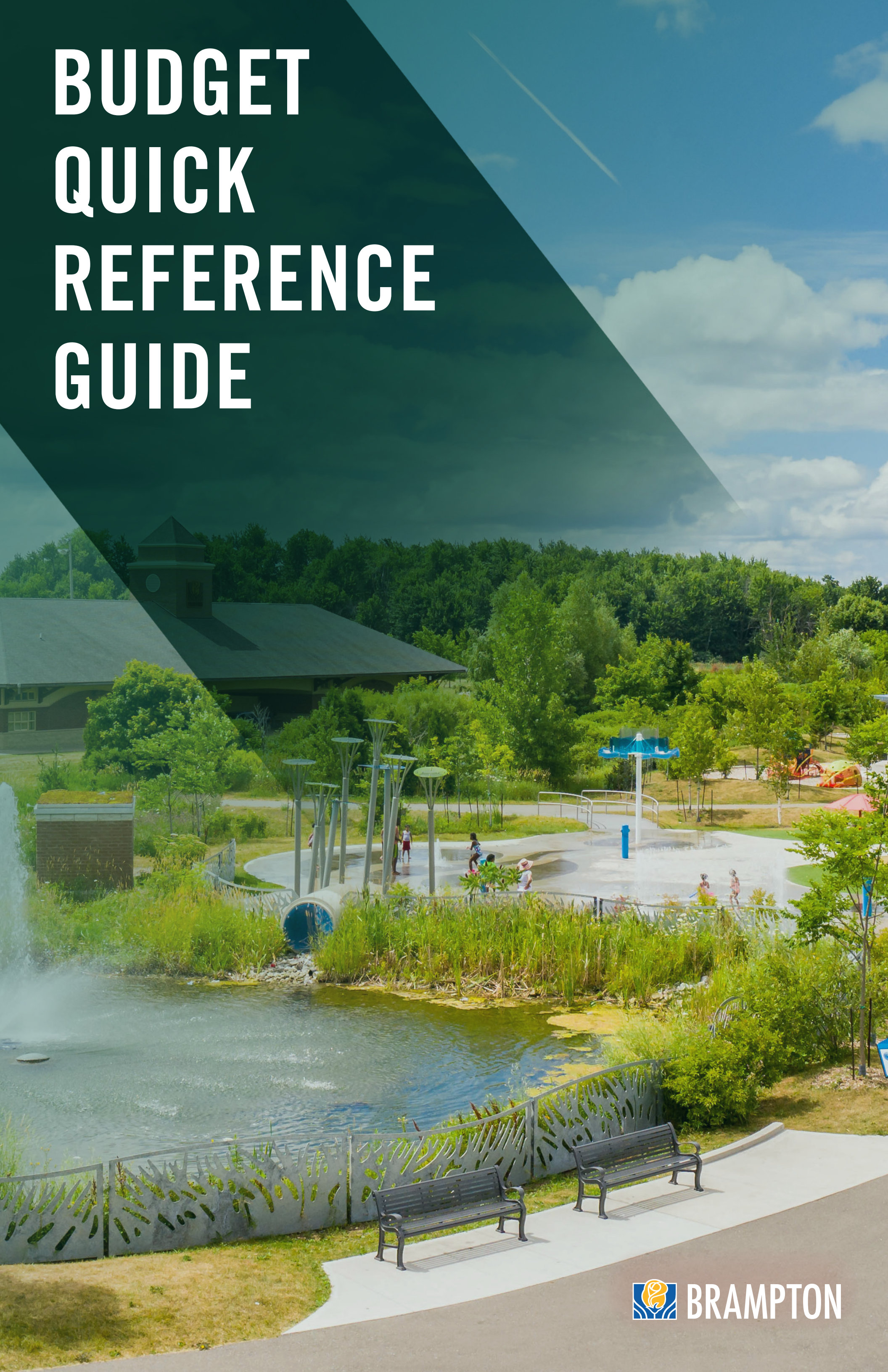
BUDGET QUICK REFERENCE GUIDE

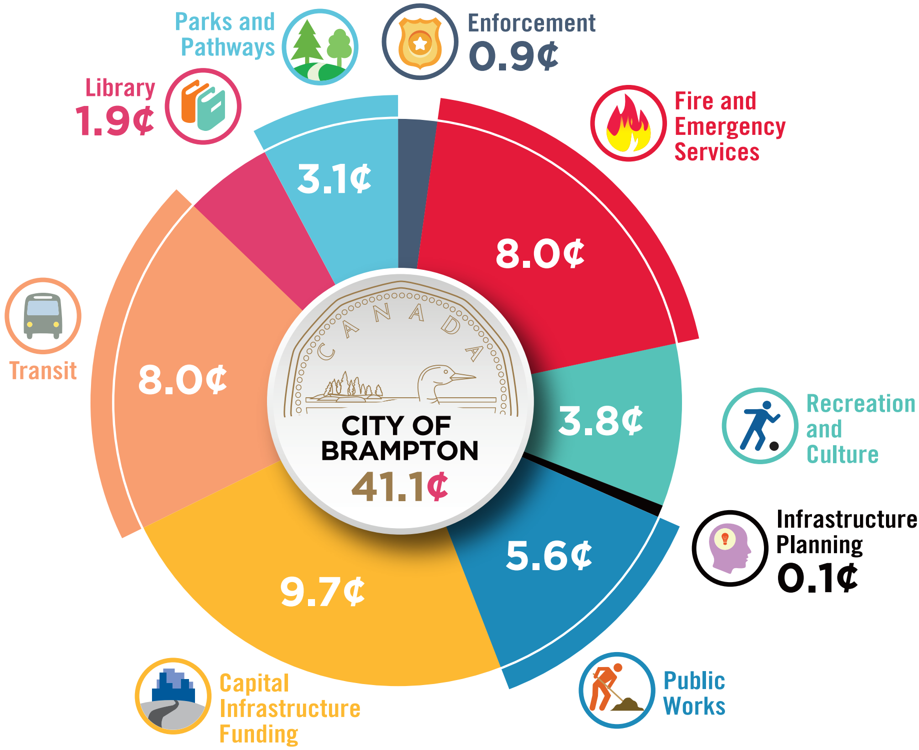


BRAMPTON

Contents

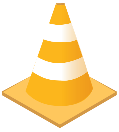
Where Do the 2024 Tax Dollars Go?

22.2 cents - School Boards (Government of Ontario)
36.7 cents - Region of Peel
41.1 cents - City of Brampton *(breakdown below)*



** Amounts and percentages may not add to totals due to rounding*

Long-term Budget Goals



Maintain Assets

Keep the City's assets (including roads, bridges, buildings, equipment) in a state of good repair

Invest in the Community

Extend and improve services to keep up with growth

Invest in the City's Future

Set aside funds to pay for future improvements

Increase Emergency Funds

Prepare for emergencies and unexpected expenses

Operating and Capital Budget

What's the Difference?

Operating

Operating budgets are for day-to-day expenses to keep the City's operations running. They include expenditures and revenues such as salaries, maintenance contracts and office expenses.

UTILITY BILLS

CONTRACTOR FIXING ROADS

EMPLOYEE SERVING PUBLIC

Capital

Capital budgets are long-term and reflect an investment in the future of the city. They include the costs of purchase, construction, major repair, replacement and renewal of assets such as roads, bridges, buildings, equipment and technology.

VEHICLE REPLACEMENT

ROAD & BRIDGE

TECHNOLOGY

COMMUNITY CENTRE

Impact of Capital Budgets on Operating Budgets

Assets have a useful life beyond one year.

After the initial purchase of an asset, which comes out of the Capital Budget, it is put into use. The asset then requires operating costs.

Examples:

- Buses require drivers and fuel
- Recreation centres require staff to run programs
- Buildings require lights and heat and electricity
- Equipment requires staff to run it and often needs electricity or fuel
- The assets need to be maintained in a state of good repair
- And, as they are used, assets eventually wear down or become obsolete

As these assets wear down, money must be allocated from the Operating Budget each year to pay for regular maintenance, and some money is also set aside into the Capital Budget for repairs and replacement.

Funding Sources

Funding Sources

Funding Sources $

User fees
- Transit fares
- Recreation programs

- Property taxes
- Investment income
- Federal and provincial subsidies
- Reserve Funds
- Contributions from external organizations

- Development charges
- Infrastructure grants
- Cash in lieu of parkland

Operating

Operating budgets are for day-to-day expenses to keep the City's operations running. They include expenditures and revenues such as salaries, maintenance contracts and office expenses.

Capital

Capital budgets are long-term, and reflect an investment in the future of the city. They include the costs of purchase, construction, major repair, replacement and renewal of assets such as roads, bridges, buildings, equipment and technology.

