

Date: 2021-03-10

Subject: **2020 Year End Operating Budget and Reserve Report**

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Report Number: Corporate Support Services-2021-404

Recommendations:

1. That the report titled “**2020 Year End Operating Budget and Reserve Report**” to Committee of Council of April 14, 2021 be received;
2. That the 2020 year-end deficit of \$52,278,441 be offset with funding contributed from the Federal-Provincial Safe Restart Agreement;

\$22,650,403 funded from Phase 1 of the Ministry of Transportation (MTO) ‘transit stream’ for Transit specific operating deficits and

\$29,628,038 from Phase 1 and Phase 2 of the Ministry of Municipal Housing (MMAH) ‘municipal operating stream’ to offset losses for all other COVID-19 operational deficits in 2020.
3. That the remaining funding of \$10.1 million received to date under Phase 1 of the transit stream and Phase 2 of the municipal operating stream of the Federal-Provincial Safe Restart Agreement be placed in City reserves to be used for 2021 COVID-19 specific operating pressures.

Overview:

2021 Operating Budget

- **The 2020 Operating Budget resulted in a net year-end deficit of \$52.3 million or 6.9% of total budgeted expenditures of \$753.5 million.**
- **The deficit is primarily due to the impacts of COVID-19, with revenue losses of \$92.3 million and additional COVID-19 emergency measure**

costs of \$13.5 million, which are partially offset by \$53.6 million in operational savings and mitigating measures.

- To date the City has received a total of \$62.4 million under Phase 1 and Phase 2 of the Safe Restart Agreement. Of the amount received, \$54.2 million was eligible to be used for operational pressures and losses in 2020 and was thereby used to offset the City's deficit of \$52.3 million; \$29.6 million through the municipal operating stream and \$22.7 million through the transit stream. The remaining \$10.1 million has been placed in City reserves for utilization towards 2021 pandemic-related operating needs.
- In a letter dated March 4, 2021 from the Ministry of Municipal Affairs and Housing (MMAH), the City was advised that it will receive \$14.7 million under the new 2021 COVID-19 Recovery Funding for Municipalities (CRFM) program.
- In a letter dated March 3, 2021 from the Ministry of Transportation (MTO) the City was advised of its eligibility to receive additional funding under the Safe Restart Agreement transit stream; \$30.1 million under Phase 2 and \$23.5 million under Phase 3.
- To date the total eligible funding to offset 2021 operational losses and pressures as a result of COVID-19 is \$79.0 million, approximately \$23.4 million for municipal pressures and \$55.5 million for transit specific pressures.
- Considering the funding committed to date, the City is well situated to offset 2021 Transit Operational losses as a results of the pandemic through Phase 2 and 3 of the Safe Restart Agreement. Staff will continue to monitor if funding is required beyond the \$23.4 M committed under the Municipal stream and will advise Council should there be a funding gap.
- The General Rate Stabilization reserve (GRS) balance as at December 31, 2020 was \$84.8 million net of commitments. Within this balance is \$8.7 million of funding available through the Safe Restart Agreement which is eligible for 2021 operating deficits as a result of COVID-19. Once this amount is excluded the GRS balance sits at \$76.1 million which is \$0.7 million more than the Council approved target of \$75.4 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 year-end 2020 operating budget and reserves balances.

In March 2020, 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 a result of the unpredictable nature of the pandemic, Council approved a number of necessary measures to meet varying lockdown restrictions throughout the year. These measures had a direct impact on City finances resulting in the City's largest operating deficit to date.

Current Situation:

2021 OPERATING BUDGET

The 2020 Operating Budget resulted in a net year-end deficit of \$52.3 million. This variance represents 6.9% of total budgeted expenditures of \$753.5 million. The deficit is due to the impacts of COVID-19 with revenue losses of \$92.3 million and additional COVID-19 emergency measure costs of \$13.5 million, which are partially offset by \$53.6 million in operational savings and mitigating measures.

On July 27, 2020, as part of the federal-provincial Safe Restart Agreement, the Ontario government announced up to \$4 billion in 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. Through this Phase 1 funding, the City received a total of \$34.9 million; \$24.0 million through the 'transit stream' administered by MTO and \$10.9 million through the 'Municipal Stream' administered through MMAH.

On December 16th, 2020 in a letter from MMAH, the City was allocated an additional \$19.3 million to support the municipality's remaining 2020 operating needs based on the application of projected year-end deficits.

