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2026 BUDGET BRIEFING NOTE

Contributions to and Withdrawals from Reserves/Reserve Funds

Issue/Background:

This briefing note consolidates the information from individual Division/Agency Budget Notes regarding 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).

Key Points:

- Reserves and Reserve Funds are set aside to help offset future capital needs, obligations, fiscal pressures, unforeseen costs or revenue shortfalls.
- Deferred Revenues are funds designated for specific purposes under Provincial legislation or third-party agreements, creating future obligations for the City.
- Most of the City's reserves and deferred revenues are restricted or committed by:
 - Legislative or third-party agreements,
 - Council-directed activities, and/or
 - Funding for expenses approved through the City's annual budget process.
- Sources of Reserves Contributions include:
 - Budgeted contributions within Operating Budgets,
 - Dedicated capital levies,
 - Funding secured by legislation or contracts,
 - Grants and transfers from the provincial and federal government,
 - General revenues,
 - Year-end operating surpluses, and
 - Third-party agreements.

Reserves and Deferred Revenue Status as of September 30, 2025:

The combined balance of Reserves, Reserve Funds and Deferred Revenues is \$14.0 billion (including a reserve balance of \$6.0 billion and deferred revenues of \$8.0 billion), with \$13.7 billion (97.9%) either fully committed or over committed for future Council-directed activities. The remaining balance of \$293.3 million is uncommitted and retained for emergency purposes such as extreme weather events.

City-wide Reserve / Reserve Funds and Deferred Revenues Inflows / Outflows:

The City uses reserves to fund both operating and capital expenditures. Table 1 below details the combined net impact of inflows and outflows of City reserves, showing growth or depletion over time.

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

Description (\$ in millions)	2021	2022	2023	2024	2025*
Budgeted Net Inflow/(Outflow):					
Operating Reserves	(52)	(97)	(109)	(461)	(519)
Capital Reserves	(295)	(463)	(170)	(179)	48
Budgeted Net Inflow/(Outflow)	(347)	(560)	(279)	(640)	(471)
Opening Balance	7,585	9,013	11,056	11,593	12,340
Actual Net Inflow/(Outflow)	1,428	2,043	537	746	77
Actual Ending Balance**	9,013	11,056	11,593	12,340	12,416

*Note: 2025 actual ending balance is a projection and is reflected as the total of all opening balances for all reserves listed in *Appendix 1 - Reserves and Reserve Funds Balance and Forecast*.

#Variances between budget and actuals from 2021–2025 were driven by greater-than-expected funding program contributions, and additional reserve contributions during the COVID-19 period to prepare for future challenges.

As shown in Table 1, the 2025 Budget anticipated a net outflow. The actual results reflect a net inflow, as a result of prioritizing capital spending and minimizing reliance on reserve funds as a budget bridging strategy.

The actual net inflow/outflow for 2025 will be made available in the 2025 Year-End Reserves and Deferred Revenue Balance Reports, to be released in mid-2026.

Table 2 below provides the consolidated view of city-wide withdrawals and contributions to the City's operating and capital reserves, as reflected in the Staff Prepared 2026 Operating Budget and 2026-2035 Capital Budget and Plan. The table also provides estimated combined year-end closing balances for reserves over the next three years.

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

Reserve/ Reserve Funds Impacted by the 2026 Budget (\$ in millions)	Projected Balance as of December 31, 2025	2026			Estimated Year-End Balance		
		Outflow	Inflow	Net	2026	2027	2028
Operating	1,690	(922)	457	(464)	1,226	1,048	865
Capital	10,726	(3,810)	2,630	(1,180)	9,546	7,637	6,179
Reserves/Reserve Funds Total	12,416	(4,732)	3,087	(1,645)	10,772	8,685	7,044

The estimated year-end balances over the next three years are based on 2026 budgeted and future year planned annual withdrawals and contributions.

- Reserves are reviewed annually, and strategies are employed to reduce withdrawals or increase contributions to maintain healthy reserve balances.
- Forecasts provide information on the projected health of the reserves and can signal the need for corrective action.

The Staff Prepared 2026 Operating Budget and 2026-2035 Capital Budget and Plan includes:

- \$0.922 billion in budgeted withdrawals compared to \$0.457 billion in budgeted contributions to operating reserves, reflecting a net outflow of \$0.464 billion.
- \$3.810 billion in budgeted withdrawals compared to \$2.630 billion in budgeted contributions to capital reserves, reflecting a net outflow of \$1.180 billion.

Development Charges (DC) Reserve Funds Activity

Development Charges reserves are a component in the City's overall reserve balance and can only fund eligible growth-related projects. The City's projected 2025 year-end DC reserves totalled \$2.5 billion, versus \$6.7 billion in planned obligations including major transit, water/wastewater, and road infrastructure.

Historically, DC contributions averaged \$520 million annually (2014–2024). In 2025, revenue is significantly lower at \$103 million as of September 30, 2025. In addition to market impacts, 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.

