Report
Staff Report
Budget Committee Meeting
The Corporation of the City of Brampton
2020-11-23

Date: 2020-11-06

Subject: **2020 Third Quarter Operating Budget and Reserve Report**

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Report Number: Corporate Support Services-2020-420

Recommendations:

1. That the report titled "**2020 Third Quarter Operating Budget and Reserve Report**" to the Budget Committee Meeting of November 23rd be received.

Overview:

2020 Operating Budget

- **Based on operating results as at September 30, the Corporation is forecasting a year-end operating deficit of $56 million. This variance represents 7.4% of total budgeted expenditures of $753.5 million.**
- **The 2020 projected operating budget deficit of $56 million is primarily due to the impacts of COVID-19 with anticipated revenue losses of $100.5 million and additional COVID-19 emergency measure costs of $13.5 million which, are partially offset by $58.0 million in operational savings and mitigating measures.**
- **To date the City has received a total of $34.9 million through Phase 1 of the Safe Restart Agreement and pending receipt of $0.6 million through the Municipal Transit Enhanced Cleaning (MTEC) fund. Net of this funding, the remaining projected year-end deficit is $20.5 million.**

- **To be considered for Phase 2 funding, details outlining Brampton's COVID-19 operating costs and pressures were submitted to the Province. Although the exact timing of second phase funding is unknown, staff are working with the Federal and Provincial governments to advocate for additional relief to offset the City's projected remaining deficit of $20.5 million.**

- **The General Rate Stabilization reserve (GRS) balance is currently $69.5 million, which is $5.9 million less than the Council approved target of 10% of operating budget expenditures or $75.4 million. If the GRS is utilized in lieu of Phase 2 funding, the projected GRS balance at year-end would be $48.4 million with a target shortfall of $27.0 million.**

Reserves / Reserve Funds

- **An update on the status of the City's primary Reserves and Reserve Funds, including rate stabilization reserves and development charge reserve funds, is also presented.**

Background:

The City's financial management policies require staff to provide Council with periodic status updates related to the City's finances. This report is focused on updating Council on the status of the City's 2020 operating budget and reserves balances.

In March the Province of Ontario, the Region of Peel and the City of Brampton declared states of emergency to limit the spread of COVID-19 primarily through physical distancing measures. As part of its response efforts, Council approved a number of necessary measures that had impacts on City finances, resulting in an anticipated deficit for 2020.

The unpredictable nature of a pandemic requires the City to provide forecasts of financial implications that are unprecedented. The third quarter year-end projection takes the current environment into consideration and draws upon the 6 months (April to September 2020) of actual financial trending as a gauge to assess the year-end deficit impacts of the COVID-19 pandemic.

Current Situation:

2020 OPERATING BUDGET

Based on operating results as at September 30, the Corporation is forecasting a year-end operating deficit of $56 million. This variance represents 7.4% of total budgeted expenditures of $753.5 million.

On July 27, 2020, as part of the federal-provincial Safe Restart Funding, the Ontario government announced up to $4 billion in one-time emergency assistance to provide Ontario's municipalities with the support they need to respond to COVID-19, and deliver the critical services people rely on every day.

To date the City has received a total of $34.9 million through Phase 1 of the Safe Restart Agreement and pending receipt of $0.6 million through the Municipal Transit Enhanced Cleaning (MTEC) fund.

After considering the funding received to date, the remaining year-end operating deficit is $20.5 million or 2.7% of total budget expenditures.

The following tables summarize the 2020 Operating Budget forecasted year-end results, which includes a departmental breakdown of the deficit, along with highlights of specific variances that are deemed materially significant to the Corporation.

TABLE 1: 2020 OPERATING BUDGET FINANCIAL SUMMARY

OPERATING VARIANCE:	Annual Net Budget	Q3 YE Projection	(Favourable) / Unfavourable Variance	
Departments		**($000s)**		**%**
Public Works & Engineering	86,747	85,002	(1,744)	-2%
Transit	77,809	96,850	19,041	24%
Community Services	72,355	74,812	2,457	3%
Corporate Support Services	63,467	60,021	(3,446)	-5%
Fire & Emergency Services	80,199	79,041	(1,158)	-1%
Legislative Services	10,629	15,228	4,599	43%
Planning, Building & Economic Development	4,299	5,456	1,157	27%
Mayor & Members Of Council	4,529	3,769	(760)	-17%
Office of the CAO	9,037	6,463	(2,573)	-28%
Brampton Public Library	18,214	15,178	(3,036)	-17%
Gapping	(13,150)	-	13,150	-100%
DEPARTMENTAL VARIANCE : DEFICIT			**27,687**	
GENERAL GOVERNMENT VARIANCE: DEFICIT			**28,302**	
CORPORATE VARIANCE: DEFICIT			**55,989**	
FUNDING RECEIVED *			**(35,511)**	
CORPORATE DEFICIT (NET OF FUNDING RECEIVED)			**20,478**	