Other conditional funding sources include: Grants, Subsidies, Partnerships

Ongoing vs One-time Costs

- **ONGOING costs are continual and extend beyond the current year**
- Examples include staff salaries, fuel, maintenance contracts
- Funding for ongoing costs must be sustainable and from ongoing revenue streams (e.g. property taxes)
- Cannot be sustained by funding from one-time surpluses
- Included in the base budget

- **ONE-TIME costs occur once and do not continue beyond the current year**
- Examples include a one-time purchase
- It may come from a reserve or an annual operating surplus
- Not part of the base budget

Debt Financing

Debt as a Financing Tool

Debt, within the context of a long-term plan, may be effective as a strategic growth tool that encourages economic growth. Decisions on debt should be made in the context of maximizing the utilization of all available financial resources and the City's return on investment.

Development Charge (DC) Supported Debt

- ✓ These are used for growth-related projects such as new traffic signals, bus shelters, community centres
- ✓ This is repaid through future DCs collected

TRAFFIC SIGNALS

BUS SHELTER

COMMUNITY CENTRE

Tax Supported Debt

- ✓ For growth and non-growth related projects
- ✓ This is repaid through future Operating Budget tax increases

Internal Borrowing

- ✓ Financing from the City Reserves
- ✓ Repaid through future Operating Budget tax increases or through future DCs Collected

Strategic Use of Debt

- ✓ Increase economic activity and job creation
- ✓ Improve community pride and lifestyle
- ✓ Increase non-residential tax revenue

Debt Not Recommended for

- ✗ Organic growth
- ✗ Repair and replacement

Debt cannot be used to fund operating expenses.

External Debt

- This can only be used for new infrastructure such as recreation centres, roads, fire halls, libraries, works yards, transit, etc.
- It is subject to limits established by the Province and the City of Brampton

Advantages

- It has the potential to reduce operating and maintenance costs (Eg: investing in newer technology and energy efficiencies)
- All taxpayers (current and future) pay a portion of the costs

Disadvantages

- Tends to result in higher costs as lender wants compensation for risk
- Advances growth or new service projects which can increase related operating costs
- Increases immediate cash flow, projecting false impression of financial security or sustainability

Credit Rating and Effect on Borrowing

AAA STABLE

Borrowing rates typically improve with credit rating.

- The higher the credit rating, the lower the interest rate to borrow.
- Brampton's rating is AAA (stable)
- The Region of Peel issues debentures on behalf of Brampton and other area municipalities
- The financial position of all municipalities in Peel impact the Region's credit rating

Infrastructure

Infrastructure Levy and Infrastructure Deficit

It is important to adequately invest in the repair and replacement of assets.

- City of Brampton owns approximately $9 billion in assets, excluding land
- Assets age over time and require replacement
- Asset replacement need is evaluated based on useful life, age, condition and risk

Infrastructure Deficit and Infrastructure Levy

- Infrastructure deficit occurs when asset repair and replacement needs are not fully funded
- Infrastructure gap is a cumulative funding shortfall at a given point in time

Infrastructure Levy

- The annual levy supports the repair and replacement of City assets
- Each year the increase is in addition to prior years' increases
- The levy is supported by the Long-Term Financial Master Plan, to address the City's infrastructure deficit identified by the Corporate Asset Management Plan

Transit Levy

- The annual Transit Levy provides a dedicated, stable source of funding for future transit needs
- Each year the increase is in addition to prior years' increases

Stormwater Charge

- The charge provides a stable source of funding for preventative maintenance, rehabilitation and replacement of stormwater infrastructure
- Stormwater infrastructure provides the means to keep people and communities safe from flooding, prevent damage to property, and minimize the social and environmental disruptions and impacts flooding can have

Budget Surpluses and Deficits

Budget Surpluses and Deficits

- Municipalities are required to maintain a balanced operating budget
- Balanced budget means expenditures = revenues

Surplus = Funding Exceeds Expenditures

Operating Budget Surplus	Capital Budget Surplus
✓ Excess funds must be placed into reserves to maintain "balanced budget" ✓ Council may approve use of surpluses to pay for one-time needs ✓ Cannot be used to fund ongoing expenses (e.g. salaries)	✓ Excess funds must be returned to source of original funding ✓ Council may approve use of funding for other projects ✓ Cannot be redirected to other projects without Council approval ✓ Restricted funds cannot be used to fund projects outside restriction ✓ e.g. Fire DCs cannot be used to build a recreation centre

