BRAMPTON

Report
Staff Report
Committee of Council
The Corporation of the City of Brampton
2021-09-22

Date: 2021-09-17

Subject: **2021 Second Quarter Operating Budget and Reserve Report**

Contact: **Mark Medeiros,** Treasurer (Acting)
mark.medeiros@brampton.ca 905-874-2520

Report Number: Corporate Support Services-2021-1029

Recommendations:

1. That the report titled "**2021 Second Quarter Operating Budget and Reserve Report**" to the Committee of Council Meeting of September 22nd be received;

Overview:

2021 Operating Budget

- **Based on operating results as at June 30, the Corporation is forecasting a year-end operating deficit of $38.2 million. This variance represents 5.0% of total budgeted expenditures of $766.9 million.**
- **Of this deficit $27.6 million is related to operational losses realized by Transit and the remaining $10.6 million is as a result of all other City operations, deemed 'Municipal' losses to align with the Federal-Provincial streams of relief funding.**
- **The 2021 projected operating budget deficit of $38.2 million is primarily due to revenue losses of $78.2 million and additional COVID-19 emergency measure costs of $10.7 million, partially offset by $50.7 million in operational cost savings and mitigating measures.**
- **In comparison to the prior year, the pandemic impacted the City's finances for approximately 9 months, leading to a total deficit of $52.3 million or $5.8 million per month in 2020. The 2021 year-end forecast is projecting a monthly operating loss of $3.2 million, which is an improvement of 45% or $2.6 million per month over the prior year,**

mostly as a result of recuperating revenues through increased planning and development fees and payment of property tax arrears penalty fees.

- **Considering the Provincial and Federal Government's commitment to support municipalities through the pandemic, staff anticipate that relief funding committed and received to date will be sufficient to offset the projected 2021 deficit as illustrated in Table 4.**

- **In the event that final year end deficit surpasses the eligible availability of relief funding, the General Rate Stabilization Reserve (GRS) will be drawn upon to balance the operating budget.**

- **The General Rate Stabilization reserve (GRS) balance as at June 30, 2021 was $89.6 million net of commitments, including $16.1 million of relief funding provided by other levels of government to be used to offset future operational losses. Excluding the relief funding from the GRS balance results in an amount of $73.5 million, which is $3.2 million less than the Council approved target of $76.7 million.**

- **Staff will continue to monitor the current situation and consider the impact and assumptions driving Q2 variances as part of developing the 2022 budget.**

Reserves / Reserve Funds

- **Historically, the City's quarterly financial reporting on reserves and reserve funds consisted of providing uncommitted balances that were available for future use, as at the date of the financial reporting period (Q1 - Q4).**

- **In an effort to improve transparency and provide forward looking guidance related to reserves and reserve funds, staff have initiated processes to forecast year-end reserve balances as part of the quarterly financial reports (Schedule A). In addition, Schedule A includes cash balances of each reserve, the commitments approved to-date by Council against those reserves and the uncommitted balances available for future use.**

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 2021 operating budget and reserves balances.

Since March 2020 when the COVID-19 pandemic was declared, the City of Brampton has responded to fluctuating impacts of the pandemic by aligning levels of service with the changing environment and ensure we are doing our part to limit the spread of COVID-19.

As at June 30th 2021, the City has experienced three waves of the pandemic and several lock down orders, including between the months of January and April of this year. On July 16, 2021 the City entered into Step 3 of Ontario's Roadmap to Reopen which guides the assumptions upon which the City's year-end projections are built on for the second-half of 2021.

Current Situation:

2021 OPERATING BUDGET

Based on operating results as at June 30, the Corporation is forecasting a year-end operating deficit of $38.2 million. This variance represents 5.0% of total budgeted expenditures of $766.9 million.

Of this deficit $27.6 million is related to operational losses realized by Transit; ($20.4 million as a result of base operating losses and $7.2 million as a result of Covid-19 emergency measures costs). The remaining $10.6 million is as a result of all other City operations, deemed 'Municipal' losses to align with the Federal-Provincial streams of relief funding.

The following tables summarize the 2021 Operating Budget forecasted year-end results, which includes a departmental breakdown of the deficit, along with highlighting specific variances that are deemed materially significant to the Corporation.