** $24.9 million of Phase 1 Safe Restart Funding received and placed in City Reserves + $0.6 million in pending Municipal Transit Enhanced Cleaning (MTEC) Fund Receipt)*

TABLE 2: 2020 OPERATING BUDGET VARIANCES

OPERATING VARIANCE:	YEAR END PROJECTION
Revenue Loss	100,493
Emergency Measures Costs	13,490
Operational Savings and Mitigation Measures	(57,994)
Funding Received*	(35,511)
CORPORATE VARIANCE: DEFICIT	**20,478**
MAJOR VARIANCES	**YEAR END PROJECTION**
Transit reduced revenues	43,930
Recreation reduced revenues	25,691
COVID-19 Emergency Measures Costs	13,490
Tax Penalties & Interest Revenue	10,100
POA reduced revenues	6,570
Supplemental Taxes	3,212
Performing Arts Reduced Revenue	2,147
Development Services Reduced Revenue	1,874
Investment income loss	1,844
Ride Sharing reduced revenue	1,037
Parks Non-Labour Expenditures	(1,287)
Performing Arts Non-Labour Expenditures	(1,412)
Other	(1,655)
Library Operations Transfer	(3,036)
Recreation Non-Labour Expenditures	(4,807)
Transit Non-Labour Expenditures	(9,521)
Labour Savings	(32,187)
CORPORATE VARIANCE: DEFICIT	**55,989**
FUNDING RECEIVED *	**(35,511)**
NET CORPORATE DEFICIT	**20,478**

** $24.9 million of Phase 1 Safe Restart Funding received and placed in City Reserves + $0.6 million in pending Municipal Transit Enhanced Cleaning (MTEC) Fund Receipt)*

Deficit Summary

The 2020 projected operating budget deficit of $56.0 million is primarily due to the impacts of COVID-19 with anticipated revenue losses of $100.5 million and additional COVID-19 emergency measure costs of $13.5 million which, are partially offset by $58.0 million in operational savings and mitigating measures.

As illustrated in Table 2, revenue deficits are driven by a decline in user fee revenues which is largely concentrated in the areas of Transit and Recreation Services which account for 69% of revenue losses.

Transit's anticipated revenue deficit of $43.9 million which is 43.8 % under budget is largely due to the suspension of fares between March 21st and July 1st, reduced capacity and lower ridership demand.

Recreation revenue losses are the second largest contributor of the deficit with a projected loss of $25.6 million primarily driven by the City's decision to close Recreation facilities until the end of the second quarter and limited offering of services with 25% to 50% capacity, cancel programs and rentals to prevent the spread of the pandemic.

Tax related revenue loss of $13.3 million; $3.2 million of which is as a result of delayed supplemental taxes and $10.1 million as a result of the City's decision to support residents through the suspension on tax arrears until the end of the year has resulted in projected lost revenues of interest, taxes and penalty charges as approved through the the "Relief Measures for Overdue Property Taxes Report" presented to Council on September 23rd 2020.

Several other revenue streams have been impacted by COVID-19 including Provincial Offences Act (POA) Revenues of $6.6 million; development services revenue of $1.9 million, investment income of $1.8 million; lost revenue due to unrealized sales of tickets, room and equipment rental of $2.1 million in performing arts and ridesharing revenue losses of $1.0 million due to decreased demand.

The City's response to the pandemic continues to put additional financial pressures on the City which is projected at $13.5 million by year-end. These costs are attributable to enhanced cleaning and sanitization; personal protective equipment stock piling for all City staff, critical need long-term care homes and residents as part of the 1 million mask campaign; the Backyard Garden Program; additional rental and contracted Janitorial and Security services and COVID-19 sick credits provided to Transit frontline staff. At year-end, $1.3 million in remaining Transit sick credits will carry into the following year.

$58.0 million in operational savings and mitigating measures is projected to offset the significant revenue loss and additional costs incurred due to the pandemic.

$32.2 million is due to labour related savings, primarily driven by the temporary suspension of employment of part-time, temporary/casual, and seasonal staff members in non-essential and non-critical services. This can predominantly be seen in Transit, due to reduced scheduling and maximizing available resources to minimize overtime costs; and in Recreation as a result of part-time labour reduction to align with the fall/winter season reduced capacity requirements and vacancy savings. With the decision to delay or freeze hiring where possible, labour vacancy savings are realized throughout the rest of the corporation but predominantly offset by lost capital recoveries.