Deficit = Expenditure Exceeds Funding

Operating Budget Deficit	Capital Budget Deficit
✓ Funds must be drawn from the General Rate Stabilization Fund to maintain "balanced budget"	✓ Council must approve additional funding to cover project overruns

Property Tax

Property Tax

- Property tax is a major source of revenue for a municipality.
- Property taxes help pay for the costs of services and facilities that a municipality provides to residents.
- Property taxes required each year are spread out over all properties, based on Municipal Property Assessment Corporation assessment value and property type
- In Brampton, property tax is divided into three – School Boards (Province of Ontario), Region of Peel and the City of Brampton.
- Every tax dollar collected is divided: 22.2 cents to the School Board; 36.7 cents to the Region of Peel; and 41.1 cents to the City of Brampton.
- The Operating Budget includes projected revenues and expenditures for the year

Property taxes required = projected expenditures – projected revenues

Assessment Growth and Relationship to Budget

- Assessment growth = new properties added to the tax roll in current year
- Funds collected from assessment growth = revenue added to the budget
- A portion of growth costs are offset by assessment growth revenue
- Balance of funding required to pay for services provided by the municipality is spread among all properties
- Growth from one year becomes part of base budget in the following year

Property Taxes and MPAC

Property taxes are based on the following:

- Assessment by Municipal Property Assessment Corporation (MPAC)
- Assessment base = value of all properties put together
- Budget = how much it costs to provide service to all properties
- Tax rate = Budget ÷ Assessment Base

Property Taxes = Assessment Value x Tax Rate

1. First Step: Property value
   - MPAC calculates the value of your property

2. Second step: Assessment base
   - The City of Brampton calculates the assessment base by adding up the property values of all properties (residential and non-residential are separate groups)
   - E.g. Three homes valued at \$300,000 + \$500,000 + \$700,000 = \$1,500,000 tax base

3. Third step: Budget
   - The City calculates the cost of providing services to all homes; this is the Budget
   - E.g. \$16,500 to provides services to these three homes

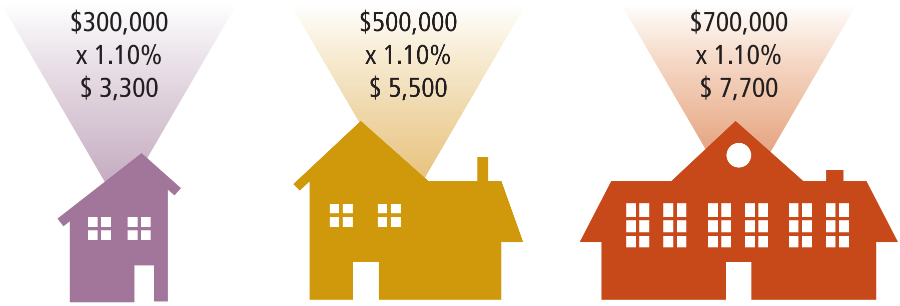
4. Fourth step: Tax rate is calculated

Tax rate = Budget ÷ Assessment Base

- Budget \$16,500 ÷ Assessment base \$1,500,000 = Tax rate 1.10%

5. Finally property tax is calculated

- Assessment (individual property value) x Tax rate 1.10% = your property tax



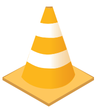
- When assessment values go up, the assessment base goes up, budget stays the same and the tax rate goes down. Property taxes remain the same.
- If assessment values go up at the same rate, property taxes remain the same
- If assessment values go up at different rates, budget stays the same, property taxes will change (up or down)
- When costs to provide services go up, property taxes go up

Reserves and Reserve Funds

Reserves and Reserve Funds

Reserves and Reserve Funds are established by Council to help pay for future costs and are:

- ✓ Designated for specific purposes
- ✓ Meant to assist with long term financial planning



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Reserves are monies earmarked to fund programs or projects and:

- ✓ Do not reference any specific asset
- ✓ Do not require segregation as in the case of a reserve fund
- ✓ Are often referred to as "contingency" or "rainy day" funds
- ✓ Are generally used towards operating expenses

Example

- ✓ General Rate Stabilization (GRS) Reserve
  - Main contingency fund for the City
  - Drawn upon when unforeseen or non-recurring events occur
  - Meant to protect taxpayers from any major volatility in tax rates

Reserve Funds are separate bank accounts that:

- ✓ Must remain segregated from general operating funds
- ✓ Are based on statutory requirements or future financial commitments
- ✓ Usually have restrictions and rules around collection and use

Types of Reserve Funds

Obligatory

- ✓ Created when provincial or federal statute requires that revenues are segregated from general municipal revenues
- ✓ Can also be created as a result of a legal agreement
  - Development Charges Fund
  - Federal Gas Tax Reserve Fund

Discretionary

- ✓ Created when Council wishes to earmark revenue to ensure funds are available as required to finance a future expenditure

Examples:
- Legacy Fund
- Community Investment Fund
- Hospital Fund
- Stormwater Fund

Money is actively invested and investment income helps pay for City operations

Glossary

Glossary

Assessment growth

The additional value of assessed properties (e.g. new properties) added to a municipality in a given year.

