Report
Staff Report
The Corporation of the City of Brampton
2020-09-23

Date: 2020-08-19

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

Secondary Title: Click or tap here to enter text.

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Report Number: Corporate Support Services-2020-134

Recommendations:

1. That the report titled "**2020 Second Quarter Operating Budget and Reserve Report**" to the Committee of Council Meeting of September 23rd be received;

2. That as per resolution BC018-2020.4, the following property tax funded reserves be closed due to redundancy and any remaining balances and/or liabilities be transferred to Reserve 4 (Asset Repair and Replacement):
   a. Civic Centre Restoration (Reserve 10)
   b. Official Plan Review (Reserve 37)
   c. Theatre Capital Improvements (Reserve 58)
   d. Operating Development Charge Contribution (Reserve78)

3. That future initiatives related to the reserves in Recommendation #2, be funded from Reserve 4 (Asset Repair and Replacement);

4. That By-law 90-94, as amended, created to establish a Brampton Theatre Capital Improvements Reserve Fund, be repealed

Overview:

2020 Operating Budget

- **Based on operating results as at June 30, the Corporation is forecasting a year-end operating deficit of $57.7 million. This variance represents 7.7% of total budgeted expenditures of $753.5 million.**

- **The 2020 projected operating budget deficit of $57.7 million is primarily due to the impacts of COVID-19 with anticipated revenue losses of $94.6 million and additional COVID-19 emergency measure costs of $10.2 million which, are partially offset by $47.1 million in operational savings and mitigating measures.**

- **The Ontario government, in partnership with the Federal government announced the first round of emergency funding under the Safe Restart Agreement and the Municipal Transit Enhanced Cleaning (MTEC) fund, providing the City of Brampton with funding of approximately $34.9 million and $0.6 million respectively. The City's projected deficit is anticipated to be offset by this emergency funding, which results in a remaining deficit of $22.2 million.**

- **Staff are working with the Federal and Provincial governments to determine process, timelines and eligibility of the Phase 2 funding available in the Safe Restart Agreement and will continue to advocate for additional funding to offset the remaining projected deficit of $22.2 million.**

- **The General Rate Stabilization reserve (GRS) balance is currently $70.6 million, which is $4.8 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 shortfall of $27.0 million.**

- **While it is difficult to predict the duration of a pandemic and the accompanying actions that are necessary to ensure the safety of residents, staff will continue to monitor the current situation and consider the impact and assumptions driving Q2 variances as part of developing the 2021 budget.**

<u>Reserves / Reserve Funds</u>

- **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 to City finances, resulting in an anticipated deficit for 2020.

In late April, Ontario introduced “A Framework for Reopening Our Province” and Peel Region moved to Stage 2 of reopening on June 24 and Stage 3 (current stage) on July 31. The impact of reopening City Services has been considered by each Department when developing the Q2 Year-End Forecast.

Current Situation:

2020 OPERATING BUDGET

Based on operating results as at June 30, the Corporation is forecasting a year-end operating deficit of $57.7 million. This variance represents 7.7% of total budgeted expenditures of $753.5 million.

The following tables summarize the 2020 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: 2020 OPERATING BUDGET FINANCIAL SUMMARY

OPERATING VARIANCE:	Annual Net Budget	Q2 YE Projection	(Favourable) / Unfavourable Variance	
Departments		**($000s)**		**%**
Public Works & Engineering	86,238	86,907	669	1%
Transit	77,316	95,000	17,684	23%
Community Services	71,118	77,129	6,011	8%
Corporate Support Services	63,049	60,485	(2,564)	-4%
Fire & Emergency Services	80,116	79,769	(348)	0%
Legislative Services	10,426	17,062	6,636	64%
Planning, Building & Economic Development	4,169	5,624	1,455	35%
Mayor & Members Of Council	4,529	4,076	(452)	-10%
Office of the CAO	8,784	7,124	(1,660)	-19%
Brampton Public Library	18,214	16,543	(1,671)	-9%
Gapping	(13,150)	-	13,150	-100%
DEPARTMENTAL VARIANCE : DEFICIT			**38,911**	
GENERAL GOVERNMENT VARIANCE: DEFICIT			**18,791**	
CORPORATE VARIANCE: DEFICIT			**57,702**	