The remaining $25.8 million in non-labour expenditures savings is directly related to the City's response to the pandemic and again is mostly seen in Transit and Recreation, however cost savings are seen throughout the corporation in the areas of utility and fuel, preventative and demand maintenance, , contracted services and a lower transfer to Brampton Library due to hiring freezes and temporary layoffs.

Deficit Management

To date the City has received a total of $35.5 million under Phase 1 of the Safe Restart Agreement; 10.9 million to support municipal operating pressures and $24.6 million allocation to support municipal transit systems. This funding has been placed in the City's reserves and will be allocated to the operating budget.

Up to $695 million in Phase 2 funding is available to municipalities that can demonstrate COVID-19 related financial impacts that exceed the allocation provided in Phase 1. To be considered for Phase 2 funding, municipalities were required to submit information on the impact of the pandemic on municipal financials and the projected deficits until the end of the year. The details outlining Brampton's COVID-19 operating costs and pressures were submitted to the Province and although the exact timing of second phase funding is unknown, staff are working with the Federal and Provincial governments to advocate for additional relief to offset the City's deficit.

In the event that the timing of the second phase funding does not coincide with the City's year-end, the General Rate Stabilization Reserve will be drawn upon to fund the projected deficit as illustrated in Table 3.

TABLE 3: DEFICIT MANAGEMENT STRATEGY

Deficit Management	$ M
Q3 Year-End Projected Deficit	(56.0)
Funding Offset:	
Phase 1 - Safe Restart Funding Received	34.9
Municipal Transit Enhanced Cleaning Funding Received	0.6
Phase 2 - Safe Restart Funding / GRS	20.5
Net Projected Deficit	**$ -**

RESERVES AND RESERVE FUNDS (Schedule A)

Stormwater Reserve Fund

In the 2020 Operating Budget, the Stormwater Fund was established to manage the recently approved Stormwater Charge. The charge became effective on June 1, 2020 and is collected through the Region of Peel water/wastewater bill in response to the City's maintenance, renewal, replacement and asset management plan for the City's $1.2 billion of Stormwater infrastructure.

The Brampton Stormwater Charge is anticipated to collect $12.8 million for the period from June 1st to December 31st 2020 and $22 million per year going forward, growing at the rate of inflation.

Debt Repayment Reserve

The 2020 Operating Budget included approval of $3.6 million in annual debt repayments, related to a 25-year debenture of $26 million, for the Fire and Emergency Services Campus and $107.5 million for a 30-year debenture for the Centre for Innovation.

The Debt Repayment Reserve established in 2018, has a balance of $10.9 million, as at September 30, 2020.

The Region of Peel issued debentures on the City's behalf in the amount of $26 million in 2019 to meet cash flow requirements for the construction of the Fire and Emergency Services Campus. .

Development Charge Reserve Funds

Development charges (DCs) are one-time fees levied on new growth to pay for growth-related City infrastructure. The current DC By-laws were approved by Council in 2019, and inputs into the DC Study were based on various master servicing plans and departmental input in how they would meet the needs of servicing new growth.

The impacts of COVID-19 on the housing market are being closely monitored by Finance staff. At present, the DC revenue for 2020 is tracking better than the recession of 2008-2009, but is lower than historic averages. DC reserve funds are currently in a surplus position of $41.8 million, as at September 30, 2020.

Building Rate Stabilization Reserve Fund

As at September 30, 2020, the balance in the Building Rate Stabilization Reserve Fund was $41.1 million, which provides assurance against a future short-term downturn in building activity. The City is obligated to transfer any surplus resulting from building related operations to this reserve fund in accordance with the requirements of Bill 124 *(Building Code Statute Law Amendment Act, 2002).*

Cash In Lieu of Parkland

As at September 30, 2020, there was a balance in the Cash in Lieu of Parkland of $113.3 million. Staff continues to work on strategies to secure and expedite the acquisition of strategic parkland to meet the future needs of residents.

General Rate Stabilization Reserve

As at September 30, 2020, the balance in the General Rate Stabilization reserve was $69.5 million. Council has established a GRS reserve balance target at 10% of the annual approved operating budget. The 2020 Operating Budget has been approved at $754 million, resulting in a GRS reserve target of $75.4 million.

The General Rate Stabilization reserve (GRS) balance is currently $69.5 million, which is $5.9 million less than the Council approved target of 10% of operating budget expenditures or $75.4 million.

In lieu of additional funding provided through Phase 2 of the Safe Restart Agreement, the GRS would be the primary source to offset the remaining estimated deficit of $20.5 million in 2020 as illustrated in Table 4.

