

Date: 2021-04-27

Subject: 2021 First Quarter Operating Budget and Reserve Report

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Report Number: Corporate Support Services-2021-409

Recommendations:

1. That the report titled “**2021 First Quarter Operating Budget and Reserve Report**” to Committee of Council of June 9, 2021 be received;

Overview:

Operating Budget

As at March 31, 2021;

- Finance has conducted a high-level assessment and historic trend analysis to determine if there are any known material variances for Council’s consideration.
- Expenditures of \$239.9 million, or 31.3%, of the \$766.9 million expenditure budget have been incurred.
- Revenues of \$375.0 million, or 48.9%, of the \$766.9 million revenue budget have been recognized.
- The City received \$23.5 million under Phase 3 of the Safe Restart Agreement Transit Stream as at March 31st, 2021 to offset operational pressures and losses between April 1st, 2021 and December 31st, 2021.
- When excluding the financial impacts of the Phase 3 Safe Restart funding received in 2021; expenditures incurred are 28.2% and revenues recognized are 45.9% of the 2021 budget, which is trending

below the prior year 2020 first quarter results (prior to the impacts of the COVID-19 pandemic).

- In terms of projections for the 2021 operating budget, early indications suggest that the 2021 operating variances continue to follow the results from 2020. Staff continue to monitor the implications of the pandemic on the 2021 budget and will be conducting more detailed analysis and projections for the Second and Third Quarter Forecast reports, as a clearer picture of the annual variances become available.
- The Federal and Provincial governments have committed \$79.0 million in funding to date, through Phase 2 and 3 of the Safe Restart Agreement and the 2021 COVID-19 Recovery Funding for Municipalities. Considering this commitment, the City is well situated to manage 2021 Operational losses as a result of the pandemic. Staff will continue to monitor the financial status, advocate for funding as required and will advise Council should there be a funding gap.

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.
- The Interest Rate Stabilization Reserve is expected to be exhausted in 2021 which will result in a funding pressure for the 2022 budget. Staff are currently reviewing alternative funding options and will advise through the 2022 operating budget for Council's consideration.

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 first quarter 2021 operating budget and reserve balances.

At this point in the fiscal cycle, it is premature to project trends or forecast year-end results, given the limited amount of actual financial transaction activity. Therefore, Finance has conducted a high-level assessment in comparison to historic trends to determine if there are any large anomalies or areas of concern for Council.

This report also provides an update on the status of Reserves and Reserve Funds.

Current Situation:

As at March 31, 2021, the City has incurred expenditures of \$239.9 million, or 31.3%, of the \$766.9 million expenditure budget. Revenues of \$375.0 million have been recognized of the \$766.9 million revenue budget.

Revenues in the First Quarter of 2021 account for 48.9% of the total revenue budget. This is mainly driven by the receipt of the City's interim property taxes which are sent out in the First Quarter and account for almost half of the total tax bill.

The following table compares the 2021 Current Budget with First Quarter 2021 actuals by Department:

Table 1: 2021 OPERATING BUDGET FINANCIAL SUMMARY

DEPARTMENT	TOTAL EXPENDITURES			TOTAL REVENUES		
	2021 Annual Budget	Q1 YTD Actuals	Actual % of Annual Budget	2021 Annual Budget	Q1 YTD Actuals	Actual % of Annual Budget
Brampton Public Library	18,852	4,750	25.2%	(50)	(50)	100.0%
Community Services	110,883	12,517	11.3%	(38,026)	(319)	0.8%
Corporate Support Services	70,636	19,344	27.4%	(5,911)	(1,027)	17.4%
Fire & Emergency Services	83,792	18,927	22.6%	(1,515)	(156)	10.3%
General Government	125,251	116,484	93.0%	(556,279)	(351,428)	63.2%
Legislative Services	34,595	6,923	20.0%	(24,119)	(3,638)	15.1%
Mayor & Members Of Council	4,744	918	19.4%	0	0	0.0%
Office of the CAO	9,292	1,272	13.7%	(153)	-	0.0%
Planning, Building & Economic Development	29,143	6,479	22.2%	(25,009)	(7,076)	28.3%
Public Works & Engineering	99,534	22,432	22.5%	(15,260)	(895)	5.9%
Transit	180,180	29,820	16.6%	(100,579)	(10,380)	10.3%
Grand Total	766,902	239,868	31.3%	(766,902)	(374,968)	48.9%

The 2021 First Quarter results are in line with historical trends; for example, the 2020 First Quarter (prior to the impacts of the pandemic) resulted in a similar 29.4% of expenditures incurred and 48.0% of revenues recognized.