Through Council's advocacy efforts, and commitment by the Federal and Provincial governments to provide Ontario's municipalities with the support they need to respond to COVID-19, the City received \$54.2 million in relief funding as part of the Safe Restart Agreement to offset operational losses specific to 2020. This funding was used towards the City's deficit of \$52.3 million.

The following tables summarize the 2020 Operating Budget year-end results, which include a departmental breakdown of the deficit (Table 1), along with highlights of significant drivers that have contributed to the 2020 operating budget deficit (Table 2).

TABLE 1: 2020 OPERATING BUDGET FINANCIAL SUMMARY

OPERATING VARIANCE:	Annual Net Budget	Q4 YE Actual	(Favourable) / Unfavourable Variance	
Departments	(\$000s)			%
Public Works & Engineering	86,747	86,511	(236)	0%
Transit	77,809	94,810	17,002	22%
Community Services	72,355	70,535	(1,820)	-3%
Corporate Support Services	63,497	61,174	(2,323)	-4%
Fire & Emergency Services	80,199	77,991	(2,208)	-3%
Legislative Services	10,729	15,287	4,558	42%
Planning, Building & Economic Development	4,299	5,745	1,446	34%
Mayor & Members Of Council	4,529	3,864	(664)	-15%
Office of the CAO	8,907	6,350	(2,556)	-29%
Brampton Public Library	18,214	15,178	(3,036)	-17%
Gapping	(13,150)	-	13,150	-100%
DEPARTMENTAL VARIANCE : DEFICIT			23,312	
GENERAL GOVERNMENT VARIANCE: DEFICIT			28,967	
CORPORATE VARIANCE: DEFICIT			52,278	
SAFE RESTART FUNDING*			(52,278)	
CORPORATE DEFICIT (NET OF SAFE RESTART AGREEMENT OFFSET)			\$	0

**Safe Restart Agreement (SRA) deficit relief is comprised of \$22.7 million from the MTO 'transit stream' to offset losses specific to Transit Operations and \$29.6 million from the MMAH 'municipal operating stream' to offset losses for all other COVID-19 operational losses.*

Note that \$29 M General Government variance to budget includes \$13.5 M in COVID-19 emergency measures costs, \$10.1 M Interest, taxes & penalties, \$3.6 M supplemental taxes delay and \$2.1 M investment & banking interest lower than anticipated.

TABLE 2: 2020 OPERATING BUDGET VARIANCES

OPERATING VARIANCE:	YEAR END ACTUALS
Revenue Loss	92,337
Emergency Measures Costs	13,575
Operational Savings and Mitigation Measures	(53,634)
Funding Received*	(52,278)
CORPORATE VARIANCE: DEFICIT	-
MAJOR VARIANCES	YEAR END ACTUALS
Transit reduced revenues	42,163
Recreation reduced revenues	24,939
COVID-19 Emergency Measures Costs	13,575
Tax Penalties & Interest Revenue	10,128
POA reduced revenues	5,125
Supplemental Taxes	3,612
Investment income loss	2,167
Performing Arts Reduced Revenue	2,117
Development Services Reduced Revenue	1,874
Ride Sharing reduced revenue	773
Performing Arts Non-Labour Expenditures	(1,521)
Other	838
Parks Non-Labour Expenditures	(3,036)
Library Non-Labour Expenditures	(3,038)
Recreation Non-Labour Expenditures	(4,569)
Transit Non-Labour Expenditures	(10,794)
Labour Savings	(32,076)
CORPORATE VARIANCE: DEFICIT	52,278
SAFE RESTART FUNDING*	(52,278)
NET CORPORATE DEFICIT	\$ -

**Safe Restart Agreement (SRA) deficit relief is comprised of \$22.7 million from the MTO 'transit stream' to offset losses specific to Transit Operations and \$29.6 million from the MMAH 'municipal operating stream' to offset losses for all other COVID-19 operational losses.*

Deficit Summary

The 2020 year-end operating deficit of \$52.3 million is due to the impacts of COVID-19 with revenue losses of \$92.3 million and additional COVID-19 emergency measure costs of \$13.5 million, which are partially offset by \$53.6 million in operational savings and mitigating measures.

As illustrated in Table 2, the \$92.3 million in 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 73% of revenue losses.

Transit's revenue deficit of \$42.2 million is largely due to the suspension of fares between March 21st and July 1st, reduced capacity and lower ridership demand over the course of the year.

Recreation revenue losses continued to be the second largest contributor of the revenue deficit with annual losses amounting to \$24.9 million. This was primarily driven by the City's decision to close recreation facilities, limit capacity and cancel programs and rentals to prevent the spread of the pandemic.