TABLE 1: 2021 OPERATING BUDGET FINANCIAL SUMMARY

OPERATING VARIANCE:	Annual Net Budget	Q2 YE Projection	(Favourable) / Unfavourable Variance	
Departments		**($000s)**		**%**
Public Works & Engineering	84,644	84,234	(410)	0%
Transit	80,060	100,500	20,440	26%
Community Services	73,327	74,439	1,112	2%
Corporate Support Services	65,252	61,412	(3,841)	-6%
Fire & Emergency Services	82,364	81,038	(1,326)	-2%
Legislative Services	10,712	13,428	2,716	25%
Brampton Public Library	18,802	18,802	-	0%
Office of the CAO	9,225	6,327	(2,898)	-31%
Mayor & Members Of Council	4,744	4,193	(551)	-12%
Planning, Building & Economic Development	4,288	(1,634)	(5,921)	-138%
Gapping	(13,600)	-	13,600	-100%
DEPARTMENTAL VARIANCE : DEFICIT			**22,920**	
GENERAL GOVERNMENT VARIANCE: DEFICIT			**15,274**	
CORPORATE VARIANCE: DEFICIT			**38,194**	

Note: COVID-19 additional emergency measure costs are tracked in General Government; of the $15.3 million deficit, $10.7 million is as a result of these additional expenditures.

TABLE 2: 2020 OPERATING BUDGET VARIANCES

OPERATING VARIANCE:	2021 Q2 YEAR-END FORECAST
Revenue Loss	78,190
Emergency Measures Costs	10,675
Operational Savings and Mitigation Measures	(50,671)
Deficit Offset - Funding Received*	**(38,194)**
CORPORATE VARIANCE: DEFICIT	**-**
MAJOR VARIANCES	**Q2 YEAR-END FORECAST**
Transit reduced revenues	39,579
Recreation Reduced Revenue	27,002
COVID-19 Emergency Measures Costs	10,675
Supplemental Taxes	3,700
POA Reduced Revenues	3,191
Investment income loss	2,784
Performing Arts Reduced Revenue	2,544
Other	3,834
Environment & Development Engineering Reduced Revenue	1,735
Ride Sharing reduced revenue	937
Parks Non-Labour Expenditures Savings	(2,343)
Tax Penalties & Interest Revenue	(2,845)
Performing Arts Non-Labour Expenditures Savings	(3,732)
Recreation Non-Labour Expenditures Savings	(4,499)
Transit Non-Labour Expenditures Savings	(5,009)
Development Services Revenue Surplus	(6,050)
Labour Savings	(33,309)
CORPORATE VARIANCE: DEFICIT	**38,194**
***Funding Received - Deficit Offset:**	
Safe Restart Funding & 2021 CRFM - Municipal Stream	(10,595)
Safe Restart Funding - Transit Stream	(27,599)
NET CORPORATE DEFICIT	**$ -**

Deficit Summary

The 2021 year-end results are projected to be in a deficit position of $38.2 million; primarily based on revenue losses of $78.2 million and additional COVID-19 emergency measure costs of $10.7 million, partially offset by $50.7 million in operational cost savings and mitigating measures.

Transit's anticipated revenue deficit of $39.6 million which is 39% under budget is driven by reduced capacity on buses and lower ridership demand which resulted in 51% of pre-Covid (2019) ridership in the first half of 2021. An assumption of 60% ridership is anticipated in the second half of 2021 based on the anticipation of actual ridership uptake to 60% of pre-Covid (2019) levels in July and August of this year.

Recreation revenue losses are the second largest contributor of the deficit with a projected loss of $27.0 million primarily driven by the City's obligation to close Recreation facilities during the Ontario wide lock downs imposed in 2021. This resulted in the inability to recoup user fee revenues from typically scheduled programs and facility rentals. With the province moving into Step 3 of the Roadmap to Reopen plan, recreation facilities are able to operate with a 50% capacity limit as of July 16 2021. Given this allowance, staff anticipate a 40% capacity rate on delivered programs for the second-half of 2021.

Emergency measures costs are anticipated to total $10.7 million by 2021 year-end. These costs are attributable to the City's ongoing efforts to provide safe options for residents and staff through: enhanced cleaning and sanitization; personal protective equipment, additional rental of vehicles to maintain social distancing for support of city services and contracted janitorial and security services for city facilities and transit terminals. Overtime and COVID-19 sick credits provided to Transit frontline staff are also included.

$50.7 million in operational savings and mitigating measures is projected to offset the significant revenue loss and additional costs incurred due to the pandemic. $33.3 million is due to labour related savings throughout the Corporation, while the remaining $17.4 million in non-labour expenditures savings is directly related to reduced operational capacity in response to the pandemic.