This consistency to pre-pandemic levels is primarily due to the receipt of \$23.5 million under Phase 3 for of the Safe Restart Agreement Transit Stream as at March 31st, 2021 to offset operational pressures and losses between April 1st, 2021 and December 31st, 2021. This simultaneously increased revenues when the stream of funding was received from the Ministry of Transportation (MTO) and increased expenditures as the funding was contributed to City reserves.

2021 OPERATING COMPARATIVE FIRST QUARTER TRENDS

	% OF ANNUAL BUDGET		
	2021 Q1 Results	2021 Q1 (excluding Phase 3 SRA Funding)	2020 Q1 Results (pre-pandemic)
Labour Expenditures	19.5%	19.5%	23.4%
Other Expenditures	47.5%	40.3%	37.5%
Total Expenditures	31.3%	28.2%	29.4%
Revenues	48.9%	45.9%	48.0%

In terms of projections for the 2021 operating budget, early indications suggest that the 2021 operating variances continue to follow the results from 2020 as discussed below.

Labour expenditures are 19.5 % of the 2021 budget, whereas the historical average has been approximately 23%. This decline in spending is predominantly due to lower labour, part-time labour and overtime expenditures in Recreation, Transit and Parks Maintenance.

Other Expenditures are 40.3% of the 2021 budget, which is trending higher than prior years, mostly as a result of a higher contribution to reserves in relation to the budget as well emergency measures costs related to the pandemic of \$1.0 million incurred to date.

Revenues recognized are at 45.9% of the 2021 Budget which is trending lower than 2020; predominantly driven by Recreation which has seen 0% of revenue in the first quarter, compared to the prior year of 18.5% and Transit which has recognized 10.3% as at the first quarter which is also trending lower than the 18.4% recognized in the same time frame last year.

The Federal and Provincial governments have committed \$79.0 million in funding to date, through Phase 2 and 3 of the Safe Restart Agreement and the 2021 COVID-19 Recovery Funding for Municipalities. Considering this commitment, the City is well situated to manage 2021 Operational losses as a result of the pandemic. Staff continue to monitor the implications of the pandemic on the 2021 budget and will be conducting more detailed analysis and projections for the Second and Third Quarter Forecast reports, as a clearer picture of the annual variances become available.

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 balance as at March 31, 2021 is negative \$6.1 million as a result of using the reserve to fund 2021 eligible projects as approved through the 2021 Capital Budget. The reserve will be replenished as transfers are made from the Region of Peel which is anticipated at \$22 million per year growing at the rate of inflation.

Debt Repayment Reserve

The Debt Repayment Reserve established in 2018, has a balance of \$11.0 million, as at March 31, 2021.

The 2021 Operating Budget included approval of \$2.8 million in annual debt repayments;

- \$1.7 million related to a 25-year debenture of \$26 million, for the Fire and Emergency Services Campus
- \$1.1 million as part of a three-year phase in approach to align tax supported debt repayments with the expected project delivery of the Transit Maintenance and Storage Facility. This is based on a 30-year debenture of \$20 million anticipated to be issued in 2021. Total external debt requirement for this initiative totals \$60.1 million.

Debt financing for the Centre of Innovation which was estimated at \$107.5 million was adjusted in the 2021 budget to align tax supported debt repayments with expected project delivery. This resulted in a reduction of \$1.9 million.

To date the Region of Peel has issued debentures on the City's behalf in the amount of \$26 million to meet cash flow requirements for the construction of the Fire and Emergency Services Campus. The City is anticipating a further issuance of \$20 million in the third quarter of 2021 to support the design phase of the Transit Maintenance & Storage Facility.

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 into how they would meet the needs of servicing new growth.

The use of development charges to fund growth-related capital projects is heavily legislated by the *Development Charges Act, 1997*. DC funding of capital projects is

scrutinized on an annual basis through the City's Budget exercise, on a project-by-project basis to ensure that the funds are utilized for the purposes for which they were collected. DC reserve funds are currently in a surplus position of \$13.1 million, as at March 31, 2021.