Tax related revenue loss of \$13.7 million, \$3.6 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 \$5.1 million, investment income of \$2.2 million, development services revenue of \$1.9 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 \$0.8 million due to decreased demand.

The City's response to the pandemic resulted in emergency measures costs which amounted to \$13.5 million by year-end. These costs are attributable to the City's direct efforts to provide safe, clean options for residents and staff through: enhanced cleaning and sanitization; personal protective equipment stock piling for all City departments, 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. Table 3 categorizes the main drivers of these costs.

TABLE 3: 2020 COVID-19 EMERGENCY MEASURES COSTS

COVID-19 Emergency Measure Cost	\$ M
Security Services	3.4
Personal Protective Equipment	2.9
Labour	2.8
Enhanced Cleaning	2.3
Media & Communications	1.1
Other	0.9
Total	13.5

\$53.6 million in operational savings and mitigating measures was realized in 2020 to offset the significant revenue loss and additional costs incurred due to the pandemic.

\$32.1 million is as a result of labour related savings, primarily driven by the temporary suspension of part-time, temporary/casual, and seasonal staff in non-essential services, reduced scheduling and hiring freeze or delays. Transit, Recreation and Parks Maintenance & Forestry saw the highest impact of labour savings.

\$21.6 million in operational savings was mostly realized in Transit and Recreation due to reduced operations to meet provincial guidelines and limit the spread of COVID-19. Cost savings were also 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 - 2020

To date the City has received a total of \$62.4 million under Phase 1 and Phase 2 of the Safe Restart Agreement. The funding was placed in City reserves upon transfer payment receipt from the respective ministries:

- \$10.9 million to support municipal operating pressures (2020) (Phase 1)
- \$24.0 million allocation to support municipal transit pressures (2020) (Phase 1)
- \$19.3 million to support municipal operating pressures (2020) (Phase 2)
- \$8.2 million to support future municipal operating pressures (2021) (Phase 2)

Of the amount received, \$54.2 million was eligible to be used for operational pressures and losses in 2020 and was thereby used to offset the City's deficit of \$52.3 million; \$29.6 million through the municipal operating stream and \$22.7 million through the transit stream.

The remaining funding of \$1.9 million, in excess of the deficit offset, remains in City reserves, along with \$8.2 million of Phase 2 of the municipal operating stream funding specific to 2021. In total \$10.1 million remains in City reserves and will be used to address 2021 pandemic-related operating needs.

TABLE 4: 2020 COVID-19 FEDERAL-PROVINCIAL FUNDING RECEIVED

	ELIGIBILITY	MUNICIPAL STREAM	TRANSIT STREAM	TOTAL
Received to Date (\$M)				
SRA Phase 1	2020	10.9	24.0	34.9
SRA Phase 2	2020	19.3	-	19.3
Total Received for 2020		30.2	24.0	54.2
2020 Year End Deficit Offset		-	22.7	52.3
2020 Funding in City Reserves	2021	0.5	1.4	1.9
SRA Phase 2	2021	8.2	-	8.2
Total Remaining in City Reserves	2021	8.7	1.4	10.1

Deficit Management - 2021

In addition to the funding received to date, MMAH and MTO have recently advised of further funding supporting the 2021 operating budget and anticipated future operational pressures and losses as a result of the pandemic.

In a letter dated March 4, 2021 from MMAH, the City was advised that it will receive \$14.7 million under the new 2021 COVID-19 Recovery Funding for Municipalities program. Brampton's share is based on its proportion of COVID-19 cases during the period of January 1, 2021 to February 18, 2021. The total allocation under the program is \$500 million, which is available to help municipalities respond to ongoing 2021 COVID-19 operating pressures. The City can anticipate these funds in two equal instalments, on or before May 1, 2021 and November 1, 2021. Use of funding under the municipal stream is evaluated through periodic reporting as directed by MMAH.

MTO advised the City in a letter dated March 3, of its eligibility to receive additional funding to support the Municipality's COVID-19 municipal transit financial impacts under Phase 2 and 3 of the Safe Restart Program, \$30.1 million under Phase 2 for operational pressures and losses between October 1st 2020 and March 31 2021, and \$23.5 million under Phase 3 for operational pressures and losses between April 1st 2021 and December 31, 2021. Funding under the transit stream is on a claim basis with scheduled reporting as directed by MTO.

Receipt of \$0.6 million through the Municipal Transit Enhanced Cleaning (MTEC) fund is also pending.

To date, the total eligible funding to offset 2021 operational losses and pressures as a result of COVID-19 is \$79.0 million, approximately \$23.4 million for municipal pressures and \$55.5 million for transit specific pressures as illustrated in Table 5.

