



Stephen Conforti
Chief Financial Officer and Treasurer

Financial Planning Division
City Hall, 7th Floor, East Tower
100 Queen Street West
Toronto, Ontario, M5H 2N2

Anthony Ng
Interim Executive Director

Tel: 416-395-6767
Fax 416-397-4465
Anthony.Ng@toronto.ca
www.toronto.ca

2024 BUDGET BRIEFING NOTE

Contributions to and Withdrawals from Reserves/Reserve Funds

Issue/Background:

This briefing note consolidates the information provided in individual Division/Agency 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). All increases and decreases to reserves as well as projected year-end balances are reported as part of the budget process for both the annual Operating Budget 10-Year Capital Budget and Plan for City Council approval.

Key Points:

- Reserves and reserve funds are set aside to help offset future capital needs, future obligations and fiscal pressure from ongoing programs and unforeseen costs or to offset revenue shortfalls.
- In addition, Deferred Revenues are monies set aside for specific purposes as outlined in Provincial legislation or third-party agreements. The receipt of these monies creates an obligation for the City that must be settled at a future date.
- The majority of the City's reserves and deferred revenues 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 annual Operating Budget and 10-Year Capital Budget and Plan.
 - As of September 30, 2023, the combined balances of Reserves and Reserve Funds and deferred revenues, totalled \$12.9 billion with \$12.6 billion or 97.7% fully committed to support future Council directed activities that include capital and operating expenditures and rate-based activities.
 - Only the remaining balance of \$273.6 million, or 2.3% of total balances are uncommitted and being retained for emergency purposes such as extreme weather events.

- However, as of September 30, 2023, there was approximately **\$38.1 billion committed** to future Council directed activities, that include capital and operating expenditures and rate-based activities, against the existing reserves/reserve fund balances and deferred revenues.
 - These commitments and obligations are approximately **3 times** the projected reserve/reserve fund and deferred revenue balance as of the end of 2023, requiring continued reserve contributions to support planned expenditures.
- Reserves receive annual contributions from the following sources: budgeted contributions within Operating Budget, dedicated capital levies, funding secured by legislation or contractual agreements, grants and transfers from the provincial and federal government, general revenues, year-end operating surpluses, and third-party agreements.

City-wide Reserve / Reserve Funds and Deferred Revenues 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 budgeted and planned contributions and withdrawals through the annual Operating Budget and 10-Year Capital Budget and Plan.

Table 1: Historical Reserves/Reserve Fund & Deferred Revenue Changes

Description	2019	2020	2021	2022	2023 ⁽¹⁾
Budgeted Net Inflow/(Outflow) ⁽²⁾ :					
Operating Reserves	43	23	(52)	(97)	(109)
Capital Reserves	(313)	(330)	(295)	(463)	(170)
Budgeted Net Inflow/(Outflow)	(270)	(307)	(347)	(560)	(279)
Opening Balance	5,737	6,059	7,585	9,013	11,056
Actual Net Inflow/(Outflow)	322	1,526	1,428	2,043	(799)
Actual Ending Balance	6,059	7,585	9,013	11,056	10,257

(1) 2023 Actual is a projection based on Q3 commitment report and budget adjustments. The total balance as of Sept. 30, 2023 is \$12.9B, including a reserve balance of \$5.5 Billion and deferred revenues of \$7.4B.

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

As demonstrated in Table 1 above, 2023 experienced more net cash outflows than previous years. This is caused by increased withdrawals from COVID-19 backstop to address COVID-related financial impacts for 2023.

After year-end closing is completed, the actual net inflow/outflow for the year 2023 will be made available in the 2023 Year-End Reserve Fund Balance Report in Q2 2024,

reflecting both actual 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 Budget and 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 Staff Prepared 2024 Operating Budget and 2024-2033 Capital Budget and Plan. The table also provides the estimated combined year-end closing balances for reserves over the next three years.

Table 2: Reserve/Reserve Fund & Deferred Revenues Three-Year Forecast

Reserve/ Reserve Funds	Projected Balance as of December 31, 2023	2024			Estimated Year-End Balance		
		Outflow	Inflow	Net	2024	2025	2026
Impacted by the 2024 Budget							
Operating	1,927	(817)	356	(461)	1,467	1,370	1,300
Capital	8,330	(2,611)	2,433	(179)	8,151	7,299	6,586
Reserves/Reserve Funds Total	10,257	(3,428)	2,789	(640)	9,618	8,670	7,886

The Staff Prepared 2024 Operating Budget includes \$817 million in budgeted withdrawals (outflow) compared to \$356 million in budgeted contributions (inflows) to operating reserves, reflecting a net outflow of \$461 million. This includes the full depletion of the remaining COVID backstop and other one-time or limited time actions as a bridging strategy with an intent to be reversed and replaced with sustainable funding over a multi-year budget approach as part of the 2024 balancing actions.

The estimated year-end balance over 3 years, is calculated based on 2024 budgeted and future year planned annual withdrawals and contributions, consistent with current budget levels.

- This forecast 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 in the 2024-2033 Capital Budget and Plan. 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.

The City's 2024 – 2033 Capital Budget and Plan includes initial reductions arising from Bill 23 impacts. Without reimbursement, DC reserves will experience negative reserve balances, beyond Affordable Housing DC Reserves, impacting the City's ability to advance growth-related capital investments.

Table 3 below shows 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 2024-2033 Capital Budget and Plan, and DC-eligible capital projects not yet reflected in the City's 10-Year Capital Plan.

Table 3: Projected 10-year Development Charge Reserve Balances

\$Million	Projected Year-End Reserve Balance (Including Unfunded Capital Projects)									
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
DC Reserve Funds	2,742	2,128	1,431	372	-376	-777	-1,178	-1,702	-2,067	-2,198

As outlined in Table 3 above, absent provincial reimbursement for Bill 23 impacts and factoring DC eligible projects not yet included in the 10-Year Capital Budget and Plan, Development Charges reserves will be in an overall negative position by 2028. This is even after reduction have been made to Affordable Housing projects reflective of the current Reserve limitations.

The combined deficit in funding from Development Charges reserves could reach \$2.198 billion shortfall by the end of the year 2033 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.

1. 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

2. 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 14 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.

Appendix:

Appendix 1: Reserves and Reserve Funds Balance and Forecast.

Prepared by: Jasminka Mitich, Senior Financial Planning Analyst, Financial Planning Division, (416)-397-4529. Jasminka.Mitich@toronto.ca

Further information: Andy Cui, Manager, Financial Planning Division, (416)-397-4207, Andy.Cui@toronto.ca

Anthony Ng, Interim Executive Director, Financial Planning Division; (416)-395-6767, Anthony.Ng@toronto.ca

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