TABLE 2: 2020 OPERATING BUDGET VARIANCES

OPERATING VARIANCE:	YEAR-END PROJECTION
Revenue Loss	94,592
Emergency Measures Costs	10,225
Operational Savings and Mitigation Measures	(47,115)
CORPORATE VARIANCE: DEFICIT	**57,702**
MAJOR VARIANCES	**YEAR-END PROJECTION**
Transit reduced revenues	41,640
Recreation reduced revenues	25,995
COVID-19 Emergency Measures Costs	10,225
POA reduced revenues	6,644
Tax Penalties & Interest Revenue	6,066
Supplemental Taxes	2,400
Development Services Reduced Revenue	2,542
Investment income loss	2,293
Performing Arts Reduced Revenue	1,933
Ride Sharing reduced revenue	1,037
Other	(1,646)
Library Non-Labour Expenditures	(1,671)
Recreation Non-Labour Expenditures	(4,800)
Transit Non-Labour Expenditures	(9,959)
Labour Savings	(24,998)
CORPORATE VARIANCE: DEFICIT	**57,702**

Deficit Summary

The 2020 projected operating budget deficit of $57.7 million is primarily due to the impacts of COVID-19 with anticipated revenue losses of $94.6 million and additional COVID-19 emergency measure costs of $10.2 million which, are partially offset by $47.1 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 73% of revenue losses.

Transit's anticipated revenue deficit of $41.6 million 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 $26.0 million primarily driven by the City's decision to close Recreation facilities, cancel programs and rentals to prevent the spread of the pandemic.

Several other revenue streams have been impacted by COVID-19 including Provincial Offences Act (POA) Revenues of $6.4 million, tax related revenue loss of $8.5 million due to waived tax penalties and delayed supplemental taxes; development services revenue of $2.5 million, investment income of $2.3 million; lost revenue due to unrealized sales of tickets, room and equipment rental of $1.9 million in performing arts and ridesharing revenue losses of $1.0 million due to decreased demand.

The City's response to the pandemic has placed additional emergency measure pressures which is anticipated at approximately $10.2 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 as well as COVID-19 sick credits provided to Transit frontline staff. At year-end, $1.7 million in remaining Transit sick credits will carry into the following year.

$47.1 million in operational savings and mitigating measures is projected to offset the significant revenue loss and additional costs incurred due to the pandemic.

$25.0 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 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 $22.1 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, presto commission fee savings, contracted services and a lower transfer to Library due to hiring freezes and temporary layoffs.

Deficit Management

On August 12th the Ontario government, in partnership with the federal government announced Phase 1 of emergency funding under the Safe Restart Agreement providing the City of Brampton with approximately $34.9 million in relief funds. $24.0 million for the City's transit system to help offset financial pressures related to COVID-19, maintain critical services and protect vulnerable people as the province safely and gradually opens and $10.9 million to help address other municipal operating pressures related to the pandemic.

Phase 2 funding will be available based on expenses incurred by each municipality up to March 31, 2021 and although the exact timing of the second phase funding is unknown, staff are working with the Federal and Provincial governments to determine process, timelines and eligibility and will continue to advocate for additional relief to offset the City's deficit.

The provincial government has also announced an incremental funding program to assist municipal transit agencies by providing funding under the Municipal Transit Enhanced Cleaning (MTEC) fund, which has been confirmed at $0.6 million for the City of Brampton.

Considering the funding committed from the Federal Government and Province of Ontario, the City's projected deficit is anticipated to be offset by Phase 1 funding of the Safe Restart Agreement by $34.9 million and the MTEC fund by $0.6 with the remaining projected deficit of $22.2 million potentially offset by Phase 2 funding. 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**
Q2 Year-End Projected Deficit	(57.7)
Funding Offset:	
Phase 1 - Safe Restart Funding	34.9
Municipal Transit Enhanced Cleaning Fund	0.6
Phase 2 - Safe Restart Funding / GRS	22.2
Net Projected Deficit	**$ -**

The primary purpose of the General Rate Stabilization reserve is to smooth the impacts on City operations in the event of an economic downturn or extraordinary situations such as the one we are currently in. Council's commitment to maintain the General Rate Stabilization reserve 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)

Stormwater Reserve Fund

In the 2020 Operating Budget, the Stormwater fund has been 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 of 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 $10.7 million, as at June 30, 2020.

The City issued debentures in the amount of $26 million in 2019 to meet cash flow requirements for the construction of the Fire and Emergency Services Campus. Annual funding from the Debt Repayment Reserve will be used to repay external borrowing obligations and therefore no incremental impact to property taxpayers is expected over the term of the debenture.

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 are lower than historic averages. DC reserve funds are currently in a surplus position of $26.4 million, as of June 30, 2020.

Building Rate Stabilization Reserve Fund

As at June 30, 2020, the balance in the Building Rate Stabilization Reserve Fund was $40.4 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, 2020, there was a balance in the Cash in Lieu of Parkland of $108.1 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 June 30, 2020, the balance in the General Rate Stabilization reserve was $70.6 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 $70.6 million, which is $4.8 million less than the Council approved target of 10% of operating budget expenditures or $75.4 million.