TABLE 4: 2020 OPERATING BUDGET VARIANCES

General Rate Stabilization Funding (GRS)	**$ M**
10% of Operating Budget ($754 M)	75.4
Current Balance as at September 30, 2020	69.5
GRS Deficit as at September 30, 2020	(5.9)
GRS Funding in lieu of Phase 2 Safe Restart Funding	(20.5)
GRS Year-End Shortfall (Estimate)	**(26.4)**

Interest Rate Stabilization Reserve Fund

As at September 30, 2020, the uncommitted balance in the Interest Rate Stabilization Reserve Fund was $5.9 million. The balance continues to be drawn upon to fund annual operating shortfalls on budgeted Hydro investment income.

It is anticipated that the current low rate environment will continue in the short-medium term and will ultimately result in this reserve being exhausted. Staff are currently reviewing alternative funding options for Council's consideration.

Legacy, Community Investment, and Community Development Reserve Funds

The Legacy, Community Investment and Community Dividend Reserve Funds were established in 2002 with contributions from the sale of Brampton Hydro. The Council approved objectives of these funds are as follows:

- *Legacy Fund:* Principal to be preserved and invested; investment income available for use
- *Community Investment Fund:* Principal for capital financing through internal borrowing; principal to be preserved over the long term; investment income available for use
- *Community Dividend Fund:* Principal available for direct spending on community orientated initiatives and other extraordinary, non-recurring expenditures; To be used only after consideration of all alternative funding sources; investment income available for use

Table 5 provides a financial status update on these strategic reserves:

TABLE 5: STRATEGIC RESERVES - FINANCIAL STATUS UPDATE

	AMOUNT $ M	LEGACY	COMMUNITY INVESTMENT	COMMUNITY DIVIDEND
Original Balance (1)	230.0	100.0	100.0	30.0
Spending & Approved Capital Commitments, as at September 30, 2020	(82.7)	(2.3)	(50.4)	(30.0)
Uncommitted Balance, as at September 30, 2020	**147.3**	**97.7**	**49.6**	**-**
Pending Strategic Initiatives: $47.7 M remaining for Ryerson University and $4.8 M for Algoma University	(52.5)			
STRATEGIC RESERVES AVAILABLE BALANCE	94.8			

(1) Investment income from these strategic reserves is included as a reserve source in the operating budget at a rate of 4.5%. As these funds are utilized, investment income revenue is reduced from the operating budget. Alternative revenue sources, reduction in expenditures or increases in property taxes would be required to offset the reduction in investment income revenue

- Council has endorsed in-principle $50.0 million from the Legacy fund to support the Ryerson University initiative and $7.3 million for the Algoma University initiative. Subsequent to funding these commitments, the Legacy Fund is projected to have a remaining balance of $42.7 million.

- Of the $50.0 million for Ryerson University, Council has approved $5.0 million over a 4 year period (2019-2022) for the Cybersecure Catalyst and $2.3 million has been contributed since 2019. Of the $7.3 million for Algoma University, $2.5 million has been contributed in 2020, leaving a remaining balance of $97.7 million in the Legacy Fund, as at September 30, 2020.

- To date, the Legacy Fund has generated $88.9 million in interest revenue since the inception of the fund. Of this, $70.3 million has been transferred to the Operating Fund to offset tax levy requirements and the balance has been transferred to the Interest Rate Stabilization Reserve Fund.

- The Community Investment Fund has outstanding internal loans of $50.4 million committed against this fund for previous Council initiatives such as the Rose Theatre, Provincial Offences Act Courthouse and Public Works Yards. Annual interest on the fund has also been built into the base budget to offset tax levy needs. The remaining uncommitted balance plus annual principal repayments will be available strategic for initiatives in 2021 and beyond. The balance available for future initiatives was $49.6 million, as at September 30, 2020.

- The Community Dividend Fund has been fully drawn down for projects of citywide benefit and was closed out in 2009. Funding was committed towards initiatives such as the Rose Theatre, Downtown Revitalization and Sheridan College.

Corporate Implications:

None.

Strategic Plan:

This report achieves the Strategic Plan priority of Good Government by practicing proactive effective management of finances, policies and service delivery.

Term of Council Priorities:

This report fulfils the Council Priority of a Well-run City through collaborative citizen engagement and effective managing of municipal assets.

Conclusion:

Based on operating results as at September 30, 2020, the Corporation is forecasting a year-end operating deficit of $56.0 million. This variance represents 7.4% of total budgeted expenditures of $753.5 million.

After considering the funding received to date, the remaining year-end operating deficit is $20.5 million or 2.7% of total budget expenditures.

Authored by:	Reviewed by:
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Attachments:

Schedule A: Reserve and Reserve Fund Balances
Schedule B: Departmental Year-End Forecast Variances