Financial Review
of the City of Brampton

Presentation to Council

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Interim Auditor General
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Mandate and Timing

- By-law passed Dec 17th appointing me as interim Auditor General. Mandate:
  - High level assessment of Brampton's financial condition
  - Trend over last 5-10 years
- Report due by Jan 30th
- Good cooperation from City staff
- Engaged experienced Chartered Accountant Louis Kan to assist me

Some Good News

- Excellent liquidity: $830 million cash and marketable investments (as much as $350 million may be relatively ‘free’ excluding future infrastructure commitments)
- S&P triple ‘AAA’ credit rating (although rating downgraded last year from ‘AAA stable’ to ‘AAA negative’)
- A diverse and growing economy / population
- Historically (until the SWQ financing) City has funded growth without the use of ‘debt’
- Brampton has the fiscal capacity to issue debt should it so desire

Financial Flexibility has Deteriorated Over the Last 5-10 Years

- With the SWQ financing, Brampton technically no longer ‘debt-free’
- Discretionary reserves have not kept pace with growth in the City or property taxes collected
- Decade ago, reserve levels compared well to other GTA municipalities, not anymore
- Capital reserves largely depleted
- Excellent liquidity but it has declined relative to operating expenses and on a per capita basis over the last decade

Financial Flexibility has Deteriorated Over the Last 5-10 Years – Cont'd

- Growth in operating expenses (CPI adjusted) significantly exceeds population growth & inflation
- S&P expressed concerns about Brampton's operating results - impacted their recent credit rating
- Keeping aging infrastructure in a state-of-good-repair. Infrastructure maintenance gap is growing but Brampton not alone in being challenged by this issue
- Amount of new growth infrastructure required & approved but deferred has increased in the last five years

Property Taxes

- Personal observation: raising taxes probably tougher for municipal politicians than federal / provincial counterparts
- Tried to provide some background information to assist with upcoming Budget discussions:
  - Historical trend over last 5 years
  - Recent tax rate increases: Where does Brampton stand relative to other GTA municipalities
  - Equity: residents should pay ‘fair share’ which includes cost of wear-and-tear on infrastructure
  - Importance of communicating the “why”

Managing Operating Expenses

- Annual operating expenses (net of amortization and CPI adjusted) have been growing at a much faster rate than the growth in population and the inflation rate.
- City payroll comprises about 2/3 of total operating expenses (interestingly, property tax revenue comprises 2/3 of total revenue)
- Property tax collections +120% in last 10 years while payroll costs + 122% over same period. Over last decade about 94% of total property taxes have consistently gone to fund the City payroll.
- Almost 75% of staff are unionized which, in the short term, tends to make this more of a non-discretionary expense

Maintaining City Infrastructure

- Major issue all municipalities are struggling with
- Many have set specific financial targets on how this is to be funded
- More costly in the long run if life cycle asset management best practices not followed
- Total roads, bridges, buildings and facilities cost ‘value’ about $2 billion and depreciated ‘value’ about $1.2 billion
- Brampton is falling behind in putting enough funding aside to address this issue over the long term

Use of Debt

- The SWQ lease-to-own financing is, essentially, debt.
- S&P estimated Brampton's tax-supported debt (SWQ & Powerade) to be about $215 million which was "at a level which we believe is higher than most of its similarly rated peers"
- (I'm no banker or S&P analyst) but I believe Brampton has the fiscal capacity to issue debt & at a favourable interest rate / Mississauga paying 2.76% for 10 year debenture
- To issue debt or not?
  - What makes the most sense from the tax payers 'pocket' over the long term
  - Current residents should pay for the full cost of the services they use today and this includes maintaining infrastructure in a state of good repair

Capital Budgeting

- Including the full multi-year cost of major projects in the current year capital budget (and the DC reserve) has resulted in large capital fund balances and a large deficit in the DC reserve
- City staff brought to Council attention / negative media ‘press’ on the issue
- S&P gave DC deficit as one reason for recent downgrade
- Other municipalities somewhat different approach
- Agree with proposed change in 2015 capital budgeting methodology

Final Thoughts

1. Paying Your Fair Share
2. Managing Annual Operating Expenses
3. Using Property Taxes
4. Timing Tax Increases
5. Using Debt
6. Communicating

(not formal recommendations but food for thought - no more, no less)