Financial Stabilization Reserve (FSR) Repayment Plan Options

The Financial Stabilization Reserve (FSR) will be below the minimum balance by the end of 2024. The minimum balance outlined in City Policy C629 - Financial Stabilization Reserve is 5.0 per cent minimum of current tax-supported operating expenses. The policy also stipulates that in the event the unappropriated FSR balance falls below the minimum, a strategy will be adopted to achieve the minimum balance over a period not to exceed three years, starting with the subsequent year's operating budget. As the projected balance would be below the minimum balance by the end of 2024, the FSR must be replenished in 2027 to comply with the policy.

To date, strategies have been undertaken to manage and replenish the FSR including:

- limit discretionary spending when possible,
- savings through one-time cost reduction strategies, and
- reviewing previously committed one-time appropriated items within the FSR that are no longer required for their original purpose.

Administration will continue to manage spending to reduce the currently projected year-end deficit position. Funding new initiatives from the FSR for the remainder of the year should be limited to those circumstances with emergent financial needs in accordance with the reserve policy.

To replenish the FSR to its minimum balance within the specified time frame, a tax levy increase of 1.0 per cent is proposed for both 2025 and 2026 (reflected as Option 2 in the table below). As Administration continues to address the structural budget variances currently estimated at $59.2 million down from $88.1 million, the actual FSR replenishment amount may fluctuate depending on the speed and success of the action plans and other unforeseen circumstances. This may require future adjustments to the tax levy contributions in subsequent years.

Options for FSR Repayment Plan

The FSR balance is projected to be $32.9 million by the end of 2024 based on the projected 2024 tax-supported deficit of $34.4 million as of June 2024. This is $100.9 million below its minimum balance of $133.8 million. To support the replenishment strategy, Administration is proposing $10.0 million in one-time budget reductions in 2025 with the funds being transferred to the FSR (see

Attachment 1 - Transfer to help manage the FSR balance held within Financial Strategies). This would result in an increased FSR balance in 2025 of $60.0 million.

According to the existing policy the reserve is to be brought back to its minimum balance within 3 years, in this case by the end of 2027.

When developing the repayment plan, consideration must be given to cost escalation and the resulting impact on required minimum balance (based on five per cent of tax-supported expenditures).

- For a three-year repayment plan the estimated minimum balance of the FSR by the end of 2027 is forecasted to be $162.7 million based on tax-supported expenditure growth estimates. Accordingly, with a 2025 forecasted reserve balance of $60.0 million the shortfall would be $102.7 million at the end of 2027.
- When considering a five-year repayment plan the minimum required balance increases to $174.8 million by the end of 2029, with a corresponding reserve shortfall of $114.8 million.

All the options presented assume no variance from the tax-supported operating budget in 2025, 2026, and 2027, as the budget represents the forecast of planned expenditures and revenues in future years.

Options for FSR repayment include:

Option	Payback term	2025 Tax Levy Increase	2026 Tax Levy Increase	Cumulative Tax-Levy Revenues Generated ($ millions)	Total FSR Repayment Required ($millions)
1 (Not recommended)	3 years (2027)	1.6%	-	$103.1 (by 2027)	$102.7
2 (Proposed)	**3 years (2027)**	**1.0%**	**1.0%**	**$111.1 (by 2027)**	**$102.7**
3 (Not recommended)	5 years (2029)	1.1%	-	$118.2 (by 2029)	$114.8
4 (Not	5 years (2029)	0.6%	0.6%	$120.5 (by 2029)	$114.8

recommended)					

Option 1 considers a tax increase of 1.6 per cent in 2025, with the annual tax revenue generated from the increase used to replenish the FSR over a period of three years.

- This option is not recommended due to the high tax increase required in 2025.
- Tax levy revenues of $103.1 million would be generated by the end of 2027.

Option 2 considers a tax increase of 1.0 per cent in 2025 and 1.0 per cent in 2026, with the annual tax revenues generated from the increases used to replenish the FSR over a period of three years; this scenario is incorporated into the Proposed Fall SOBA.

- This option is recommended as it complies with the three year repayment identified in the policy and smooths the tax increase over multiple years.
- By the end of 2027, this option generates $111.1 million in cumulative tax levy revenues over the 3 year period from 2025-2027. This option provides for additional funding by the end of 2027 that may be required if there are further tax-supported deficits in 2025, 2026 and 2027 resulting in a larger FSR repayment. If the excess funding is not required for FSR repayment in 2027, the funds could be used for other one-time priorities in 2027.
- The annual ongoing tax-levy revenues generated in 2027 as a result of a 1.0 per cent increase in 2025 and another 1.0 per cent increase in 2026 would be $44.8 million. After the FSR is repaid, Council at that time could choose to maintain the annual tax-levy of $44.8 million to increase the funding for pay-as-you-go to help address the renewal deficit.

Options 3 and 4 mimic options 1 and 2, respectively, only with a five-year repayment plan. An exemption to City Policy C629 - Financial Stabilization Reserve would be required to implement a five year repayment. The five year payback time frame is not recommended due to the extended length, spanning across the majority of the next four year budget cycle. Best practice and sound fiscal management also suggests that a municipality's main stabilization reserve should be replenished to its minimum balance within three years if it falls below its minimum balance.

Attachment 5

As required by the FSR policy, a risk-based review of the FSR will be completed at a minimum every three years with possible revisions to the minimum and target levels. Results of this review will be presented in the Financial and Corporate Services report FCS02667, 2024 Reserves Review in December 2024.