Budget – balanced

Where revenues plus other funding sources equal expenditures

Budget – base

The previous year's approved budget before any budget changes are reflected for current or future years.

Budget – capital

Forecasted funding and costs categorized by projects. Capital budgets include the cost of purchase, construction, major repair, replacement and renewal of assets. Capital budgets are long-term and reflect an investment in the future of the city.

Budget – operating

Forecasted revenues and costs to run the city for a one-year period (January-December). Operating budgets are for day-to-day expenses to keep the city's operations running. A municipality's operating budget must be balanced (i.e. projected revenues must equal projected costs).

Budget deficit

Occurs when actual costs exceed actual revenues. In the operating budget, the shortfall must be covered by a draw from reserves in order to maintain a "balanced budget" as required by the Municipal Act. In the capital budget, approval must come from Council to increase funding for the project that has exceeded its budget.

Budget surplus

Occurs when actual revenues exceed actual costs. In the operating budget, remaining funds must be placed into reserves in order to maintain a "balanced budget". In the capital budget, remaining funds must be returned to the reserve(s) from which funding was obtained for the project.

Credit rating
A value assigned to the city by a credit rating agency that reflects the financial stability of the city's finances.

Debenture
A loan secured to cover long-term investment. For Brampton, debentures would be issued by the Region of Peel and are restricted for use on capital projects.

DC – Development Charges
Fees collected from developers, at the time a building permit is issued, to pay for infrastructure such as roads, transit, water and sewer infrastructure, community centres and fire and police facilities in new developments.

Debt – DC-supported
External debt secured for capital projects that will ultimately be paid back, including interest, through the collection of development charges from builders.

Debt – external
Debt secured from sources outside the city (i.e. not from internal city bank accounts).

Debt – internal
Debt used to fund capital projects secured from city reserves. Loans are paid back, with interest at the prevailing rate(s), to the reserve.

Debt – tax-supported
External debt secured for capital projects that will ultimately be paid back, including interest, through property taxes.

Depreciation
The cost that reflects the loss in value of the city's assets annually (wear and tear).

Funding – one-time
Funding that is not ongoing and does not form part of the "base budget". Can be used to fund one time or emergency costs. Cannot be used to fund ongoing expenses such as salaries. Examples include annual surplus funds or draws from reserves.

Funding – ongoing
Funding that is sustainable through an ongoing source (e.g. property taxes) and forms part of the "base budget". Used to fund ongoing expenses. Examples include property taxes, recurring revenues and permanent transfers from other levels of government.

Infrastructure maintenance deficit
The accumulated shortfall in savings for repair and replacement of city assets. The shortfall is calculated by taking depreciation costs of all assets and deducting the amount set aside for future repair and replacement of those assets.

Infrastructure levy
The portion of property taxes collected for the purpose of funding repair and replacement of city assets.

MPAC
Municipal Property Assessment Corporation. Its role is to accurately assess and classify all properties in Ontario. The assessments provided by MPAC are used to calculate the property taxes payable by property owners.

Reserves
Earmarked revenue that is not tied to any specific asset and is not required to be segregated. Reserves may be established for a predetermined purpose (e.g. General Rate Stabilization Reserve). Often referred to as "contingency" or "rainy day" funds.

Reserve Funds
Revenues which are earmarked, segregated and restricted to meet the purpose of the reserve fund. A reserve fund is established based on a statutory requirement or a defined financial commitment/liability payable in the future. There are two types: obligatory and discretionary.

Reserve Funds - Obligatory
Funds segregated, as mandated by statute (e.g. Development Charges) or as a result of a legal agreement (e.g. subdivision agreement). To be used solely for the purpose prescribed for them.

Reserve Funds - Discretionary
Reserve funds that are created by Council to earmark revenue to finance a future expenditure (e.g. hospital, university, road widening, facility construction).

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