

**Date:** 2023-01-13

**Subject:** 2022 Third Quarter Reserve Report

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**Report Number:** Corporate Support Services-2023-053

**Recommendations:**

1. That the report titled “**2022 Third Quarter Reserve Report**” to the Committee of Council Meeting of February 1<sup>st</sup> be received;

**Overview:**

- **As at September 30<sup>th</sup>, the Corporation maintains a fund balance of \$1.3 billion, offset by commitments of \$704 million, leading to a net balance available of \$617 million.**
- **Forecasted transactions for Q4 amount to an increase of \$25 million, resulting in a projected year-end net reserve balance available of \$642 million.**
- **Of the projected year-end net reserve balance available of \$642 million, \$343 million is considered discretionary in nature, while \$299 million is Obligatory. The usage of discretionary reserves is solely determined by the direction of Council, while obligatory reserves are required to abide by legislative and/or contractual requirements.**
- **Over the prior 3 fiscal periods, the year-end net reserve balance available ended in \$548 million for 2019, \$581 million for 2020 and \$660 million for 2021.**
- **The projected 2022 year-end net reserve balance of \$642 million, in comparison to the prior 3 fiscal cycles, demonstrates stability and predictability over time, healthy balances available to address future**

**requirements and prudent management of taxpayer funding throughout the recent economic challenges.**

- **Schedule A – Reserve and Reserve Fund Balances, provides an itemized list of the Corporations Reserves, including individual reserve fund balances, commitments, year-end projections and historical comparisons.**

**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 Reserves.

**Current Situation:**

As at September 30<sup>th</sup>, the Corporation maintains a fund balance of \$1.3 billion, offset by commitments of \$704 million, leading to a net balance available of \$617 million.

Forecasted transactions for Q4 amount to an increase of \$25 million, resulting in a projected year-end net reserve balance available of \$642 million.

Of the projected year-end net reserve balance available of \$642 million, \$343 million is considered discretionary in nature, while \$299 million is Obligatory. The usage of discretionary reserves is solely determined by the direction of Council, while obligatory reserves are required to abide by legislative and/or contractual requirements.

As illustrated below, the year-end net reserve balance available ended in \$548 million for 2019, \$581 million for 2020 and \$660 million for 2021.

	Net Balance Available				
	Year-End	Year-End	Year-End	Post Commitment	YE Projection Net Balance Available
	2019	2020	2021	Q3 2022	2022
Discretionary Reserve Funds	288,284	262,790	322,506	338,955	343,273
Obligatory Reserves Funds	259,927	328,413	367,406	278,041	298,720
<b>Total Reserve Funds</b>	<b>548,211</b>	<b>591,203</b>	<b>689,911</b>	<b>616,996</b>	<b>641,992</b>

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available to address future requirements and prudent management of taxpayer funding throughout the recent economic challenges.

Schedule A – Reserve and Reserve Fund Balances, provides an itemized list of the Corporations Reserves, including individual reserve fund balances, commitments, year-end projections and historical comparisons.

## **RESERVE HIGHLIGHTS**

The Reserve Highlights section provides details and context around several of the Corporations materially significant reserves.

### ***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 over \$24 million in 2022 with the option to escalate at the rate of inflation. The balance as at September 30, 2022 is currently \$11.9 million, net of commitments, including the approved 2022 capital budget, with a year-end net balance available projection of \$24.6 million.

### ***Debt Repayment Reserve***

The Debt Repayment Reserve established in 2018, is projected to maintain a net year-end balance available of \$12.5 million.

The 2022 Operating Budget included approval of \$2.8 million in annual debt repayments;

- \$1.8 million related to a 25-year debenture of \$26 million, for the Fire and Emergency Services Campus
- \$1.1 million as part of a phased 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 \$46 million to meet cash flow requirements for the construction of the Fire and Emergency Services Campus and 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 \$51.9 million, net of commitments, as at September 30, 2022.