The 2021 Projected Deficit is anticipated to be $38.2 million which is $14.1 million less than the 2020 Year-End Deficit of $52.3 million as illustrated in Table 3. The main driver is the recuperation of revenues and fees in 2021 vs. 2020 of $14.1 million as a result of increased planning and development agreement fees and payment of property tax arrears penalty fees.

In order to compare and evaluate the degree of financial severity this pandemic has had over time; the monthly loss figures for both the 2020 and 2021 fiscal periods are provided. For 2021, the 2nd Quarter forecast translates to an anticipated loss of 3.2 million per month vs. $5.8 million in 2020, which is an improvement of $2.6 million or 45% year over year. Table 3 provides additional details regarding this comparison.

Table 3: 2021 Projected Deficit vs. 2020 Year-End Actuals Deficit

OPERATING VARIANCE:	2020 YEAR-END ACTUALS	2021 Q2 YEAR-END FORECAST	VARIANCE
Revenue Loss	92,337	78,190	(14,146)
Emergency Measures Costs	13,575	10,675	(2,900)
Operational Savings and Mitigation Measures	(53,634)	(50,671)	2,962
Deficit Offset - Funding Received*	**(52,278)**	**(38,194)**	**14,084**
CORPORATE VARIANCE: DEFICIT	**-**	**-**	**-**
	9 months (April - Dec 2020)	**12 months (Jan - Dec 2021**	**VARIANCE**
Average Monthly Deficit	(5,809)	(3,183)	2,626

Deficit Management

To date, the total eligible funding to offset 2021 operational losses and pressures as a result of COVID-19 is $61.9 million, approximately $23.4 million for municipal pressures and $38.5 million for transit specific pressures. Considering the Provincial and Federal Government's commitment to support municipalities through the pandemic, staff anticipate that relief funding committed and received to date will be sufficient to offset the projected 2021 deficit of $38.2 million as illustrated in Table 4.

Table 4: 2021 COVID-19 Federal-Provincial Funding Relief

	ELIGIBILITY PERIOD	MUNICIPAL STREAM	TRANSIT STREAM	TOTAL
Announced Funding Eligibility or Future Receipt				
Safe Restart Agreement - Phase 2 Claim	2020-2021	-	13,043	**13,043**
Safe Restart Agreement - Phase 3 Receipt	2021	-	23,493	**23,493**
2021 COVID-19 Recovery Funding for Municipalities Eligibility	2021	14,698	-	**14,698**
Municipal Transit Enhanced Cleaning Fund Receipt	2021		602	**602**
Total Announced / Pending		**14,698**	**37,138**	**51,836**
2020 Funding in City Reserves		8,741	1,381	**10,122**
Total Relief Funding Eligibile for 2021		**23,439**	**38,519**	**61,957**

	MUNICIPAL	TRANSIT	TOTAL
2021 Deficit Management			
2021 Projected Deficit	(10,595)	(27,599)	(38,194)
2021 Available Relief Funding	23,439	38,519	61,957
Remaining Relief Funding (To remain in City Reserves)	**12,844**	**10,920**	**23,763**

Of the $61.9 million in eligible 2021 relief funding; $10.1 million was received in 2020 and is currently residing in City Reserves for use in 2021. The remaining $51.8 million has been committed and anticipated to be received by the end of 2021.

As part of the Phase 2 Safe Restart Agreement Transit stream, the City was eligible to receive $30.1 million, however only a portion of this was claimed at $13.1 million representing transit operational losses between October 1 2020 and March 31 2021. Staff continue to advocate for the $17.0 million unclaimed eligibility of Phase 2 in preparation of continued operational losses that Transit may incur as the pandemic continues into the future.

Assuming the 2021 deficit of $38.2 million materializes and is offset by the $61.9 million in Federal/Provincial funding, the City would have a remaining balance of $23.8 million in reserves for 2022 and beyond, of which $12.8 million would be earmarked for municipal stream operating pressures and $10.9 million for transit.

In the event that final year end deficit surpasses the eligible availability of relief funding, the General Rate Stabilization Reserve (GRS) will be drawn upon to balance the operating budget.

The primary purpose of the GRS reserve is to smooth financial impacts in the event of an economic downturn or extraordinary situations. Council's commitment to maintain the General Rate Stabilization reserve balance at an industry best practice of 10% of operating expenditures, provides assurance to our residents and businesses that the City is well positioned to manage the financial impacts of this pandemic.

RESERVES AND RESERVE FUNDS (Schedule A)

Historically, the City's quarterly financial reporting on reserves and reserve funds consisted of providing uncommitted balances that were available for future use, as at the date of the financial reporting period (Q1 - Q4).

