bill 23 will reduce City revenues by \$2.3 billion over the next ten years, predominantly related to development charge revenue.

The City's 2023 – 2032 Capital Plan assumes full reimbursement of Bill 23 impacts from the provincial government consistent with provincial assurances. Without reimbursement, DC reserves will begin to experience negative reserve balances as early as 2024 impacting the City's ability to advance growth related capital investments.

Table 3 below details the impacts on the City's various DC reserves based on the following:

- Factoring the anticipated impacts of Bill 23;
- Reflecting the impacts without full reimbursement from the provincial government; and
- Considering both capital investments included in the 2023-2032 Capital Plan; and DC eligible capital projects not yet reflected in the City's Capital Plan.

Table 3: Projected 10-year Reserve Balance

Bill 23 Impacts by DC Service \$Million	Projected Year-End Reserve Balance (Including DC Eligible Unfunded Capital Projects)									
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Removal of DC Eligible Services										
Housing Services - Affordable Housing	4	(180)	(656)	(900)	(1,147)	(1,391)	(1,634)	(1,750)	(1,855)	(1,962)
Housing Services - Shelter	18	(4)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Development Related Studies	0	0	0	0	0	0	0	0	0	0
Reduction to DC Funding										
Transit	542	412	318	204	38	83	48	(62)	(219)	(308)
SSE/EE LRT	116	118	120	123	125	127	130	132	135	138
Spadina Subway Extension (Supports Long-term Financing)	111	113	115	119	122	126	129	130	131	132
Roads & Related	446	189	(109)	(198)	(278)	(307)	(420)	(474)	(458)	(373)
Toronto Water - Combined (Water, Sewer & Stormwater)	238	130	90	42	(13)	(53)	(102)	(288)	(461)	(493)
Parks & Recreation	452	301	133	(14)	(157)	(242)	(300)	(495)	(722)	(870)
Library	58	43	30	11	(13)	(53)	(99)	(137)	(154)	(155)
Long Term Care	4	7	0	(27)	(44)	(45)	(34)	(24)	(14)	(3)
Child Care	44	45	48	54	62	69	76	83	90	97
Ambulance Services	10	3	(1)	(2)	3	9	14	18	22	25
Waste Diversion	2	(0)	(1)	(2)	(2)	(3)	0	3	6	9
Police	60	47	30	14	(16)	(22)	(20)	(22)	(22)	(26)
Fire	20	19	21	19	15	15	15	15	15	0
Past DC Reserves (Civic Improvements, Health and Pedestrian)	7	6	4	2	0	(1)	(3)	(5)	(7)	(9)
Total DC Reserves	2,131	1,248	129	(569)	(1,316)	(1,701)	(2,211)	(2,888)	(3,526)	(3,810)

As outlined in Table 3 above, absent provincial reimbursement for Bill 23 impacts and factoring DC eligible projects not yet included in the Capital Plan, Development Charges

reserves will be in an overall negative positions by 2026 with specific DC reserves being in a negative position as early as 2024, with further details below:

- 2024 – Affordable Housing, Shelter and Waste Diversion will have a negative balance;
- 2025 – 2026 – Roads and Related, Parks and Recreation, Long-term Care and Paramedics will also experience a negative reserve balance; and
- 2027 - 2032 – Transit, Toronto Water, Library and Police will reflect a negative reserve balance.
- The combined deficit in funding from Development Charges reserves could reach \$3.8 billion by the end of the year 2032 factoring Bill 23 impacts (without provincial reimbursement) and accounting for all DC eligible growth related projects, including those not currently captured in the 10-Year Capital Plan.

It is important to note that the ongoing deficit is anticipated to extend far beyond the 10 year capital planning period.

Reserves & Reserve Fund Adequacy

The City has two financial principles related to Reserves and Reserve Funds adopted by the City Council. Reserves & Reserve Funds should be used for:

- Anticipated liabilities
- Aligning cash flow estimates with revenues & expenditures that are subject to cyclical functions
- Extraordinary large purchases
- Self-financing of ongoing activities for specific services
- Acting as an endowment

Reserves & Reserve Funds should be funded to the level required for their purpose.

There is a total of 253 active reserves detailed in Appendix 1 of this briefing note, of which 10 are forecasted to experience a negative closing balance within the 3 years outlook (including potential Bill 23 impacts absent provincial reimbursement). Financial Planning in conjunction with Accounting Services is continuing to monitor and report on the health of the City's reserves throughout each fiscal year.

- Budget adjustments will be brought forward for Council consideration as needed to address reserve adequacy concerns reflected in reserve continuities.
- For the reserves with anticipated third-party funding, the expenditure will be reduced to match available funding to the extent third-party funding is not secured.

At its meeting on January 31, 2018, City Council adopted item EX29.23 Administrative Amendments to Reserve Fund Accounts - 2017 with a recommendation to revise the purpose and criteria for Tax Stabilization Reserve to be used only to fund non-recurring operating expenditures.

The budgeted contributions and withdrawals for each reserve are detailed in Appendix 1 in this briefing note and also can be found in Appendix 10 of the Budget Notes for each City Program and Agency.

Please note that figures for individual reserves included in Appendix 1 of this briefing note may differ from the figures shown in the Program/Agency Budget Notes. This is due to updated 2022 year-end balances available following the finalization of 2023 Budget Notes in some instances.

Appendix:

Appendix 1: Reserves and Reserve Funds Balance and Forecast.

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