### ***Building Rate Stabilization Reserve Fund***

As at September 30, 2022, the balance in the Building Rate Stabilization Reserve Fund was \$43.2 million, which provides assurance against a future short-term downturn in building activity. The City is obligated to transfer any surplus resulting from building related operations to this reserve fund in accordance with the requirements of Bill 124 (*Building Code Statute Law Amendment Act, 2002*).

### ***Cash In Lieu of Parkland***

As at September 30, 2022, there was a balance in the Cash in Lieu of Parkland of \$115.1 million. Staff continue 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 September 30, 2022, there was a negative balance in the Land Proceeds Reserve of \$30.6 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 2022 Operating Budget has been approved at \$785.0 million, resulting in a GRS reserve target of \$78.5 million.

The General Rate Stabilization reserve (GRS) balance as at September 30, 2022 is \$107.1 million net of commitments, which includes \$30.2 of the remaining COVID relief funding.

As per the 2022 Q3 Year-End Operating Report, the Corporation is projecting an operating deficit of \$5.7 million, along with utilizing \$4.6 million from the available COVID relief funding, leading to a combined draw from the GRS of \$10.3 million. Adjusting for the year-end operating deficit, along with other known factors, the GRS year-end net balance available is projected at \$97.1 million, including \$26.5 million of COVID relief funding.

It is important to note that excluding the remaining COVID relief funding of \$26.5 million from the projected year-end balance of \$97.1 million, results in a net balance available of \$70.6 million, which is \$7.9 million less than the Council approved target of \$78.5 million.

### ***Interest Rate Stabilization Reserve Fund***

At the December 8th, 2021 Special Council meeting, Council approved the report “Interest Rate Stabilization Reserve Status Update”, which recommended \$13.3 million be transferred to the Interest Rate Stabilization Reserve, from Reserve #3 – Workers’ compensation fund and Reserve #19 – Employee Ben. Prem. Rate Stabilization as part of the 2022 Budget and that the annual budget adjustments are made over an 8-year period to permanently eliminate this deficit.

The 2022 projected year-end net balance available is \$9.2 million. Staff have included an adjustment in the upcoming budget in order to achieve the elimination of the investment income deficit by 2030, as approved by Council.

### ***Strategic Reserves***

The City’s strategic reserves are comprised of Reserve #100 – Legacy Fund and Reserve #110- Community Investment Fund.

As at September 30, 2022, the combined uncommitted balance available in the strategic reserves is \$136.3 million. After accounting for future commitments that have been endorsed by Council, the amount available in strategic reserves is \$86.5 million.

Schedule B: Strategic Reserves Status provides a detailed continuity schedule of the strategic reserves, including the original beginning balance, amounts and initiatives that have utilized these reserves to date and any known future commitments.

To date, the strategic reserves have generated \$222.1 million in external and internal interest revenue since the inception of the fund. Of this, \$183.6 million has been transferred to the operating fund to offset tax levy requirements and the balance was transferred to the Interest Rate Stabilization Reserve Fund.

**Corporate Implications:**

Financial 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 revenues.

**Conclusion:**

As at September 30<sup>th</sup>, the Corporation maintains a fund balance of \$1.3 billion, offset by commitments of \$704 million, leading to a net balance available of \$617 million. Forecasted transactions for Q4 amount to an increase of \$25 million, resulting in a projected year-end net reserve balance available of \$642 million.

The projected 2022 year-end net reserve balance of \$642 million, in comparison to the prior 3 fiscal cycles, demonstrates stability and predictability over time, healthy balances available to address future requirements and prudent management of taxpayer funding throughout the recent economic challenges.

Authored by:

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Rick Conard, (Acting) Commissioner, Corporate Support Services

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Marlon Kallideen, Chief Administrative Officer

**Attachments:**

- Schedule A: Reserve and Reserve Fund Balances and Year-End Projection
- Schedule B: Status of Strategic Reserves