In an effort to improve transparency and provide forward looking guidance related to reserves and reserve funds, staff have initiated processes to forecast year-end reserve balances as part of the quarterly financial reports (Schedule A). In addition, Schedule A includes cash balances of each reserve, the commitments approved to-date by Council against those reserves and the uncommitted balances available for future use.

With respect to the stability and health of the City's reserves and reserve funds over time, the following chart illustrates the total year-end balances available for future use at the end of the prior two fiscal periods (2019 & 2020), in addition to the projected year-end balance for 2021.

	Net Balance Available			
	Year-End	Year-End	Q2	Year-End Projection
	2019	2020	2021	2021
Discretionary Reserve Funds	288,284	262,790	238,054	252,391
Obligatory Reserves Funds	259,927	328,413	287,075	326,283
Total Reserve Funds	**548,211**	**591,203**	**525,129**	**578,673**
Less: Covid Relief Funding		(10,122)	(41,566)	(23,764)
Net Total Reserve Funds	**548,211**	**581,081**	**483,563**	**554,909**

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 Stormwater Fund is projected to receive approximately $22 million per year from the Stormwater Charge, growing at the rate of inflation. The balance as at June 30, 2021 is $0.5 million, subsequent to funding the approved 2021 Capital Budget.

Debt Repayment Reserve

The Debt Repayment Reserve established in 2018, has a balance of $11.1 million, as at June 30, 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 $60.1 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 legislated by the *Development Charges Act, 1997*. DC funding of capital projects is evaluated on an annual basis through the City's Budget process, 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 $37.4 million, as at June 30, 2021.

Building Rate Stabilization Reserve Fund

As at June 30, 2021, the balance in the Building Rate Stabilization Reserve Fund was $40.1 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 June 30, 2021, there was a balance in the Cash in Lieu of Parkland of $89.3 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 June 30, 2021, there was a negative balance in the Land Proceeds Reserve of $30.3 million. This reserve serves as a cash flow-through fund to support strategic opportunities under the Real Estate Modernization Strategy. As projects are developed to utilize the properties purchased through this strategy, permanent funding sources will be recommended to Council 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 June 30, 2021 was $89.6 million net of commitments. Within this balance is $16.1 million of relief funding; $8.7 million of which was carried over from Phase 1 and 2 of the Safe Restart Agreement municipal stream in 2020 and $7.4 million (50%) of the $14.7 million 2021 COVID-19 Recovery Funding for Municipalities program. Once this amount is excluded, the GRS balance sits at $73.5 million, which is $3.2 million less than the Council approved target of $76.7 million.

Interest Rate Stabilization Reserve Fund

As at June 30, 2021, the uncommitted balance in the Interest Rate Stabilization Reserve Fund (IRS) is $3.1 million.

The IRS was established from the portion of funds from 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 projected to be fully 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: 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 June 30, 2021	(100.5)	(7.1)	(63.4)	(30.0)
Uncommitted Balance, as at June 30, 2020	**129.5**	**92.9**	**36.6**	**-**
Pending Strategic Initiatives: $46.4 M remaining for Ryerson University (including Cybersecure Catalyst) and $2.4 M for Algoma University	(48.8)			
STRATEGIC RESERVES AVAILABLE BALANCE	**80.7**			

(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 $3.6 million has been contributed by June 30, 2021. Of the $7.3 million for Algoma University, $4.9 million has been contributed by June 30, 2021.

- To date, the Legacy Fund has generated $91.2 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. $10.2 million in outstanding internal loans to Development Charges remains. In addition the 2021 Capital Budget committed $11.4 million through a project for the site servicing of the CAA lands, Council approved $0.5 million for the Golden Age Village for The Elderly (GAVE) initiative and $4.0 million for the Housing Catalyst Project. As at June 30, 2021 the balance in the reserve is $36.6 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 June 30, the Corporation is forecasting a year-end operating deficit of $38.2 million. This variance represents 5.0% of total budgeted expenditures of $766.9 million.

To date, the total eligible funding to offset 2021 operational losses and pressures as a result of COVID-19 is $61.9 million; $23.4 million for municipal pressures and $38.5 million for transit specific pressures.

Considering the Provincial and Federal Government's commitment to support municipalities through the pandemic, staff anticipate that relief funding committed and received to date will be sufficient to offset the projected 2021 deficit.

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.

Authored by:

Diana Wren, Manager (Acting)

Reviewed by:

Mark Medeiros, Treasurer (Acting)

Approved by:

Michael Davidson, Commissioner,
Corporate Support Services

Submitted by:

David Barrick, Chief Administrative Officer

Attachments:

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