

**Date:** 2023-06-01

**Subject:** **2023 First Quarter Reserve Report**

**Contact:** Nash Damer, Treasurer, Finance

**Report Number:** Corporate Support Services-2023-511

**Recommendations:**

1. That the report from Nash Damer, Treasurer, Finance to the Committee of Council Meeting of June 21, 2023 re: **2023 First Quarter Reserve Report**, be received;

**Overview:**

- **As at March 31<sup>st</sup>, 2023, the Corporation maintained a fund balance of \$1.4 billion, offset by commitments of \$905 million, leading to a net balance available of \$453 million.**
- **Forecasted reserve transactions for the remainder of the year amount to an increase of \$192 million, leading to a projected year-end net reserve balance available of \$645 million. These forecasted transactions consist of revenue expectations related to Development Charges, Canada Community Building Fund and Provincial Gas Tax, along with Council approved contributions to and from reserves from the Operating Budget, such as the Infrastructure Levy, Transit Levy and Stormwater Charge.**
- **Of the projected year-end net reserve balance available of \$645 million, \$322 million is considered discretionary in nature, while \$323 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 \$591 million for 2020, \$690 million for 2021 and \$677 million for 2022.**

- **The 2023 year-end net reserve balance of \$645 million is in line with the prior 3 fiscal cycles, demonstrating 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 Corporation’s 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 March 31st, 2023, the Corporation maintained a fund balance of \$1.4 billion, offset by commitments of \$905 million, leading to a net balance available of \$453 million.

Forecasted reserve transactions for the remainder of the year amount to an increase of \$192 million, leading to a projected year-end net reserve balance available of \$645 million. These forecasted transactions consist of revenue expectations related to Development Charges, Canada Community Building Fund and Provincial Gas Tax, along with Council approved contributions to and from reserves from the Operating Budget, such as the Infrastructure Levy, Transit Levy and Stormwater Charge.

Of the projected year-end net reserve balance available of \$645 million, \$322 million is considered discretionary in nature, while \$323 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.

Table 1 below provides a summary of the net balance available in reserves for 2023, along with historical comparison to the prior 3 fiscal cycles.

**TABLE 1: RESERVE NET BALANCE AVAILABLE SUMMARY AND HISTORICAL COMPARISON**

	Net Balance Available			
	Year-End	Year-End	Year-End	Year-End Forecast
	2020	2021	2022	2023
Discretionary Reserve Funds	262,790	322,506	339,986	322,104
Obligatory Reserves Funds	328,413	367,406	337,097	322,847
<b>Total Reserve Funds</b>	<b>591,203</b>	<b>689,911</b>	<b>677,083</b>	<b>644,951</b>

The 2023 year-end net reserve balance of \$645 million is in line with the prior 3 fiscal cycles, demonstrating 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 Corporation’s 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 Corporation’s 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 approximately \$24.4 million per year from the Stormwater Charge, growing at the rate of inflation. The balance as at March 31, 2023 is currently at \$4.4 million, net of commitments, including the recently approved 2023 capital budget, with a year-end net balance available projection of \$24.2 million.

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

The Debt Repayment Reserve established in 2018, has a balance of \$12.7 million, as at March 31, 2023.

The 2023 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 \$37.4 million, net of commitments, as at March 31, 2023, with a projected year-end net balance available of \$81.2 million.

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

As at March 31, 2023, the balance in the Building Rate Stabilization Reserve Fund was \$33.6 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, 2023, there was a balance in the Cash in Lieu of Parkland of \$105.5 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 March 31, 2023, there was a negative balance in the Land Proceeds Reserve of \$33.8 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 2023 Operating Budget has been approved at \$845.0 million, resulting in a Council approved GRS reserve target of \$84.5 million.

The General Rate Stabilization reserve (GRS) net balance available as at March 31, 2023 is \$94.8 million, with a forecasted net year-end balance available of \$91.7 million.

Within the \$91.7 million year-end net balance forecasted is \$22.8 million of Federal-Provincial Relief funding. Excluding the Federal-Provincial amount leads to a year-end net balance of \$68.9, which is \$15.6 million less than the Council approved target of \$84.5 million.

***Interest Rate Stabilization Reserve Fund***

As at March 31, 2023, the Interest Rate Stabilization Reserve Fund (IRS) has a net balance available of \$9.7 million, with a year-end forecasted net balance available of \$6.1 million.

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, as part of the 2022 Budget and that annual budget adjustments are made over an 8-year period to permanently eliminate this deficit.

The 2023 budget included an adjustment to achieve the elimination of the investment income deficit by 2030, as approved by Council. Staff will continue to closely monitor the interest rate stabilization reserve each quarter and ensure that the 8-year plan approved by Council achieves the intended goal.

## ***Strategic Reserves***

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

As at March 31<sup>st</sup>, 2023, the combined uncommitted balance available in the strategic reserves is \$127.5 million. After accounting for future commitments that have been endorsed by Council, the amount available in strategic reserves is \$92.3 million.

Schedule B: Status of Strategic Reserves 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 \$222.7 million in external and internal interest revenue since the inception of the fund. Of this, \$186.3 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:**

N/A

### **Term of Council Priorities:**

This report achieves the Strategic Plan priority of Good Government by practicing proactive effective management of finances, policies and service delivery.

### **Living the Mosaic – 2040 Vision**

This report has been prepared in full consideration of the overall visions that the people of Brampton will 'Live the Mosaic'.

### **Conclusion:**

To improve transparency and provide forward-looking guidance related to reserves and reserve funds, staff will continue to monitor the reserve and reserve funds as part of the quarterly financial reports.

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**Attachments:**

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