Building Rate Stabilization Reserve Fund

As at March 31, 2021, 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 March 31, 2021, there was a balance in the Cash in Lieu of Parkland of \$109.9 million. Through the 2021 Capital Budget \$12.5 million was committed from this reserve to support Community Living and Park Land Over Dedication and has been drawn from the reserve as at March 31, 2021. 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 March 31, 2021, there was a negative balance in the Land Proceeds Reserve of \$30.1 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 2021 Operating Budget has been approved at \$766.9 million, resulting in a GRS reserve target of \$76.7 million.

The General Rate Stabilization reserve (GRS) balance as at March 31, 2021 was \$80.8 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 \$72.1 million, which is \$4.6 million less than the Council approved target of \$76.7 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 March 31, 2021, the uncommitted balance in the Interest Rate Stabilization Reserve Fund (IRS) is \$3.0 million.

The IRS was established through the sale of Brampton Hydro in 2002 with the purpose of stabilizing fluctuations in interest rates.

At the time of the sale, it was estimated that approximately \$9.0 million in investment income would be earned from the Legacy and Community Investment Fund which had a reserve balance of \$200 million. Over time as internal loans were made against the Community Investment Fund and interest rates started to lower, the need to stabilize the fluctuations in investment income became more prevalent and larger draws were made from the IRS to minimize the impact to taxpayers or the GRS.

2020 was an unprecedented year as a result of the pandemic. In March 2020, Bank of Canada had cut interest rate three times, each time by 50 basis points moving from 1.75% to 0.25%. The 2021 budget estimated that interest rates would remain low and that the operating budget would again require stabilization from the IRS to minimize property tax impacts.

The IRS is expected to be exhausted in 2021 which will result in a funding pressure for the 2022 budget. Staff are currently reviewing alternative funding options and will advise through the 2022 operating budget 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 2 provides a financial status update on these strategic reserves:

TABLE 2: STRATEGIC RESERVES - FINANCIAL STATUS UPDATE

	AMOUNT \$ M	LEGACY	COMMUNITY INVESTMENT	COMMUNITY DIVIDEND
Original Balance (1)	230.0	100.0	100.0	30.0
Spending & Commitments, as at March 31, 2021	(98.0)	(7.6)	(60.4)	(30.0)
Uncommitted Balance, as at March 31, 2020	132.0	92.4	39.6	-
Pending Strategic Initiatives: \$42.7 M remaining for Ryerson University and \$2.4 M for Algoma University	(52.5)			
STRATEGIC RESERVES AVAILABLE BALANCE	79.5			

(1) Investment income from these strategic reserves is included as a reserve source in the operating budget. 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 \$3.6 million has been contributed by March 31, 2021. Of the \$7.3 million for Algoma University, \$4.9 million has been contributed by March 31, 2021.
- To date, the Legacy Fund has generated \$90.7 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 has historically been used to provide internal loans for projects, with repayments funded through property taxes. Through the 2021 Budget this loan repayment mechanism was eliminated resulting in foregoing \$35.6 million in loan repayments to the CIF and in tandem reducing property tax pressures. The 2021 Capital Budget committed \$11.4 million through a project for the site servicing of the CAA lands and on March 3, 2021 Council approved \$0.5 million for the Golden Age Village for The Elderly (GAVE) initiative. As at March 31, 2021 the balance in the reserve is \$39.6 million.

- 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:

As at March 31, 2021, the City has incurred expenditures of \$239.9 million, or 31.3%, of the \$766.9 million expenditure budget. Revenues of \$375.0 million have been recognized of the \$766.9 million revenue budget.

When excluding the financial impacts of the Phase 3 Safe Restart funding received in 2021; expenditures incurred are 28.2% and revenues recognized are 45.9% of the 2021 budget, which is trending below the prior year 2020 first quarter results.

Staff continue to monitor the implications of the pandemic on the 2021 budget and will be conducting more detailed analysis and projections for the Second and Third Quarter Forecast reports, as a clearer picture of the annual variances become available.

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Attachments:

Schedule A: Reserve and Reserve Fund Balances