In response to a projected 50% decline in the 10-year revenue forecast, the following are being undertaken:

- reductions to the 10-year plan for Parks and Recreation, Library, and Waste Diversion services;
- monitoring Water and Roads services for future potential project deferral, if required; and
- undertaking an in-depth review of all growth-related capital projects in 2026 as part of the Comprehensive DC Review.

Table 3 below outlines the impacts on the City's various DC reserves, with consideration to capital investments included in the 2026-2035 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 Charges Reserve Balances

\$ in millions	Projected Year-End Reserve Balance (Including Unfunded Capital Projects)									
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
DC Reserve Funds	1,962	860	(82)	(822)	(1,261)	(1,514)	(1,556)	(2,009)	(1,904)	(1,365)

* Note: Negative values (in parentheses) represent a shortfall in funding, indicating potential challenges to maintaining the health of the reserve for future growth-related projects.

Community Benefit Charges (CBC) Reserve Fund Activity

Community Benefit Charges funds collected under the Planning Act are allocated to growth-related capital projects such as parks, affordable housing, and public realm improvements. CBCs are standardized rate-based contributions held in an obligatory reserve fund and allocated based on guiding principles: geographic alignment, growth-related investment, financial prudence, and legislative compliance (such as allocation or spend at least 60% of the reserve annually).

As set out in the CBC Allocation Framework ([Agenda Item History – 2025.EX26.5](#)), allocations are based on ward distribution, proportionate to local CBC contributions, and aligned with City priorities and Councillor input.

Table 4 below outlines the projected 2025 collections, current allocations, and remaining balance for the CBC Reserve Fund. It is estimated that \$3.729 million will be available to support future strategic investments.

Table 4: CBC Reserve Fund Activity

CBC Reserve Fund Activity (\$ in Millions)	Amount	Notes:
Total Collected	\$9.443	<i>As of September 30, 2025</i>
Allocations to Date	(\$5.934)	
<i>Parks and recreation</i>	(\$2.000)	<i>Investments were directed to four ward-specific park priorities.</i>
<i>Public realm</i>	(\$2.000)	<i>Funding for neighbourhood improvement projects through Transportation Services.</i>
<i>Affordable housing</i>	(\$1.934)	<i>Funding for affordable housing initiatives, distributed proportionally by ward.</i>
Interest Income*	\$0.220	<i>Interest Income 3-year forecast based on projected 2025 YE ending balance</i>
Remaining Balance	\$3.729	Available balance to support future strategic investments

*Note: Interest Income includes 2025 expected interest and 2026-2028 forecasted interest

Table 5 below highlights the 3-year forecast of the CBC Reserve Fund. Housing Secretariat will defer \$1.2 million in CBC Reserve Funding allocated in 2025 to 2026, due to prioritization of funding from Housing Accelerator Fund. Therefore, the projected 2025 year-end balance is higher-than the budgeted amount during the 2025 budget process.

Table 5: CBC Reserve Fund 3-year forecast

CBC Reserve Fund Activity (\$ in Millions)	2025 Projection	Forecast		
		2026	2027	2028
Opening Balance	\$6.392	\$9.289	\$6.022	\$3.868
Collections	\$3.051			
Total opening balance and collections	\$9.443	\$9.289	\$6.022	\$3.868
Allocations				
<i>Parks and recreation</i>		(\$1.753)	(\$0.106)	(\$0.141)
<i>Public realm</i>			(\$2.000)	
<i>Affordable housing</i>	(\$0.211)	(\$1.590)	(\$0.097)	(\$0.036)
Total Allocations	(\$0.211)	(\$3.343)	(\$2.203)	(\$0.177)
Interest Income	\$0.056	\$0.076	\$0.049	\$0.038
Closing Balance	\$9.289	\$6.022	\$3.868	\$3.729

Reserves and Reserve Fund Adequacy

The City has adopted two financial principles related to Reserves and Reserve Funds as outlined by City Council.

1. Reserves and Reserve Funds should be used for:
 - Anticipated liabilities
 - Aligning cash flow estimates with revenues and expenditures subject to cyclical functions
 - Extraordinary large purchases
 - Self-financing of ongoing activities for specific services
 - Acting as an endowment
2. Reserves and Reserve Funds should be funded to the level required for their purpose.

There are 224 active reserves and five active grouped reserves, detailed in Appendix 1. Of these, 18 are forecasted to experience a negative closing balance at the end of the three-year outlook.

The health of the City's reserves is monitored and reported on throughout the year. As needed, budget adjustments are brought forward for Council consideration to address reserve adequacy. For the reserves with anticipated third-party funding, expenditures are reduced to match available funding if third-party funding is not secured.

Budgeted contributions and withdrawals for each reserve are detailed in Appendix 1 of this briefing note.

Appendix:

Appendix 1: Reserves and Reserve Funds Balance and Forecasts

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