TABLE 5: 2021 COVID-19 FEDERAL - PROVINCIAL FUNDING ELIGIBILITY

	ELIGIBILITY	MUNICIPAL STREAM	TRANSIT STREAM	TOTAL
Announced Funding Eligibility or Future Receipt (\$M)				
SRA Phase 2	2020-2021	-	30.1	30.1
SRA Phase 3	2021	-	23.5	23.5
CRFM 2021	2021	14.7	-	14.7
MTEC	2021	-	0.6	0.6
Total Announced / Pending		14.7	54.2	68.9
2020 Funding in City Reserves		8.7	1.4	10.1
Total Funding Eligible for 2021		23.4	55.5	79.0

Considering the funding committed to date, the City is well situated to offset 2021 Transit Operational losses as a result of the pandemic through Phase 2 and 3 of the Safe Restart Agreement. Staff will continue to monitor if funding is required beyond the \$23.4 M committed under the Municipal stream and will advise Council should there be a funding gap.

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.

In 2020, the Brampton stormwater charge resulted in revenues of \$10.5 million for the period from June 1st to December 31, 2020. Going forward, the City can anticipate collecting \$22 million per year, growing at the rate of inflation.

The balance as at December 31, 2020 is \$0.6 million.

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 December 31, 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 developments 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 into how they would meet the needs of servicing new growth.

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 \$62.9 million, as at December 31, 2020.

Building Rate Stabilization Reserve Fund

As at December 31, 2020, the balance in the Building Rate Stabilization Reserve Fund was \$39.9 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 December 31, 2020, there was a balance in the Cash in Lieu of Parkland of \$119.2 million. Staff continues to work on strategies to secure and expedite the acquisition of strategic parkland to meet the future needs of residents.

Land Proceeds Reserve

As at December 31, 2020, there was a negative balance in the Land Proceeds Reserve of \$29.9 million. This reserve serves as a cash flow through fund to support

strategic opportunities under the Real Estate Modernization Strategy. In future, subject to Council approval, a permanent source of funding will be required to replenish the Land Proceeds Reserve.

General Rate Stabilization Reserve (GRS)

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 as at December 31, 2020 was \$84.8 million net of commitments. Within this balance is \$8.7 million of funding available through the Safe Restart Agreement which is eligible for 2021 operating deficits as a result of COVID-19. Once this amount is excluded, the GRS balance sits at \$76.1 million, which is \$0.7 million more than the Council approved target of \$75.4 million.

In lieu of further funding committed in 2021 to offset potential COVID-19 related deficits, the GRS would be the primary source to offset potential operating pressures.

Interest Rate Stabilization Reserve Fund

As at December 31, 2020, the uncommitted balance in the Interest Rate Stabilization Reserve Fund was \$3.0 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 7 provides a financial status update on these strategic reserves:

TABLE 7: 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 December 31, 2020	(83.4)	(4.8)	(48.6)	(30.0)
Uncommitted Balance, as at December 31, 2020	146.6	95.2	51.4	-
Pending Strategic Initiatives: \$47.7 M remaining for Ryerson University and \$4.8 M for Algoma University	(52.5)			
STRATEGIC RESERVES AVAILABLE BALANCE	94.1			

(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 \$95.2 million in the Legacy Fund, as at December 31, 2020.
- To date, the Legacy Fund has generated \$89.8 million in interest revenue since the inception of the fund. Of this, \$72.7 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 had outstanding internal loans of \$48.6 million committed against this fund for previous Council initiatives such as the Rose Theatre, Provincial Offences Act Courthouse and Public Works Yards. As identified in the 2021 Budget, future repayments to the Community Investment Fund are foregone. The balance available for future initiatives is \$51.4 million, as at December 31.
- 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:

N/A

Term of Council Priorities:

This report fulfils the Council Priority of a Well-Run City through strict adherence to effective financial management policies and supports Brampton's 2040 Vision by ensuring sustainable financial operations.

Conclusion:

The 2020 Operating Budget resulted in a net year-end deficit of \$52.3 million. This variance represents 6.9% of total budgeted expenditures of \$753.5 million.

Through Council's advocacy efforts and commitment by the Federal and Provincial governments to provide Ontario's municipalities with support to respond to COVID-19; the City received \$54.2 million in 2020 relief funding as part of the Safe Restart Agreement and was able to fully offset City's deficit of \$52.3 million.

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Attachments:

Schedule A: Reserve and Reserve Fund Balances

Schedule B: Departmental Year-End Forecast Variances