The COVID-19 pandemic has resulted in a projected deficit of $57.7 million. In lieu of additional funding provided through Phase 2 of the Safe Restart Agreement, the GRS would be the primary source to fund the remaining estimated deficit of $22.2 million in 2020 as illustrated in Table 4.

TABLE 4: 2020 OPERATING BUDGET VARIANCES

General Rate Stabilization Fund (GRS)	$ M
10% of Operating Budget ($754 M)	75.4
Current Balance as at June 30, 2020	70.6
GRS Deficit as at June 30, 2020	(4.8)
GRS Funding in lieu of Phase 2 Safe Restart Funding	(22.2)
GRS Year-End Shortfall (Estimate)	**(27.0)**

Interest Rate Stabilization Reserve Fund

As at June 30, 2020, the uncommitted balance in the Interest Rate Stabilization Reserve Fund was $5.8 million. The balance continues to be drawn upon to fund annual operating shortfalls on budgeted Hydro investment income. Staff recommends the balance continue to be protected for use in mitigating any shortfalls in investment income expected in future years.

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, including the original balance, utilization to date, available balances and known pending commitments:

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 June 30, 2020	(85.2)	(4.8)	(50.4)	(30.0)
Uncommitted Balance, as at June 30, 2020	**144.8**	**95.2**	**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	**92.3**			

(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 June 30, 2020.

- To date, the Legacy Fund has generated $88.1 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 June 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.

Housekeeping Item:

During the 2020 Council Budget Deliberations, resolution BC018-2020.4 directed staff to reduce contribution to reserves by $5.0 million (or approximately 1 percent) from the 2020 operating budget. Table 6 illustrates the reserves impacted by the reduction in contributions;

TABLE 6: 2020 BUDGET REDUCTION IN CONTRIBUTIONS TO RESERVES

RESERVE #	RESERVE DESCRIPTION	REDUCTION $ M
4	Asset Repair & Replacement	(0.033)
10	Corporate Facilities	(0.737)
37	Official Plan Review	(0.150)
58	Theatre Capital Improvements	(0.150)
78	Operating Development Charge Contribution Contribution	(3.930)
		(5.000)

Civic Centre Restoration (Reserve #10)

Established in 1987, this reserve was created to retain funds specifically for renovations to the Civic Centre pursuant to the resolution passed on March 9th 1987. Currently it is used for the repair and renovation of corporate properties which is redundant to the Asset Repair & Replacement Reserve 4 which, going forward is recommended to fund infrastructure related costs for the Civic Centre.

Official Plan Review (Reserve #37)

Established through a council resolution in 1991 by amendment to the development application fee by-law. A fee was to be charged once for each developable land outside of the 1984 Official Plan urban boundary and transferred to a reserve fund until needed for purposes of Official Plan Review studies. The nature of contribution to this reserve has changed where the reserve has been funded through an annual transfer of $120,000 to $150,000 of property tax funding rather than the fees as stated in the 1991 resolution. Going forward Official Plan Review studies are recommended be funded by the Asset Repair & Replacement Reserve.

Theatre Capital Improvements (Reserve #58)

By-Law 90-94 / 123-2000 / 287-2002 / 119-2007 was enacted in 1994 which permits the transfer of Ticket Surcharge revenue ($2 Surcharge on every ticket sold, excluding complimentary tickets, or tickets under $6) to the reserve for the purpose of funding capital improvements to City Theatres. Staff are recommending the closure of this reserve and that the by-law to establish a Brampton Theatre Capital Improvements Reserve Fund, be repealed, with future infrastructure funding requirements funded from the Asset Repair & Replacement reserve (Reserve 4).

Operating Development Charge Contribution (Reserve #78)

Established in 2000, this reserve was created to fund the City's benefit to existing requirement for growth assets, as per the Development Charge Act. As this reserve is funded by property taxes, the purpose is considered redundant and staff recommend that future benefit to existing requirements for growth assets be funded by the Asset Repair and Replacement reserve (Reserve 4), similar to other tax funded capital needs.

Corporate Implications:

Financial Implications:

N/A

Other Implications:

N/A

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 strict adherence to effective financial management policies and supports Brampton's 2040 Vision by ensuring sustainable financial operations.

Conclusion:

Based on operating results as at June 30, the Corporation is forecasting a year-end operating deficit of $57.7 million. This variance represents 7.7% of total budgeted expenditures of $753.5 million.

While it is difficult to predict the direction of a pandemic and the accompanying actions that are necessary to ensure the safety of residents, staff will continue to monitor the current situation and consider the impact and assumptions driving Q2 variances as part of developing the 2021 budget.

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Submitted by:

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Attachments:

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